The Ten Things Every Board member Should Know about Planned Giving

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Everyone who practices gift planning, whether directly on behalf of a specific charity or in a consulting capacity to a variety of charitable organizations, thinks about the governing board. The "Board" carries the ultimate fiduciary responsibility for the charity and should, therefore, be concerned with the fundraising program and how it carries out its function. Because of the special challenges of these economic times, Board members are particularly focused on how to maintain the flow of charitable dollars to their organizations. Because they are often (or should be) many of the organization's wealthiest and most committed donors, Board members are prime prospects for potential planned gifts. We should hope that members of the Board do understand the importance of planned giving. But we know that few of them will become experts on the intricacies of tax planning and spreadsheet design. So what really *is* important for the members of the Board to know? The following ten "lessons" may help to guide our work with our boards, all toward a more effective and more rewarding planned giving program our institutions.

Lesson #1: <u>Planned giving is *not* all about deferred gifts.</u> Effective planned giving is really about exploring ways donors can use *all* the assets in their portfolio to make gifts. Going beyond the traditional emphasis on cash allows donors to explore ways they might not have considered of using non-cash assets to fulfill their philanthropic goals, whether immediately or over time.

Lesson #2: <u>Planned giving enhances, rather than undercuts, current giving</u>. Donors rarely shift their donations from current outright gifts to deferred gifts. The preponderance of evidence demonstrates that donors who make deferred gift commitments tend to *increase* their current giving. A 2007 study conducted by the Center on Philanthropy at Indiana University queried a number of donors to a wide variety of charities around the country. Among many things, the Center measured the average annual donation of these donors as a function of the donors' long-range estate commitments to these same charities. Donors who had made an estate commitment gave an average of $4490 per year in annual donations to the same charities, while donors who had not made a long-term commitment had an average annual gift of only $2043. These data are corroborated by numerous case studies at individual charities, in which planned gift donors respond more positively to requests for current gifts, in large part because they now have a long-term stake in the financial health of the charity to which they are committed.

Lesson #3: <u>Discussions of planned gifts can sometimes lead to an outright gift.</u> A discussion of planned giving may in fact lead to the outright gift the donor was unwilling to discuss in the first place. I learned this lesson early in my career in working with a donor unwilling to meet with any other development officer. A successful real estate developer, he knew the development office was "after him," and he successfully dodged their efforts until he heard about a Charitable Gift Annuity and saw a chance for a "deal." After discussing how he could use an undeveloped lot in one of his developments to fund such a plan and preparing a series of possible scenarios, I finally met with the donor and his accountant. Three hours into the complicated discussion of tax and financial implications, the accountant turned to him and said: "You know, you really do not need more income. You need the biggest tax deduction you can get. Why don't we simplify this whole thing and just give the property outright?" "Sure," said the donor—and he did. But—and here is the salient point—he would never have begun the discussion without the prospect of the planned gift. The outright gift would never have happened. This scenario has repeated itself multiple times since in my experience, and, I expect, for many other planned giving professionals as well.

Lesson #4: <u>The support and participation of the board makes a difference.</u> Donors naturally look to those most closely connected to a charitable organization for guidance, leadership, and example. No charity should undertake a capital or comprehensive campaign without the full commitment of the governing board. 100% board participation in annual giving is essential to a successful annual fund. Board support of any strong planned giving program is equally important. Boards should first understand what planned giving is (see Lesson #1) and should be comfortable with the scope and direction of the program. We have often found the best way of building that understanding is to involve the Board in the process of discussing and debating Gift Acceptance Policies. Beyond understanding, however, comes participation. Board members should be among the first to consider the charity in their estate plans. Board members often can influence others to think about alternative kinds of gifts beyond immediate cash, such as a Charitable Gift Annuity, through their own leadership in establishing such a gift. Some one must always take the lead in a new program, and Board members are natural leaders as a new fundraising initiative gets under way.

Lesson #5: <u>Gift Acceptance Policies are critical.</u> All too few charitable organizations have well-thought-through Gift Acceptance Policies. Some have no policies at all, relying on ad hoc responses when an unusual gift appears on the horizon; some, in the absence of written policies, make an executive decision to reject all gifts that are not cash or appreciated marketable securities. Board members should rightly be concerned if the charities for which they have assumed a fiduciary responsibility shoot from the proverbial hip in dealing with gifts beyond cash. A complete set of Gifts Acceptance Policies serves several important purposes, all of which should give comfort to boards. First, they establish the conditions under which the charity will or will not consider certain types of assets or certain gift plans. They assure Board members thereby that the organization will follow a specific set of processes before moving ahead with any particular gift plan. They also assure Board members that the charity will not leave a potentially valuable gift on the table simply because the staff lacks confidence in its ability to vet or process the asset. Second, solid Gift Acceptance Policies serve as a superb platform for educating the Board about the range of gift possibilities without appearing condescending.

Discussing policies will bring all members of the Board into the conversation and ensure that all are at least familiar with the types of gifts that might come to the charity. Finally, a good set of policies will allow staff to discuss gift arrangements with potential donors without fear of being contradicted after the fact by nervous trustees. Nothing inhibits effective fundraising more than uncertainty on the part of the staff.

Lesson #6: <u>Planned giving often brings new donors into the pool.</u> A number of analyses indicate that the best predictor of positive response to a planned giving inquiry is consistency of giving, *regardless* of size. Just because a donor once gave a large gift does not mean that donor is a prospect for a planned gift. The donor who has contributed $100 each year for the last twenty years is a better planned giving prospect than the donor who gave $100,000 one time. But those consistent $100 donors rarely make the major gift prospect pool and rarely are visited, therefore, by a spokesperson of the charity. Board members (as well as fundraising staff) are always interested in increasing the pool of potential donors, and a strong planned giving program allows the charity to do just this.

The other message about donor pools that Board members should know is that many people who make a planned gift make another planned gift. In fact, one of the best indicators of a good planned gift prospect is to look at those who have already made a deferred commitment. Those who place a charity in their will often will respond to messages about Charitable Gift Annuities. Those who have established a CGA may well establish another CGA in subsequent years Virtually every one of our clients with an established CGA program has at least one donor with multiple CGA contracts, sometimes as many as 50 or 60. Planned gifts lead to more planned gifts. And from people who might not have made a significant gift at all without the options offered by a planned giving program.

Lesson #7: <u>Planned giving is an essential part of a complete development program.</u> In the "old days," many development programs added planned giving (aka "deferred giving") to their fundraising operations as a largely separate part of their activities. Directors of Planned Giving often resided in an office closeted away from the rest of the staff, worked with a set of donors different from the pool of major or annual fund prospects, and discussed gifts only related to end of life commitments. In some operations, the "planned giving office" was even more isolated and served almost as an internal consulting resource, producing tax calculations and estate suggestions for the rest of the staff without leaving the office except by special invitation when other staff needed technical expertise. That model is quickly becoming outdated and ineffective. More and more, as the line between major and planned gifts blurs and as development professionals have come to redefine the meaning of planned giving (See Lesson #1), planned giving is rightly becoming integrated fully into the work of the entire office. Increasingly, development professionals—and key volunteers, like Board members—have come to recognize that gift plans are ways of continuing the conversation with donors who say: "I would love to give, but…." Responding to the "but" and seeking ways the donor can make the gift he or she wants to make without having to choose between philanthropy and other important personal concerns is the prime purpose of a strong planned giving function. And all front-line development officers need to know enough about the options offered by planned giving to participate in those kinds of discussions.

The role of planned gifts in campaigns, even when defined in the traditional ways as matured bequests and new life income gifts, further illustrates the importance of planned giving to many organizations. Comprehensive campaigns now realize from 25-40% of the total dollars credited to their totals in the form of these kinds of commitments. When one adds current gifts of non-cash assets to the list, the impact is even more dramatic. Without planned giving as an integral part of the campaign, charitable organizations risk leaving far too many potential gifts unrealized.

Lesson #8: Planned giving allows philanthropy to become an integrated part of a donor's financial planning. Far too many of us still make philanthropic decisions separately from our other financial considerations. We think about gifts as what we can do when other concerns are addressed and when we factor the remaining discretionary cash flow still available to us. Even very wealthy donors with strong charitable intentions often consider philanthropy as separate from "regular" financial decisions. They do not consider the same set of assets that they might bring to the investment table when they address ways of fulfilling their charitable desires. And as a result, they—and most of us—limit the ways we think about charitable gifts, the amounts we might be able to give, and the methods through which we make charitable commitments. Boards should know that planned giving changes this dynamic and brings giving—of all kinds—into the same decision-making process donors use when they consider all their financial issues.

Planned giving changes the paradigm for thinking about philanthropy and places our philanthropic considerations directly on the table with our other financial concerns and allows us to think about all of them together. In that way, we might find that philanthropic plans will allow us to address both our charitable desires and our non-charitable goals together, perhaps to the benefit of both. Planned gifts often create complementary instead of oppositional opportunities and open ways of thinking about "both/and" instead of "either/or." In that way, donors often can make larger and more immediate commitments than might otherwise have been the case. Board members should have a major interest in fostering moves in that direction.

Lesson #9: Wealth and financial acumen do not necessarily imply familiarity with planned giving techniques. Many donors who have been immensely successful in their careers and have accumulated significant assets hire sophisticated financial and legal advisors to help them with their on-going financial decisions. These advisors, in many cases, do not bring with them equal sophistication about charitable giving. In fact, many advisors see their role as helping their clients increase and *keep* their assets, if not directly for themselves, at least for succeeding generations. Giving assets away is simply not part of what many advisors consider to be their expertise or their responsibility. Bringing gift plans to advisors as well as to donors may be an important way of involving a donor's team of financial experts and of increasing the comfort level of donors and donor families with a significant gift. The charity can, and perhaps should, become a part of the financial team and not simply hover outside the door while important financial plans are being made inside.

Lesson #10: <u>Planned giving need not be overly technical.</u> Planned giving is really about affirming donor-centered philanthropy. It focuses on the donor as a complete person, with interests and concerns far beyond the philanthropic connection to the charity. And because planned giving seeks to integrate financial and philanthropic decisions, it often opens donors to giving possibilities they never had considered. The important lesson for Board members, as well as for most development officers, is that planned giving allows, as we noted in Lesson # 7, conversations to continue when donors say: "I would like to give, but…." The ultimate lesson for Board members—and the most important of these ten points—is that planned giving creates and expands options, both for the donor and for the charity. Planned giving allows donors to change that "but" into "and." And planned giving, therefore, opens giving opportunities that otherwise go untapped, especially in a time of economic uncertainty when so many donors, regardless of their wealth, are more reluctant to give large gifts of outright cash. Technical expertise is important but technical expertise can be hired. An extremely competent consultant can step into a donor conversation when that expertise is needed. But unless Board members understand how to initiate and continue the conversation with donors and the role that planned giving can play in accomplishing that purpose, many gifts will go uncompleted or even unconsidered. In these tough economic times, few charities can afford to leave potential gifts on the table. No responsible Board member would want that to happen.