


Should My Organization Have a Life Income Program?

Date: February 24, 2022
 Time: 1:00 – 2:30 Eastern
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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

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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

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Cash is King

Over-emphasis on current cash gifts creates challenges:

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



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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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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

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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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

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Myth: Bequests are only for older people

Figure 1
Age of writing a first will

Age Group	Percentage of Respondents
18-29	~8%
30-39	~23%
40-49	~18%
50-59	~17%
60-69	~12%
70-79	~3%
80+	~1%

Reality: Most people write their first will before age 60

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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **Charitable Bequests**

Myth: Donors make charitable bequests later in life

Figure 7
Age of adding a charitable gift in will/trust vs. first writing will/trust

Age Group	Age of first writing will/trust (%)	Age of making first charitable gift in will/trust (%)
18-29	~8%	~5%
30-39	~23%	~10%
40-49	~18%	~18%
50-59	~17%	~22%
60-69	~12%	~20%
70-79	~3%	~8%
80+	~1%	~3%

Reality: Most include a charitable bequest in their first will

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

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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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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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **Still Have a Question?**

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