Attracting Gifts Through Beneficiary Designations

Date: March 26, 2015

Time: 1:00 – 2:30 Eastern Time

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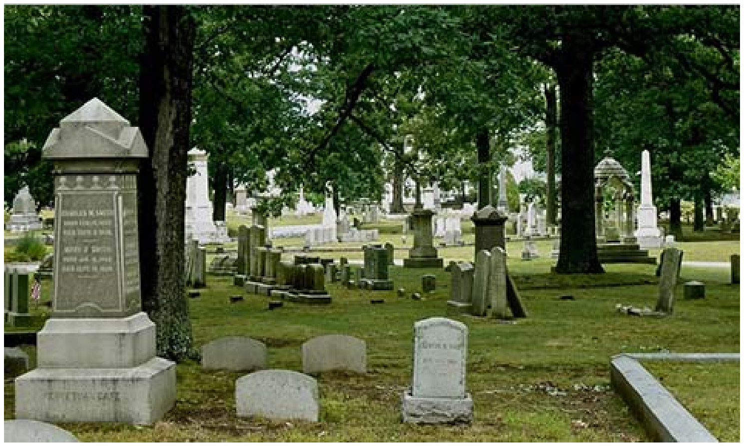
Agenda

- Charitable bequest basics
- Beneficiary designation options
- Beneficiary designation characteristics and issues
- Pursuing beneficiary designations
- Recognition/stewardship/gift administration

Ways to Distribute Assets upon Death

- Without a will (intestate)
- With a will (testate)
- Via beneficiary designation (regardless of testacy)



Definition of "Bequest"

- Traditional legal definition of "bequest": for personal property (vs. "devise" for real property)
- Common modern understanding: any "legacy," whether by will or revocable living trust (RLT)
- Charitable bequest is gift of personal or real property made to charity upon death via will or RLT

Types of Bequests

- Pecuniary: “I give the sum of $X”
- Specific: “I give 100 shares of XYZ Corp. stock”
- Residual: “I give all [or __ percent] of the residue of my estate”
- Contingent: “If my spouse does not survive me, I give ________”

Restrictions on Bequests

- Donor may specify purpose of bequest, designate for endowment, do both, or do neither
- Bequests are often completely unrestricted; even when they are, many charities add them to their endowments
- Ideally, donors while living should contact charities regarding restrictions

Beneficiary Designation Options

- POD and TOD accounts
- TOD deeds and title certificates
- Insurance products
- IRAs and qualified retirement plans

- Donor advised fund recommendations
- Trust powers of appointment

POD and TOD Accounts

- POD applies to bank accounts; certificates of deposit can also be designated for transfer to someone else upon death
- TOD applies to investment accounts
- Forms, procedures per financial institution

TOD Deeds and Title Certificates

- TOD deeds currently possible for real estate located in only 13 states
- Charity has no interest in property during donor's life; donor can revise/revoke deed, encumber property
- State law determines deed wording, etc.
- Vehicle/vessel designations of new owner upon current owner's death are fairly rare

Insurance Products

- Applies to life insurance policy "death benefits" and value remaining upon death in some annuity contracts
- Forms, procedures per insurance company
- Distinguish from lifetime transfer of ownership

IRAs and Qualified Retirement Plans

- IRAs: traditional, SEP, SIMPLE, inherited, Roth (Roth not a good choice for tax reasons)
- Qualified retirement plans: 401(k), 403(b)
- Certain other retirement arrangements, e.g., 457(b)
- Somewhat distant cousin: HSAs
- Forms, procedures per financial institution

Donor Advised Fund Recommendations

- DAF basics: donor, sponsor, fund, advisory rights
- Recommendations not binding, can be made by someone other than donor
- Distributions while fund exists or when it ends
- Forms, procedures per sponsor

Trust Powers of Appointment

- Trust basics: separate legal entity, corpus, trustor, trustee, governing document, beneficiaries
- Many kinds of trusts; can be *inter vivos* or testamentary

- Some beneficiaries designated irrevocably, others can be changed/determined later
- Forms, procedures per governing document

Beneficiary Designation Characteristics and Issues

- The two faces of simplicity
- Tax considerations
- Probate avoidance
- Handling donor restrictions

The Two Faces of Simplicity

- Beneficiary designations are generally easier to make/revise and entail less formality than wills/codicils
- Possible inconsistency with rest of estate plan
- Spousal veto power
- Some financial institutions put up roadblocks

Tax Considerations

- Most gifts take effect at donor’s death
- Some gifts don’t result in tax deductions
- Gifts that pay “income in respect of a decedent” (IRD) to charity are best

IRD Example

- Upon death, Mr. Dobalina wants to make $100K gifts to son and to charity
- Choice A: $100K IRA to son, $100K of stock to charity – son receives $75K after tax on IRD, charity receives $100K and pays no tax upon selling stock
- Choice B: $100K of stock to son, $100K IRA to charity – son receives $100K tax free upon selling stock, charity receives $100K and pays no tax on IRD

Probate Avoidance

- Always the result, unless donor desires otherwise
- Charity receives gift sooner, cost of administering donor’s estate is reduced (although perhaps only slightly)

Handling Donor Restrictions

- Best to include in a separate document
- Financial institutions will often resist restrictions
- One type of restriction for designation taking effect upon death: that gift be used partly for charitable purposes, partly to benefit survivors

Pursuing Beneficiary Designations

- As with bequests, market broadly but focus on most likely donors
- Promote along with bequests as well as separately
- Objectives: arrange gift, then let us know!
- Emphasize features: simplicity, revocability, probate avoidance; IRD avoidance (if applicable)

Marketing Techniques

- Response device check-off boxes
- Inserts with mail already being sent
- Direct mail (postal and electronic)
- Newsletter articles
- Brochures (general, specific)
- Website content
- Telemarketing
- Seminars
- Outreach to advisors
- Spreading the word internally

Stewardship and Recognition

- Again, largely same as for bequests
- Objectives: retain gift plus perhaps increase amount, make a second gift, accelerate
- When notified: review database, then respond promptly, enthusiastically, respectfully
- Use care in obtaining details
- Identical recognition regardless of $ amount

Recognition and Stewardship (cont.)

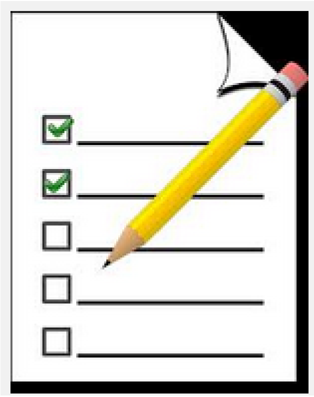
- Recognition activities: public mention, participation in events/programs, mementos, ongoing personal contact
- Be explicit about anonymity
- Treat DAF and trust beneficiary designation gifts differently

Gift Administration

- Knowing ahead of time allows for head start
- Track expectancies for internal purposes
- Some expectancies won't materialize
- Objectives: timeliness, completeness, honor any donor wishes, share news appropriately, express sympathy/respect/gratitude to survivors
- Avoiding probate doesn't necessarily mean things will go smoothly!

Summary

- Lots of options
- Easy to understand, simple to arrange/modify
- Probate avoidance
- Tax benefits (in some cases)
- Readily (and inexpensively!) promoted
- Recognition/stewardship/administration generally not complicated



Questions and Answers

Still Have a Question?

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