Turning Planned Gifts into Current Dollars: Practical Strategies for Difficult Financial Times

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As charitable budgets grow tighter, as states cut back on money to universities and arts agencies, as competition increases for personal, corporate, and foundation dollars, planned giving directors will find the pressure to focus on currently spendable cash has become even more critical than in the past. The current wisdom, exhibited by many chief financial officers, presidents, and boards, is that a gift now is better than *any* planned gift in the future. Furthermore, some of these organizational officers traditionally view planned gifts as "nice to have," but as an expensive or even frivolous distraction from the real need for immediate hard cash. They believe that donors will take the "easy way" out through a deferred gift, thereby avoiding requests for immediate gifts, and the annual funds will suffer if too much emphasis is placed on planned gifts. The current wisdom is that planned gifts stand in competition with and opposition to current gifts.

We propose that the current wisdom is, in fact, wrong. Cultivating planned gifts can often lead to larger gifts, both now and in the future. We also propose that an astute development officer can often turn existing planned gifts into current operating cash. This article offers some practical suggestions for accomplishing these goals, beginning with relatively simple ideas and ending with some more exotic but still eminently doable strategies. In the process, we hope to dispel the current wisdom about planned gifts. As organizational decision-makers come to recognize that planned gifts can be a powerful tool for raising current money, the respect and support for sophisticated planned gift programs should only increase. Planned gifts—and those who solicit and service them—need to take their rightful place among the other key components of a mature development operation.[1]

1. Use planned gifts as the stimulus to gift consideration.

All development officers know—or come to recognize very quickly—that few major gifts come without a good deal of work building a relationship with a donor and generating and nurturing an on-going conversation about the gift. Few major gifts show up completely out of the blue. Bequests sometimes do, as we will discuss below, but outright gifts do not.

Conversations that lead to gifts have to begin somewhere, and many donors are legitimately leery of opening the figurative (or even literal) door to development officers because they know full well the direction such conversations can take. A discussion about planned gifts can often be a useful way of opening a door at relatively low risk to the donor. And once the door is ajar, the discussion can flow far more freely and sometimes can land squarely on the outright gift that never would have happened had the development officer aimed for that spot from the start.

We learned this lesson early on in our development careers. The college for which one of us worked as a fledgling planned giving officer had been trying to see one of its graduates about a major gift for a long time. A successful real estate developer, the prospective donor knew exactly what those phone calls and invitations to lunch were all about and had politely but deftly deflected them all. The

standard story about "being in the neighborhood and wanting to come by to bring him up to date about the college" was getting nowhere.

Always alert for a "deal," the developer responded for the first time to a planned gift brochure about annuities. He was intrigued with the idea of making a major gift (and getting his name on the elite list of donors) and gaining a significant tax benefit to boot, avoiding the significant capital gains tax on a piece of real estate he owned, and still getting an income along the way. All of this led for the first time to a real conversation with the donor, who was interested enough to bring along his accountant to the meeting, even though this was the first conversation he had been willing to have about a six-figure gift. We had prepared a detailed proposal, demonstrating all the various benefits and cash flow implications of annuities of varying size and character. He listened intently, asked perceptive questions, discussed the specific piece of property he might use to fund the annuity, and followed our technical presentation with interest.

After an hour or so of this discussion, he turned to his accountant and said, "So, what do you think? Should I do this?" The accountant thought a minute, rubbed his chin and responded, "You know, your problem is NOT that you don't have enough income. You have plenty—more than enough. In fact you have so much income that you have a major income tax problem. You need the biggest deduction you can get. So, with all due respect to the people from the college and with appreciation for all the work they put into these proposals, I think you should just give the college the property outright and forget all this complicated annuity stuff." "Maybe you are right," mused the donor. And he did.

The point of this story is that the gift never would have happened had the donor not started by thinking about the annuity. Nor would it have happened had the development officer begun by asking directly for the property. In fact, before this conversation, the development office did not even know the donor owned the property, let alone that he might consider giving it away. In this instance, the accountant played a critical role by suggesting a shift in financial priorities. But the accountant would not have been necessary to the outcome. By the time he made his point, all the information to support his conclusion was already on the table. The development officer could easily have made the same suggestion, perhaps with the same results.

Starting meaningful conversations with donors is often the most difficult part of gift negotiation. Development officers often miss significant opportunities to begin those conversations because they are so focused on starting where they would like to conclude instead of beginning where the donor wants to begin. In this sense, planned gifts are a tool (or really a whole set of tools) to initiate a conversation. The outcome is limited only by the character and positioning of the donor's resources and by the development officer's breadth of vision and openness to opportunity.

2. Do not overlook bequests—the planned gift staple.

As NCPG's most recent survey of donors has demonstrated, many more people have put charities in their wills than charities are aware of. We discovered that for every bequest known to a charity, there were at least two unknown bequests. In many of the known bequests, *all* the charity knows is that a bequest is coming. The form and amount remain, in most cases, a mystery.[2] This uncertainty leads CFOs, boards, and presidents to be wary of counting on bequests. But uncertainty should not deter planned giving officers from seeking bequests. In fact, as NCPG's donor studies also show, once people put a charity into their wills, they are highly unlikely to remove the bequest. Fewer than eight percent of the respondents in the 1992 survey and 10 percent in the 2000 survey indicated that they had reduced a charitable bequest or taken a specific charity out of their plans. When they did, it was usually because their financial circumstances had changed drastically or they found themselves at odds for some reason with the direction the charity was taking. One can do little about the former,

but regular communication, even with people who might be upset in the short run, can help considerably to ameliorate the latter.

These data, combined with the information that nearly nine percent of the cash contributions to charity from individuals come from matured bequests ($18.1 billion in 2002 compared to $183.73 billion in gifts from living individuals),[3] suggest that charities do themselves a great deal of good by focusing on their bequest programs. Even if these donors never change the timing of their gifts, charities can count on cash coming from matured bequests. The more charities know about the people behind these gifts, the more they can build that knowledge into the planning process.

The act of putting a charity into one's estate plans is a positive step. It indicates commitment in a major sense, a belief by the donor that charity in general and *this* charity in particular is worthy of sustaining, not just in the short term, but as a legacy. That act, revocable as it is from a legal standpoint, provides a significant foundation for a series of practices that can sometimes translate into current cash.

- Ask, but ask gently.

Asking about bequests can be and, one might argue, *should* be a low-key exercise. Many people indicated in the NCPG surveys that they had not informed the charity about their intentions simply because the charity had not asked. Others were concerned about being bothered by the charity. Putting these two pieces of information together, a charity that is both direct about asking about bequests and sensitive to asking for too much information too aggressively is likely to learn a great deal about the potential awaiting it from bequests.

- Create a bequest society.

Bequest "societies" are one of the best ways of providing a forum for requesting information from donors. If these "societies" are structured as openly as possible (e.g., open to anyone who tells the charity she or he has left a bequest, but without pressure to put the intent in writing, to send a copy of the will, or to disclose the amount or format up front), they are likely to get the best response. Opportunities to learn more will follow. At a college or university or private elementary or secondary school, for instance, reunions offer a perfect chance to ask more detailed questions, as the college or university seeks to put together comprehensive reunion gifts. Again, just as we have suggested that discussions about planned gifts in general may lead to a current gift, so might a discussion of a bequest lead to the conclusion of a more irrevocable and more immediate gift.

- Find an innovative way to show the benefits of a bequest while the donor is alive.

Although a bequest allows the donor to change her mind and to have complete access to her resources during her lifetime, it has one major disadvantage to the donor: she cannot witness first hand the impact of her gift on the charity. This incontrovertible fact about bequests offers an opportunity for charities to begin yet another conversation with donors that would not have been possible without a solid bequest program.

Individuals who tell a charity they have provided a bequest have already made a commitment. It is legally revocable, to be sure, but, as we noted above, a person who puts a charity in her will is unlikely to revoke that provision unless the charity does something specifically to cause her to rethink her commitment. In other words, as the two NCPG surveys indicate, the very act of making the provision is seen by most people as a moral, commitment, even if it is not a legal obligation.

Further, as most development officers know, the person most likely to make a major outright gift is the person who has already "tested" the charity with a smaller gift—or even a series of smaller gifts. While bequests may in fact not be small at all in value, they remain nonetheless a "test," since they *can* be changed and they involve no immediate outgo of cash. How a charity treats a bequest intention, how it indicates its gratitude, how well it respects the donor's desires for privacy, all are important indicators to the donor of how much the donor can trust the charity. Trust is essential for a major gift to occur.

To be sure, not all bequest provisions lead to outright gifts, but the opportunity is open for a number of them to move in that direction. Some donors simply want the charity to prosper through their bequests and do not care about specifics. More and more donors, however, have a specific focus for their giving, whether through their wills or not. These are the people for whom a discussion of an "advance" on their bequest might be especially appropriate. The chance to meet students who will benefit from a scholarship fund, the opportunity to see children healed by the purchase of a new piece of medical equipment, the ability to hear a concert or lecture that would not have taken place without the donor's generosity—all of these provide ways in which a bequest might turn into a current gift.

A recent survey sponsored by the *NonProfit Times*[4] reinforces this connection between bequest provisions and outright gifts. According to the survey results, a donor with a bequest provision for charity already in his will is over twice as likely to have made an outright gift of assets (which includes the broad range of assets—publicly traded securities, real estate, personal property, as well as more esoteric assets) than one who has no such provision. Even more encouraging are the numbers related to those who say they would consider such gifts. Slightly more than 13 percent of the households say they would consider a gift of assets, but among those who have not yet made an outright gift of assets or put charity in their will, a significant 40 percent who say they would *consider* a bequest provision also say they would consider an outright gift. This same survey notes that those who have made planned gifts to charity "contribute a larger proportion of income to charity on an annual basis than those who [have] not." The relationship between bequests (and other types of planned gifts) and outright gifts is already in the minds of many donors. It is up to the development professional to turn that relationship into action.

On a more specific level and by way of illustration, we were able to participate in just such a process recently. Our donor, a former trustee, has long wanted to endow a professorship in medical ethics and has provided a bequest for that purpose. He did not feel that he could make that large a gift while he was alive, since he is in his 80s and is concerned about long-term health care costs. A series of conversations with him produced a compromise that excites him and provides an immediate benefit to the college. He will fund a current gift— in the six-figure range—to begin an endowed lecture series on biomedical ethics. He and his family can attend the lectures, witness the impact on the intellectual life of the campus, receive the specific thanks of the college during his lifetime, and build the endowment now, which will shift to the professorship after his death. He is thrilled. The college is pleased. His family can participate with him in these plans and has a focus for additional gifts, both now and, at some future date, in his memory. None of this would have taken place without his bequest provision as the foundation.

Once a charity has built a bequest inventory, development officers who know the people on that list should begin visits to test whether there is room for a discussion about advancing the gift, either all or in part. Based on our own experience, we predict that roughly 10 percent of these bequest intentions could, if handled sensitively, lead to some form of outright gift.

3. Consider charitable gift annuities: the planned gift most donors turn to in a down stock market and the gift CFOs dislike the most.

During the past three years, gift annuities have become the planned gift of choice for thoughtful donors, who see their retirement benefits shrinking because of stock portfolios that keep diminishing in value. Recent experience has convinced these donors that the security of a fixed annuity payment for life outweighs the benefits of a potentially larger, but uncertain payment from a charitable trust. Everyone has read too many front-page newspaper stories about Enron employees, who lost their entire retirement package because of their investment in stocks that became worthless. The potential of trading a falling return from traditional fixed income instruments like bonds and money market accounts for a much higher paying charitable annuity, backed by the full faith and credit of their favorite charity, is very enticing for many donors.

Yet, at the very time that annuity programs were becoming more attractive to donors, they became far less attractive to chief financial officers, who worried that the charity would not be able to afford a seven, eight, or nine percent payment to each annuitant for life. Even CFOs believe the urban myth that the minute a donor takes out an annuity, she will now live an extra twenty years beyond what the life expectancy tables tell us.

- Create a "Rainy Day" annuity.

The way out of this conundrum is to structure the ask to include not only setting up an annuity, but setting up an annuity with a give-back of the income interest[5] to the charity for the first several years. Such a double ask is easy with the following two groups of people, who will often give far more money if it is in a planned gift.

- Working professionals in their 50s, 60s or 70s who do not need any more income.
- Well-off retirees of any age, who do not need the money "now" but fear they might sometime in the future.

We have found that most of our annuitants fall into one of those two categories, with the larger group being the latter. Perhaps because we work at what has been, up until this fall, a women's college, our annuitants are almost all women, most of whom are in their 70s or 80s, who remember the Depression and are determined that they will never be without resources. A "rainy day annuity" works well with this group. Most are pleased to give us back the interest as long as they retain the right to receive it, should they need it. Most of them will never need it. There is something psychologically satisfying—or even comfortable—for these donors to know that their money can always provide for them, even if they may never actually need it.

Two examples will serve to illustrate this dynamic. Our first donor is in her mid-50s, very well-to-do and long involved with the college, but never a major donor at anywhere near the level of her potential. She has no need for current income and would love to be recognized as a major donor by her peers, but is reluctant simply to "give up" control over substantial assets on the grounds that "the future is uncertain and we might need more income in retirement." The "rainy day annuity" answers all of her concerns. She can make a substantial gift now, receive all the accolades she desires, provide leadership to her class, *and* be assured that if she needs more income at some future date, it is available with a short letter to the college. Her initial gift consisted of two related documents: the traditional annuity contract, and a letter stating that she wished the college to "keep" the annuity payments to which she would otherwise be entitled until she tells us otherwise. This gives her full control over the use and direction of the annuity payments and ensures her of the additional income if needed. As in so many cases, neither the annuity nor the regular current income would have come without the planned gift mechanism.

Our second example is a donor in her early 90s, a long-time donor who established a charitable annuity some years ago. As her ability to travel has diminished and her income needs have become more fixed and, therefore, predictable, she knows she can forego the annuity income. She wants to contribute to the college but does not want to be bothered by solicitations or phonathon calls. Her letter instructing us to retain the annuity payments as a gift allows her to make a current financial impact with no future effort. Again, if her income needs ever were to increase, the annuity income remains available to her.

- Ask for gifts of income interest.

One does not need to look only at new annuity donors to find potential current gifts. The charity's existing annuity pool includes individuals who might be open to contributing not only this year's annuity payments, but their income interest itself, either all or in part. By relinquishing the right to receive all of the annuity payment from the original contract, the donor receives another charitable income tax deduction for the present value of the contributed interest for the reminder of the annuitant's life and thus frees the remainder interest to be used immediately by the charity. If the donor wishes to relinquish only a part of the annuity payment, he can do so either by reducing the income payment, thus reducing the obligation of the charity to make the larger payment and "saving" that amount to the charity's budget, or by exchanging the old annuity for a new one which will pay the new reduced amount. This latter strategy also has the effect of freeing at least some of the remainder value associated with the old annuity for immediate use by the charity.

Again, an illustration might help to clarify the concept. Our donor in this instance, a trustee of the college, contributed $100,000 15 years ago when he was 65. The annuity rate at the time brought him six percent or $6,000 per year. Now at age 80, our donor wishes to relinquish his remaining income interest. The net present value of this interest at the applicable federal rate (AFR) is $42,374, which the donor receives as additional tax deduction. The charity immediately has use of the $100,000 principal.

Alternatively, prior to making his final decision, our donor was considering relinquishing only half of the income, dropping his income from $6,000 per year to $3,000. He could have done so within the context of the existing annuity, receive a deduction for half the present value of the income interest (in this case $21,187), and "save" the college $3,000 per year for the remainder of his life. Or, alternatively, he could exchange his income interest for a new annuity paying him $3,000 per year, receive the same $21,187 tax deduction, but allow the charity to use the difference of $57,626[6] for its current purposes. Clearly from the charity's perspective, this last alternative is preferable.

- Offer new annuities only with the first two year's interest as a give back.

Ever since our CFO raised concerns at the number of annuities we were bringing in, we decided to offer new annuities with the proviso that our college receive the first two years of interest payments. This has the effect of turning these annuities into deferred annuities, which is good for current cash flow. As an added benefit, we are able to tell the donors that they are can make a current annual fund gift even as they are securing their own financial future and the long-range future of the college. Two years from now, we predict that many of these donors will like the concept so well that they will simply continue the plan indefinitely. As we have noted before, these conversations would never have begun, let alone concluded in a major gift, without the lure of the annuity and the multiple benefits of planned giving.

- Reinsure the annuity.

Some people suggest reinsurance programs as a way to turn planned gifts into cash. This procedure calls for an insurance company to take on both the responsibility of paying the annuitant and the benefit of receiving the remainder value at the annuitant's death, all in exchange for an upfront payment to the charity. Insurance companies, however, are no more inclined to make unwarranted market projections than anyone else after the last several years. Consequently, we have found that the money we would receive outright from an insurance company is relatively small and that the strategy of talking about the benefits of a rainy day annuity is currently more beneficial to everyone. That reality of current market conditions notwithstanding, there are still a few insurance companies eager to build the annuity reinsurance business. With a large enough pool of annuities, some of these reinsurance offers may well be worth examining, especially if the charity is wary of annuities in the first place.

4. Charitable trusts offer even more possibilities for cash now than do annuities.

The principles that govern gifts of income interest for annuities, either temporarily (on a year-by-year basis) or permanently (with an outright gift of a percentage of that interest), apply also to trusts. Whether the trust is an annuity trust or a unitrust, the donor has the same options of giving the income—all or a portion—each year as a gift, or of giving a portion (again up to 100 percent) of the entire income interest to charity. In the case of an annual gift, the procedure would work in similar ways to the annuity. The donor would simply send a letter to the trustee (which may be but is not necessarily the charity), instructing the trustee to send a portion of the income from the next succeeding payment, for the following year, or indefinitely unless notified otherwise, to the charity or charities of her choice. She must declare those payments as income but she receives an off-setting tax deduction for the amount of those gifts. As with the annuities, this can be a marvelous way of providing for the regular "annual fund" gift with minimal difficulty for both donor and donee.

The gift of income interest from a trust behaves much the same as a gift of an annuity income interest. The donor (usually with the help of the charity) simply calculates the present value of the income interest to be donated, based on the remaining term of the trust (whether fixed or based on the beneficiary's life) and the AFR of the month of the donation. That number is the donor's tax deduction. Let's say, for example, a 76-year-old donor/beneficiary with a six percent unitrust wants to contribute all her income interest to the charity that will receive the benefit at the end of the trust. The trust was valued at $100,000 ten years ago but has grown to $130,000 now. Based upon an AFR of 4.4 percent, her income interest is valued at $55,601. She takes that as her charitable deduction (on top of the deduction she received 10 years earlier for the remainder interest in the then $100,000 trust), the trust ends and the charity immediately receives the $130,000 principal.

As we see from the example above, in the case of a unitrust, the donor should take into account the fair market value of the trust assets at the time of the donation of the income interest, *not* the value of the trust assets at the time the trust was created. In the case of an annuity trust, the trust value is irrelevant since the income value is fixed. The present value of that interest depends solely on the remaining term of the trust and the AFR of the month, not on the trust assets.

Again, as in the example above, if the donor gives the entire income interest, defined as her right to receive an income from the trust for the entire remaining life of the trust, to the charitable remainderman, the trust folds in on itself, or collapses (a good thing in this case) and the principal assets are distributed immediately to the charitable remainder beneficiaries. The donor cannot, however, contribute 100 percent of the income interest to charity if one of the charities receiving the income interest is not the remainderman. Since charitable trusts must have at least one non-charitable income beneficiary to remain valid, such a plan would violate one of the key requirements of the Income Tax Code. So, for example, in the case of a trust in which our college will receive all the remainder benefit at the trust term, the donor *can* give all her income interest to our college at any

time and receive a tax deduction for the gift. But she cannot give half her income interest to us and half to her church. She can, however, give half her income interest to us, 40 percent to her church and retain 10 percent for herself. In this case, we will "keep" our share of the annual income, the trustee will pay the church its share and the donor her share each year for the remainder of the trust term. As long as there remains at least one non-charitable income beneficiary, everything works as it should and the trust retains its tax-exempt status.

In the case where a percentage of the income interest comes to the charitable remainderman, only that proportion of the trust principal will be available to the charity. So, for example, if a donor contributes 40 percent of the income interest on a six percent unitrust valued at the time of the gift at $100,000, the result would be to preserve the six percent payout, according to the terms of the original trust, but now only on a $60,000 principal. The remaining $40,000 would be available immediately to charity while the donor receives her deduction for the present value of the donated income. Again using an AFR of 4.4 percent, and assuming she is now 75 years old, the value of her deduction is $17,732.[7] She continues to receive her six percent income on the remaining $60,000 trust until she either gives away more of her income interest or the trust ends.

- Trusts offer special opportunities to lend a charity money.

Annuities may offer a certain flexibility that trusts do not, but trusts offer an opportunity that annuities do not. Because trust assets are, by definition, invested separately from other assets held by the charity (even if trust assets are "commingled" with a charity's endowment, they must be accounted for as an independent investment and kept in a separate account), they can be used in many ways, which can benefit the charity's current cash flow.

Most charitable trust documents permit the trustee to lend money so long as such an investment does not violate the self-dealing rules that prohibit trusts from lending money to the donor or any members of the donor's immediate family and so long as the loan passes the "prudent investment" tests, which require that and "objective prudent investor" would deem the terms of the loan to be fair and honest in the context of the conditions of the time.

Given these conditions, a charitable remainder trust can provide immediate cash for an institution. Suppose a college wishes to renovate a residence hall but does not have the immediate cash to do so, and suppose the college also is trustee of a $1 million five percent NICRUT (net income charitable remainder unitrust). Falling interest rates over the past several years have prevented the donor from realizing a five percent income, even from a portfolio heavily invested in bonds, thus producing a payout this past year of only $30,000. The college may shift the investment of the trust assets from its bond portfolio, substituting a loan to the college, freeing the $1 million for the college to spend on the renovations, and providing for an interest-only fixed payment at prime plus two (currently a little over six percent) to the trust for the remainder of the trust term. The interest payments now exceed the five percent trust payout obligation, thus increasing the income to the donor by $20,000. The interest on the loan is covered by the room payments from students living in the residence hall. Furthermore, if the college succeeds in raising direct funds to cover some of the costs of the renovation, it can simply repay part of the loan, thus offering the opportunity for reinvestment of those funds within the trust.

In this scenario, the donor is better off financially. She is virtually guaranteed an income at the levels initially dictated by the trust instrument for as long as the loan is in effect. The college solves its short-term cash flow needs at minimal cost while retaining its options for direct fund-raising. At the end of the trust term or the death of the beneficiary, the loan collapses and the payments cease.

5. Think about turning life insurance policies into cash.

Life insurance policies all carry their "big" payoff when they "mature," as the current jargon goes. When that happens, although the charity has lost a person who is, in all likelihood, a long-term friend, the financial impact is significant. However, there are ways of seeing some cash in the short run from the policies that charities hold. A financial analysis, comparing the relative benefits of accessing current cash or waiting for the policy's maturation, is always critical—one always has an impact on the other.

- Borrow from the policy.

Unless the policy is strictly a term policy, which we would recommend charities not take as gifts as they do not build cash value over time, a charity can easily borrow from the cash value of the policy. Sometimes, this cash build-up can be used to cover on-going premium payments, thus freeing the donor from the obligation to continue her gifts indefinitely. Sometimes, even in such cases, the cash value will exceed any internal needs of the policy, offering an opportunity for the charity to take some of it immediately and still leave much of the face value of the policy intact. Each policy is different and much depends on how the cash value is invested by the insurance company. Before implementing a borrowing strategy, a charity should consult with the insurance company to ascertain how much it can borrow without incurring further costs to keep the policy in force. Clearly, the older the policy, the more cash value it is likely to have in it and the more potential for a loan to the charity.

- Cash the policy in.

Borrowing means taking some of the cash value out, but leaving enough to carry the policy in the future so that most of the death benefit remains intact. An alternative is simply to access *all* the cash value now, sacrificing the ultimate death benefit altogether, but increasing the amount of current cash available. Usually—but not always—it will be financially advantageous to use the borrowing strategy rather than the cash out strategy simply because the differential is not that great. As is always the case with insurance, however, this generalization does not necessarily apply to any given policy. Once again, charities should analyze each policy to decide whether it makes more business sense to cash in the policy or to borrow from it.

One other—non-financial—aspect of this decision focuses on donor relations. The donor should be informed if a charity wants to cash in the policy since she might not be happy with such a move; it may indicate to her that the charity does not appreciate her intent to give the larger face value of the policy. Often donors who give insurance policies feel that they have committed the amount shown on the policy's cover, and to learn that the charity only received a smaller amount based on cash value may be disappointing to the donor at best and insulting at worst. Donor relations have both short and long-range implications for development offices and should be taken into account when assessing what to do with donations of life insurance policies.

- Sell the policy.

Another alternative is to sell the policy. This strategy also requires the donor's knowledge and consent, and it often generates more current cash for the charity than either borrowing or cashing in the policy. Several companies have become active in recent years in brokering policies. The purchasers take on any obligations to continue premiums and will receive the ultimate death benefits, but will pay a lump sum now for that privilege. Like any commodity on the market, not all policies will be attractive to potential purchasers, so charities may find that they are limited in which policies might find buyers. For those that do, however, the finances might make good sense all around.

Most buyers of insurance policies will look only at policies with certain characteristics: a minimal face value ($50,000 or more) and a minimal age of the insured (65 or more) at the very least. When both these factors come into play, a sale might be a good option for charity and donor alike.[8] One of our donors serves as an example here. Ten years ago, at age 64, she gave the college a $600,000 life insurance policy, costing $10,000 per year in premiums, which she pays to the college and for which she receives an annual income tax deduction. Now, the donor is 74, and the college can sell her policy for something in the range of $150,000, generating much needed cash to begin the scholarship fund she envisioned would be funded by the proceeds from the policy. Since she is committed to continuing her $10,000 annual contribution and since she is still in good enough health to be insurable, she can now purchase (and give) a new policy with a $450,000 face value, using her annual gift to pay the premiums. In other words, she will continue to see herself as a $600,000 donor; the college receives $150,000 of the gift now instead of having to wait; and she can see the immediate results of her scholarship and can meet the awardees during her lifetime. Donor relations are improved and more students benefit through the sale option.

Not all sales work out as well as this one, since the purchase price of an existing policy will depend on the buyer's analysis of its actuarial potential, which is tied to the health of the insured. The more health difficulties the insured has, the more attractive the policy will be to a buyer, but the less likely she is to be insurable under a new policy. In addition, "viatical settlements," or settlements for the terminally ill, received much negative press when some insurance companies in years past rushed to purchase life insurance policies of dying AIDS patients. The concept of a "life settlement," even when focusing on policy-holders with a normal life expectancy, remains tarred by the association with some of these questionable tactics. Some situations find the right balance, however, and charities with insurance policies in their portfolio might take a close look to see whether any might offer options along these lines.

6. Do not forget the often forgotten fund: the real estate pooled income fund offers both donors and the charity little-used benefits.

In recent years, pooled income funds have fallen out of favor, largely because they have depended for their payouts on traditionally-defined sources of "income" (interest and dividends), which have dropped dramatically. Other planned gifts, charitable annuities in particular, have become far more attractive as sources of higher returns for donors.

That record notwithstanding, pooled funds remain potential vehicles for significant current dollars for charity. The "Real Estate PIF"[9] provides a solid and proven method of financing capital projects for charity by attracting donors who are seeking an "investment edge" to complement their philanthropic motivations.

In brief, the concept works like this: a charity forms a pooled fund, specifically stating its intent to invest the assets of the fund in a specific piece (or pieces) of real estate. These buildings could range from a college residence hall or athletic facility to a municipal office building to a church edifice to a publicly owned professional sports facility. Donors contribute assets (appreciated securities, cash, or even—under special circumstances—other marketable real estate), avoiding, as in any gift to a qualified PIF, all capital gains taxes and generating a charitable income tax deduction according to the normal rules for calculating such deductions from a PIF contribution. The charity sells the building in question to the PIF in exchange for a promissory note, paying a fixed percent of the sale price as interest on the note. This process transfers ownership of the building to the PIF, which in turn leases the building back to the charity under a triple net lease,[10] such that the charity continues to assume all responsibility for the costs of maintaining and operating the facility. The lease payments and the interest payments on the note offset one another so no actual cash is exchanged.

As donors contribute assets to the PIF, the PIF pays off a portion of the note by transferring the cash to the charity, thus reducing the interest paid to the charity by the PIF and engendering a positive cash flow from the charity to the PIF. That cash flow is income to the PIF, which turns around and pays it proportionately to the donor/beneficiaries. Ideally, the PIF would raise enough money to pay off the note in its entirety, so that the charity has all the cash it needs to buy, build, or renovate the facility and the PIF receives interest payments on the entire amount, which it can then pay to its beneficiaries for as long as they live. At the death of each of these beneficiaries, his or her respective share of the PIF passes to the remainder beneficiary (the charity), eventually resulting in the complete retransfer of ownership to the charity.

Clearly this plan works best with older donor/beneficiaries. If the life expectancies of the donors are consistently long, the present value of the plan to charity goes down. However, since the charity is paying only interest for the privilege of using the cash immediately, the plan can also be far more beneficial than traditional bond financing, which requires repayment of both interest and principal.

Finally, just as with the trust loan discussed above, the charity can attempt to raise direct gifts for the facility even as it seeks gifts to the PIF. As such direct gifts arrive, the charity can simply "buy back" an undivided interest in the facility, thus transferring actual cash to the PIF (which will then reinvest it in other ways) and reducing the lease payment by a proportional amount. Alternatively, and more likely, the charity will keep the cash gifts, using them as additional investments to support the maintenance of the building over time.

Conclusion

Planned gifts and current gifts complement each other. They do not need to be thought of as adversaries. A planned gift can and should serve as an incentive for many donors to make substantial gifts today. All that a development officer needs to do is have a clear understanding of the possibilities and focus on the process of turning planned gifts into current dollars. Once that begins to happen, even CFOs, presidents, and boards will embrace planned giving as one of the essential building blocks to effective chartable fundraising.

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[1] For additional thoughts on this subject, see Joseph O. Bull, "Tomorrow's Gifts Today: Generating Current Income from Deferred Gifts," *Proceedings of the Fifteenth National Conference on Planned Giving 2002*, National Committee on Planned Giving, pp. 229-253.

[2] *Planned Giving in the United States: A Survey of Donors* (1992); *Planned Giving in the United States 2000: A Survey of Donors*, Indianapolis: National Committee on Planned Giving.

[3] *Giving USA 2003*, AAFRC Trust for Philanthropy, 2003.

[4] Havens, John J., Schervish, Paul G., and O'Herlihy, Mary A., "Study Shows Planned Giving Still in Early Stages," *NonProfit Times* (July 1, 2003), pp. 20-26. N.B.: Although the authors have issued a correction of some of their initial data, they do not question this overall conclusion.

[5] We should note that the term "interest" in this case does *not* refer to the earnings from investments normally defined by fiduciaries as "interest." Rather, this term in this context refers to the donor's right to receive an income from the annuity for the remaining term of the annuity (usually the remainder of the life of the income beneficiaries). The same distinction applies to the term "income interest" in our discussion of charitable trusts below.

[6] The $100,000 initial value less the $42,374 current value of the income interest, which he used to purchase the new annuity.

[7] The deduction for a gift of income interest is calculated by applying the formula for calculating the deduction for a remainder interest on the same gift—in this instance a six percent unitrust valued at $40,000, with a 75 year old beneficiary—and subtracting the deduction for the remainder interest ($22,268) from the $40,000 market value of the gift. This difference---$17,732—is the present value and thus the tax deduction for the gift of the income interest

[8] We relied in large part for this discussion on Joel Breitstein, "Getting the Most out of Life," *Estate Planning*, February 2004.

[9] Emil Kallina and Bruce Bigelow secured the first Private Letter Ruling supporting the Real Estate PIF in 1986 (PLR 8633107). Other PLR References include PLRs 8634049, 8713045, and 8713047, among others. The concept has been described in significant detail by Mr. Kallina at two presentations at NCPG conferences: "The Mathematics of Planned Giving" Proceedings of the Fifth National Conference on Planned Giving: 1992, Indianapolis: National Committee on Planned Giving, pp. 207-262.; "Taking the Plunge: Dive Back into the Pooled Income Fund," Proceedings of the Fourteenth National Conference on Planned Giving: 2001, Indianapolis: National Committee on Planned Giving, pp. 391-402.

[10] A triple net lease is one in which the lessee pays for all maintenance, upkeep, utilities and other on-going costs.