UNLOCKING THE MYSTERY OF GIFT PLANNING FOR OUR PROSPECTS
Or,
DOES IT ALWAYS NEED TO BE SO COMPLEX?

By,
MOTIVATING GIFT PLANNING,
TALKING ABOUT IT WITH REAL PEOPLE & ALL PROSPECTS

Using,
SIMPLER PLANNED GIFT OPTIONS
THAT ALL CAN UNDERSTAND, BY CONCEPT,
AND SUCCESSFULLY PROMOTE

Promoting,
DONOR BENEFITS IN CHARITABLE GIFT PLANS

Especially,
BENEFICIAL DESIGNATIONS OF RETIREMENT
PLAN ASSETS – A REVOCABLE AND TAXWISE OPTION
FOR JUST ABOUT EVERYBODY

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Pamela Jones Davidson, J.D., is President of ***DAVIDSON GIFT DESIGN,*** Bloomington, Indiana, a consulting firm specializing in gift planning, planned giving program design and implementation, and training. She is also a Senior Vice President with Thompson & Associates, specializing in estate planning services for non profits. Before forming her own company in 1999, she for three years was a charitable gift planner and consultant with Laura Hansen Dean and Associates, Indianapolis, Indiana. From 1985 through 1996, she was with Indiana University Foundation, leaving that organization as its Executive Director of Planned Giving and Associate Counsel.

Ms. Davidson received her undergraduate degree from Indiana University in 1975, and graduated *magna cum laude* from the Indiana University School of Law at Indianapolis in 1979. She has previously been an examiner in the Estate and Gift Tax Division of the Internal Revenue Service, and later practiced business, corporate and probate law with the Indianapolis law firm of Bingham, Summers, Welsh & Spilman before joining the nonprofit sector in 1985.

Ms. Davidson was the 1999 President of the National Committee on Planned Giving (now, Partnership for Philanthropic Planning, PPP), and served NCPG in various capacities during her six years on the Board, in 1995 as Education Chair, in 1996 as Secretary, and as President Elect in 1998. She served as NCPG's 2000 Nominating Committee Chair and as a past president, is a past member and chair of its Ethics Committee.

Ms. Davidson is on the Editorial Board of the Planned Giving Design Center, and past faculty for The College of William and Mary National Planned Giving Institute. She is a past board member and past treasurer of the Indiana Chapter of the National Society of Fund Raising Executives (now, Association of Fundraising Professionals, AFP), and a past board member and president of the Planned Giving Group of Indiana. Ms. Davidson is a former treasurer of the Monroe County Bar Association, a past president and board member of the Network of Career Women, and a Leadership Bloomington alumna. She is on the Board and past President of Middle Way House, her community's nationally recognized women's shelter, now in a capital campaign and raising its first endowment. She also serves on her local Edgewood Choral Foundation and Buskirk-Chumley Theatre, and on the Community Advisory Boards of both her local public and television stations.

Ms. Davidson has made countless presentations throughout her home state of Indiana and nationally to development professionals, planned giving councils, estate and tax attorneys, accountants and financial planners, and to prospects and donors about planned giving and charitable giving techniques that benefit both personal planning goals and philanthropy both.

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WHAT MOTIVATES THE LARGE GIFTS
Talking with Real People and All Prospects about Real Gift Ideas

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1. MISSION worthy of support - meritorious cause - how charity articulates its need for the large or planned gift, in a way that the donor will care about that need.

2. CHARITY'S RELATIONSHIP with donor - past, present and future. Personal relationship works best - direct mail won't often do (except to educate).

3. A practice of donor cultivation, ongoing education about charity's purpose and mission, stewardship when donor has made other gifts to your charity, including telling the donor how his/her gifts have been used, their value that is so appreciated, supporting the critical work the charity does (always tie to mission).

4. Marketing and education, about fundraising and particularly planned giving - stress CONCEPTS (not a technical recitation) of how planned gifts have been, can be successfully used to achieve donor's planning objectives, part of diversified portfolio - goal is to be ENABLING to this donor and others (a "can do" approach and tone). Stories need to be compelling, to trigger an emotional response even.

5. Donor identification - who is most likely IN TERMS OF BOTH LINKAGE AND CAPACITY to consider planned gift options. Who are the identifiers?

6. Charity ASKS certain identified donor(s) to consider planned gift options, how they ensure the charity's future and why, how to consider these attractive planning options - greatly enhanced if development officer is a good listener, and responds then to "cues and clues;" response might be referral to expert.

7. Is the right individual at the charity the point person for this donor, with an individualized (written) plan for cultivating and soliciting each prospect? Can that individual really articulate, discuss planned gift options, at least in concept terms?

8. Are peers such as Board members involved, at least as door openers or as participatory volunteers in the solicitation? Would this be important to this donor? Is there a Board member or other influential individual who has made a planned gift, who would be helpful on the call, has passion to articulate need?

9. Responsiveness to donor objectives, considerations, and intent as to how gift will be used - charity can usually assume will be restricted, if a large gift. This raises issues of how to negotiate, document, who can bind the charity to any arrangement - and if the charity understands how to negotiate these arrangements,

how it's affected by the gift's terms (maxim: not all proposed gifts are good gifts).

10. Follow-up with each prospect - how can we be of further help and service?

11. Administrative responsibilities well executed, if charity has any - use those as a stewardship or cultivation opportunity. Written record of business matters.

12. ACCOUNTABILITY on part of charity - keeps donor in loop about what charity is doing, how well it uses and safeguards its precious, finite resources. Charity contacts the donor other than when asking for the gift, tells the donor how his/her gifts (and those of others) have been used, their importance. **Pitch might be how to endow donor's annual support on which charity has come to rely.**

13. Ethics, integrity, confidentiality - all critical to process, perhaps more true in planned giving than in any other area of development (because hear sensitive, private information, some cannot, should not share nor perhaps even document)

14. Donor recognition, if donor wants any - ask him/her - appropriately handled, with sensitivity, e.g. don't need to reveal details, specifics - ask to use their story as a testimonial, to encourage others to consider these wonderful options

15. The non-greedy, non-grasping approach - be realistic that the donor will have other charitable inclinations besides supporting the one you represent. **Pitch should be that the donor can take care of all charitable desires in one well-crafted planned gift arrangement.**

16. Great planning opportunities a genuine, meaningful benefit to entire process, very appealing to prospects

NOTE: You will not find a requirement for your own technical expertise on this list, which expertise is readily available, from your Community Foundation, from other charities or colleagues, from an advisor well experienced in gift planning matters, or a consultant. Services from your Community Foundation are available and often free so use them, even before you call on a good prospect or key volunteer who you know might have assets or planning concerns.

Your role is to tell your charity's story, and to listen to and then share concepts with a likely prospect or donor – THIS YOU CAN DO, should do with just about everyone, will go far in promoting gift planning, a proactive concept, and endowment ideas.

Message to all prospects (from Harvey DeVries): **"Would you consider making a gift if we could show you how?"**

SIMPLER TYPES OF PLANNED GIFTS, FOR ENDOWMENT,
MOST WITH LITTLE ADMINISTRATIVE RESPONSIBILITY BY CHARITY

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1. Bequests - donor includes "magic language" in *valid* will or testamentary trust

2. Beneficial Designations, by percentage, of (Part or All) of (One or More) Retirement Plan Assets – revocable, flexible way to give, using expensive assets for family to inherit, all ages can do this

3. Gifts of Life Insurance Policies, by Gifting Ownership, That Are No Longer Needed, or Beneficial Designation of (Part or All) or (One or More) Life Insurance Policies

4. Gifts Using Appreciated Stock or Real Estate (often low yield) as Funding Asset

5. Gifts of Real Property Subject to Life Estate (for donor and couple) – personal residence, vacation home or farm only

6. Testamentary Disposition, by Bequest, of Government Savings Bonds, OR redeem some, outright gift to charity, OR redeem some, fund CGA if older

7. Promoting Gifts Other than Cash, and Lifetime Options as well as Testamentary - vary message, use testimonials to illustrate

REMEMBER:

A. Most planned gifts are restricted, now and forever.

B. Ongoing education and awareness, repeatedly repeating, about planned giving options is essential.

C. Your board has a key role in planned giving success, as donors, overseers of the program, volunteers, lead gatherers, as promoters of the charity, its mission.

D. Planned gifts often have deferred impact to the charity - cost to raise them now, but can be years before the charity sees spendable dollars from planned gifts, so perfect for endowment fundraising.

E. Planned giving programs more likely to succeed if have staff and financial resources DEDICATED to proactive planned giving promotion and activity.

F. Can encourage some planned gift activity without much responsibility - but, will have to gear up, technically and administratively, to handle life income arrangements like charitable gift annuities and charitable remainder trusts, OR, can outsource, e.g. to your local community foundation or for-profit provider.

G. Even the longest journey begins with but a single step . . . so START NOW and continue to promote and market in every publication and way you can.

INTRODUCING DONOR BENEFITS
IN CHARITABLE GIFT PLANNING
or
Why So Many People Are Considering Planned Gifts
to Further Estate and Financial Planning Goals

In addition to assisting the donor in fulfilling his or her primary motivation to make a significant contribution to the good work of a favored charitable organization(s), often to endow a favorite purpose which the donor may designate, properly planned gifts can also provide the donor with significant personal tax, estate and financial planning benefits. These benefits include:

I. Personal satisfaction, the joy and pleasure of becoming a philanthropist for the donor's favored charities, leaving a legacy

A planned gift is usually much more substantial than the donor ever imagined, making him or her a philanthropist (often of an amount they never would have thought possible) for one or more charities while often achieving many personal estate, tax and financial planning objectives within a well-crafted planned gift arrangement. Many planned giving donors make repeat gifts, so that these advantages are repeatable in different tax years and at different life stages of their overall planning.

II. Income tax savings

A. Reduced income tax due to the charitable income tax deduction, available to itemizers (and most donors do not itemize)

B. The avoidance of additional tax on long-term capital gains from contributions of long term appreciated, low basis assets in most cases (deduction for short term property limited to basis)

C. Reduced or avoided income tax owed by the survivor beneficiary (person or estate) of qualified pension plans, IRA's, deferred compensation plans, etc. by using these assets to make testamentary charitable gifts, such as outright to favored charities by percentage designations of the plan balance, or to a charitable remainder trust that pays income to the survivor for lifetime.

Can even fund Charitable remainder trust ("CRT")or charitable gift annuities ("CGA's")for donor and spouse or partner or companion during lifetime with mandatory retirement plan withdrawals, or with maturing CD’s, entitling donor to deductions each year against that included income, and at donor’s death to add plan balance to that charitable remainder trust or more gift annuities, for income and investment expertise for surviving spouse.

D. Income tax deduction, for older individuals, from retained life estate, of personal residence, vacation home or farm

III. Gift and Estate Tax Savings

A. Reduced gift tax for gifts to children or grandchildren where they are the beneficiaries of a lifetime charitable lead trust

B. Reduced estate tax through lifetime charitable gifts and by including charitable gifts in testamentary provisions

C. Significant estate tax savings from charitable income plans where donor and spouse are the only income beneficiaries

IV. Increased lifetime income

Through funding of charitable gift annuities, pooled income funds and charitable remainder trusts with appreciated assets which are producing a low level of annual income. These contributions in effect convert the asset to a higher income yield without causing the donor to realize capital gains, while entitling the donor to a charitable income tax deduction. And, income is paid to the income beneficiaries on the full fair market value, not 85%, 80% or 72% (less basis) as reduced first by the payment of capital gains taxes.

V. Tax sheltered lifetime income

A portion of the income received from charitable gift annuities will be tax-exempt income for the life expectancy of the beneficiary, as a tax-free return of principal. It is possible to receive tax-exempt income from charitable remainder trusts, depending on the trust’s investment experience and what funding asset was used.

VI. Supplemental retirement income

Deferred payment gift annuities can provide supplemental retirement income. A version of the charitable remainder unitrust can be invested for growth to pay a larger amount of income to the beneficiary in the future, with nominal annual income until that time; the donors receives a current charitable income tax deduction each year trust is added to.

VII. Asset management, diversification

Many of the lifetime income plans offer the benefit of alleviating the donor or a surviving spouse of the worries of managing assets, or in providing income to individuals who might be unable or uncomfortable managing a lump sum. This can also satisfy a diversification objective, to have income from a variety of sources.

VIII. Financial support of family members or friends

Contributions can be made to all the lifetime plans with someone other than the donor named as the income beneficiary, such as a spouse, aged parents whom the donor is already or will support, or a term trust to educate children or grandchildren. There can be resulting gift tax implications (none for spouse), but the $13,000 per year (in 2009) per donor per donee exemption applies, if the gift of income is a present interest.

BENEFICIAL DESIGNATION GIFTS –
SMART AND REVOCABLE GIFT OPTIONS
FOR JUST ABOUT EVERYONE

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1. Many individuals have the majority of their portfolios today in (more than one) retirement plan assets – may well be that individual's largest asset holding

2. Retirement plan assets are among the most expensive for family to inherit due to potentially heavy taxation, which can be deferred but will still be incurred at some future time

3. Retirement plan assets can be subject to income and estate and/or inheritance taxes, both state and federal, so possibly four (or more) potential taxes

4. Most of a retirement plan is usually taxable, especially if funded solely by employer contributions and with significant tax-deferred market growth

5. Income tax on retirement plans is simply deferred, most often for the lives of the owner and spouse. There is no marital deduction for income tax purposes, so will be taxed, just later and not now

6. Income tax on retirement plan assets can be deferred now to a next generation like children – called "stretch out" IRA's – which most children may NOT choosing, wanting a lump sum after paying all taxes on the plan balance(s)

7. Combined estate, inheritance and income taxes, both state and federal, can erode a majority of the plan's value, in some cases as much as 80% gone in these multiple taxes

8. In past, there was even a fifth possible tax on retirement plan assets, an excise tax, now repealed – impossible to say if ever will be reinstated

9. **Consider using for charitable purposes the most expensive assets family can inherit**, which includes retirement plans and deferred compensation plans

10. Can designate a percentage (NEVER an amount) of one or more of one or more retirement plan assets to individuals and/or various charities – designation **revocable** during life

11. Retirement plan assets DO NOT pass via a will or trust, by rather by who is listed on the beneficial designation form – becomes irrevocable when the plan

owner dies. This is why in some states, a former spouse can take a retirement plan over a current spouse if that former is listed on the beneficial designation form

12. Gift simple to complete, by completing a change of beneficiary form with the company holding the plan or provided by your employer's benefit office, with a percentage designation to one or more favored charities. Can "**mix-and-match**," and include a designation to family too, e.g. "5% to five (5) specifically designated charities, remaining 75% to my spouse"

13. Can change the beneficiary designation form anytime by simply completing a new form and sending it back to the company holding the plan, a revocable choice that the donor can do on own

14. Can even designate a (lifetime or testamentary, in a will or trust) charitable remainder trust as beneficiary of a qualified retirement plan, and provide income to spouse or to other family members for life or a term period, remainder eventually to one or more charities. Heirs may actually receive more under this method, receiving a percentage from the invested gross that with a unitrust could go up over 20 years, than if inherited after-taxes amount of the plan(s)

15. Even a twenty-one year old can choose this option, e.g "1% to my favorite charity, 99% to my parents/spouse"

16. Can use one plan, if have multiple plans, as the source of all testamentary charitable giving to multiple charities, "**One-Stop Shop**," and give remaining plan(s) to family members - who inherit after-tax, net value

17. Some individuals use their mandatory retirement plan withdrawals, which must commence by age 70 ½ for retired individuals and which are subject to income tax, to fund charitable gift annuities for self and spouse, or to make outright charitable gifts. This offsets the income inclusion of the mandatory withdrawal, which must be taken whether or not the individual needs or wants it. Can defer the CGA for even greater immediate tax effect and a higher eventual rate of return

18. Beneficial designation gifts are easy to promote and understand, and an extremely viable option for most of your prospects

19. Provide prospects with the exact name of your charity, for beneficiary designation and bequest purposes – don't let them guess, provide it for them

20. Repeat the message of this can-do gift option repeatedly, in publications and with prospects, a viable option for many donors, could even use in conjunction with a current, outright gift

PLANNED GIFT OPTIONS
SHORT SUMMARY OF LIKELY OPTIONS

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Bequests – no effect until death, "magic language" must be included in a valid will or trust. Can be expressed as certain amount or asset, percentage or residue of an estate.

Beneficial Designations of (part or all) of (one or more) Retirement Plan Assets – accomplished by a beneficial designation on a qualified retirement plan and sent back to the company holding the plan. Gift often expressed by a percentage. Revocable, no effect until death, can take care of all charities from these assets that are expensive (due to many possible taxes that are only deferred) for a family to inherit.

Gift of Ownership, or Beneficial Designation of (part or all) of (one or more) Life Insurance Policies – if give ownership of a life insurance policy to charity, may get a tax deduction. If designate charity as a beneficiary, usually a percentage designation, no income tax advantage since revocable, gift happens at insured's death, estate tax savings.

Gift of Real Property Subject to Life Estate – gift of a primary residence, vacation home or farm, older individual(s) deed real estate to charity, retain on the face of the deed the right to occupy the property for the rest of their life/lives. Life tenants responsible for taxes, insurance, care of property during their occupancy, entitled to an income tax deduction for charitable remainder value, simplifies their estate.

Charitable Gift Annuities – life income plans, usually for older individuals, only one or two annuitants on any contract, maximum rates "suggested" by American Council on Gift Annuities and based on age(s), generally higher than market rates of return, modest amounts to fund. Can defer when income is paid to annuitant(s), e.g. save for retirement and receive income tax deductions as fund.

Charitable Remainder Trusts – irrevocable when funded, trusts must follow statutory terms and be in the form of an annuity trust (pays fixed amount, cannot be added to) or a unitrust (variable payout based on market performance, can add to). Can pay income for life or for a term up to 20 years, such as for young beneficiaries. Net income variation on the unitrust that pays 5% (minimum payout, right choice for most) or amount of income earned by the trust, whichever is less, good method to save for retirement.

Testamentary disposition of all U.S. government savings obligations – U.S. savings bonds a good testamentary gift to charity(ies) since donor would pay income tax if gave bonds during life, can designate in will or trust that all government obligations to various charities in various percentages.

Gifts Other Than Cash – Use appreciated (often low yield) real estate or stock to give outright to charity or to fund an income arrangement, can enjoy significant tax and income advantages such as avoiding capital gain recognition and income off full amount