You May Be Doing More Planned Giving Than You Think*

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Like the man who was surprised to find he'd been "speaking prose all his life without knowing it", many development officers are surprised to find they've been practising planned giving under several other names. Most charities have received a bequest, a life insurance policy, a parcel of real estate, or a large capital gift. Those are planned gifts. Most development professionals have talked to prospects about making a major gift to a campaign or including a charitable bequest in their wills and many will have assisted a prospect to transfer ownership of an insurance policy. If you have ever participated in any of these activities you have been practising planned giving, whatever you may call it.

Planned giving is the designing of charitable gifts so that the donor realizes philanthropic objectives while maximizing tax and other financial benefits. A planned gift is any gift made with forethought about how surrender of the asset will benefit the charity and affect the financial security of the donor and the donor's family.

In other words, planned giving is gift planning. In recognition of that fact this organization has wisely chosen the name, "Canadian Association of Gift Planners". The time may come when "gift planning" replaces "planned giving" just as "planned giving" has largely replaced the term "deferred giving". When I was hired by the University of Washington in 1980 I was called "Director of Deferred Giving" in recognition of the fact that I focused on bequests, trusts and other arrangements where the university's use of the funds was deferred to some future time. Later my title was changed to "Director of Planned Giving" because I was concerned with the design of present as well as future gifts. Now my successor is called "Director of Gift Planning".

If I were to ask a general development officer, "Do you ever help your donors plan their gifts?", the answer would be: "Of course. I explain how their campaign gift can be pledged and paid over five years. I explain to them the

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steps for establishing a named scholarship fund. I respond to inquiries from lawyers who are drafting wills and want to know the exact legal name of my organization".

If I were to ask the same person, "Do you ever help donors with planned gifts?", the answer would be: "Oh no, no. That's much too complicated for me. When people want to make a planned gift we tell them to talk to their lawyers". That word "planned giving" strikes fear into the hearts of development officers. It conjures up images of thick, black tax books, complicated mathematical formulas, and esoteric terminology. If we recognize planned giving for what it is, simply gift planning, then we will realize that anyone can do it, at least to some degree.

No one has to pass a test based on horticultural text books to grow lovely roses. Neither do you have to know the *Income Tax Act* section by section to raise big dollars for your charity. Horticulture is often defined as both a science and an art. Fund raising, too, is both an art and a science. Some of you are very good at the art. You have a natural empathy for people, an exquisite sense of timing, tact, vision, and tenacity. What you perhaps lack is technical knowledge. You can accomplish a lot with what you have. You can accomplish still more if you acquire some technical knowledge.

In mid-March I lost a friend for whom I have done an immense amount of gift planning. Forty-five years ago an accident forced her to give up her favourite recreation, skiing. As a substitute she decided to try gardening, but at first she failed miserably. The plants shrivelled and died. They weren't placed in the right location in the proper soil with appropriate watering and drainage. She then hit the books with fervour and continually experimented on her own. The garden now has over 2500 rare and endangered species of plants from all over the world and has been called one of the great private gardens of the world. She knew every plant by its Latin name and precisely the soil and water it needed yet respected each as a work of art.

Professional planned giving is to general fund raising what horticulture is to amateur gardening. As an amateur gardener can grow a few species, so can any charity, with modest effort, attract occasional planned gifts. Mostly these will be bequests, life insurance policies, and other gift arrangements that require little sophistication or administration. As horticultural knowledge is necessary to produce a richer variety of plants, so is technical knowledge required to market, design and administer a variety of planned gifts, including not only bequests and insurance but also charitable remainder trusts, residual interests, gift annuities, and transfers of various non-cash assets.

Each charity must decide whether it is ready and able to move beyond occasional and limited gift planning to a program of active promotion that will require either training existing staff or hiring a new professional. The answer to that question depends partly on the charity's own situation and partly on the general climate for planned giving.

The Climate for Planned Giving

Planned giving is on a roll. This is illustrated by the dramatic growth of the Canadian Association of Gift Planners. To have a sold out national conference scarcely a year and a half after the organization was launched is quite remarkable. This growth is paralleled in the United States where the National Committee on Planned Giving now boasts a membership of some 75 councils and 6,200 individual members.

The growth in Canada has been occurring during a prolonged recession. That is partly because planned giving is not as directly affected by the economy as corporate giving, but the recession may have actually stimulated more interest in planned giving. A downturn in the economy reduces tax revenues which, in turn, forces a reduction in governmental appropriations for education, health care, the arts, and other cultural and social service institutions. Those institutions must then either curtail their services or look to the private sector. The greatest potential for support from the private sector lies in planned gifts.

Consider, for example, that gifts from individuals, including bequests, account for 90 per cent of all charitable contributions. Bequests alone produce more money than the combined contributions of all corporations. Eighty to 90 per cent of charitable donations come from 10 to 20 per cent of the donor file and many of the contributions from that 10 or 20 per cent are planned gifts.

I don't believe the increasing interest in fund raising in general, and planned giving in particular, will diminish now that the recession is easing. The recession has been one more reminder of any government's limited ability to fund all of the services required by a civilized society. The private sector is, and will be, an indispensable partner. That is why charities, as never before, are trying to build endowments. They know that they have to take more responsibility for their own future.

Historically, giving as a percentage of income has been significantly higher in the United States than Canada. That was partly because of more tax incentives in the United States but also because of a more comprehensive social safety net in Canada. However, according to a recent report on international fund raising, Canadians top not only Great Britain, France, and Spain but also the United States in three categories: average donation per month, percentage of population volunteering for charity, and average time volunteered. I predict that there will be an upward trend in per capita giving in Canada as the necessity of private sector support becomes widely accepted.

Planned giving should increase more rapidly than other forms of fund raising because of two other factors: the aging of the population and the concentration of wealth in the older generation. According to a recent survey only six per cent of Americans say they have charitable bequests in their wills. I suspect the percentage for Canadians is similar. Think of it. Millions of dollars in the hands of the oldest generation and only six per cent of them currently planning on a charitable bequest. Think of the potential. The timing *is* right to step up your planned giving activity. If you don't, other charities may be harvesting the crop before you have even put the seed in the ground.

The Prospects for Planned Giving

You will be more successful in attracting planned gifts if you understand why people make them. Recently in the United States there has been a flurry of books on donor motivation. One, published in the fall of 1994, was based on a survey of 214 donors, each of whom was worth over a million dollars and had made at least one gift of $50,000 or more within the past two years. The authors, Russ Alan Price and Karen Maru, concluded that these donors fit into one of seven philanthropic categories.

The first group are "communitarians". They are usually male business leaders who are community-minded and want to establish business connections with fellow supporters of charities. Because they are still working and their incomes are high, they will probably make an outright gift of cash or investment assets. I remember a CEO of a locally-based corporation who agreed to serve as co-chair of a capital campaign and was asked for a million-dollar gift. The planning entailed spacing out the pledge payments so that he could report the entire contribution and so that the charity wouldn't sell enough of the donated stock at any one time to drive down the price.

The second group of donors are the "devout", who give out of religious duty primarily to religious causes. I remember a woman who wanted to give her home to her church. Because she had limited assets and wouldn't save much tax from an outright gift, she was advised to retain ownership of everything during her lifetime and then to give the home in her will.

The third category of donors is the "investors". They have no strong loyalty to any one charity and tax avoidance is a powerful stimulus for their philanthropy. They tend to approach a gift as a business transaction and insist on a detailed tax analysis. Take the example of a person who has sold a piece of property and is facing an enormous tax on the capital gain. He wants to give another piece of property and have the tax credit partially offset the tax. He prefers to make the gift to a Crown agency foundation so that the gift, up to his entire net income, is creditable. If that isn't possible, he wants to elect a receipt for lower than market value to limit the capital gain. Planning in this case entails collaboration with the donor's accountant. [See also pp. 31–51.]

The fourth type of donors are "socialites". The majority of socialite donors are women who serve on multiple boards, organize balls and other fund-raising events and have fun doing it. Many are affiliated with arts organizations, but they may also be active on hospital auxiliaries and work for schools and universities. In one community where I happened to be consulting for three different organizations the same woman showed up on all three boards. Nevertheless socialites do make major gifts. Last week a socialite who also served on three boards came in to our office and said she wanted to arrange a $50,000 gift annuity for each of them now and to give more later by trust or bequest.

The fifth category, and possibly the smallest is true "altruists". They often give anonymously, do so out of empathy, and tend to give to social causes for the needy. The most genuine altruist I have known was appropriately named Paradise. We set up a charitable remainder trust that increased her cash flow but she used the extra cash, not for herself, but to support a struggling graduate student. When I saw her tiny cottage and 15-year-old VW bug, I tried to restrain her philanthropy. Responsible gift planning is not only showing people when and how to give but sometimes when not to give.

The sixth category of donors is the "repayers". They give out of a sense of loyalty or obligation to an institution that has directly benefited them—for example, the hospital that saved their lives or the university that launched them on their careers. Successful gift planning requires weaving together consideration of donors' feelings, their tax situation, and their financial security.

The final group is the "dynasts", those with inherited wealthy who give because it has been a family tradition. Probably they are trustees of a family foundation, and they often research a charity before making a grant to it. While some with inherited wealth may be eminently successful in their own right, others may suffer from low self-esteem. John Levy, who is a consultant to wealthy individuals and families, recalls one client telling him, sadly, "I don't know whether they love me or my money". The inheritors may wonder whether they could have achieved anything on their own without the benefit of wealth and family connections. You can give their lives meaning by involving them in your charity in a constructive way. The very wealthy are especially concerned about the tax cost of transferring wealth to the next generation. Though they will probably have a high-powered lawyer, you may be able to contribute some ideas that serve both the heirs and your charity.

As gift planners you help people to fulfil a dream, express a debt of gratitude, feel a sense of belonging, find ultimate significance. But part of good planning is technical and tax-related. To serve your prospects well you need to become competent in both the humanistic and technical aspects of gift planning. There is no scarcity of prospects for those who develop competency and employ innovative marketing techniques.

Gift Planners and Other Professionals – Who Does What?

As you engage in gift planning you will interact with donors and lawyers and accountants and perhaps also with their insurance agents, financial planners and stockbrokers. There needs to be an understanding as to everyone's role. Who does what?

Gift planners must avoid both overreaching and underreaching. You overreach when you presume to represent the donor. You do not. As an employee of the charity, your primary goal is to secure present and future gifts. You should strive to balance the donor's and charity's needs but you are not a neutral party and you cannot function as the donor's estate planner. Furthermore, you are probably not aware of the full scope of the donor's circumstances.

You underreach when you simply refer everything to other professionals. Some gift planners are intimidated by the donor's lawyer or accountant and are afraid to suggest or question anything. Remember, you are an important member of the team and you have something to contribute. Obviously, you are the expert on your charity and can provide guidance on the best uses of the gift. You may also understand as well or better than anyone else the donor's dreams and emotional needs. Quite often you may have more specific knowledge about the gift instruments than either the lawyer or the accountant. For instance, they may be totally unaware of your gift annuity program and in their practices they may never have helped a client with a charitable remainder trust or other residual interest gift. You can be a valuable contributor of ideas and can prepare proposals for consideration.

Ideally, all of the professionals who serve the donor will work as a team. The accountant will focus on taxes and cash flow. The lawyer will focus on legal requirements and estate planning. The insurance agent will focus on liquidity needs. The financial planner and broker will recommend investments. And you, as the gift planner, will suggest gift possibilities. In practice there may be conflict. Some of the professionals may worry about losing control of the prospect's wealth. They may have different priorities. The accountant, for instance, may emphasize the preservation of wealth; the gift planner the use of wealth for the public good.

To be included in the planning group you must establish credibility. Become familiar with the gift instruments so that it is apparent to everyone that you know what you are talking about. If you don't feel comfortable discussing the technicalities of gifts, arrange for your charity's legal counsel to talk to the donor's lawyer. In either case, treat the professional as the representative of the client. Even if you believe professionals are opposing what they don't understand or are simply providing bad advice, never correct them in front of their clients. Raise your questions privately in a non-confrontational manner. Try to create a sense of teamwork by sharing information and involving others in meetings. Your donor is better served when the gift plan is shaped from different perspectives.

Levels of Gift Planning

This talk about working with professionals and learning technical material may cause you to wonder how much gift planning you are prepared to do and how much of a commitment to planned giving your institution can make.

If you do nothing else, put in place a program to encourage and recognize bequests. Virtually everyone has a greater capacity to give at death than during life. That is why more dollars come by bequests than by all other deferred gift instruments combined. Bequests are increasing at a faster rate than other gifts. They tend to be larger than outright gifts. They are the most cost-effective of all gifts. That is, the return on a dollar spent encouraging bequests is greater than the return on a dollar spent for any other fund-raising activity. Generally bequests don't have as many restrictions as gifts from living donors. And virtually any institution can encourage bequests using existing staff and spending only a modest amount of money for marketing materials.

There is a story told that once when St. Francis of Assisi was hoeing his garden a friend approached him and asked, "What would you do if you were informed that you were going to die at sunset?" St. Francis calmly replied, "I would continue hoeing my garden". Like St. Francis, you may choose simply to continue what you are doing currently in gift planning, though I am suggesting you do it more systematically and with more intensity. If you proceed at this level, you will limit yourself to bequests, life insurance, and possibly some non-cash assets.

Another course, recommended for medium-size and larger charities is to expand your offerings and commit more resources.

The least expensive, though not necessarily most desirable choice, is to train an existing staff member and free up some of his or her time for planned giving. For this to work, there must be dedicated time reserved exclusively for planned giving. If planned giving is supposed to be done with leftover time, it will never get done at all.

Another choice, still less desirable, is to let volunteers run the program. Volunteers are great for giving advice, opening doors, making referrals, and participating in some calls. But they are distracted by their own professions, often have conflicts of interest and have other priorities and demands on their time. Unless there is at least one professional who wakes up every day worrying about securing planned gifts, not much will happen.

A part-time employee can be effective but beware of semi-retired persons with flagging energy whose real interest is the golf course. Your most productive programs generally have one or more full-time professionals working in planned giving. If you are one of those, it's a great time for you professionally. There are far more institutions looking to hire than there are qualified gift planners with proven track records.

The March issue of *Case Currents*, the same issue that carried John Hochstadt's article on planned giving in Canada, carried another article called "The New Planned Giving Officer". The two authors, both lawyers, argue that hiring a lawyer or accountant increases credibility on three levels: "First, you command more respect from the donor, who sees your expert as a skilled, technically proficient advisor. Second, the officer levels the playing field in dealing with the donor's own advisors. Third, he or she carries heightened standing when dealing with your institution's legal staff, business office, and treasurer". While I think it is true that credentials increase credibility, and all other things being equal I would give preference to a lawyer, accountant, or MBA, I find successful planned giving officers actually come from a great variety of backgrounds—teaching, the clergy, marketing, the arts and others. In advising a charity on recruitment I would say, look first to experienced planned giving officers who get the job done, next to excellent major gifts officers who are trainable, then to lawyers and other professionals who have never worked for a charity but are interested in changing careers, and finally to others without relevant backgrounds but with the right personal attributes.

I should call your attention to other models with which some institutions are experimenting. A children's hospital foundation with which I am familiar previously had one major gifts officer and one director of planned giving. When the planned giving director left they elected to hire a second major gifts officer. Both have a basic knowledge of planned gifts but neither is a specialist. They have a consultant on permanent retainer and whenever a complex gift situation arises they arrange for their consultant to meet with the prospect, prepare financial illustrations and do whatever else is necessary to secure the gift. Robert Sharpe, one of the leaders in the field in the United States, thinks this model will increase in popularity. It allows more people to concentrate on major gifts without their having to keep abreast of every change in the rules and regulations.

Any option you choose, other than doing business as usual, will cost money; remember what we said earlier about 80-90 per cent of the dollars coming from 10-20 per cent of the donors. Yet institutions often allocate most of their resources to pursuing low-end donors. Don't abandon you annual fund, for it is essential to generate operating funds and build a base of potential major donors; however, to achieve real growth put as many resources as necessary where there is the biggest payoff.

Agenda for the Future

All of our programs will grow faster if we co-operate through organizations like CAGP. I close by offering an agenda to enhance our common future.

First, we need to seek clarification of the tax rules governing charitable gifts. Now we are often like homesteaders farming ground that has not been surveyed and planting seeds that have not been tested. For example, there has been no clear directive as to what discount rate and mortality tables to use when computing the present value of residual interests. We have made some progress but many questions remain unanswered. Since it is dangerous to ask a question when you have no idea of the answer, I suggest a co-ordinated effort in which designated representatives pose carefully formulated questions to the proper authorities. We certainly can't afford a lot of loose cannons.

While we are seeking clarification we should also be formulating and setting priorities for a legislative agenda that would encourage planned gifts. Of all of the changes that might be proposed nothing would be more important than exempting charitable gifts from the capital gains deemed-disposition rule. Just imagine being able to give appreciated stock or real estate, receive a tax receipt for full value, and not be taxed on the gain. This one change would unlock a tremendous number of in-kind gifts that are now blocked. Sure, there would be some loss of tax revenue but a much greater flow of dollars to institutions subsidized by governments. The charitable community also has to come to grips with the Crown Agency Foundations described in the preceding article. I agree that rather than adding to the number of these foundations, a better approach would be to seek higher contribution limits for *all* charities.

We don't have to wait for clarification of the rules or more favourable legislation to make progress. Let's start taking advantage of the opportunities that exist now. Charities are beginning to talk about charitable remainder trusts to their donors and I think they may emerge as the second most important deferred gift—second only to bequests. Ottawa tax expert Arthur Drache thinks these can be structured so that the gain is not taxed to the donor when the donated property is sold by the trustee. Think of the appeal, especially now that the $100,000 capital gains exemption is history. Another overlooked opportunity is the gift of retirement funds. For the average person the two largest assets are the home and the retirement account. Huge sums have accumulated in these funds and many people leave balances when they die. A portion would go to charity if we but asked and explained how. Our third agenda item is, therefore, to develop and exploit opportunities like these.

Fourth on our agenda is to produce a crop of trained gift planners as quickly as possible. There is a critical shortage, not of people wanting to enter the field, but of those both technically competent and socialized in the charitable culture. Keep in mind that our mission is to raise funds for our charities. Increasingly I think we shall see institutions merging their major and planned gift functions. When I was at Northwestern University 15 years ago the planned giving department pursued bequests, annuities and trusts, and the major gift department pursued large outright gifts; the twain seldom met. Now there is one department, not two. Every field person is trained to ask for both outright and deferred gifts, depending on the donor's capability. People with that breadth and versatility are the kind we need.

A fifth and very important item on our agenda is to create linkages with other professionals. That is one of the stated purposes of CAGP. If lawyers, accountants, financial planners and other professionals in a community are knowledgeable and interested, planned gifts will multiply. I have talked with some organizations that didn't want other charities to learn of their plans to create a professional advisory committee for fear that they would do the same and get some of the referrals. Don't worry about competition. When the tide comes in, all the boats will rise. And the tide *will* come in if the professionals in your community get involved.

A sixth item on the agenda is to create a body of literature and a computer technology to support planned giving in Canada. In an age when people regularly log onto Internet, subscribe to Prodigy, and communicate by E-Mail we can't do business the way we used to. At the very least we need a software program that computes tax receipts and cash flows and does financial illustrations with graphics. Having said this, we must remember that the best planned giving happens around the coffee table or on the patio, not before our terminals or in staff meetings. The most important agenda item of all is a resolve to get out of the office and into donors' homes and offices. How about sending five pre-approach letters every week? Then you will have no choice but to call for appointments. And when you sit down face to face with donors and hear their stories you will be glad you did.

This is an exciting time in Canadian planned giving; we have a tremendous future. Most of you are already doing more planned giving than you think. In the future you will do more than you ever thought possible.

Correction:
In the last issue, Fred Burnard, who wrote the article "Serving as Secretary" (12 *Philanthropist*, No. 2, pp. 3–14), was wrongly identified. He is a Chartered Secretary whose professional career was with Royal Doulton Canada Limited. He has also served as corporate secretary to The Canadian Centre for Philanthropy and as a volunteer with the Canadian Foundation for Public Administration.