

Planning for Planned Giving Fundraising in Turbulent Times

Definition

- A planned giving program is an organized effort to discover prospects capable of making a major gift, to involve them with your organization to the point where they want to make a significant gift, and to help them select from a menu of giving opportunities the best way to make such a gift.

A Few Facts

- Over 80% of planned gifts are bequests.
- \$41 trillion in wealth will be transferred over the next 50 years.
- 42% of Americans have wills.
- 73% of people who have included charities in their wills do not inform those charities.
- A planned gift is roughly equal to 400 annual gifts.
- 82% of the nation's wealthiest currently leave nothing to charity in their wills.
- Planned giving donors typically increase their annual giving by as much as 33%.

Why do we give?

- “The measure of a life is not its duration, but its donation.”
Peter Marshall, former U.S. Senate chaplain
- "If you haven't got any charity in your heart, you have the worst kind of heart trouble." *Bob Hope*
- "It is more blessed to give than to receive." *Acts, 20:35*
- It all begins and ends in the heart.
- “What is more important than thinking?” asked the mind.
“Caring.” replied the heart. *Anonymous*

Donor Motivation

- Philanthropy
- Gratitude
- Honoring loved ones
- Non profit as family substitute
- Social prestige
- Pay back
- Tax benefits
- Income

Planned Giving Donor Benefits

- Make larger gift
- Receive income for life
- Higher yield
- Avoidance or decrease in taxes
- Lessen capital gains
- Become member of philanthropic community
- Experience the joy of giving
- Create a legacy

Turbulent Markets

- Charitable giving continues during even the most severe economic downturns
- Tools and techniques, however, tend to shift
- Prosperous times can lead to outright gifts
- Turbulent times can lead to planned gifts with retained income interests
- Historic low investment returns make certain charitable gifting techniques more attractive and others less attractive to potential donors
- Lower interest rates affect the income, gift and estate tax values of many types of transfers

Charitable Gift Planning Tools & Techniques

- Present & future interest gifts
- Split interest gifts
- Revocable & irrevocable trusts
- Utilizes tax Incentives to encourage giving
- Requires assistance of one or more qualified specialists

Gifts and Bequests

- While living or after death
- Income tax deductions
- Estate tax deduction and/or reduction
- Life Insurance – old policies – troubled policies - beneficiaries
- IRAs/Retirement assets

What can be given?

- Cash
- Appreciated assets
- Property
 - Real estate
 - Personal property
 - Securities

A Charitable Gift Annuity

- A simple contract between an individual and a charity.
 - Individual transfers cash or property to a charitable organization
 - Charity promises to make fixed annuity payments to Individual
 - Charity receives donation
 - Individual receives income for life & income tax deduction
 - Can be immediate or deferred annuity

Why a Charitable Gift Annuity

- Want to support a charity, but concerned about having enough income for future needs
- Want higher income from savings – CDs, Money Markets 1% or so
- Investment property becoming difficult to manage

Why CGA Cont'd

- Convert low basis stock or real property into higher income stream without capital gains
- Recent windfall will result in higher taxes; looking for charitable deduction
- Looking for income for spouse, partner, other
- More sophisticated donors already have annuities with other charities and now want to support yours

CGA Other Facts

- A CGA is an irrevocable gift.
- Generally, annuity rates are set by the American Council on Gift Annuities.
- The annuity rate is determined by the number of annuitants and age of the donor: older donor = higher rates.
- American Council Assumption is that a charity can expect to receive 50% (on average) of the original gift at the end of the contract.

Tax Benefits of CGAs

- If funded with cash, part of the payments are taxed as ordinary income and part are tax free
- If funded with low basis stock or real estate, part of the payments are taxed as ordinary income, part as capital gains and part may be tax free

CGA Single Life Example

Gift Calculations Summary of Benefits Cash

ASSUMPTIONS:

Annuitant	88
Principal Donated	\$101,988.00
Cost Basis	\$847.00
Annuity Rate	9.2%

BENEFITS:

Charitable Deduction	\$58,948.56
Annuity	\$9,382.98
Tax-free Portion	\$63.81
Capital Gain Income	\$7,620.85
Ordinary Income	\$1,698.32

After 5.6 years, the entire annuity becomes ordinary income.

CGA Single Life Example

Gift Calculations
Summary of Benefits
Cash

ASSUMPTIONS:

Annuitant	68
Principal Donated	\$10,000.00
Annuity Rate	5.4%

BENEFITS:

Charitable Deduction	\$2,749.10
Annuity	\$540.00
Tax-free Portion	\$360.72
Ordinary Income	\$179.28

After 20.1 years, the entire annuity becomes ordinary income.

ACGA Rates *(as of 4/6/2011)*

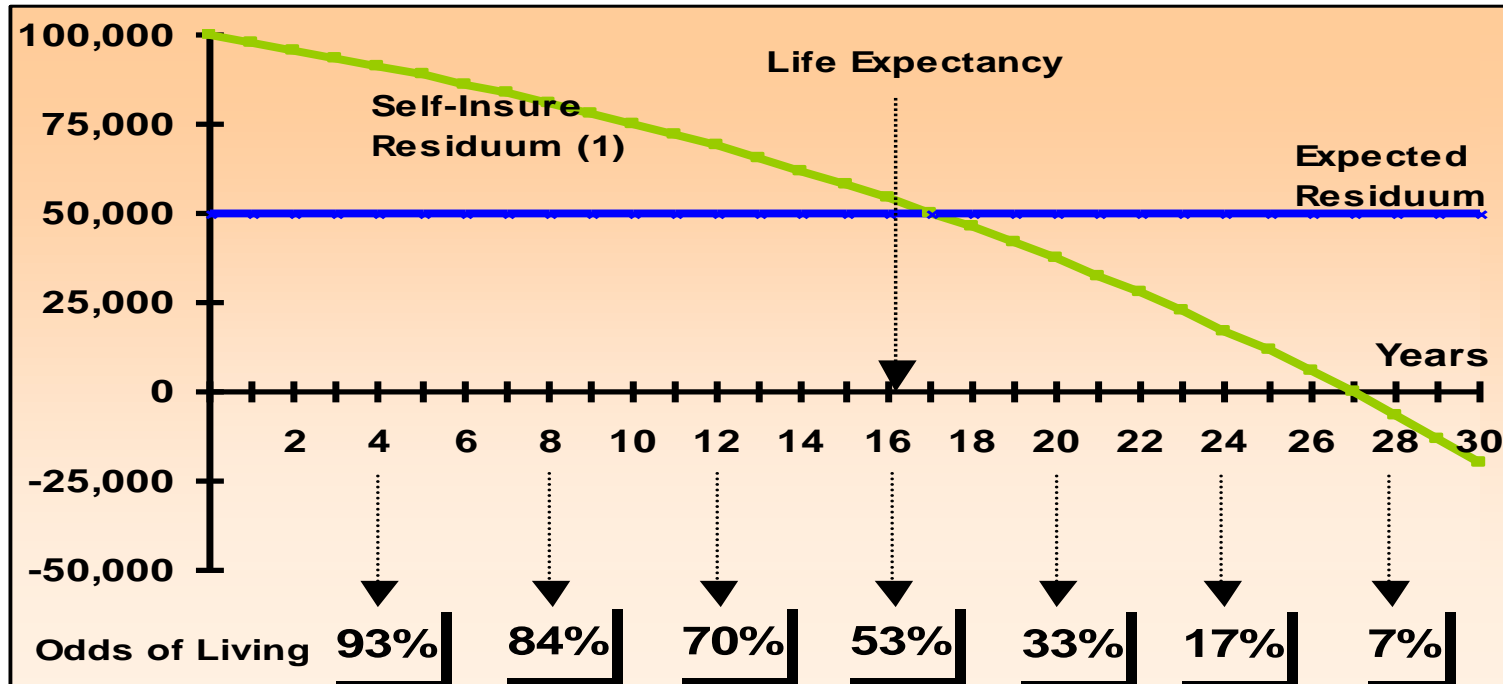
Single Life		Joint Life		
Age	Annual Rate	Older Age	Younger Age	Annual Rate
70	5.8%	75	70	5.5%
75	6.4%	80	75	5.9%
80	7.2%	85	80	6.6%
85	8.1%	90	85	7.5%
90	9.5%	95	20	3.2%

CGA Management

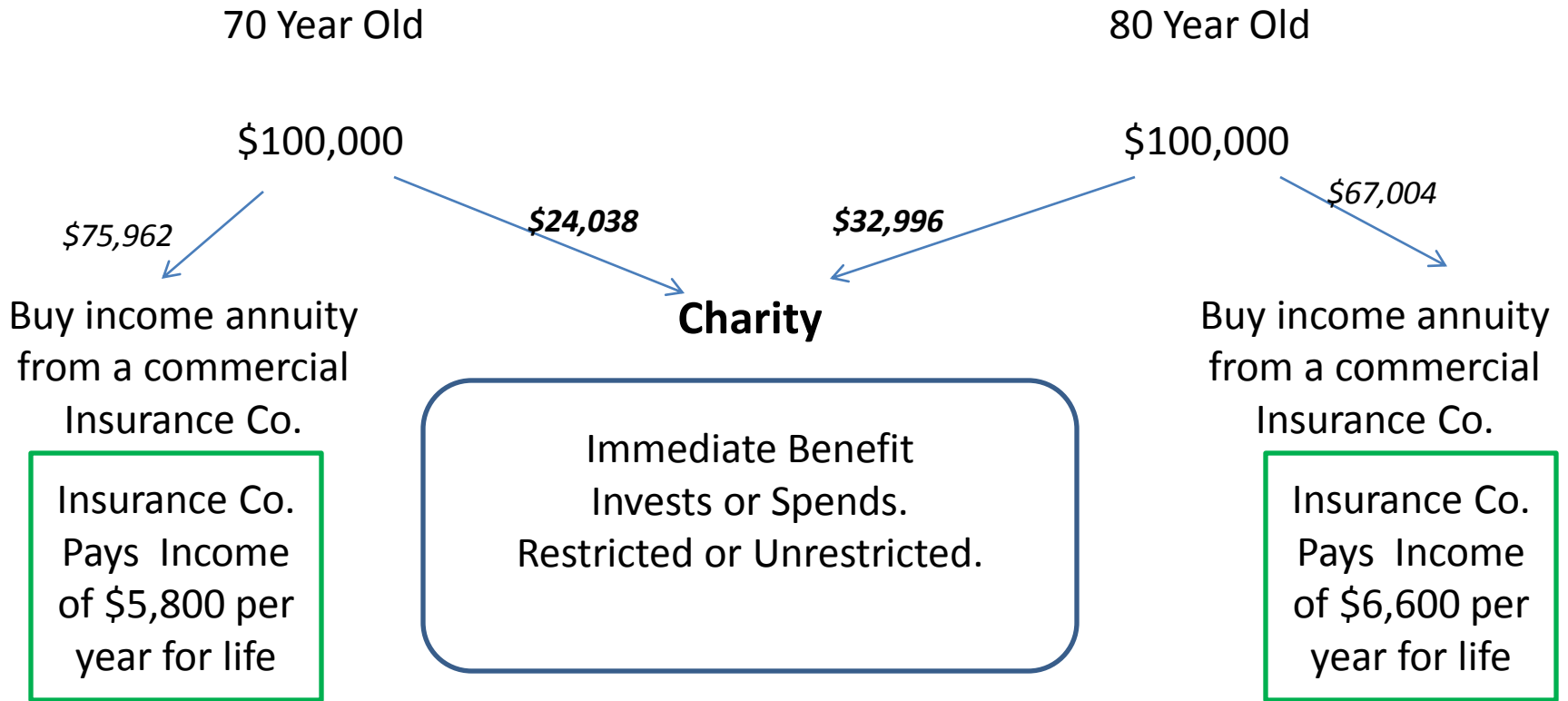
- Risks
 - Investment returns
 - Longevity
 - Timing
- Management Strategies
 - Traditional retention and self management
 - Outsource: Third party management/tracking
 - Re-Insurance: Use of commercial annuity contracts.
 - Avoid: Don't offer the program

Traditional Approach

Hypothetical Example: 75 Year Old Female, \$100,000 donation.

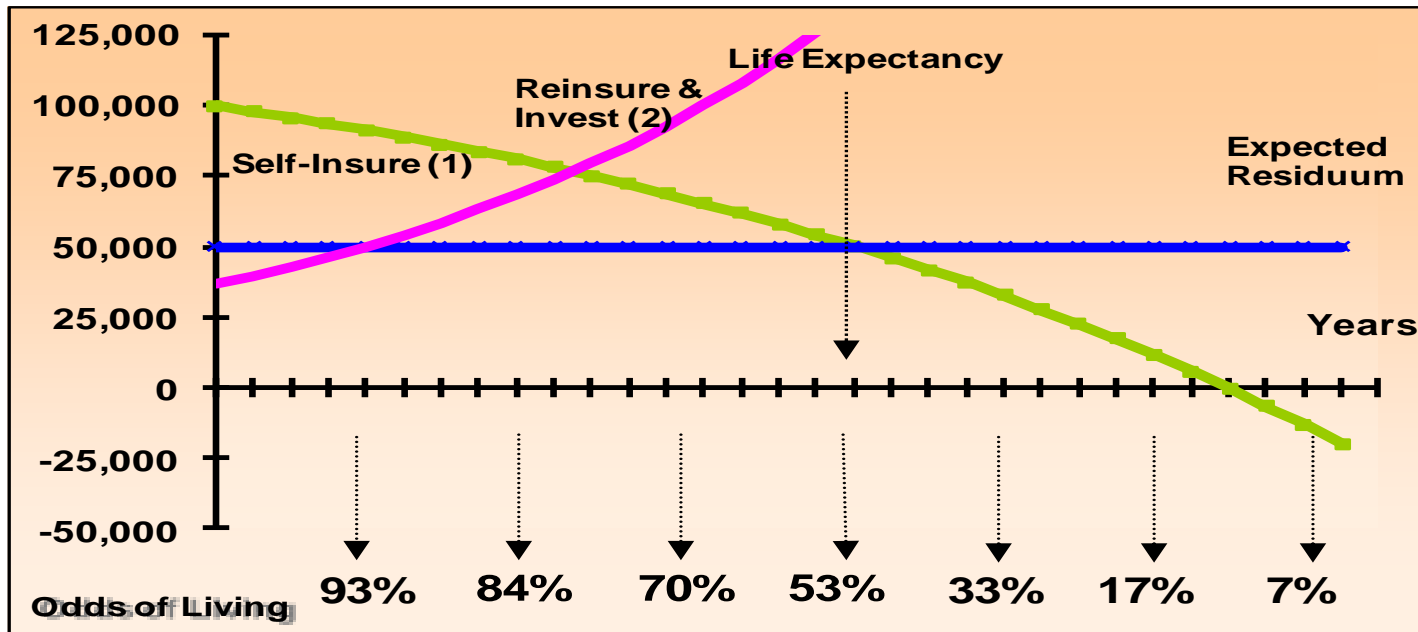


Re-Insurance Example



Reinsurance Approach

Hypothetical Example: 75 Year Old Female, \$100,000 donation.



— Self Insure and manage in traditional way.

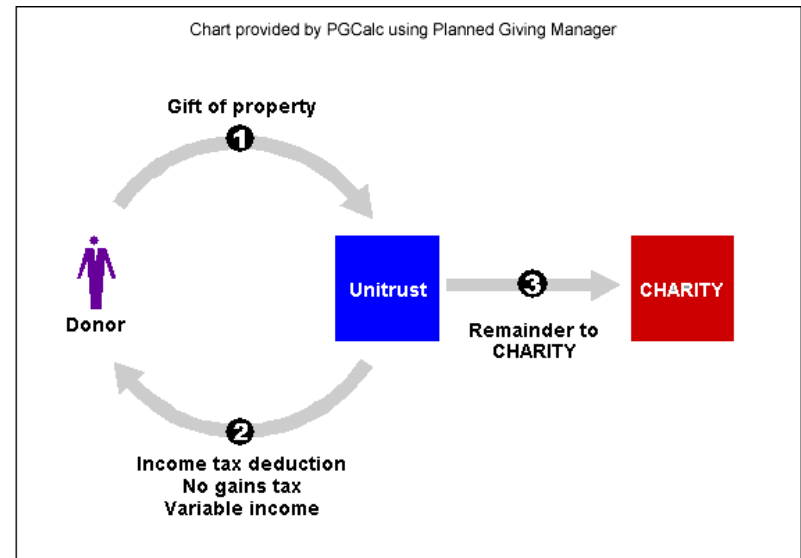
— Buy commercial annuity to meet income liability and invest the balance for capital growth.

Charitable Trusts

- Split Interest Charitable Tool
- Irrevocable
- Two Types
 - Charitable Remainder Trust
 - Charitable Lead Trust
- Different income and estate tax benefits to Donors
- Generally used for larger donations

Charitable Remainder Trusts

- Donor irrevocably donates future interest in property (Stocks, real estate, cash) to charity through trust.
- Donor receives annual income from trust—minimum 5% of FMV.
- Charity receives remainder after specified period of time.



How it works

- 1 You transfer cash, securities, or other property to a trust.
- 2 You receive an income tax deduction and pay no capital gains tax.

During its term, the trust pays a percentage of its value each year to you or to anyone you name.

Charitable Remainder Trusts Cont'd

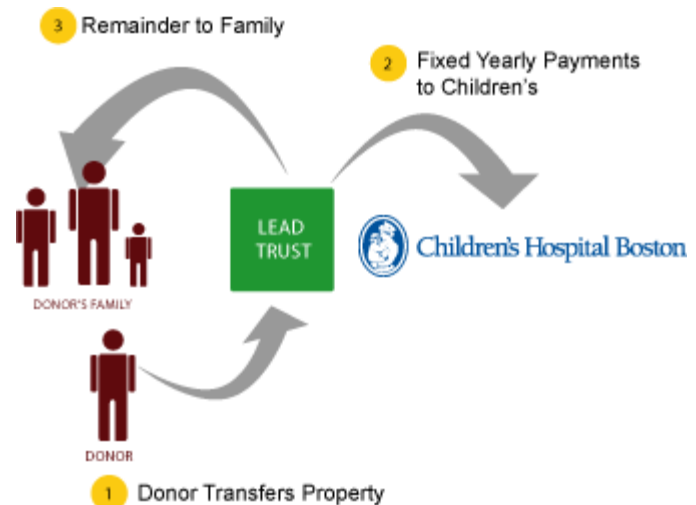
- Two types
 - Charitable Remainder Annuity Trust (CRAT) – Fixed \$\$ amount paid out annually
 - Dollar amount paid out established at inception so income amount is fixed. Depletion risk greater
 - Charitable Remainder Unitrust (CRUT)- Fixed % of FMV paid out annually
 - FMV is valued annually so \$\$ paid out in income is variable. Depletion risk is less

Charitable Remainder Trust Donor Benefits

- Spreads capital gains tax on sale of donated assets over time
- Reduction of estate –estate tax
- Current Charitable Federal Income Tax Deduction for the FMV of the Remainder Interest--amount varies
- Potentially improve current income
- Donor has flexibility in choosing the *qualified* charitable beneficiary

Charitable Lead Trusts (CLT)

- Donor contributes appreciated assets to the CLT.
- The CLT makes annual payments to the charity for a period of time.
- When the trust terminates the remaining principal passes to Donor or Donor's heirs.
- Most commonly used to pass remainder to future generations rather than revert back to Donor.
- Can be annuity or unitrust
- Not a tax exempt Trust
- Generally no charitable income tax deduction to Donor.



Charitable Lead Trust Donor Benefits

- Moves assets out of the donor's estate
- All appreciation that occurs within the trust passes tax free to donor's heirs
- Grandparents can provide for children and grandchildren
- Qualifies for Federal gift tax charitable deduction
- Minimizes gift tax consequences by reducing or even eliminating transfer taxes when the principal reverts to the donor's heirs

Charitable Lead Trust Charity Benefits

- Donors will give more because they aren't giving it away forever
- Charities receive annual income for operations and projects
- Donors are pleased with interaction with the charity and share the experience with others

Charitable Trust Trustee Selection

- Donor serve as own trustee
 - Risks of losing tax advantages if not administered properly
 - Investment management, accounting, and government reporting are critical. Time and Expertise a must
- Donor appoint a corporate trustee
 - Experience in all aspects of administration
 - Continuity: They don't die or get ill

Selecting a Trustee Cont'd

- Corporate trustee will follow the trust instructions objectively and faithfully
- Protection for assets as Corporate Trustees are highly regulated and held to higher standards
- The trustee has control of the assets, not the charity
- Donor can retain the right to remove the Corporate Trustee if dissatisfied
- The ability to deliver these services locally and professionally is invaluable
- Donor can spend more time kayaking or golfing!

Life Insurance Gift Donor Benefits

- Gifts can be maximized
- Donor legacy lives On
- Donor assets may remain intact
- Charity receives proceeds promptly and sometimes while donor is still living
- Premiums may be income tax deductible
- Donor privacy is protected

Qualified Plans (IRA's etc)

Gifts of retirement plan assets:

- Usually tax deductible for income tax
- Tax deductible for estate tax
- Can be important legacy choice

IRA Charitable Rollover

- Extended through December 31, 2011
- Allows Donor's 70 ½ or older to make tax free transfers from their IRAs directly to charities
- A Donor can make a gift of up to \$100,000 from his/her Traditional or Roth IRA only
- Spouses with separate IRAs can transfer up to \$200,000 in 2011
- The transfers count towards a Donor's RMD
- Qualified charitable distributions are not included in the Donor's adjusted gross income
- Quick & easy estate tax reduction strategy

Questions????

"Goodness is the only investment that never fails." - **Henry David Thoreau**

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Thanks

for

coming!!