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Knowing a Planned Giver When You See One



Date: September 25, 2014
 Time: 1:00 – 2:30 Eastern Time
 Presenter: Jeff Lydenberg
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Agenda

- Gift annuity and charitable remainder trust donor behavior
- How to know the planned giver
 - Basic field identification
- Talking to and motivating prospects to action
- Donor assets and matching vehicles
- Case studies of planned givers


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Bequest Giving Behavior

- Estate taxes and charitable bequests
- Do the wealthy give at death to save on taxes?
 - 2001 exemption= \$675,000 55% top rate
 - 2014 exemption= \$5.34M 40% top rate
 - Unlimited estate tax charitable deduction
- 58% of high net worth households claim charitable bequest decision not affected by estate tax


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Bequest Giving Behavior

- Number of estate tax returns declined 90% from 2001 to 2012
- Estate tax deductions declined 25.4% for same period
- Bequest giving increased 7.2%, 2012 to 2013
- Bequest giving not highly correlated with estate taxes


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Bequest Giving Behavior

- Census Bureau HRS study 1992 to 2012
- Three areas critical to charitable bequest decision
 - Trust in the charity
 - Presence or absence of heirs
 - Higher the net worth, higher likelihood of bequest
- 5.7% of general population with charity plans
- 9.4% of those over 50 making charitable gifts of \$500 or more have charity plans


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Bequest Giving Behavior

- Importance of childlessness among over those over 50 donating \$500 or more to charity
 - 50% of these donors have no children
 - 17.1% of these donors have children
 - 9.8% of these donors have grandchildren
- Australia: those with wills and no kids - 10X more likely to include charity
- Childlessness on the increase


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Gift Annuity Behavior

- Gift annuitants oldest donors
 - ACGA survey age 79 at first annuity
- Most are women
- Most are single
- Limited investment experience
- Concerned about outliving resources


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Charitable Trust Behavior

- Wealthiest donors
- May not be regular annual fund donors
- May have made major gifts
- Ages vary widely
- More financially sophisticated than annuity donors
- More comfortable with financial risk


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Life Income Donor Behavior

- Life income donors tend to be transactional
 - “Make a gift and help yourself”
- Avoid the language of contract, marketplace
- Use family words, not formal words
 - James (2013)
- Say “make a gift and get payments for life” not “enter into a contract, transfer property...”


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Knowing the Planned Giver

- The planned giver is often, but not always, already a donor
- Consider broader connections
 - Volunteers
 - Event participants
 - Members
 - Grateful patients
- Note connection information in a useable format in the database


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Knowing the Planned Giver

- Basic identification
- Know the field marks
 - Age
 - Giving/connection to charity
 - Presence or absence of heirs
 - Educational level
 - Life events


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Knowing the Planned Giver

- **Age**
 - Commercially available with some accuracy
 - Membership applications
 - Class year
 - Surveys
- Charity first added to plans in 40's and 50's
- Must be in the last will
- Plans can be changed


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Knowing the Planned Giver

- **Giving or other connections**
 - Some planned gifts come from those with no obvious connection
 - Charities with broad missions attract general support
 - Salvation Army
 - Disease charities
 - Connections, giving frequently not in donor database
- Long giving history indicates bequest likelihood
- Higher average gifts from bequest givers


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Knowing the Planned Giver

- **Presence or absence of heirs**
- Bequest giving raises charity to status of family
- Charity acts as a synthetic family
- Those without children dramatically more likely to make charitable bequest
- Increasing childlessness in U.S.
- Can you capture childlessness in your database?


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Knowing the Planned Giver

- **Educational Level**
- Higher educational achievement = higher likelihood of a charitable bequest
- Bachelor's more likely than high school only
- Graduate degree more likely than bachelor's only
- Challenging to capture
 - Note credentials
 - Can you capture in a searchable field?


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Knowing the Planned Giver

- Life Events
 - Planned gifts often result from events in donors life
- Changes that destabilize donor's life
 - Approaching death (cancer diagnosis for example)
 - Becoming a widow or widower
 - Divorce
 - Grandchildren
 - Increasing assets
- When death becomes real


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Knowing the Planned Giver

- **What about capacity?**
- Capacity is not the only variable to consider
- Certainly must have sufficient assets to make gift
- If field marks present, capacity important
- Wealth not always visible
- Capacity increases virtually if no children


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Talking to and motivating prospects

- Starting the conversation
- Avoid technical talk
- Open-ended questions
- Let the donor tell her story
 - “Why did you make your first gift to us?”
 - “How did you get involved with us?”
 - “Why did you choose us?”

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Talking to and motivating prospects

- Inertia is a planned gift's worst enemy
- People avoid difficult discussions
 - Death
 - Family
 - Money
- Make the planned gift decision easy or exciting


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Talking to and motivating prospects

- Beneficiary designations
- Wills and trusts expensive to change, raise emotional issues
- Beneficiary designations control distribution of:
 - Qualified retirement plans
 - Savings bonds
 - Commercial annuities
 - Most bank and financial accounts can be controlled by designation


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Talking to and motivating prospects

- Create a sense of urgency to complete the planned gift
- Legacy Challenge case study
 - Every notification of estate commitment triggered \$1,000 immediate gift to charity
 - Challenge generated 128 new commitments
 - 83% increase in notifications compared to typical year


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Knowing a planned giver by what they own

- Character of planned giving assets
 - **Illiquid**, not easily converted to cash
 - **Appreciated in value**, sale could generate 23.8% tax
 - **Non-income producing**, valuable assets but no income
 - **Income in respect of a decedent**, IRD - subject to income tax at owners death


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Knowing a planned giver by what they own

- **Real Estate**
 - Capital gain on sale, perhaps no income, illiquid
- **Retirement plans**
 - IRD assets
- **Publicly traded securities**
 - Capital gain on sale, perhaps income on sale
- **Closely held business**
 - Capital gain on sale, illiquid, no income


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Matching donors and gift vehicles

- **Bequests**
 - Potentially all supporters, all ages
 - Reality is less than 10% will include a bequest and most will do so late in life
 - Driven by emotional connection to charity
 - Regular annual fund donors
 - Childless more likely to make a bequest
 - Highly educated more likely to make a bequest
 - Flexibility and privacy appeal to many


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Matching donors and gift vehicles

- **Gift Annuities**
 - Oldest donors, average age 79 at first gift
 - Cautious
 - Concerned about outliving resources
 - Relatively uncomplicated gift
 - Not all charities should offer annuities
 - Guaranteed payments


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Matching donors and gift vehicles

- **Charitable Remainder Trusts**
 - Complicated gift requiring attorney involvement
 - Selection of trustee to invest and administer important
 - Donors typically younger than CGA donors
 - Experienced investors
 - Comfortable with risk
 - Substantial assets


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Bequest Case Study

- Six figure bequest to Midwestern children's hospital
- No discernable connection to donor
- **Lessons learned?**
 - Lesson is not "You just never know."
 - Capture data from other sources in your database
 - Continuity of recordkeeping important
 - Bequest marketing worked in this case


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Gift Annuity Case Study

- Mrs. Sylvester, age 75
- Alumna of nearby college
- Long time annual fund donor
- Attends college theater and musical productions
- Involved in colleges life-long learning program
- Recently widowed


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Gift Annuity Case Study

- Never made a major gift
- Solicited for \$10,000 gift
- Request is to support new Peace and Justice Center at the college
- Gift is to be in memory of donor's late husband
- Can't afford to make \$10,000 gift


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Gift Annuity Case Study

- 10 year T note yielding 2.59%
- 5 year CD yields 2.3%
- Mrs. Sylvester has a \$50,000 CD coming due
- ACGA rate for age 75 is 5.8%
- \$2,900 payment each year for life
- Charitable deduction plus most of payment tax-free


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Gift Annuity Case Study

- Mrs. Sylvester balks at the gift
- **Lessons learned?**
 - Recent recession has shaken many people
 - Dow at record levels, but no guarantees
 - Key objection: can't get her money back
 - Not verbalized, but recent death of husband has left her unsure, cautious


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CRT Case Study

- Michael Sullivan M.D., Elaine Sullivan, J.D.
- 76 and 74, one child
- Alums of same ivy league university
- Intermittent annual fund donors
- Have made four and five figure gifts totaling \$25,000
- Enjoy managing their substantial stock portfolio


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CRT Case Study

- Dr. Sullivan solicited for \$250,000 50th reunion gift
- Sullivan's offer \$150,000 gift
- MGO wants to get Sullivans to reach stretch goal
- PGO suggests a charitable remainder unitrust


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CRT Case Study

- 5% CRUT funded with \$250,000 stock gift
- \$12,500 in year one
- \$13,671 in year ten assuming 6% growth
- \$300,000 to the college in sixteen years, also assuming 6% growth
- Sullivans self-trustee and bank handles administration

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CRT Case Study

- Sullivans love the idea
- **Lessons learned?**
 - Management of the CRUT investments appeals to these donors
 - Equity with those willing to donate assets now
 - Self-trusteeing appealing at 76 and 74
 - Not as attractive at 96 and 94
 - Bank can take over investment management later
 - Bank manages accounting and tax returns for trust

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Questions and Answers



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Still Have a Question?

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