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## Should My Organization Have a Life Income Program?

**Date:** February 24, 2022  
**Time:** 1:00 – 2:30 Eastern  
**Presenter:** Gary Pforzheimer  
President, PG Calc



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## First things first: Why bother with a LI program?

Simple bequests account for 80%-90%, perhaps more ... so why bother with a life income program?

- Most life income gifts are irrevocable: better for the organization, advantages for the donor
- Opens new opportunities to discuss additional creative gift planning ideas
- Positions organization as service to donors

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## Advantages and Disadvantages of a LI program

For the donor:

- Opportunity to receive and/or increase income
- Opportunity to avoid capital gains tax while shifting investment strategies
- However: irrevocable with little flexibility should the donor wish to make changes after the gift is made

# Advantages and Disadvantages of a LI program

For the charity:

- Irrevocable, unlike charitable bequests which can be changed without the charity being aware
- However, charity obliged to establish relationships – sometimes lifelong – and provide fiduciary services

## Cash is King

Over-emphasis on current cash gifts creates challenges:

- Over reliance creates financial stress, stymies growth
- Restricts potential audience



## Basics of life income plan

- Donor makes an irrevocable contribution now and receives an income as a result
- Income can be fixed or variable and last for one or more lifetimes, a term of years, or a combination
- Life income plans have these features in common:
  - Irrevocable once contribution is made
  - Current income tax deduction for calculated value of charitable gift
  - Can be made during lifetime or included in a will
  - Are subject to both Federal and state laws



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## Quick Review: Charitable Gift Annuity

- Irrevocable contribution given now in exchange for a promise to pay a fixed amount for one or two lives
- Dollar amount of the payment is set at the time the gift is made and cannot be changed
- One or two recipients (annuitants) are named at the time the gift is made and cannot be changed
- Annuity payments usually begin right away but may be delayed (a deferred payment gift annuity)
- Obligation to make annuity payments is backed by the financial resources of the charitable organization

## Quick Review: Charitable Remainder Trust

- Assets irrevocably transferred to a trustee with instructions to pay income to income beneficiaries for a period, then to transfer the remainder to charity
- Two types:
  - Annuity trust – pays a fixed dollar amount; amount received by the income beneficiaries does not change regardless of investment return
  - Unitrust – pays a fixed percentage of the value of the trust; amount received by income beneficiaries varies depending upon investment return
- Cannot be perpetual; can last one or more lifetimes, term of years (not to exceed 20), or a combination
- Charitable organization may serve as trustee





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## Quick Review: Pooled Income Fund (PIF)

- Irrevocable contribution given now in exchange for a promise to pay a variable amount for life
- Dollar amount of the payment is computed based on the actual earnings of the PIF
- One or two, or sometimes more, recipients are named at the time the gift is made and cannot be changed
- Obligation to make quarterly payments is backed by the financial resources of the pooled income fund, not the charity
- Charitable organization may serve as trustee
- If large and overhead doesn't drain the PIF, can often be the option that has the best return for the charity.



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## Organizational Readiness: Key Questions

- 1) How successful is your annual giving program?
- 2) How is your charitable bequest effort going?
- 3) Does your organizational culture support this new type of philanthropy?

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## A Successful Annual Giving Program

- Best prospects for planned gifts are donors with a history of regular annual gifts
- Robust annual giving program requires organization to build certain strengths:
  - Stewardship and donor recognition
  - Systems and administration
  - Opportunity to discern specific donor interests and indicators of wealth



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## Charitable Bequests

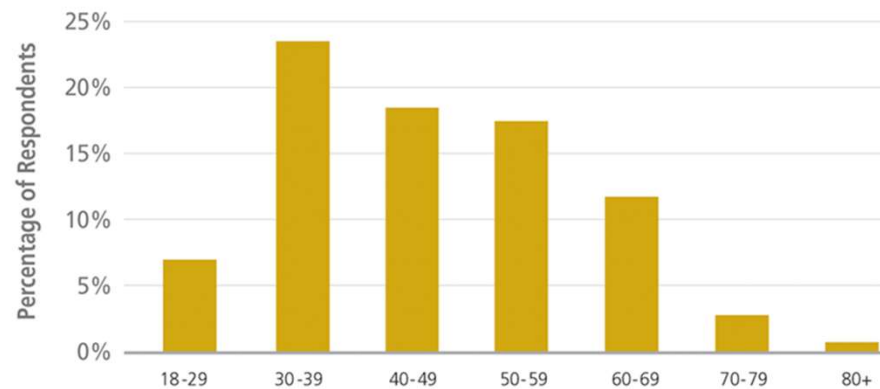
Bequests come in many flavors

- Provision in a donor's will
- Beneficiary of a:
  - Living trust
  - IRA or other retirement account
  - Bank or brokerage account
  - Life insurance policy
- Transfer on death deeds

**Myth:** Bequests are only for older people

**Figure 1**

Age of writing a first will

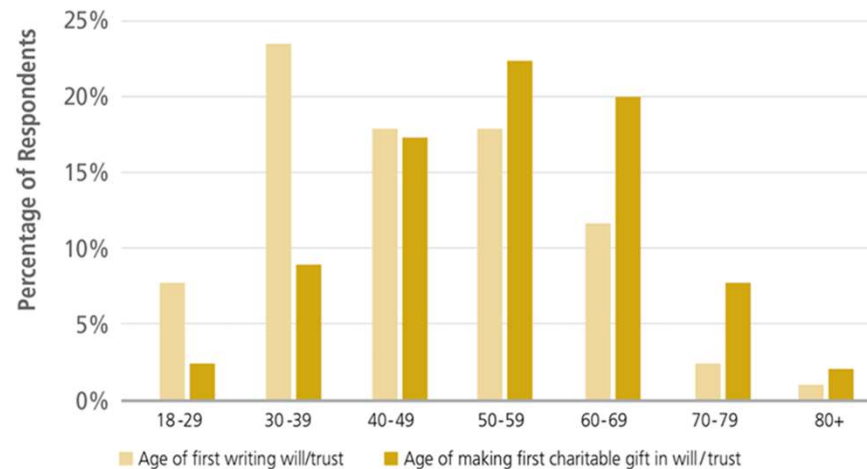


**Reality:** Most people write their first will before age 60

**Myth:** Donors make charitable bequests later in life

**Figure 7**

Age of adding a charitable gift in will/trust vs. first writing will/trust



**Reality:** Most include a charitable bequest in their first will

**Myth:** Bequest donors change their mind

**Table 4**

Charitable legacy giving as a factor of age

Changes in gift planning	Percentage
The number of gifts has not changed	50.4%
I have increased the number of gifts	44.2%
I have decreased the number of gifts	5.4%

**Reality:** Donors almost never change their charitable bequest – if anything, they increase it



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## Organizational Culture

- Accepting life income gifts will push the organization in new directions and test its capacities
- Not only are these gifts more technical and complex, they can create life-long legal and fiduciary obligations to donors and beneficiaries
- Administrative readiness is essential
- Fully informed acceptance of the risks by the governing board is crucial





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# Administrative and Legal Considerations

- Administrative Options
  - Do it yourself
  - Outsource
- Gift Annuity Regulations
  - How to evaluate which states to register in?
  - Then what?

Discussion and negotiation is as important as the final policy – some issues to consider:

- Working with donors who may be incompetent
- Position regarding “finder’s fees”
- Duties, responsibilities, & relationships among development office, business office, & executive
- Position regarding trusteeship
- Position regarding trustee fees and expenses
- Counting & crediting for donor records fundraising campaign goals



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# Governing Board – Informed Acceptance of Risk

Risk Considerations	Charitable Bequest	Charitable Gift Annuity	Charitable Remainder Trust	
			(charity trustee)	(other trustee)
Financial Risk	<ul style="list-style-type: none"> <li>Minimal</li> </ul>	<ul style="list-style-type: none"> <li>Obligation to make annuity payments</li> </ul>	<ul style="list-style-type: none"> <li>Limited to loss of trust fund, which can also result in reputational risk</li> </ul>	
Administrative Concerns	<ul style="list-style-type: none"> <li>Maintain liaison with executor</li> </ul>	<ul style="list-style-type: none"> <li>Make payments</li> <li>Issue 1099-Rs</li> <li>Track annuitants</li> </ul>	<ul style="list-style-type: none"> <li>Fiduciary responsibility</li> <li>Trust accounting</li> <li>Tax preparation</li> </ul>	<ul style="list-style-type: none"> <li>Monitor work of outside trustee</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>Minimal</li> </ul>	<ul style="list-style-type: none"> <li>Subject to state law</li> </ul>	<ul style="list-style-type: none"> <li>Subject to state law</li> </ul>	<ul style="list-style-type: none"> <li>Minimal</li> </ul>
Minimum Gift Target	<ul style="list-style-type: none"> <li>No minimum</li> </ul>	<ul style="list-style-type: none"> <li>Typically tens of thousands</li> </ul>	<ul style="list-style-type: none"> <li>Typically hundreds of thousands</li> </ul>	
Other Considerations	<ul style="list-style-type: none"> <li>Gifts are revocable (though rarely are)</li> </ul>	<ul style="list-style-type: none"> <li>Lower minimum appeals to more donors</li> </ul>	<ul style="list-style-type: none"> <li>Preparation for administrative burden is essential</li> </ul>	<ul style="list-style-type: none"> <li>Charity as co-trustee is an option</li> </ul>



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## Is a life income plan right for your organization?

Organization's situation ...	Next steps forward ...
You are small or new, perhaps growing, but still struggling to make ends meet	Focus on building a charitable bequests, entertain life income gifts if opportunities arise



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## Is a life income plan right for your organization?

Organization's situation ...	Next steps forward ...
You lack capacity in some of the essential elements: annual giving, bequest giving, and organizational culture	Invest time and resources bolstering fundraising efforts, build capacity over time toward life income gifts



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## Is a life income plan right for your organization?

Organization's situation ...	Next steps forward ...
Your mission requires significant cash now and future gifts are not particularly helpful	Consider that life income gifts and perhaps even charitable bequests are just not mission critical



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## Is a life income plan right for your organization?

Organization's situation ...	Next steps forward ...
Your organization is affiliated with a national organization that offers life income gifts	Explore options to partner with national organization to offer life income gifts



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## In Summary ...

- A well prepared and carefully managed life income gift program can significantly expand the reach and productivity of your fundraising efforts
- Life income gifts create life-long relationships including financial, fiduciary, and legal obligations
- Life income gifts change donor relationships in subtle ways – donors become clients





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## Still Have a Question?

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