Beyond Bingo, Bake Sales & Begging: Bringing Bequests to Your Bottom Line

or

Insider Philanthropy: Giving from Your Donor’s Point of View
Beyond Bingo, Bake Sales & Begging: Bringing Bequests to Your Bottom Line

or

From Surviving to Thriving
Beyond Bingo, Bake Sales & Begging: Bringing Bequests to Your Bottom Line

What We’ll Cover

1. Charitable Lead Annuity Trust
2. Charity
3. 
4.
Beyond Bingo, Bake Sales & Begging: Bringing Bequests to Your Bottom Line

What We’ll Cover

• Why Planned Giving?
• Why Not Planned Giving?
• What is Planned Giving?
• Helping your Donors to Leave a Legacy
• A Bunch of Planned Giving Vehicles
• Actual Hypothetical Case Studies
• Role of Professional Advisors
• How to Get Started
Why Planned Giving?

The Annual Campaign Carousel

• Volunteer burnout
• Transactional, no relationship
• Arm-twisting, not mutual
• Organization, not donor
• Groundhog Day January 1
Why Planned Giving?

• Government funding
• Community need
• Build long term relationships
• Maximize revenues
Why Planned Giving?
Why Planned Giving?

Americans Who Make Charitable Contributions

- 72% donors
- 28% non-donors

Chicago: Giving USA Foundation
Why Planned Giving?

2012 contributions: $316.23 billion
by source of contributions

Chicago: Giving USA Foundation
Why Planned Giving?

• 2012: increased 1.5 percent after inflation, but..
• 2008-09: steepest drop in giving ever recorded in the report’s five decades -7% 2008 and -6.2% 2009
• Most from individuals: (essentially flat from 2009 to 2010) +1.9 percent in inflation-adjusted dollars, for an estimated total of $227.7 billion
• Highest growth: corporate giving (+10.2% to $19.0-billion) and grant-making by private, community, and operating foundations by 2.4 percent, to an estimated $47.4 billion
• charitable bequests down (-9.0%, adjusted for inflation, $22.1 billion)
Why Planned Giving?

Next 50 years: largest intergenerational transfer of wealth in history

- 41 trillion dollars ($41,000,000,000,000.00)
- $6 - $27 trillion of that will be donated to charity

*Doing Well by Doing Good, TPI 2000*
Why Planned Giving?

High Net Worth Donors give: - 2011 (2009)

- Between 65-70% of all individual giving
- Reliably: 95.4% (vs. 65.4% non-HNW)
- Consulting professionals:
  - Accountants 53% (67%)
  - Financial advisors 37% (39%)
  - Nonprofit professionals 33% (24%)
  - Attorneys 30% (41%)
  - Trust Company 9% (12%)

2012 Indiana University Center on Philanthropy / Bank of America Merrill Lynch Study of High Net Worth Philanthropy
Why Planned Giving?

High Net Worth Donors: what motivates them to give?

• their gift will make a difference 74.0%
• they are financially secure 70.8%
• the organization is efficient in its use of gifts 68.2%
• support same causes/orgs annually 68.5%
• give back to community 62.0%
• tax benefits 31.7%

2012 Indiana University Center on Philanthropy / Bank of America Merrill Lynch Study of High Net Worth Philanthropy
Why Planned Giving?

HNW Donors: How children or younger relatives learn about giving - 2011 (2009)

• Parent’s efforts / family peer network 50.6% (85.4%)
• Religious organizations 34.1% (45.0%)
• Nonprofit organizations 20.5% (21.4%)
• Own efforts 15.7% (19.4%)
• Independent financial / philanthropic advisors 2.7% (3.4%)

2012 Indiana University Center on Philanthropy / Bank of America Merrill Lynch Study of High Net Worth Philanthropy
Why Planned Giving?

HNW Donors: Awareness of philanthropic tools to advance social & charitable goals

- Not aware 18.4%
- Aware but don’t currently use 72.6%
- Aware and currently use 9.0%

- 2012 Indiana University Center on Philanthropy /
- Bank of America Merrill Lynch Study of High Net Worth Philanthropy
Why Planned Giving?

HNW Donors: Values > Money

Inheritances Most Desired to Be Handed Down

- Spirit, sense of humor
- Religion
- Knowledge/Advice
- Home/Property
- Giving/Supporting the
- Money
- Business / career

0% 5% 10% 15% 20% 25% 30% 35%

2007 Harris Interactive, Attitudes Toward Wealth & Family
Why Planned Giving?

HNW Households Who **Currently Have** or **Would Consider Establishing** in Three Years by Charitable Vehicle

- Private Foundation
- Charitable Remainder/Donor-Advised Fund at Endowment Fund
- Will with Charitable

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2012 Indiana University Center on Philanthropy / Bank of America Merrill Lynch Study of High Net Worth Philanthropy
Why Planned Giving?

- Good investment in your organization’s future
- Won’t miss out on unprecedented wealth transfer
- Endowment income can
  - underwrite operating expenses so all annual funds go to core programs & services
- Provide additional capital for expansion
- Act as reserve in time of dire need
- Increases likelihood of current & major gifts
Why Planned Giving?

• Schools that actively solicited PG for 5 years averaged 65% more revenue
• Schools with PG programs received $306,000 in bequests vs. $50,000 for no PG
• 33% endowment increase vs. 3% increase
• Donors are more informed and excited about the feeling of ownership

*Lilly Endowment Survey*
Why Planned Giving?

Annual Gifts vs. Bequests
Americans Over 50

<table>
<thead>
<tr>
<th>Total Estate Value</th>
<th>Annual Giving Multiple</th>
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<tbody>
<tr>
<td>&lt; $100,000</td>
<td>0.15</td>
</tr>
<tr>
<td>$100,000 – &lt; $500,000</td>
<td>1.89</td>
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<tr>
<td>$500,000 – &lt; $1,000,000</td>
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<td>$5,000,000+</td>
<td>11.65</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>5.07</strong></td>
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</table>

Russell N. James, III, JD, PhD, CFP®, Director of Graduate Studies in Charitable Planning at Texas Tech University, *The Presence and Timing of Charitable Estate Planning: New Research Findings*
A Brief Word About Taxes

- 39.6% income
- 20.0% capital gains
- 3.8% “Medicare” NIIT surtax
- Personal exemption phaseout
- Pease itemized deduction phaseout
- 40% transfer tax
A Brief Word About Taxes

- 39.6% income (+$225k - +$450k) (really 43.4%)
- 20.0% capital gains (really 23.8%)
- 3.8% NIIT surtax (+$125k - +$250k)
- Personal exemption phaseout (+$150k - +$300k)
- Pease itemized deduction phaseout (same)
- 40% transfer tax (up from 35%)
# A Brief Word About Taxes

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2013 Adj</th>
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<tbody>
<tr>
<td>Top Ordinary Income Rate - Salary</td>
<td>35.00%</td>
<td>39.60%</td>
<td>41.688%</td>
</tr>
<tr>
<td>Top Ordinary Income Rate - Investment Income</td>
<td>35.00%</td>
<td>39.60%</td>
<td>44.588%</td>
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<tr>
<td>Top Capital Gain Rate</td>
<td>15.00%</td>
<td>20.00%</td>
<td>24.988%</td>
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<tr>
<td>Top Tax Rate on Dividends</td>
<td>15.00%</td>
<td>23.80%</td>
<td>24.988%</td>
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<td>Payroll Tax</td>
<td>10.40%</td>
<td>12.40%</td>
<td>12.400%</td>
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<tr>
<td>Medicare Surtax on Investment Income</td>
<td>0.00%</td>
<td>3.80%</td>
<td>3.800%</td>
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<tr>
<td>Payroll Surtax on Earned Income</td>
<td>0.00%</td>
<td>0.90%</td>
<td>0.900%</td>
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<tr>
<td>Estate Tax Rate</td>
<td>35.00%</td>
<td>40.00%</td>
<td>40.000%</td>
</tr>
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</table>

*Includes phase-out of deductions (1.188%) and 0.9% healthcare wage tax
**Includes 3.8% Surtax and phase-out of deductions (1.188%)
***20% base rate plus 3.8% Surtax plus 1.188% adjustment for itemized deductions
****Threshold amounts are $200,000 for single filers, $250,000 for joint returns, and $11,950 for Estates/Trusts
Why Not Planned Giving?

- 83% estate tax returns: no charitable deduction
- 80% with incomes $1,000,000 leave nothing to charity in their wills
- 13% of philanthropically involved with estate plans include charitable bequests
- 6% of philanthropically involved have designated a planned gift

Internal Revenue Service
2008 Harris Interactive DonorPulse survey of over 2,000 Americans already engaged (those who have volunteered or donated for a non-profit or charitable organization or who have advocated within the past twelve months) in some level with organizations in the community.
Why Not Planned Giving?

Reasons HNW Households Stopped Supporting the Organization(s) they Previously Supported

- Inaccurate Recordkeeping of Program/Purpose Completed
- No Longer Involved with Org.
- Org. Changed Leadership or Household Circumstances
- Decided to Support Other Causes
- Too Frequent Solicitation/Asked

% of HNW Households
Why Not Planned Giving?

Advisors

• Tax planning primary consideration
• Limited number of charitable planning tools
• Limited access to adequate technical information
• Few mention values, personal and social objectives

Doing Well by Doing Good, TPI 2000
Why Not Planned Giving?

Clients (Donors)

• Often raise subject of giving
• Want comprehensive approach to giving
• Believe advisors technically competent but lack comfort in values discussion
• Want to use philanthropy to achieve important personal and social objectives

*Doing Well by Doing Good, TPI 2000*
Why Not Planned Giving?

Organizations

• On the annual campaign carousel
• Need $ now
• Can’t wait for deferred gifts
• Believe they need to be tax experts
• Don’t want to “pillage” their annual givers
• Are better at articulating their mission and vision than listening to donors
• Wish someone else had started a planned giving program years ago
What’s Planned Giving?

Institution’s values

donor’s values

it becomes the donor’s belief that these values should be preserved for the future
What’s Planned Giving?

• Annual vs. Planned giving
• Checkbook vs. everything else
• Charity vs. donor centered
• Everyone benefits
• Legacy building
• not necessarily at donor’s death
• start now, built over time
• provide important philanthropic modeling for the donor’s family and future generation
What’s Planned Giving?

- larger gift than otherwise might make out of current income or liquid assets
- reduction or elimination of
  - income & capital gains taxes
  - Gift, estate & GST taxes
- Freeing “locked up” assets during lifetime
- Blessed by Congress; not dependent on courts
- Greater legacies – to family, friends and philanthropic* causes

* - Forgot to use Spell Czech
What’s Gift Planning?

Using the right vehicle to addressing donor concerns about:

• Succession problems
• Problem assets
• Problem finances
• Problem families

Helping your donors to Leave a Legacy
Helping Your Donors to Leave a Legacy

Succession Problems - Reasons All Donors Should Plan Now - They might:

- Die
- Become incapacitated
- Become uninsurable

There are multiple non-tax reasons to plan that must still be accomplished
Helping Your Donors to Leave a Legacy

US Small businesses

• 90% Businesses Family-Owned or Family-Controlled
• 40% in Inter-Generational Transition at Any Given Time
• Less Then One-Third Survive the Transition
• Less Than Half Survive Thereafter
Helping Your Donors to Leave a Legacy

Asset Protection

• Creditors
• Predators
• Divorce
• Litigation
• Poor Judgment

Richard Alan Lehrman
Helping Your Donors to Leave a Legacy

Problem Assets

- Illiquid
- Low or no income
- High maintenance
- Liability hazard
- Transfer tax “sitting duck”
Helping Your Donors to Leave a Legacy

Problem Families

- Ne’er do well
- Poor judgment
- Affluenza
- “So and so” spouse
- Creditors and predators
Helping Your Donors to Leave a Legacy

Legacy Planning
• Hopes
• Dreams
• Aspirations
• Values
Helping Your Donors to Leave a Legacy

Legacy Planning

• Happiness vs. Meaning
• “Takers” vs. Makers”
• “hint from heaven”
• Suicide patrol
• “It is the very pursuit of happiness that thwarts happiness”
Helping Your Donors to Leave a Legacy

Legacy Planning

- “Acts of Kindness” video
- Do you:
  - Tell vivid story of someone doing good?
  - Show reaction of those helped?
  - Inspire your donor to do the same?
A Bunch of Planned Giving Vehicles

Legacy Planning – Charitable Remainder Trusts

- “Retirement” and “education” CRTs
- Gifts to donor advised funds and private foundations
- CGAs
- “Backstop” testamentary CRTs
- Tandem “now” & “later” CRT / CLT
A Bunch of Planned Giving Vehicles

Legacy Planning – Charitable Remainder Trusts

• No capital gains on sale
• Charitable income tax deduction
• Tax free compounding
• Control when income is received
• Leave more to heirs
A Bunch of Planned Giving Vehicles

Charitable Remainder Trusts – a “Perfect Storm:”

• Appreciation – built-in capital gains
• Higher income taxes – deduction more valuable
• Higher capital gains taxes – deduction and deferral
• Section 7520 rate rising:
  – Larger tax deduction
  – Higher payout rate meets 10% requirement
• Mitigate Medicare surtax

Richard Alan Lehrman
A Bunch of Planned Giving Vehicles

Legacy Planning – Charitable Lead Trusts

• Non taxable gifts 15 - 20 years out
• Legacy / philanthropic inculcation
• Helping with children’s retirement
• Providing grandchildren’s education
• “Backstop” testamentary zero out estate tax in era of uncertain transfer tax laws
• Income tax shifting / averaging
Actual Hypothetical Case Studies

“I don’t want to make a gift today”

- “What if it didn’t cost anything?”
  - Bequest
  - Beneficiary designation
  - Life estate reserved
Actual Hypothetical Case Studies

Couples/Surviving spouses with children

• “OK to leave everything in a lump sum?”
  – Unitrust for asset protection
  – Tandem CRT/CLT (to further trust) “now – later”
  – Education unitrust
  – “Spigot” NIMCRUT or flipCRUT
  – Retirement unitrust for surviving spouse
Actual Hypothetical Case Studies

• “I’ve already made a planned gift”
  – Annual gift of unneeded CRT or CGA payment
  – Bequest / beneficiary designation

• Appreciated assets / low income
  – CGA
  – CRT

• I’m concerned about fluctuating stock or real estate”
  – Avoid capital gains / Tax deduction
  – Diversify
  – Stabilize income stream
Actual Hypothetical Case Studies

“My Assets are Tied Up or Illiquid”
• Outright gift of all or portion
• Transfer to CRT or CLT

“All My Planning is Done”
• Changes in law, value, family, preferences, fiduciaries
• Assets passing through beneficiary designations
Actual Hypothetical Case Studies

“I Want to Leave as Much as Possible to My Heirs”
- Estate tax & double tax on IRD
- IRA to CRT or CLT
- Outright gift of taxable portion of estate

“I’ll Make a Nice Gift After I Sell My Business or Land”
- Stop! avoid capital gains
- Outright gift
- Transfer to CRT
Actual Hypothetical Case Studies

“I Want to Handle the Investments; I’m Better at It Than Charity”
- Fund CRT and act as trustee
- Unitrust spreads risk

“I’ll Leave My Home to Charity in my Will or Trust”
- Retained life estate
  - Immediate tax deduction
  - Don’t waste estate tax charitable deduction
Actual Hypothetical Case Studies

“I worry my children think of family money as a right, not a responsibility”

- “now / later” CRT / CLT tandem
- “incentive” trusts

Harris Interactive, Attitudes Toward Wealth & Family
How to Get Started

• Are you ready?
  – Are you a good steward of your donors’ money?
  – Do you have a strong annual giving program?
  – Are you properly thanking your donors?
  – Do your donors feel engaged?
  – Can you articulate your long-term mission?
How to Get Started

• It’s About the Donor!
  – Thank donors for their support
  – Involve your donors in your mission
  – Show the impact of their giving
  – transformative
How to Get Started

• It’s About the Donor!
  – Make personal contact with loyal donors a priority
  – Educate on opportunities to support
  – Earn the right to have the planned giving conversation
  – Listen
  – Listen
  – Listen
  – Ask the question
How to Get Started

• Set goals & timelines
  – Number of visits
  – Number of proposals
  – Number of new expectancies
  – Marketing calendar
  – Stewardship and education events
How to Get Started

• Obtain board approval and buy-in
  – Provide them with clear benchmarks for success
  – Keep them updated

• Develop a gift acceptance policy
  – Types of gifts you will and will not accept
  – Guidelines for acceptance
  – Gift acceptance committee
How to Get Started

• Form a planned giving recognition society
  – What will the criteria be?
  – How will you thank them?
  – How will you keep them involved?
  – What promotional materials do you need?
How to Get Started

- **Prospect**
  - Target through marketing efforts
  - Cultivate individually
  - **Age**
  - **Giving history**
  - **Involvement**
## Current Law – Sunset, Sunset

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<th>2011</th>
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<tr>
<td>Gift Tax Exemption</td>
<td>$1,000,0000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Maximum Gift Tax Rate</td>
<td>45%</td>
<td>35%</td>
<td>55% with 5% surcharge</td>
</tr>
<tr>
<td>Estate Tax Exemption</td>
<td>$3,500,000</td>
<td>Woo Hoo!</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Maximum Estate Tax Rate</td>
<td>45%</td>
<td>None Zip Zero Nada</td>
<td>55% with 5% surcharge</td>
</tr>
<tr>
<td>Exemption from GST Tax</td>
<td>$3,500,000</td>
<td>Go for It!</td>
<td>$1,000,000 indexed for inflation since 1999</td>
</tr>
<tr>
<td>GST Tax Rate</td>
<td>45%</td>
<td>Zippity do dah</td>
<td>55%</td>
</tr>
</tbody>
</table>
Why Do We Do This?

“It is the responsibility of every human being to aspire to do something worthwhile, to make this world a better place than the one they found.”

—Albert Einstein
Why Do We Do This?

“We make a living by what we get, but we make a life by what we give.”

—Winston Churchill
Why Do We Do This?

“Most people are not afraid of dying; they are afraid of not having lived.”

—Harold Kushner