

Charitable Giving Methods

*What Nonprofits Need to Know—
and Need to Tell Their Donors*

By Richard Livingston, Donor

Please feel free to copy, distribute, refer to, or quote this material in any way that might help more donors and more nonprofits better understand the different methods of giving available to them. Our only request is that this material be used in a way that retains the comprehensiveness and objectivity of its core message.

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Background

When we became major charitable donors about 10 years ago, we made a conscious decision to share money with family and charities, and to do it in a fairly structured and methodical way.

Deciding which nonprofits to support was the straightforward, joyous part of the process. By nature, we tended to lean toward organizations that served individuals who have nowhere else to turn (such as the homeless shelter, the food bank, and hospice). We found it easy to learn about how these organizations operate and to get to know the good folks that run them and do the hands-on work. We continue to enjoy supporting these groups.

We did not, however, find anything straightforward, rewarding, or joyous in the process of sorting through the available options for giving. At first we got bogged down in issues related to taxes and the more complex ways of giving; later we discovered that we could give simply and economically through the *outright gift* and the *bequest* while still enjoying every tax benefit for which we qualified.

Fast-forward 10 years, and we have come to see two things even more clearly. First, our admiration for the people of the nonprofit world and the work they do has continued to grow. We offer our thanks to them, one and all. Second, it's clear that determining the most appropriate method of giving in each donor/nonprofit relationship has become more of a chore, as nonprofits have increasingly begun offering complex charitable giving instruments (typically *charitable gift annuities* and *charitable remainder trusts*) to would-be donors. That trend, which seems to be driven by the increasingly active involvement of the for-profit financial services industry, has led a broad segment of the fundraising industry to adopt some fairly aggressive, financial tool-focused marketing techniques. We see little to be thankful for in this.

What's the problem? In many cases, unnecessary complexity and cost are being introduced into the general fundraising process by nonprofits presenting these more-sophisticated methods of giving, when only a relatively small percentage of donors will need to use those methods. Sometimes the point is being lost that the easiest and most economical means of giving—the *outright gift* and the *bequest*—remain by far the most appropriate methods for most donors and the nonprofits they support.

What's the cause? It appears to be due to the growing influence of some within the financial services community who are encouraging nonprofits, and, in turn, their donors, to give through specialized, fee-generating techniques when the less-complex means of giving may be more appropriate.

What's the solution? Fully informed donors and nonprofit staff, who will be better-prepared to interpret such marketing messages, some of which understate the merits of simple means of giving while promoting the more-complex giving techniques.

This pamphlet provides the everyday donor—as well as general staff and volunteers at nonprofits—with an overview of the full range of giving methods, along with an overview of the advantages and disadvantages of each approach. We hope this information will help donors and nonprofits alike to select the most appropriate methods for giving—and receiving. The charts on pages 6 and 7 provide a visual overview of the material we cover in this pamphlet.

The Basics

These three points are fundamental to the discussion of how people choose to give:

- Donors typically give because they *relate to an organization's mission and the people who accomplish that mission*. Achieving tax deductions is usually a secondary motivation. We know of no objective research that suggests otherwise.
- Two **simple means of giving**—the *outright gift* and the *bequest*—will serve the needs of the great majority of donors and nonprofits
- For some donors who have unique wealth, tax, income, and/or estate issues, as well as the financial sophistication and time required to fully understand them, the **complex means of giving**—typically the *charitable gift annuity* and the *charitable remainder trust*—with variations, may be appropriate.

The Four Categories of Charitable Giving

We believe that there are four general categories of charitable gifts for donors and nonprofits to consider.

The Simple Methods

1. **Outright gift: This is appropriate for donors who want to see their charitable dollars at work during their lifetimes.**
2. **Bequest: The basic method for those who want to give at the end of their life.**

The Complex Methods

3. **Life income gifts and other split interest instruments: This category includes the charitable gift annuity (CGA), the charitable remainder trust (CRT), the charitable lead trust (CLT) and the pooled income fund. These methods are appropriate for donors who want to give assets now for later use, who seek some form of direct financial return from their giving, and who have unique tax and estate issues to deal with. (Some insurance arrangements fall into this category.)**
4. **Family foundations: This approach works for donors who want to keep their gifted capital intact while making smaller annual charitable distributions and retaining administrative control.**

Categories 1 and 2 are generally easy to understand and require no contracts, trusts, trustees, or special income tax returns. Few donors need a great deal of expert advice to use those two approaches. (With the exception of gifts of illiquid assets such as collectables and business interests, and almost any real estate donation.)

Categories 3 and 4 vary in complexity, but most donors and nonprofits will need to a significant level of financial sophistication to fully understand and implement these instruments. We highly recommend that would-be donors get independent legal, tax, and financial advice as they consider these methods.

Objectives First, Tools and Techniques Later

The donor's choice among these possible methods of giving will depend on four key factors that define their charitable intent: *What* do they want to accomplish with their giving? *How much* do they wish to donate? *When* do they want to donate? *When* do they want their nonprofit to be able to use their donation? Our guess is that most donors deal with these considerations rather intuitively, without the need for a lot of formal thought.

Our experience suggests that if donors are given a structured overview of the methods available to them (with clarifications of their comparative advantages, disadvantages, and alternatives) this intuitive process will lead most donors quite logically to the giving techniques that will best serve their interests and the interests of the nonprofit they choose to support. Our objective is to provide nonprofits and their donors with that basic overview.

1. The Outright Gift

If you write a check, give some clothing, or transfer some stock to a nonprofit, you are making an outright gift. This is by far the most popular way for donors to give to nonprofit organizations.

Nonprofits love the outright gift because it provides resources they can put to use immediately, a critical need for most. In addition, this method typically has low overhead costs and few administrative complications, financial liabilities, or requirements for specialized staff training. (Gifts of illiquid assets can be the exception.)

Donors tend to choose the outright gift because it is easy to understand and appropriate for gifts of any size to nonprofits of any size. The outright gift also brings donors the satisfaction of knowing that their dollars are going directly to work for a cause they believe in. They can see tangible results of their giving during their lifetimes.

In addition, outright gifts provide most donors with the full measure of tax deduction and tax avoidance for which they qualify.

2. The Bequest (and beneficiary designations)

Donors can create a bequest by putting a paragraph of instructions in their will. They can accomplish much the same result by adding the name of their nonprofit to their IRA or life insurance policy beneficiary form. At the end of the donors' lives, the designated nonprofits receive these gifts as specified.

The bequest (and beneficiary designation) has many advantages for individuals who choose to give at the end of their lives. For many, the most important factor is that a bequest allows them to retain their assets until the end of their lives—ensuring funds availability should they need these assets to meet unexpected family needs, health problems, or other unpredictable life events.

Donors also like the bequest because it can be kept confidential. This is important for those who wish to remain anonymous and not become candidates for ongoing fundraising efforts. Many donors like the idea that they can easily change their bequests should their area of primary interest change at some point in the future.

For the small percentage of donors whose estates may be subject to estate taxes, the bequest by will is an effective way to reduce such taxes. This option works for any amount of money, be it thousands or millions. Because IRA funds that remain in a donor's estate will likely be subject to a high income-tax rate, these funds also make tax-effective end-of-life gifts.

We recommend checking with the IRA or insurance policy administrator to make sure these options can be exercised in each specific case. It's also a good idea to have an attorney review all bequest or beneficiary documents to ensure that the instructions are unambiguous and that the right wording has been selected (fixed amount versus a percentage, restrictions, contingencies, and so on) to ensure the effectiveness of your gift. Estate settlements can become quite awkward if the wording of the bequest has not been correctly prepared.

Bequests tend to be quite large. This is logical since, with a bequest, donors are freed from the sense of constraint they might feel in making a large gift during their lifetime. Another advantage for both donors and nonprofits is that bequests typically entail no significant costs that might diminish the actual amount received by the nonprofit. If a donor bequests \$25,000, the nonprofit will get \$25,000. If the donor bequests 20 percent of his or her estate, the nonprofit will get 20 percent of that estate.

Although bequests are not tax-deductible during the donor's lifetime, they offer a number of compensating advantages, including simplicity, economy, revocability, changeability, having funds available during the donor's lifetime, and confidentiality, which will, for many donors, override this tax deduction disadvantage.

Research conducted by the National Committee on Planned Giving (NCPG) has found that once donors set up a bequest, they are unlikely to change that bequest, and if they do decide to change it, they are as likely to increase it as to decrease it.

Since bequest assets remain under the investment control of the donor during their lifetimes, the donor is able to invest for *income or growth* as appropriate to their individual circumstances. They can, of course, withdraw funds at any time as their needs dictate.

Many nonprofits find that a simple bequest program will fulfill their deferred gift program needs.

3. Life Income Gifts

We will focus on the two most common options—the charitable gift annuity (CGA) and the charitable remainder trust (CRT). Life income gifts are simple in concept. The donor gives money or another asset to the nonprofit today; and the nonprofit owns and manages this money until the donor's death, while paying out an annual fixed payment (typically) to the donor or a designated beneficiary. With CGAs and CRTs, the nonprofit gets the funds that remain after the donor's death. As logic would suggest, the more financial benefit the donor gets, the less benefit the nonprofit gets.

Life income gifts are typically deferred gifts. With some exceptions, the nonprofit gets to spend the money only after the donor's death. These instruments are irrevocable; that is, with very few exceptions, the donor cannot change the arrangement once it has been made.

The CGA is a relatively straightforward life-income technique. It is more complicated than a bequest, but simpler than a gift trust. The arrangement is bound by a simple contract. The payout is guaranteed by the assets of the nonprofit. The donor gets a tax deduction at the time the gift is made, based on the true gift amount of the asset—but not on the portion that is slated to be returned to the donor as part of the lifetime payout.

Payout rates are calculated to leave the nonprofit with 50 percent of the original amount transferred. The actual outcome for the nonprofit is an educated guess that is dependent on a number of variables, including payout rate to the donor, the donor's length of life, the return on the investment of the annuity funds that the nonprofit is able to achieve, and the level of administrative costs that the nonprofit incurs.

These instruments, which are typically marketed based on the promise of increased income and tax deductions, are recommended as being a good way to give. They are generally offered at a minimum level of \$10,000 to donors who are at least 65 years old.

Many donors like the CGA. They are pleased that their cash flow will increase and that they will have guaranteed income for life. They will typically enjoy an immediate (although partial) tax deduction and their nonprofit will get whatever money is left over when they die. Even though the nonprofit will, in most cases, not be able to use the money until after the donor dies (where nonprofit follows the sound practice of holding these funds in reserve), and the actual amount the nonprofit will eventually receive is projected to be 50 percent of the donor's original gift, many donors like knowing that they have made this irrevocable commitment to their chosen nonprofit.

Gift trusts (think CRTs and their many variations), and other split interest instruments, are not simple. Since these techniques represent a world of technical complexity, with many variations and exceptions, we leave the detailed exploration of these instruments those who might feel these options are appropriate for their situations. There is an excellent body of literature readily available (we offer some suggestions in the reference section at the end of this pamphlet). The advisor community will be pleased to provide a wealth of information on these arrangements and on the full range of split interest gift techniques.

Above all, please remember that gift trusts and other life interest techniques in general are specialized legal, financial, and monetary instruments with significant advantages and disadvantages. Their major advantage may be their remarkable flexibility in addressing issues surrounding unique estate objectives and financial complications. Since most donors don't have complicated estate situations, they will probably find that the less-complex means of giving will serve their financial and personal philanthropic objectives quite well. Where outright gifts and bequests do not meet a donor's needs, these more complex techniques may serve the donor's best interests.

Note that gift trusts are trust agreements rather than contracts. The payout is guaranteed by the assets remaining in the trust. If the trust were to run out of money, the payouts to beneficiaries will cease. The CRT has significant start-up and ongoing administrative costs, which may be covered by the donor, the nonprofit, or both. The assets are held within a trust and managed by a trustee. Trust accounting rules must be followed and trust income-tax returns must be filed.

Many nonprofit organizations outsource these specialized administrative tasks to legal, accounting, and financial organizations. This is certainly logical for small to midsized nonprofits that don't have the staff, or the volume of activity, to justify hiring full-time professionals skilled in these matters. This type of work is sought-after by companies in the for-profit financial services community.

A gift trust may be the right method when a potential donor has a strong charitable intent, is without heirs who need an inheritance, and has significant assets tied up in an illiquid property that does not generate enough (or any) income. An example would be an older couple, without heirs, who own a large farm that is currently producing little income and that is located near the new interchange on the interstate. The land is now worth many times its purchase price of many years ago, so there would be significant capital gains taxes if it were sold outright. Its value might also be subject to estate taxes. A gift trust might provide the donors with a significant increase in income while providing the charity of their choice with a greatly enhanced gift, given that capital gains and estate tax "savings" would go to the nonprofit in the form of a larger gift, rather than to the IRS as a tax payment.

Gift Trusts are often proposed at minimum levels of \$100,000 – or even lower. Our understanding, however, is that the minimums at many commercial trust companies is in the \$250,000 to \$400,000 range. Our personal experience supports the logic of this higher minimum range. Charitable trusts are generally appropriate for very large gifts.

We encourage donors who have special circumstances and feel that a gift trust (or other split interest vehicle) may hold promise for their situation to investigate these complex options carefully. They should be wise to make their final decisions based on objective and comprehensive comparisons with the outright gift and the bequest.

4. The Family Foundation

A family foundation is a separate financial entity established to hold, manage, and distribute gifted assets. It is the most complex means of giving, somewhat akin to managing a small business. It lets the donor establish a legacy that will remain in perpetuity. People also set up foundations to provide a learning and relationship-building experience for family members. Some donors like the fact that the family foundation lets them retain a high degree of administrative control, but others may not enjoy that level of involvement. The family foundation carries with it the responsibility to adhere to a large body of government regulations.

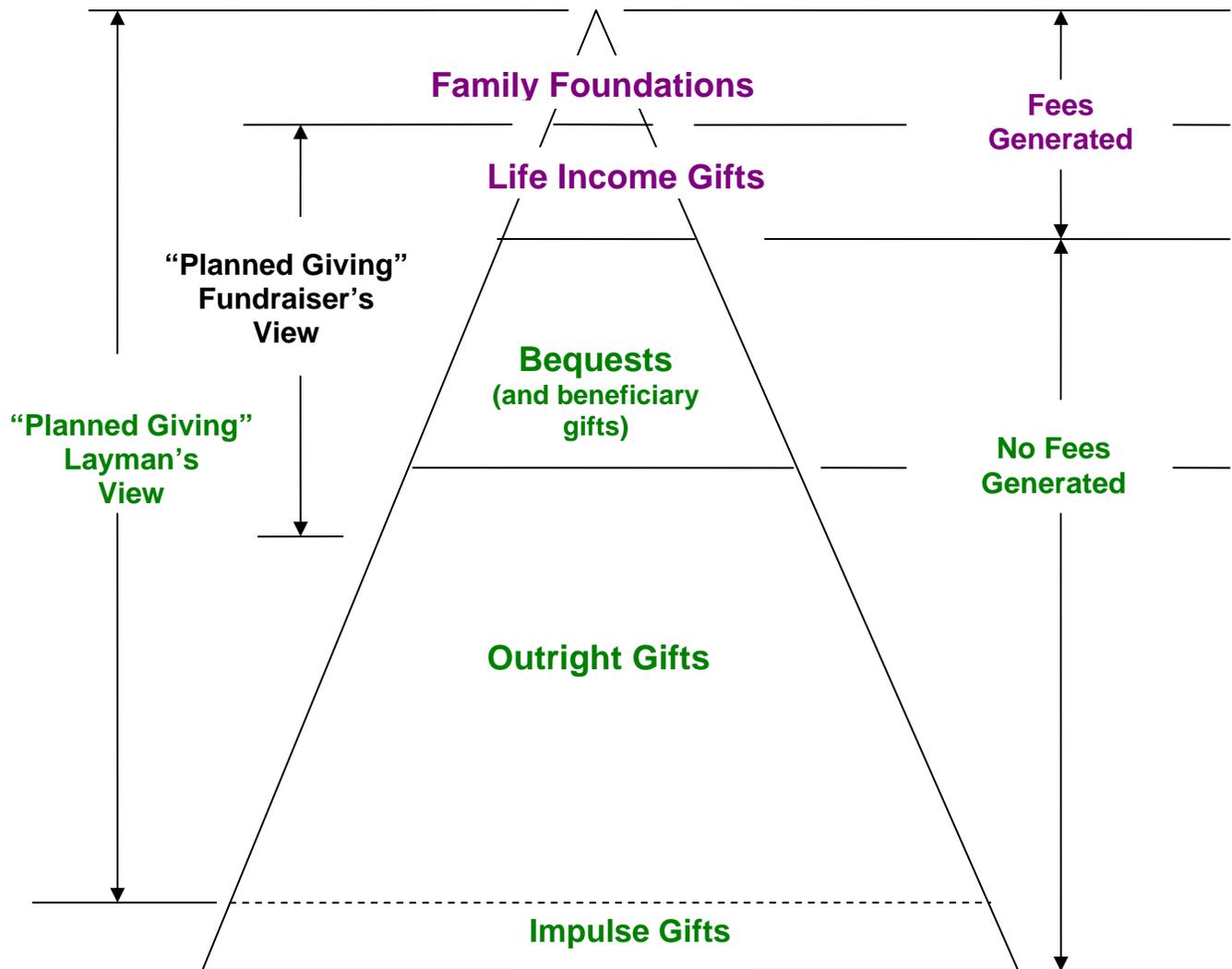
With a family foundation, the donated assets remain intact and generally grow over time. Annual distributions are made over time, generally at a minimum level of 5 percent of trust assets per year.

Family foundations are sometimes set up with a minimum of \$1,000,000 or less. We suggest that at these relatively low levels the donor should look closely at the overhead costs and administrative involvement in relation to the funds involved. As we all know, some family foundations manage many millions (even billions) of dollars.

We suggest that donors considering a family foundation seek input from other individuals who have had such arrangements in place for a few years to see what their experiences have been. Their feedback could be very helpful in their decision-making process.

Many donors find that they can gain most of the features they are looking for in a family foundation—including the creation of a legacy, close control over income distribution, and family learning opportunities—by establishing a donor-advised fund with a Community Foundation or other major foundation. That approach will free the donor from much of the potential administrative cost and hassle that a family foundation can entail.

Charitable Giving Methods: An Overview



1. **Outright gifts** are by far the most popular and appropriate methods for donors who are able to give during their lifetimes.
2. The **bequest** is the most popular and appropriate method for donors who prefer to make gifts at the end of their life.
3. **Life income gifts** typically take the form of charitable gift annuities (CGAs) or charitable remainder trusts (CRTs). Life income gifts may be advantageous for donors with unique tax, wealth, income, or estate issues.
4. **Family foundations** may be appropriate for the wealthy who wish to retain a high level of control and administrative engagement.
5. For the layman donor, the term “**planned giving**” will typically include their full range of giving options, with the exception of impulse-giving of small amounts.
6. Within the fundraising industry, the term “**planned giving**” generally includes life income gift techniques, with some inclusion of bequests, and the more complex outright gifts such as collectables and real estate.
7. **Outright gifts** and **bequests** typically generate no significant ongoing fees or administrative costs. (Real Estate and some illiquid assets the exception. We assume here that a bequest donor has his or her will in place.)
8. **Life income gifts** and **family foundations** generate set up fees and ongoing administrative fees.

	1		2	3		4			5
	Money Given By Donor	Money Usable By Nonprofit	Donor Retains Assets	Donor Receives Annual Payment	% of Gift Rec'd By Nonprofit	Tax Deductions Available			Admin Complexity
						Income	Capital Gains	Estate	
Family Foundations	Now	Ongoing	No	No	Typically 5% of assets per year	Yes	Yes	Yes	Very High
Life Income Gifts	Now	End of Life	No	Yes	50% (CGA)	Partial	Partial	Yes	High
Bequests	End of Life	End of Life	Yes	No	100%	Yes, For IRA Assets Held At End of Donor's Life	Yes, For IRA Assets Held At End of Donor's Life	Yes	None
Outright Gifts	Now	Now	No	No	100%	Yes	Yes	Yes	None

1. With a **life income gift**, the donor gives up ownership today, but (in most cases) no money becomes available to spend on programs until after the donor's death. (The charitable lead trust is an exception.)
2. With a **bequest**, the donor retains title, access, and control of the gift until his or her death.
3. The payout of a **charitable gift annuity** is generally calculated to leave the nonprofit with a remainder of 50 percent of the original gift. (See www.acga-web.org for clarification of this point.)
- 4a. The **outright gift** can produce the largest tax deduction of any giving method, in the great majority of cases.
- 4b. The **life income gift** produces only a partial tax deduction, because only a part of the asset given is, in fact, a gift.
- 5a. **When compared** with the outright gift and the bequest, the complexity of both the charitable gift annuity and the charitable remainder trust are far greater and they are far more difficult for the layman donor or fundraiser to fully understand.
- 5b. The **administrative overhead** (and related complexity) of the family foundation might be equated to that of running a small business. For many donors, the management of a family foundation can be a time-consuming and expensive endeavor. Donor-advised funds are a logical alternative.

The Marketing of Charitable Giving Methods

As we have observed charitable fundraising today, a number of basic facts have become apparent to us. Here are a few of the more important ones. We think it's crucial for these facts and related issues to be made clear to donors at every stage of the giving method marketing process.

- Nonprofits of every size prefer **outright gifts** over every other method of giving. For many nonprofits the outright gift (money they can use today) is crucial to their survival.
- The **outright gift** of appreciated assets optimizes tax benefits for the majority of donors.
- For donors who prefer to make major donations at the end of their life, the **bequest** has many advantages, including simplicity, economy, revocability, ease of change, and asset availability.
- The **charitable gift annuity** allows the donor to make a relatively small irrevocable commitment to a charity of his or her choice. Secondary benefits, such as tax benefits and investment improvement may or may not be best achieved with a CGA.
- **Giving trusts** and other split interest gifts are complex devices. Their principle advantage is their flexibility in providing solutions to specialized and complex wealth, tax, and estate situations. Only a small percentage of donors will need these devices. They may or many not provide the best way to optimize tax benefits or improve investment returns.

Many donors come to the fundraising process with a high level of trust and a modest level of financial sophistication. As a result, significant numbers of donors may be less inclined to pursue appropriate due diligence, get second opinions, ask probing questions, or fully investigate alternatives.

This, we believe, places a special responsibility on every fundraiser, every advisor, and every financial service provider who is involved with donors and donor services. They must ensure that in every communication, in every media, at every stage of the fundraising communication process, an effective effort is made to educate each donor about the advantages *and* disadvantages (which need to be presented with equal emphasis) of any proposed giving method as compared with the baseline of the outright gift and the bequest.

We realize that this level of candor may, in some cases, lead to the loss of a specific gift. But we have little doubt that candor will greatly benefit the long-term health of every nonprofit organization that chooses to adapt this approach as the cornerstone of its fundamental donor relationship policy.

Taxes

The tax deduction may be the least-understood and most over-promoted factor in the world of charitable giving. There are several reasons why the quest for tax savings need not be a significant factor in the typical donor's decision-making process. We'll discuss three of them here.

1. The outright gift will provide the majority of donors with all of the tax relief for which they are qualified. This includes income taxes, capital gains taxes, and (for the few where it's a factor) estate taxes. Donors don't generally need the more-complex giving methods to optimize their tax deductions.
2. We know of no way that a donor can make money from a tax deduction, whether they select the simplest means of giving or one of the more-complex methods. It just doesn't work that way. The charitable tax deduction allows a donor to make a larger gift at no increased cost to themselves. If, for example, a donor gives \$12,000 to a nonprofit and gets a \$2,000 tax deduction, they will have spent \$10,000 to make this gift of \$12,000. Wise giving certainly, but it won't leave the donor financially ahead of the game at the end of the year. It costs money to give money.
3. Donors can give \$50,000 today and take the tax deduction today, or they can give \$5,000 per year over 10 years and take the tax deduction over 10 years. The net tax savings will be the same.

Giving as an Investment Vehicle

In the world of fundraising, rarely is the life income gift referred to as an “investment,” yet much of the promotional material for these devices suggests that they are desirable, competitive forms of investment. These instruments are typically marketed as a way for donors to get a higher financial return than is available from their current investments. Given this marketing position, we think it’s appropriate to judge these “get increased income” promotions as investment proposals and apply the same comparative tests that a prudent investor would typically use. This would include a comprehensive comparison with alternative investment options, including net return (income *and* growth), level of risk, effect of inflation, net fees, and access to their capital.

It is wise for any donor who is considering an annuity product as a means for increasing investment return to seek independent investment counsel as part of the decision-making process. A skilled, objective advisor will be able to analyze the donor’s *comprehensive* financial situation and recommend a range of appropriate “income increasing” investment options, one of which *may* be a charitable gift annuity or a charitable remainder trust.

The Life Income Gift as a Good Way to Receive Donations

We are puzzled as to why so many small to midsized nonprofits are choosing to market and administer the more-complex giving instruments, promoting them as a good way to meet the needs of the nonprofit. Three concerns immediately come to mind: (1) These methods typically result in deferred gifts, where the funds won’t be available to the nonprofit until after the donor’s death (the lead trust is an exception). (2) The actual amount the nonprofit receives may be much less than the original gift amount (refer back to the section on CGAs). (3) For many small to midsized organizations, marketing and overhead costs can significantly diminish the *net* return eventually enjoyed by the nonprofit.

We urge nonprofit organizations to also talk to their advisors. They would be wise to ask outside, independent counsel to review their comprehensive financial and personnel situations (including their staff *and* the nature of their donor base) to gain an independent overview of the business aspects of the more-complex giving methods, especially as compared with the outright gift and the bequest.

Advice and Advisors

There are three main types of players in the fundraising arena. First are the *donors* who give the money, second are *nonprofit organizations* that seek the money, and third are the *for-profit organizations* that provide services to donors and nonprofits in this area. Their interests may overlap, but the fundamental objectives of the three groups are *not* the same: Donors may wish to retain their money, nonprofit organizations clearly would like to get the money, and for-profit organizations are seeking a profit.

Not surprisingly the advice you and your donors get, will be influenced by which group the chosen counselor represents—that is, it depends on who pays their salary. Licensed professional advisors (lawyers, accountants, financial advisors, and such) are ethically bound to, first and foremost, represent their client’s interests. Other advisors, though not formally required to do so, certainly have an incentive (their earnings) to give their primary loyalty to the objectives of their employer, be it the donor, the nonprofit, or a for-profit organization.

As with so many things in this world, these basic realities become rather murky in practice. “Free” advice can have merit, especially if the recipients are themselves skilled enough to put this free advice in proper context. We recommend that donors seek definitive advice from independent advisors of their own choosing. Most nonprofits will also recommend that donors “see their advisors.” We consider that wise advice indeed.

We suggest that when donors consult with their advisors, they make their charitable objectives quite clear. Given that most professional advisors are deeply engaged on a day-to-day basis with contracts, taxes, and wealth enhancement, it is logical that they may assume that these are also the donor’s goals. If donors have a strong charitable intent, don’t see tax-saving as a driving force in their lives, and appreciate administrative simplicity, they may need to reinforce these points with their advisors on a regular basis.

How Can We Fit This All Together?

We suggest two things. First look at choices among giving methods in the context of the donor's full range of options, with the outright gift and the bequest as the baseline. Second, ask a few basic questions of all the players. Here are some suggestions.

Questions for Donors to Ask Themselves

- What are my values and objectives? What causes do I feel strongly about? What do I want to accomplish with my giving? What giving methods can best help me achieve my charitable goals?
- When do I want to give money—now or at the end of my life?
- When do I want my nonprofit to be able to spend the money that I give—now or at the end of my life?
- How engaged in the process do I want to be? Am I comfortable with more paperwork, more tax forms, and more consultations with my lawyer, accountant, and financial advisor? Or would I prefer to just give money to a cause that I believe in (now or at my death) as simply and economically as I can?
- Do I seek to gain financial advantage by giving money away? Does this make sense to me? Do I want to pursue this possibility? Do I look to my nonprofit for advantageous financial products?
- What true net advantage is there to me (or to my nonprofit) in giving away money through one of the more-complex methods as compared with the outright gift and the bequest?

Questions for Donors to Ask Their Nonprofits—and Their Advisors (Lawyers, Accountants, and Financial Advisors)

- A question for the executive director or the chief financial officer of your favored nonprofit: Would you prefer that we give you a \$5,000 outright gift or a \$15,000 charitable gift annuity? (That should spark a very instructive conversation.)
- What net advantage is there to me in giving away money through one of the more-complex methods as compared with the outright gift and the bequest? (“Net” means that everyone’s overhead costs are included, comparative risks are addressed, and alternative investments are considered.)
- Out of my life income gift of \$10,000, \$100,000, or \$1,000,000, how much will eventually become available for the nonprofit to spend on programs, when will it become available, and what will its inflation-adjusted buying power be at that time?
- What qualifications does the organization that would administer my chosen gifting instrument have to be a provider and administrator of financial products and services for donors?
- Can you provide me with a comprehensive analysis (covering both financial and personal issues) that directly compares the proposed giving method with the baseline options of the outright gift and bequest?

Questions for Nonprofits to Ask Themselves

- Do we want to be in the business of supplying financial services to our donors? Is it compatible with our mission? Do we have the skills? Is it wise for us to spend the resources to hire, train, and/or contract for the required skills?
- Are we prepared to accept the long-term financial liability that is inherent in some of the life income instruments?
- Do our donors give at levels that are make sense for life income gift options?
- Does it make good business sense for our organization to offer giving options beyond the outright gift and the bequest? When all the costs and risks are considered, is a life income program a wise economic decision for our organization?
- Would a bequest program meet our deferred giving program needs?

Summary

By now, we're sure you can see that we celebrate the merits of the simple and economical ways of giving—the outright gift and the bequest. We find that a comprehensive look at a donor's options for giving and a nonprofit's options for receiving consistently supports our enthusiasm.

We hope it's equally clear that we encourage donors who have special wealth, tax, income, and estate issues, as well as the financial sophistication to fully understand the more-complex giving methods, to fully investigate those options.

We also think it wise that nonprofit organizations continue to recognize that outright gifts and bequests, with their economy, efficiency, simplicity, low risk and overall practicality, are appropriate for most donors and many nonprofit organizations.

We could not agree more with the “see your advisors” recommendation that most nonprofits include as part of their discussions of giving methods with would-be donors. There are significant advantages for donors and nonprofits in seeking independent, objective, and comprehensive legal, tax, and financial advice that is appropriate to their specific situations, especially if the more-complex giving methods are being considered.

We also hope that you have come to share our conclusion that many of the conventional marketing approaches taken in support of more-complex giving techniques need to be reviewed in the context of a donor's full range of giving options and benchmarked against the outright gift and the bequest.

We hope that you have concluded, as we have, that candor in every communication, in every media, and in every stage of the fundraising process is essential to building and keeping long-term donor trust—and trust is the heart and soul of every long-term donor/nonprofit relationship.

Donors, one and all, we thank you. We hope your giving will be part of a rewarding process, and that you will be able to select the methods that are most appropriate for you and the nonprofit you choose to support.

To the community of nonprofit executive directors and board members, we also wish you good luck as you make these important decisions about which giving methods are best for you and the donors who choose to support you.

Richard and Linda Livingston, Donors
Louisville, Colorado

Appendix A: For the Fundraisers' Bulletin Board

How to Market Planned Giving to Optimize Total Gifts and Build Donor Trust

- 1. Celebrate simplicity and ease of giving.**
 - Outright gifts and simple bequests—the marketer's dream.
 - Who wants more paperwork, tax forms, or monthly statements?
 - Who wants more meetings with lawyers, accountants, financial advisors, bankers, and brokers?
- 2. Mission first—taxes, tools and techniques later.**
 - Heed the research—"tax saving" is a secondary issue for most donors.
 - Emphasize the values/mission connection—support it with appropriate tools and techniques.
 - *Offer* an appropriate range of giving options—avoid *selling* a specific financial product.
- 3. To the general public, any gift is a planned gift, so bury the term—it only creates confusion.**
 - The terms "major giving" and "deferred giving" are much more inclusive and intuitive.
- 4. Market the right stuff to the right people.**
 - Outright gifts and simple bequests work for most people—maybe 90% or more.
 - The more-complex instruments are needed by some people—maybe 10% or less.
 - Emphasize that for most people, outright gifts will provide the full measure of tax deduction for which they are qualified.
 - Emphasize that for some people with unique wealth, income, and estate issues, the more-complex giving methods *may* offer additional advantages, tax and otherwise.
- 5. Focus on *when* the donor wants the gift to be available to use**
 - This means weighing the merits of the current gift versus the deferred gift.
- 6. A fair analysis is a full analysis.**
 - Compare all other options to a baseline—the outright gift or the bequest
 - Include administrative costs and management fees for donor and nonprofit alike.
 - Acknowledge risk to donor and nonprofit.
 - Help the donor to view the entire giving transaction over time.
 - Acknowledge the donor's administrative involvement—the simplicity factor.
- 7. Candor, candor, and more candor**
 - How much "tax deduction" as compared with the outright gift?
 - How much "income" as compared with a withdrawal from savings?
 - How much "gift" as compared with the outright gift or bequest?
- 8. Revocability—the fundraiser's friend.**
 - A low-cost feature that is good for everyone (yes, even for the nonprofit).
 - A major selling point for deferred gifts, along with confidentiality.
 - A no-risk commitment on the donor's part.
 - Educate administrators—revocability is a good thing—get used to it.
 - Many bequests are made—few are revoked
- 9. Live by the grandmother rule.**
 - Would you offer this arrangement to your grandmother?

References

For those who want to dig deeper into the full context of the donor/nonprofit giving relationship, we suggest the following publications.

Robert F. Sharpe Sr., *Planned Giving Simplified: The Gift, the Giver, and the Gift Planner* (John Wiley & Sons, 1999)

This book sets the ethical stage for planned giving. It is an easy read, appropriate for new donors and nonprofit personnel as well as for the more experienced donor. Highly recommended. Readily available. \$35.95.

Charles W. Collier, *Wealth in Families* (Harvard University, 2001)

Collier is a senior philanthropic advisor at Harvard University. This is a people book—and an excellent look at the human side of major giving. An easy read. A quote from the preface sets the scene: “Think about values first, products second.” E-mail ccollier@harvard.edu.

Betsy A. Mangone and Lynn Thomas, *The Ultimate Do-It-Yourself Bequest Book*

This book is unique—an in-depth book by two national leaders in the planned giving field, that focuses on the bequest. Very comprehensive and readable. A check for \$130.00 made out to Betsy Mangone and sent to her care of 2113 Montane Drive East, Golden, CO 80401, will get you a copy.

Debra Ashton, *The Complete Guide to Planned Giving: Everything You Need to Know to Compete Successfully for Major Gifts* (self-published)

For those who want to dig deeply into almost every aspect of planned giving. It is technical but still readable. It has both background and a lot of in-depth operational information. We suspect that few donors will want to dig into things this deeply. The preface, written by Paul Shervish, is worth the price of the book all by itself -- it is quiet extraordinary. Visit www.debraashton.com to order. \$95 plus \$6.95 S&H.

For basic information on the *charitable gift annuity*, see the web site of the American Council on Gift Annuities (www.acga-web.org). The material is technical but still quite readable for the layman donor or nonprofit staff member. We suggest clicking on “What Is a Gift Annuity?” to learn the basics.

For an condensed look at some *key tax information*, go straight to the source: www.irs.gov. This IRS site is quite readable. We suggest clicking on “Tax Law Changes for Estates and Trusts” and “Tax Stats at a Glance.”