TRENDS AND CHANGES IN FUNDRAISING

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By

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I. Introduction.

A. A number of interrelated factors in today's environment make it more important than ever to more effectively manage fundraising programs and donor relationships.

1. Economics.

a) Fluctuations in equity markets makes some more hesitant to make outright gifts.

b) Low interest rates in recent years have made it more difficult for older persons living on fixed income to give.

2. Demographics.

a) Aging of donor population.

b) Younger donors more financially sophisticated.

3. Changes in fund development strategies.

a) More emphasis on participating in the impending transfer of wealth.

b) Tremendous growth in planned gift development efforts.

B. Keys to success.

1. Maximize current gifts.

2. Encourage bequests and other deferred gifts

3. Do not consider these efforts to be mutually exclusive.

4. Recognize that deferred gifts do not have to be deferred for a lifetime.

II. Review of Types of Gifts and Lifecycle of Donors.

A. Donors make three types of gifts.

1. Regular gifts.

a) They are relatively small.

b) Repetition is often anticipated at the time the gift is made.

c) Usually unrestricted and made in the form of cash.

d) Fundraising methods are speculative with emphasis on acquisition and upgrade of donors.

e) Example - I give $100 each year to an organization I support and I expect to repeat with occasional increases from year to year.

2. Special gifts.

a) Larger than regular gifts.

b) Repetition anticipated, but not as frequently.

c) Typically made in response to being asked to meet a need.

d) More likely to be in the form of property.

e) Often completed in context of a campaign or through other relatively aggressive methods and usually not deferred for more than a pledge period.

f) Fundraising methods are usually more transactional in nature.

g) Example - I give $15,000 to an organization over three years to help meet the need for a new facility.

3. Ultimate gifts.

    a) The largest gift one is capable of forming the donative intent to make.

    b) Will usually be a "once in a lifetime" decision.

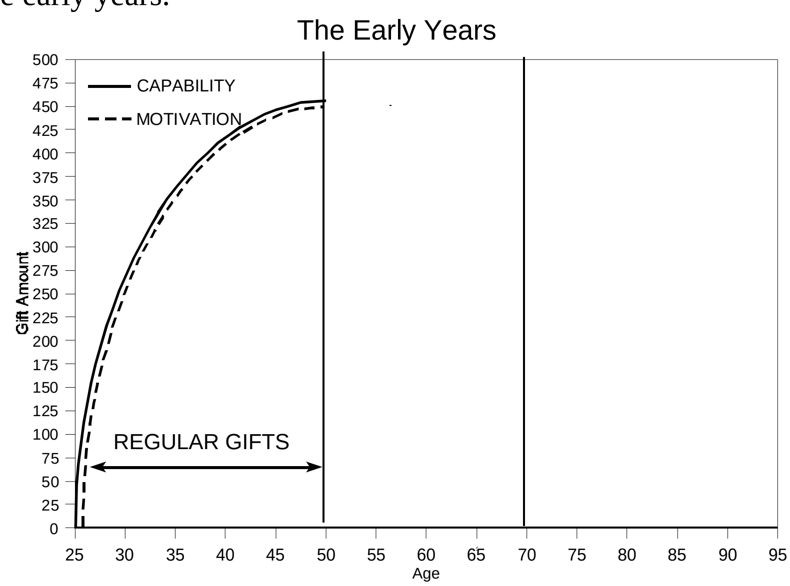
    c) These gifts tend to evolve over time and fundraising methods tend to be more stewardship and relationship oriented.

    d) For most persons the magnitude of the ultimate gift is such that it can only be made through the estate.

    e) Example - Some day I may wish to give $100,000 to endow a program of special interest to me.

B. There is a natural relationship between timing and types of gifts as depicted in the “life cycle” of a typical donor.

1. The early years.



    a) Emphasis on acquisition and upgrade.

    b) Making the case.

    c) Important to build increased motivation as financial capabilities grow.

d) Challenge in today's environment is shaping message to acquire younger donors while retaining base of older donors.

e) Most donors are only prospects for regular gifts during early years.

f) Many are starting families and purchasing homes while they may still be repaying student loans.

g) Goal is to create pattern of regular, unrestricted gifts.

   (1) As much as possible.

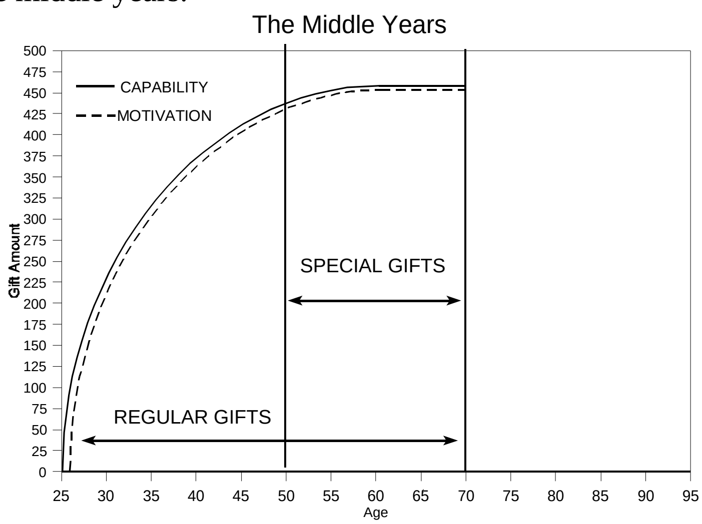
   (2) As often as possible.

h) Most gifts made from income and occasionally from property.

   (1) This group will be open to new ways to give.

   (2) Will use debit cards, credit cards, will give online.

2. The middle years.



a) Regular giving continues.

   (1) For many this is the most generous time in life.

   (2) More assets invested in growth mode.

   (3) Appreciated property thus a greater factor.

   (4) Most persons too young for ultimate gift.

b) Large outright gifts have traditionally been made in the 50 to 70 age range as most persons are still thinking in terms of a life expectancy of 20 to 30 years or more.

   (1) Will live long enough to "make it back."

   (2) If considering a life income gift they may contemplate living long enough to receive more than they contributed.

   (3) Critical to understand the time value of money and whether it is working for or against the charitable recipient in a given situation, especially when working with donors in this age range.

c) The bulk of the nearly 80 million persons born between 1946 and 1964, the “baby boomers,” are already in or are entering this age range. They may or may not give as generously as past generations have at this stage in life.

   (1) Many postponed marriage.

   (2) They began families later than their parents.

   (3) Children now consuming capital as well as income.

      (a) Higher education expenses.

      (b) Weddings.

      (c) Down payments for homes.

   (4) Eldercare an increasing concern for those whose parents are “running out of money.

   (5) Some baby boomers are watching inheritances eroded by lower investment returns that necessitate capital encroachment by their parents that may also erode inheritances.

   (6) Parents may be choosing between leaving inheritances to their children and monetizing their assets to provide income. Growth of “reverse mortgages” is example.

(7) Retirement is looming.

(a) This group may have suffered greatest losses as a result of market corrections. Many had large portions of their retirement assets in equities.

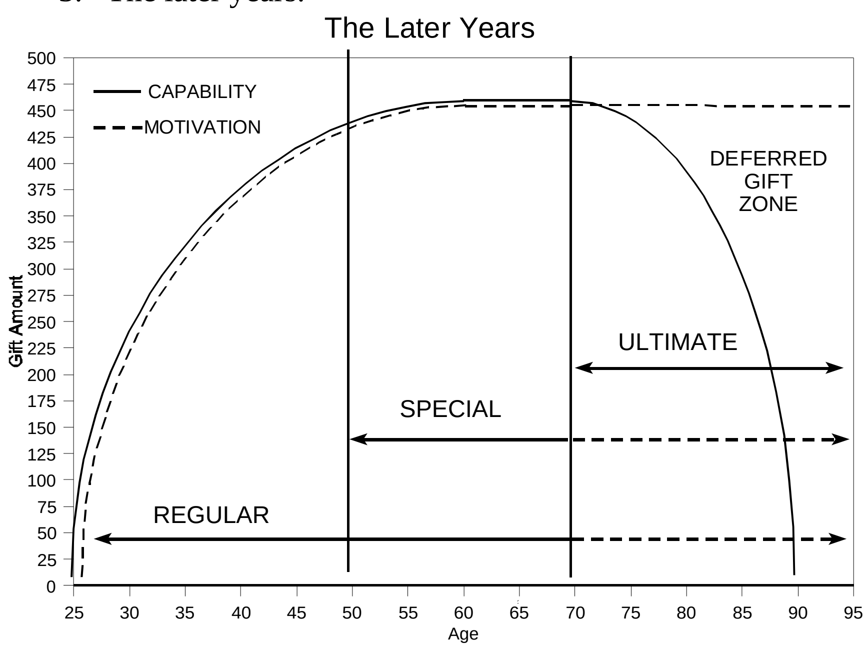
(b) Census bureau reports that 40% of women and 17% of men age 50 will live to be 100.

(8) Combination of factors may "tarnish" the "golden years" for many in this age range in coming years.

(a) New techniques may be required to obtain capital gifts.

(b) The baby boomers can be expected to be more receptive to more creative gift planning options.

3. The later years.



a) Regular giving may diminish or lapse.

(1) May be less disposable income.

(a) Incomes reduced by lower returns on investments.

(b) Medical and other expenses are increasing.

(2) Exceptions.

(a) Wealthier.

(b) Healthier.

b) Special gifts less likely for many.

(1) Perception among some that they have less capability to give.

(2) In reality, donors may have more assets than in earlier stages of life.

(a) Older persons tend to invest more conservatively.

(b) In many cases they sold out of equity positions before the fall in market values, as they needed to move to investments that yielded more income.

C. Four fears that compete with current giving.

1. Dying too soon.

a) Before providing for spouse.

b) Before providing for parents.

c) Before providing for children.

d) Before providing for grandchildren.

2. Living too long.

a) Fear of outliving resources is powerful motivator.

b) The wealthy are not immune.

3. Catastrophic illness and other emergencies.

a) Full coverage of medical expenses is rare.

b) Federal policy changes may make wealthy more vulnerable.

4. Mental and/or physical disability.

    a) Many worry about this.

    b) Most older persons are not incapacitated.

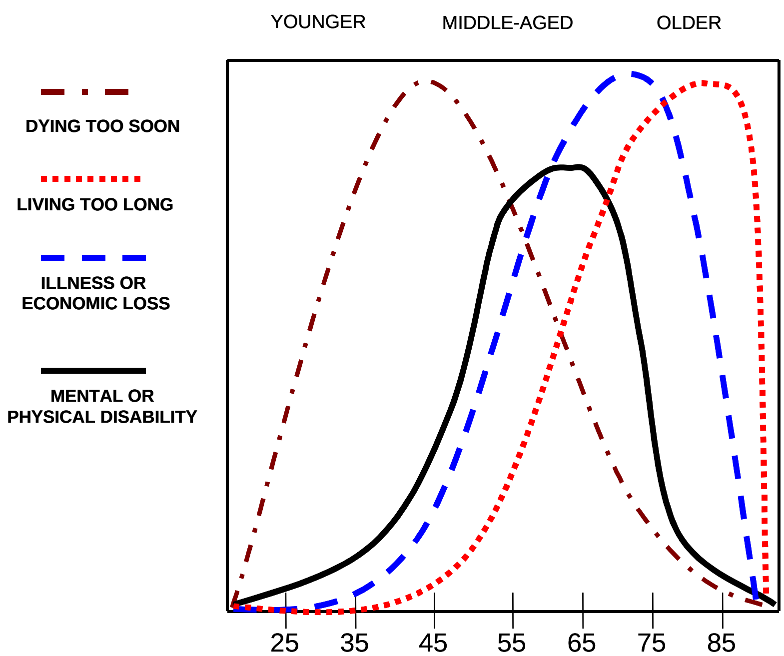
    c) Tremendous fear for childless persons or those estranged from family. Will increasingly be a factor when working with aging baby boomers.

D. Various financial concerns assume different levels of importance depending on age, wealth, and other factors.

1. To a large extent a function of age.

2. Wealth also plays a role.

3. Note that these concerns converge in various ways in the 50- to 75-age range.



E. Understanding the economic concerns that may be competing with the desire to make a relatively larger gift in light of age and wealth factors are the key to "diagnosing" a particular donor's situation and "prescribing" an appropriate solution.

1. Must be able to recognize the issues facing donors.

2. Must understand the tools that are available.

a) Their strengths.

b) Their limitations.

3. Must know when to act independently and when to rely on advisors and/or others.

F. Gift planning solutions, like donors, share certain characteristics surrounding their timing and capacity for economic impact.

1. Some gifts are immediate.

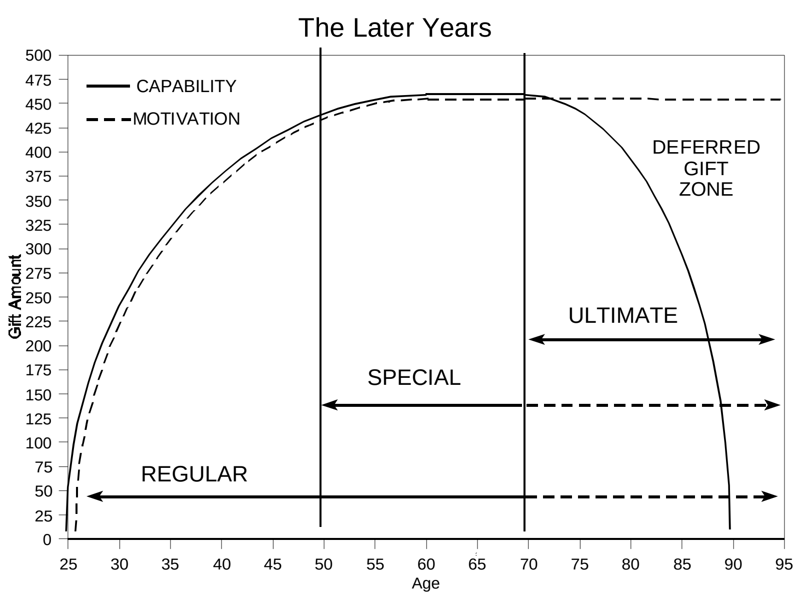
2. Some gifts only occur over time.

3. Some gifts involve complete transfer of assets.

4. Some gifts provide for transfers of partial interests.

III. Managing the Transition From Current to Deferred Gifts.

A. Important to anticipate and manage the "downgrade" process.



1. Recognize longevity of giving.

2. Recognize cumulative giving.

3. Emphasize memorial gift motivation.

4. Turn down current gift “volume” while increasing deferred gift communication.

5. Thank as many older donors as possible.

B. Be aware of changing lifestyles.

   1. Most of the elderly are female.

   2. Many are widows.

   3. More will have had multiple marriages.

   4. Baby boomers will retire differently.

      a) Some will retire earlier.

      b) Some will retire later.

      c) Can be expected to combine retirement planning and charitable giving in different ways.

      d) Many will be providing for parents and children while planning their own retirement.

C. Emphasize stewardship.

   1. Discover those who have made bequest provisions and/or funded other planned gifts.

      a) Only a small percentage of bequest donors will notify in advance.

      b) Charitable recipient will generally know about gift annuities and pooled income gifts.

      c) This is increasingly not the case where charitable remainder trusts, lead trusts, bequests, and other gifts that donors create with the help of their advisors.

2. Where bequests are discovered in advance, they tend to be larger than ones that are received without prior notification.

   Example:

   Mrs. Jordan, a widow age 78, has recently been diagnosed with an illness that her physicians have told her will in all likelihood take her life in less than two years. She decides that she should meet with her attorney and review her estate plans. As part of that process her attorney asks her if her charitable interests have changed from a will that she executed some 15 years ago that left all of her assets to her husband and included residual bequests to a number of organizations only if her husband should predecease her.

   After careful consideration she does, in fact, decide to alter the charitable beneficiaries that were included in her previous will. As she has gotten older, she has lost touch with a number of the organizations that were included in prior wills. A number of them are, in fact, no longer communicating with her. This is due to the fact that she has stopped giving to a number of them due to decreased discretionary income as she has invested more conservatively and her healthcare costs and other living expenses have increased. Only two of the charities she named in the earlier will have discovered her as a bequest donor and continue to communicate with her as a member of their planned gift recognition societies despite the fact that she no longer makes current gifts to them.

   The principal beneficiaries of her new will are organizations and institutions that she still supports and feels most strongly will make a difference in the world in the near term, as she now knows the funds she is bequeathing will be received in a relatively short period of time. One of the bequests adds to a fund created by her husband in his will, which he completed some seven years prior to his death when he was in good health. While she is not particularly interested in this organization, it was one that her husband believed in and she decides to add to his bequest primarily out of her love for him and the desire to further preserve his memory. She also retains her bequests to the two organizations that discovered her intentions and have continued to maintain contact with her over the years.

   While the value of her estate has not increased significantly in recent years, there are fewer charitable interests named in her final will and they will thus receive larger bequests as a result of their efforts to maintain their relationship with her in her later years.

D. Differentiate your program from others.

1. There is increasing competition for planned gifts.

2. There has been a large increase in for profit and nonprofit entities engaged in various aspects of planned gift development.

    a) In 1986, there were approximately 13 planned giving councils with 400 members.

    b) Today, there has been a nearly thirty-fold increase in membership to 11,000 members and ten-fold increase in councils to a total of 130.

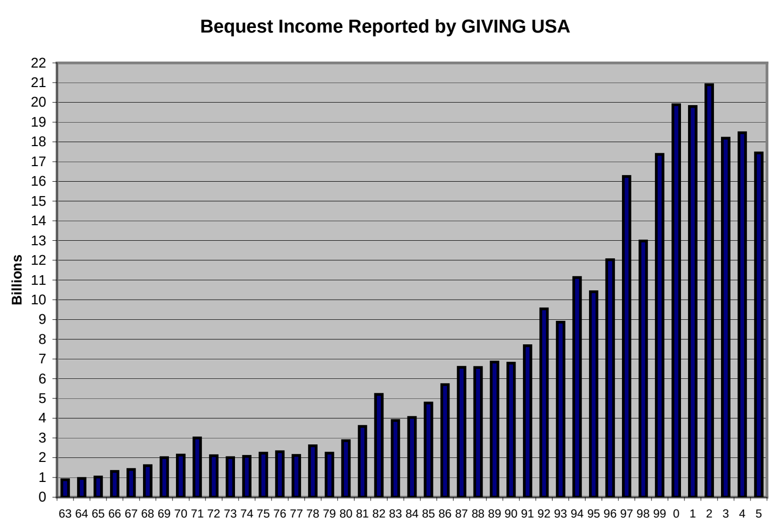
3. Note that the American Council on Gift Annuities reported that the number of organizations issuing gift annuities has doubled over the past ten years and increased by one-third over the past five years. See acga-web.org.

    a) 1994 - 2,000 issuers

    b) 1999 - 3,000 issuers

    c) 2004 - 4,000 issuers

4. During the same time the amount of bequest income has peaked and may actually be stagnant for a few years.



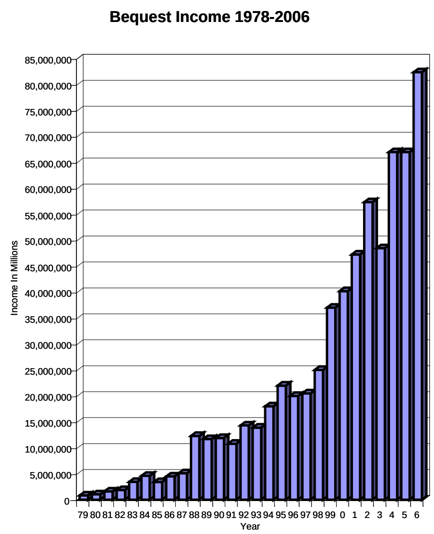
E. The wealth transfer is a real phenomenon and charities have definitely benefited already and will further benefit in the future.

  1. Charities will reportedly receive $6 trillion in coming decades.

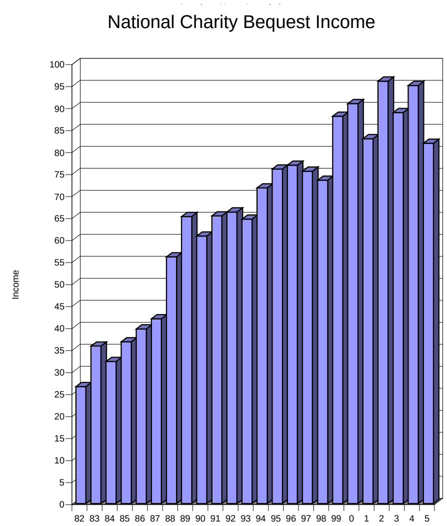
  2. It is important to note that the estimated amounts charities will receive are projected to be realized over a fifty five year period.

  3. Note the differences in bequest income for a number of charities in recent years.

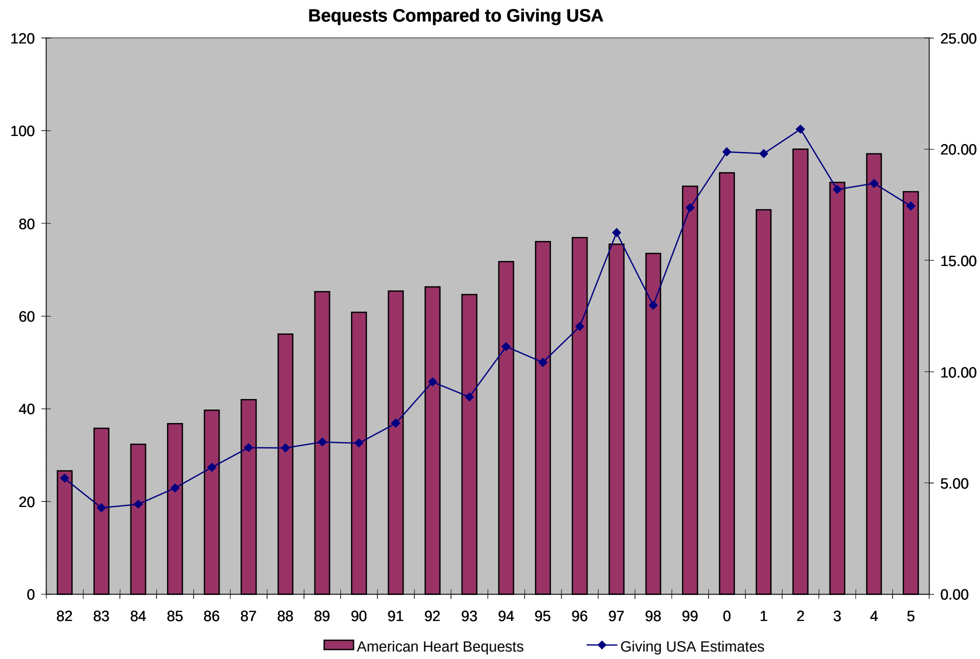
     a) Charity A



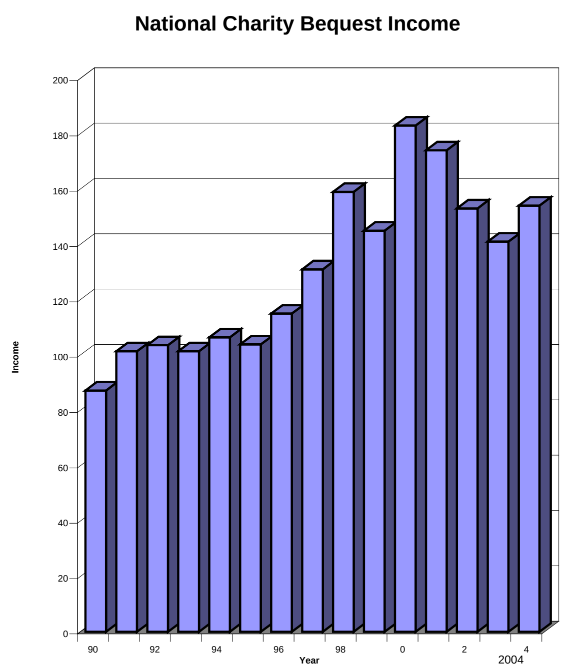
     b) Charity B



c) Charity B compared to national trends:

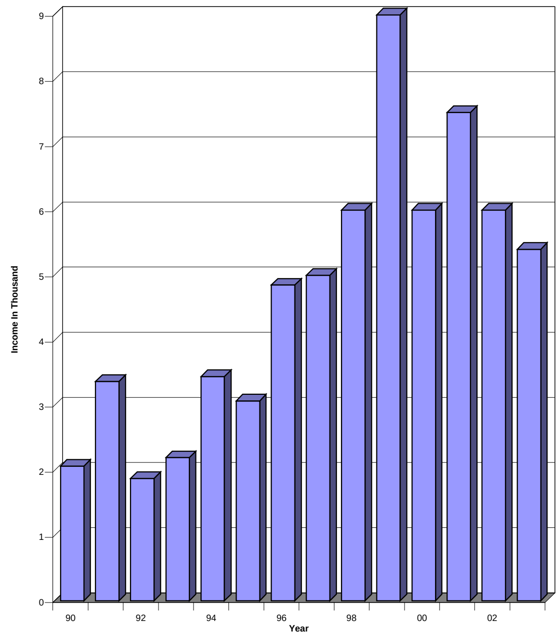


d) Charity C



e) Charity D

National Charity Bequest Income



4. The next decade will be a critical one for charities.

   a) Those who understand the dynamics of the wealth transfer will continue to succeed.

   b) Others may be disappointed.

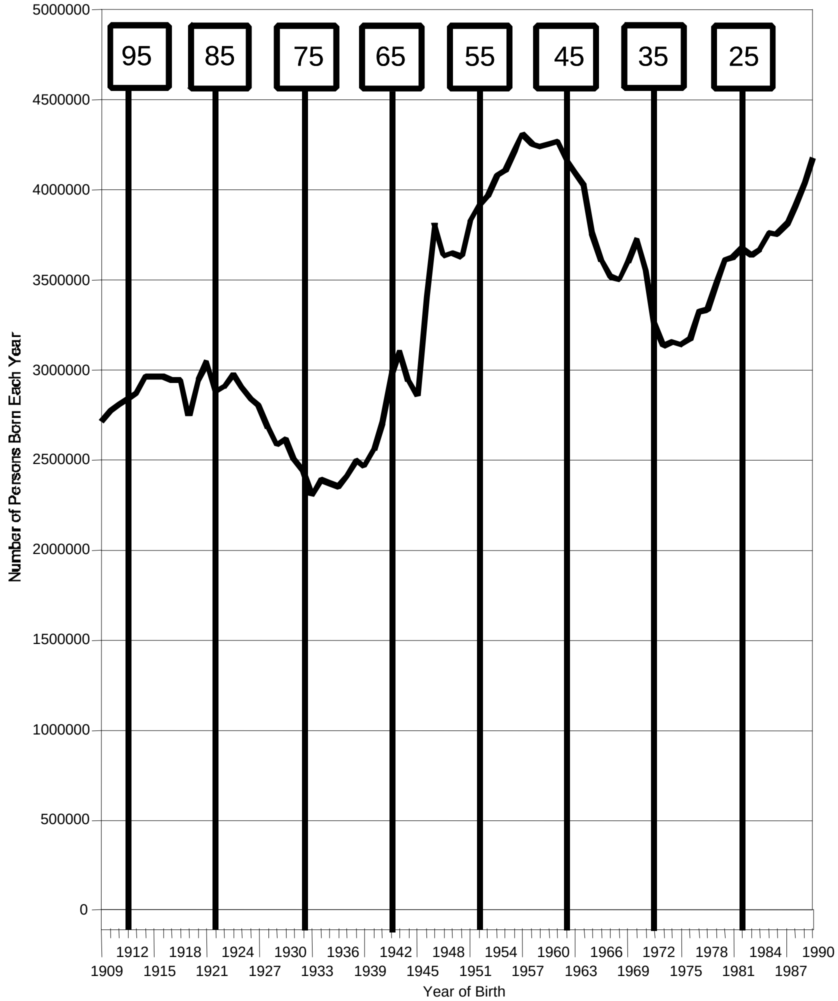
IV. Demographic And Other Trends May Be Less Beneficial for Philanthropy in Near Terms.

A. Many have been aware for a decade or more that demographic shifts might one day have an impact on charitable giving.

1. Note birth trends in America in 20th century.

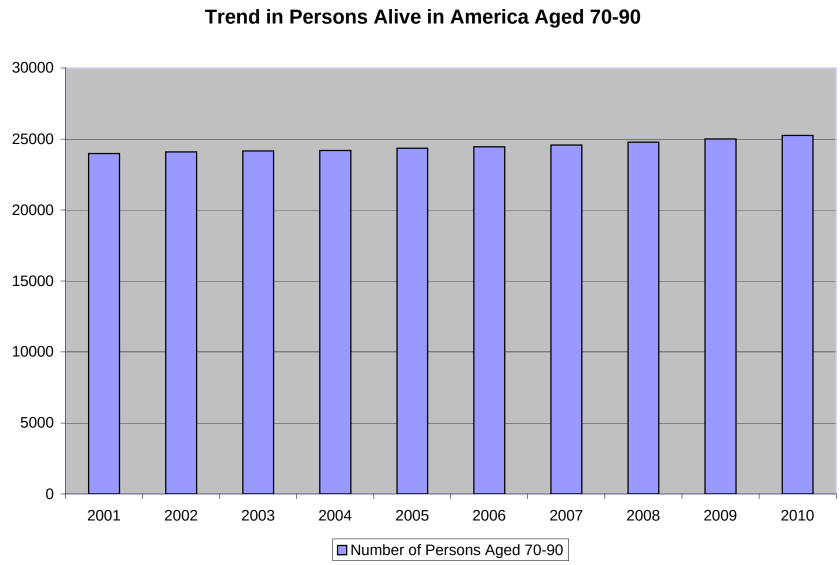
Number of Live Births In America

For Period 1909-1990

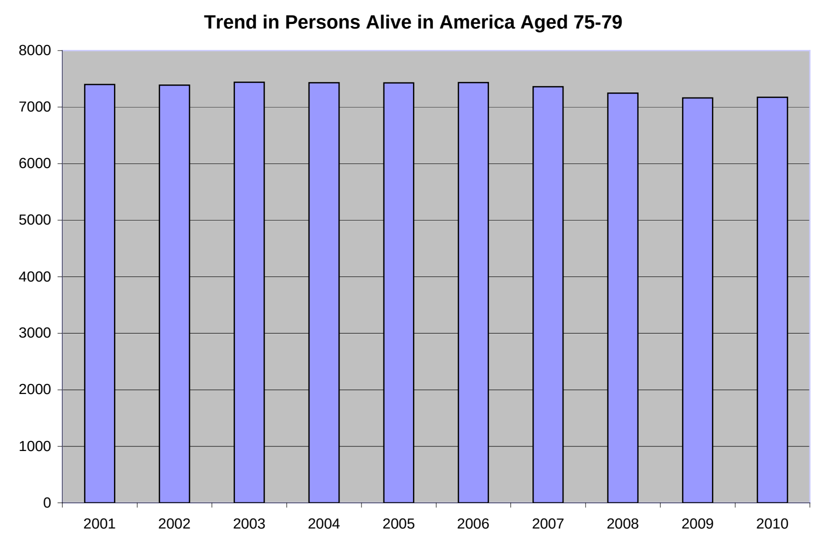


2. Lower infant mortality rates and longer life expectancy have served to lessen the impact of reduced birth rates in the first third of the 20th century.

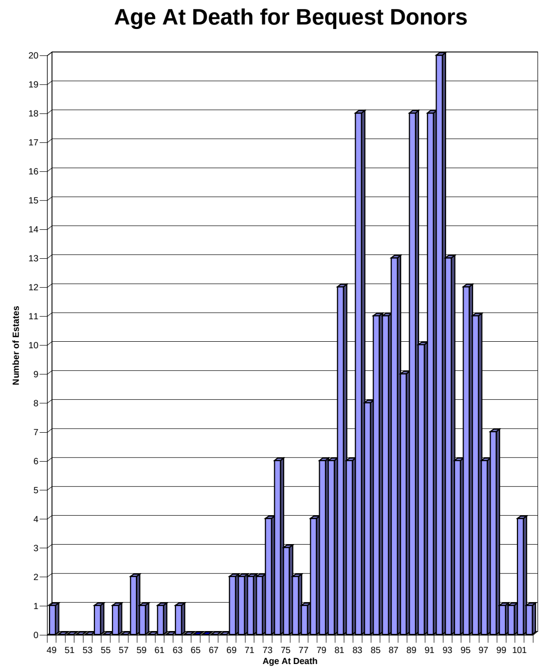
   a. Nevertheless for the first time in many years, there is no growth projected by the census bureau in the 70 to 90 age group that is critical to success in planned giving. *(see www.census.gov for additional information)*



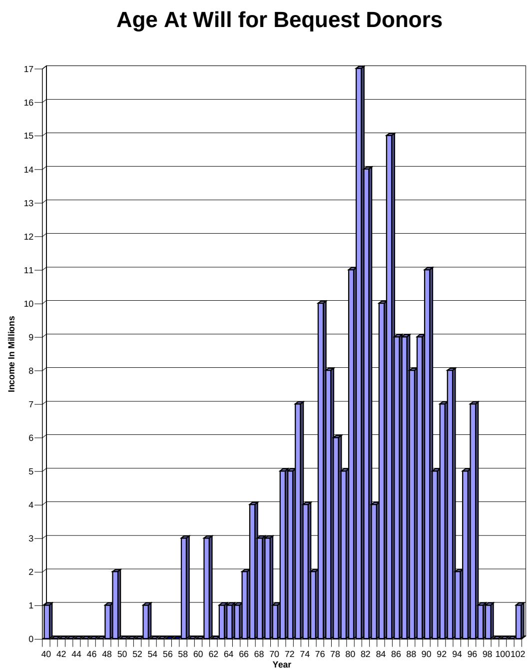
   b. According to the American Council on Gift Annuities (ACGA), the average age of gift annuitants is just over 78. The number of persons in the 75 to 79 age range will actually be declining during the next five years.



c. In the case of charitable bequests, numerous studies reveal that most persons who leave bequests to charity die in the 75-90 age range. Note the data from one of the top planned giving programs in America for over 300 estates.



d. Insofar as influencing these bequests, these same persons made their wills that left funds to charity on average about five years prior to death.

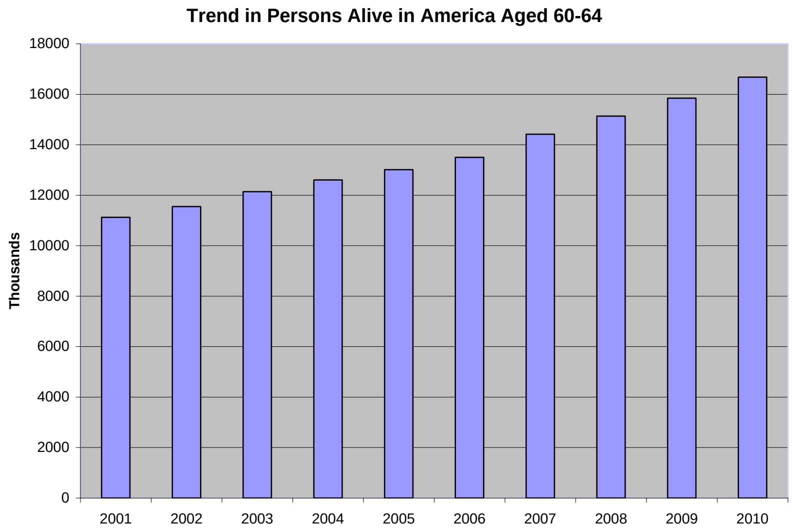


e. These figures do not vary much from organization to organization.

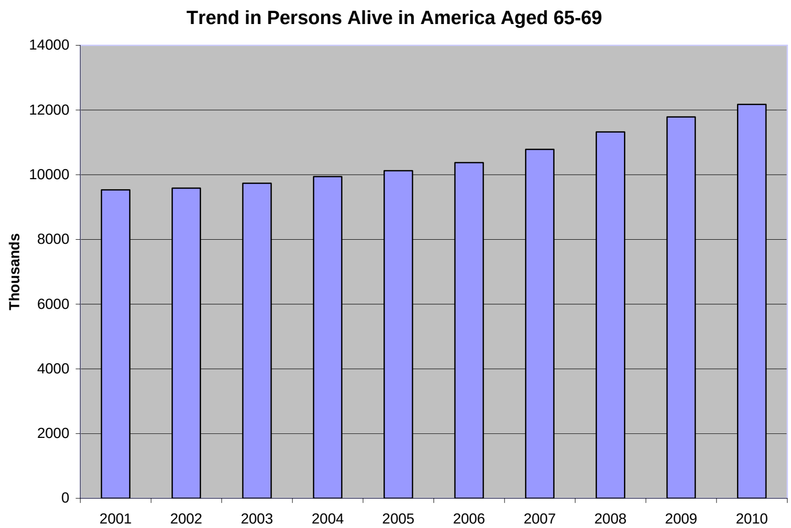
f. It will be ten years before there is significant growth in the 80 and older age range.

3. From a fund raising perspective we need to prepare for the coming boom of "young old" persons, as the baby boomers pass the age of 60.

a. Note growth in 60-64 age range:



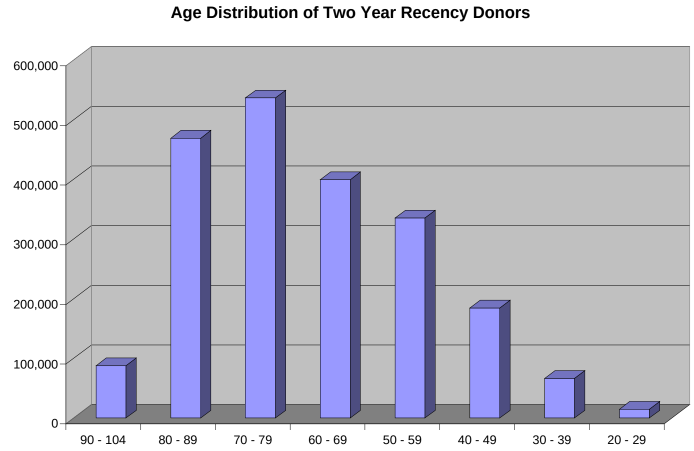
b. Similar trend in the 65-69 age range:



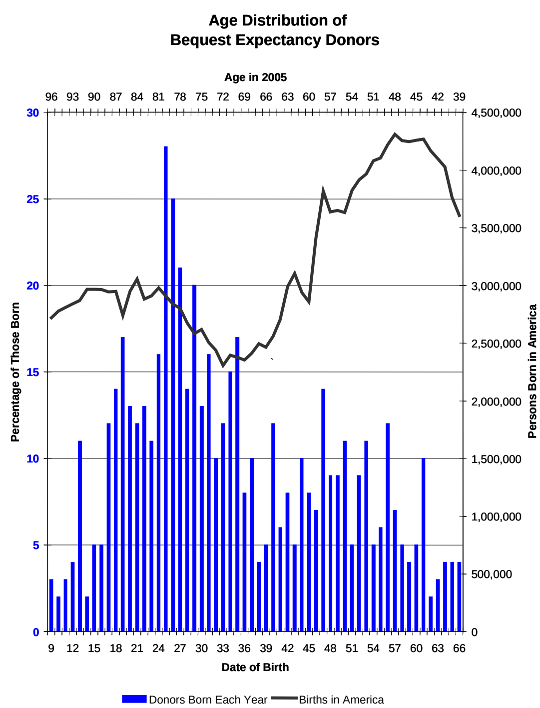
c. While this is traditionally the core age for major gifts, there are challenges in helping this group make large gifts in light of other financial concerns they may be facing.

B. Do all possible to acquire and retain donors among the ranks of the "new old" in the 60+ age range, a smaller contingent for many. Early indications are that this group is not as generous as the generation that preceded them and the baby boomers who will follow them.

1. Note age distribution of donors by ten-year segments to one organization.



2. But see the "hole" in the bequest expectancy group for those in their 60s.



3. The persons in this age group who are charitable have tremendous resources because of fewer numbers splitting a larger "pie."

C. Work with leading edge of baby boomers to encourage gifts that will come to fruition beginning in ten years to help plug the possible hole.

1. Most of the Silent Generation and the Baby Boomers are too young for “death gifts.”

2. Bequest marketing is still appropriate to find those with greatest donative intent for outright gifts.

3. Build bridges to retirement with term of years trusts.

4. Encourage term-of-years trusts for other purposes, like funding education expenses.

D. Be creative in the use of gift planning tools that have stood the test of time.

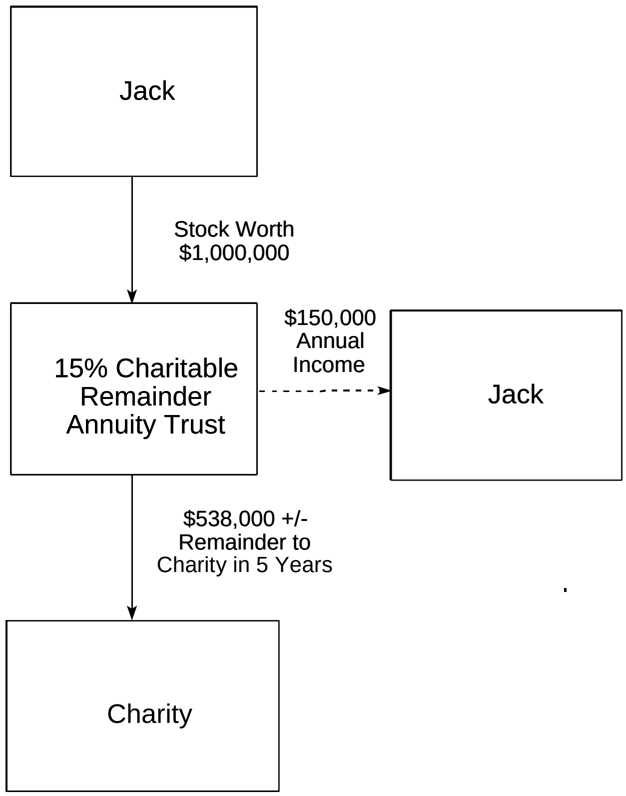
1. Term of years charitable remainder trusts can be useful with younger donors.

   Jack M., age 60, has had a successful career and has significant net worth. He was divorced 25 years ago and has two children from his first marriage. He is remarried and has two teenaged children.

   He is planning to retire at age 70 and at that time begin making withdrawals from his retirement plan. The balance in the plan is now over $2 million and he hopes it will grow to $4 million by the time he retires. In the meantime, his 22 year-old son is beginning graduate school and his daughter is planning to marry next summer.

   Jack has been asked to make a significant contribution to a capital campaign. He would like to participate, but he is reluctant to do so because of his concerns about assuring his financial security in retirement while providing for his children’s needs.

Among his assets are securities worth $1,000,000 with a cost basis of $600,000. He is receiving dividends of 1%, or $10,000 per year. He decides to use the securities to fund a charitable remainder annuity trust that will make payments to him of 15% per year for five years.

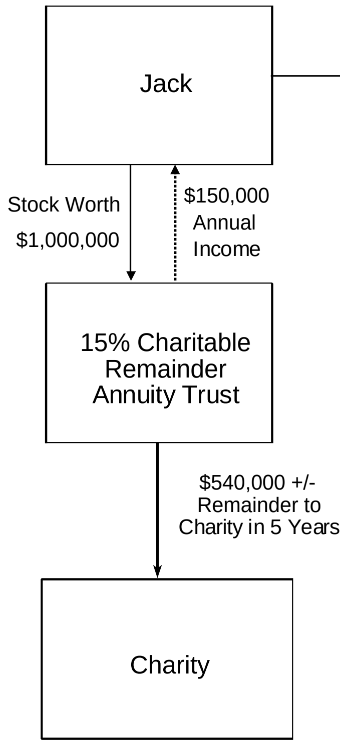


Jack will receive payments of $150,000 per year over the five-year term of the trust for a total of $750,000. This is over fifteen times the income he currently receives from the securities.

He will be entitled to an income tax deduction of some $350,000 which will save him over $120,000 in taxes, in addition to the $60,000 in capital gains tax he will save by donating the securities rather than selling them. The assets placed in the trust will also be removed from his taxable estate, saving upwards of $500,000 in estate tax.

If the trust earns a total return of 7%, at the time of its termination in five years, some $540,000 will remain in the trust and will be used to complete his gift at the end of a time period equal to the pledge period of the campaign.

Jack decides to use part of the income from his trust to purchase life insurance that will pay an amount at the death of the survivor of him and his wife to “replace” the amount his children would have received after tax had he left them the funds he donated via the trust.



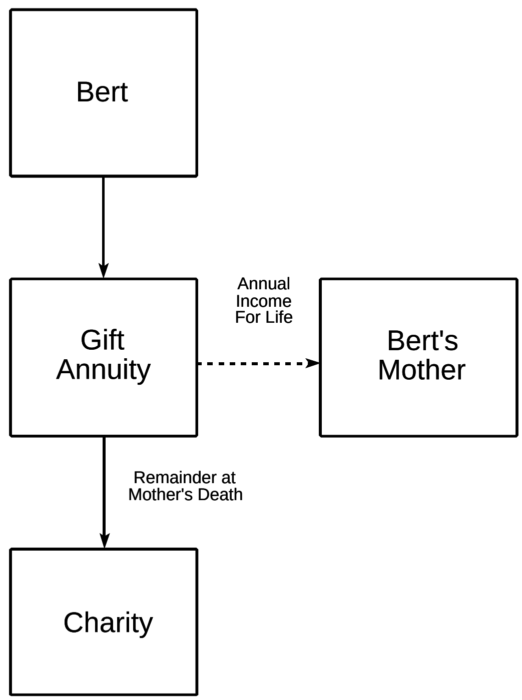
By making his gift in this way, he has retained the income he needs to fulfill commitments to his children and have significant funds available to purchase insurance outside his estate that will benefit his children from his first marriage at this death.

2. Gift annuities for parents.

Mary and Bert, age 59 and 57, have recently sold their home for $650,000. They paid $250,000 for the home twenty years ago. After expenses they netted $350,000. This was at least $100,000 more than they ever expected to realize from the sale of their home. They are also pleased that in the wake of 1997 tax law changes they will owe no federal capital gains tax on the sale proceeds. The funds are now invested in relatively short-term, fixed income investments yielding 3%.

Bert’s mother, age 87, has now exhausted her savings. Bert has been giving her on average about $800 a month from his after-tax income. He has been asked to make a gift of $50,000 to a charitable interest that is conducting an endowment campaign. He doesn’t see how he can do both.

After consulting with representatives of the charity and his advisors, he decides to use a portion of the cash from the home sale to fund a $100,000 gift annuity that will pay his mother 10.2%, or $10,200. This amounts to $815 after-tax spendable income per month for his mother.



The gift will result in a charitable income tax deduction of $54,000, saving him income taxes of about $18,000. The remaining $46,000 represents a taxable gift to his mother. He has not used any of his $1 million gift tax exemption amount so he will owe no gift tax.

If the charity earns 6% on the gift annuity funds for the six years his mother is expected to live, there will be approximately $65,000 remaining at the end of her life. The value of this amount discounted at 4% is $53,000. Under the gift crediting guidelines of the charity, Bert is offered and he accepts recognition for a gift of $50,000.

E. Other environmental factors must be considered.

1. Less tax incentives than in the past.

2. Estate tax considerations are irrelevant for majority of bequests.

   a. Each year there are approximately 2.4 million deaths in America.

   b. According to NCPG studies some 8% leave bequests to charity.

   c. That would result in 192,000 charitable estates per year.

   d. In 2005 there were 39,481 tax returns filed. That figure represents 1.7% of estates.

   e. Some 8,074 of those estates claimed deductions for charitable gifts. Thus 20% of estates that filed estate tax returns which is in the same range as in recent years.

   f. The 8,074 estates that claimed charitable deductions amounts to 4% of the estimated 192,000 persons who died and left bequests to charity.

   g. In terms of numbers it appears that 96% or more of charitable bequests come from estates that are not large enough to file estate tax returns.

   h. In terms of dollars it would appear that 50% or more of charitable bequests come from taxable estates so the tax incentives are important in the estates where they are applicable.

3. Will be more important than ever to balance mission and method of making gifts.

F. When in doubt return to basics.

1. Remember the “anatomy of a gift.”

   a. **Who** makes it?

   b. **Why** do they make it?

   c. **What** do they give?

   d. **When** do they give it?

   e. **How** do they make the gift?

2. Increasingly the what, when and how will not be sufficient to be the “why.”

G. Understand the multiple motivations for gifts.

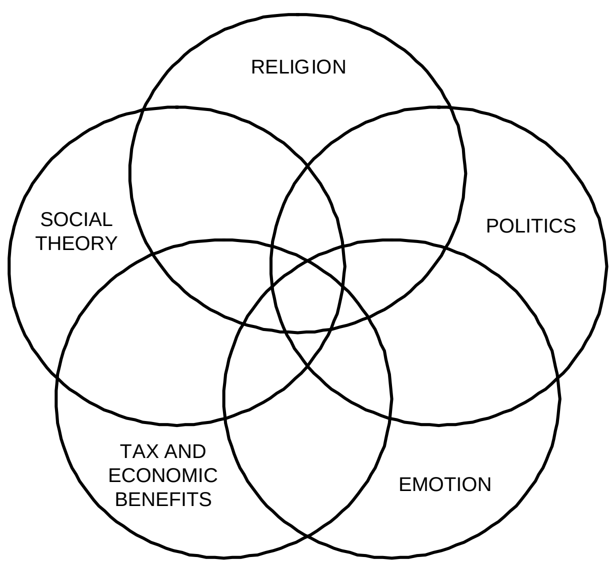
1. Religious beliefs.

2. Social theory.

3. Political theory.

4. Emotions.

5. Tax savings and/or other economic benefits.



H. Understand the proper role of recognition.

1. Only one of many motivators for planned gifts.

2. Of no importance to many.

4. Don’t overemphasis planned gift recognition societies.

5. When people accept recognition for planned gifts they usually do so after they have been motivated to make the gift for other reasons.

I. Key is to maximize market share among the small percentage of persons who decide to elevate charitable interests to the status of family members and include them in their estate plans.

1. Communicate appropriate gift planning ideas to the right people at the right point in life using the right means of communications.

2. Many will act but never inform you.

3. Be prepared to work with those who respond favorably over the remainder of their lifetime. This is the role of staff dedicated to planned giving in many organizations.

About the Presenter

Robert F. Sharpe, Jr. is President of The Sharpe Group. He has over 25 years of gift planning experience. He is an honors graduate of Vanderbilt University and Cornell Law School. In past years, he practiced law with a major law firm specializing in income, estate, and gift taxation and corporate planning. Prior to his legal experience, he served as a development officer for a liberal arts college.

He has authored many articles and other publications covering numerous gift planning topics. His remarks on this subject have been featured in the Wall Street Journal, The New York Times, Newsweek, Forbes, Smart Money, CBS Market Watch, The Chronicle of Higher Education, Trusts & Estates, Kiplinger's and other national publications.

Mr. Sharpe serves as a board member of the GIVING USA Foundation and is a member of the bequest methodology committee of GIVING USA. He co-chairs the legislative affairs committee of the Giving Institute, formerly the American Association of Fundraising Counsel. He was a co-author of the Model Standards of Gift Valuation adopted by the National Committee on Planned Giving (NCPG).

The Sharpe Group consults nationwide with a number of leading educational, health, social service, and religious organizations and institutions in implementing their major and planned gift development efforts. With offices in Memphis and Washington, DC, The Sharpe Group has worked with over 10,000 nonprofits nationwide during its 40-year history.

Mr. Sharpe is a frequent speaker for gatherings including Planned Giving Groups in New York, Los Angeles and other cities, the National Committee on Planned Giving National Conference, the American Bankers Association Trust Asset Management Conference, the Association of Fundraising Professionals (AFP) National Conference, the International Fundraising Congress, the Association for Healthcare Philanthropy Advanced Planned Giving Institute, Council for Advancement and Support of Education (CASE) National Conference, CASE Advanced Planned Giving Conference, the O.M.I. Non-Profit Tax Conference, and others.