Planned Giving for All: Not for Grandparents Only

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As my partner and I recently concluded an interactive workshop on various planned giving techniques for an Alumni Council Executive Board, one of the younger members of the board approached us with a comment: "We have looked at a variety of giving opportunities today that make a lot of sense for many of the people here, but I am only 27 years old. What can I do besides make the largest annual fund gift I can? Do I have to wait for another 30-40 years before I can think about some of these techniques?"

At first blush, the answer to our young friend's question might be a reluctant "yes." Certainly many planned giving programs focus on older donors—at 50th, not 5th reunion members at colleges and universities. And for good reason: older donors tend to have accumulated more assets than younger donors. They have often moved from what the demographers refer to as the "acquisitional" stage of their lives into the time when they are thinking more about how to disperse their assets. Health care costs and concerns abut outliving their income notwithstanding, many older donors have already discharged the responsibilities of their younger years. Their children are grown and their home is paid off. More older donors have taken on responsibility for grandchildren or for other members of their families, it is true, but, nonetheless, their concerns are different from what they had been and their generally greater asset base often gives them more flexibility than their younger counterparts.

We may be missing an opportunity by restricting our planned giving marketing only to older prospects, though, especially since younger donors are likely to be donors for far longer and since they, too, are anxious to find ways of increasing their impact on the charities they care about through innovative techniques.

The results of the two national surveys conducted by NCPG in 1992 and 2000 reinforce that, when given the chance, younger donors respond to planned giving opportunities. At the very simplest level, we found in both surveys that donors tend to put charities in their wills at a far younger age than we had anticipated. In the 1992 survey we found over half of the reported bequests to charity came from people under 60, a figure reinforced in 2000. Furthermore, we found that the average age at which donors *first* put charity in their wills is only 49, again, far younger than we had thought. Since 49 is the average, clearly some of our donors—presumably those who are most closely involved with charity, like the young man at our workshop—might be open to conversations about an estate provision far earlier than 49.

The NCPG surveys also asked about those who had established charitable remainder trusts and found that the age distribution of these donors was also far broader than we had imagined. In the 2000 survey, for example, we found that 34% of the trust donors were under 55, and 16% were under 45. Even if some of these trusts were established without the involvement of charity and with the ability of the donor to change charitable beneficiaries, these data reveal that donors are open to discussions about planned gifts much earlier in their lives than most charities had thought.

Here are some of the options for younger donors and some ways we might respond to our young friend at the workshop and his colleagues and compatriots.

<u>Life Insurance</u>

Although some fundraisers would argue that they would rather have the cash that donors might pay to an insurance company and that the charities themselves could produce more in the long term by investing that cash than they would receive from the ultimate insurance payoff, most charities never actually invest the cash without touching it until the death of the donor. Likewise, many donors would not give the same amount to annual operations as they would to fund a much larger potential insurance gift. Gifts of insurance are never the cure-all gift that some agents have tried to paint; neither are all

insurance gifts the inherent “scheme” that some fundraisers have depicted. In some cases, insurance gifts can be just the right gift. And for younger donors, seeking to make an impact beyond their current dollars, that may be just the case.

As an example, our 27 year old young alumnus might make his alma mater the owner of an insurance policy with an initial death benefit of $25,000 for roughly $900 a year, for seven years. If the policy growth is based on conservative estimates, the death benefit could grow to over $50,000 after ten years and over $175,000 if he lives past 80. Since premiums for insurance are based on age and life expectancy, the younger one is when the policy goes into effect, the lower the premiums. So, for example, if our hypothetical donor were to take out his insurance at age 37 his annual premium would be in the range of $1200 and, if he waits until he is 47, when he returns for his 25th reunion, the premium amount would be $1750 per year. In all these examples, the premium payments would go for only seven years with a continuing growth built into the policy over time in all of these cases.

As planned gift officers, we often portray our role as planning for the long-term financial well-being of the charities for which we work. And that is exactly what we are doing with our young donors who make insurance gifts like those illustrated above. First, they are making a long-term gift, which, if the assumptions built into the policy are solid, will ultimately redound to the benefit of the charity. Second, the premiums in this kind of a transaction do not go on forever. In the examples above, for instance, they stop after seven years. To ensure that premium payments do not go on for too long, we suggest that insurance policies given as charitable gifts should be self-funding in under ten years. In those ten years, donors are likely to have committed significantly more cash on an annual basis than their previous annual gifts had been, and the chances of their continuing at that same or increased level after the insurance premiums are finished is very high. Thus, taking out an insurance policy escalates a donor’s gift far more rapidly than might otherwise have been the case.

Third, because young donors who have given gifts of life insurance now think of themselves as five-figure donors, when the request for an outright gift at that same or higher level comes later in their long association with the charity, they are more likely to respond positively. After such a large gift, young donors can now feel that they are making gifts at a level high enough to make a difference. Because of that kind of association, they are more likely to want to see the difference they themselves can make during their lifetimes and, if the charity continues to cultivate them well, are more likely to value their philanthropic connection and to give more over their lifetime. In other words, the gift of insurance should be seen not as the last but rather as the first of many gifts, outright and planned, over a lifetime of partnership between the donor and the charity.

Deferred Charitable Gift Annuities

Our 27 year old donor may still be too young for a deferred CGA to make sense unless he has resources that most donors his age do not yet possess. However, his 47 year old older sister may find a deferred CGA just the right tool for her charitable giving. Now, with greater income, with an eye to long-term financial security, and with a desire to make a larger gift while not sacrificing the other financial goals she has in mind, our donor can use a deferred CGA to lock in appreciated value for her investments, receive some attractive tax benefits, retain control (if she uses the flexibility one can build into a deferred CGA) over when she begins to receive income, and benefit the charity at the same time. For example, a 47 year old donor who puts $100,000 of appreciated stock into a CGA deferred for at least twenty years, would receive a tax deduction of over $42,000, guarantee for herself an income at age 67 of 14.8%, and be assured that that income would continue to go up by roughly 1% for every additional year she delays starting her stream of payments. Most important, she make a long-term gift to the charity that may far exceed $100,000 when it is complete.

Bequests

We should not ignore, in this process, the benefit for younger donors to put their favorite charities into their estate plans. As noted above, younger donors already show a

proclivity for including charities in their wills at a far younger age than has been generally understood. By encouraging more younger donors to take the step of putting charity in their wills, we both build a long-term relationship with these donors and provide a foundation for a decades-long opportunity for cultivation and involvement. Although bequest provisions are revocable and produce no immediate tax benefits, research shows that most people still consider a bequest provision as a commitment and rarely change that commitment unless the charity behaves in ways that undermine the relationship or the donor's circumstances change in substantial ways. Most important, research also indicates that those who put a charity in their wills tend to make larger gifts during their lifetimes to those same charities than donors who have not made a long-term commitment. So, like gifts of insurance, bequests also have a ripple benefit far sooner than the payment to the charity at the death of the donor.

Gifts of Non-Cash Assets

Recent IRS data about the distribution of assets within people's portfolios reinforces the long-held wisdom that cash is a relatively small part of what individuals may own and, therefore, of what they might give. Using 2004 statistics (the latest released by the IRS), we learn that estates under $1.5 million hold real estate valued at four times the value of cash or cash equivalents and securities valued at three times cash; when one considers estates in excess of $20 million, fewer in number but more potentially important to charities, the percent of those estates held in the form of securities has doubled and real estate still is three times more valuable than cash, but closely held business interests and partnerships have soured, making their value nearly that of securities, roughly 35% of the total portfolio. As more and more younger individuals (in their 50's, 40's or even 30's) have seen their ideas grow into entrepreneurial successes, or as new generations of business owners have come to assume control over established family enterprises, many have found that gifts of non-cash assets like real estate or closely held business interests can produce relative large gifts without cutting deeply into their cash flow . As NCPG's own recent research on gifts of real estate indicates, to cultivate such gifts, charities must be open to receiving non-cash assets, must have in place detailed policies for vetting and

liquidating such gifts, and must be willing to reach out, sometimes on a personal level, to those whose portfolios contain significant non-cash assets.

The Entrepreneur's Opportunity

Finally, charities should begin to cultivate and build partnerships with young entrepreneurs on the way up. No longer content to wait until an entrepreneur has succeeded and built a fortune through a lucrative public offering or buy-out, some far-sighted charities have begun to work with entrepreneurs as they *begin* their ventures rather than when they succeed and cash out. The process, in short, focuses on forging a partnership with them *before* they have achieved success, perhaps for a share of the company, perhaps for a share of the ultimate profit, but always without knowing what the value of the ultimate benefit might be to the charity. These partnerships do not involve cash contributions from the charity, so the charity has little risk in this plan, but they do depend upon mutual respect and trust. Entrepreneurs tend to believe in organizations that believe in them, and by establishing how a gift might occur when the outcome remains uncertain, charities can demonstrate a trust in the skill of the entrepreneur that can produce significant payoff over time. These partnerships are hard to factor into concrete annual fund or campaign totals, but they have paid off in real dollars on many occasions, and once such a partnership works the first time, establishing a second partnership with a new venture is relatively easy. Again, too, these techniques help a planned giving office over a long period of time and build upon the principle that a satisfied donor is highly likely to contribute again.

Conclusion

The goal of all of these techniques is to build a lifetime of giving. Younger donors want to make a difference, but they also carry other concerns, just as older donors do. By recognizing their non-philanthropic concerns and priorities, and by structuring gift plans that develop with those other priorities in mind, we can not only find larger commitments in the short term. We can offer a platform for a continuous pattern of giving that will benefit both donor and charity for decades to come.