Part One

chapter ONE

Loyal Donors and the Path to Nonprofit Sustainability

Would a gift of $90,000, $150,000, or perhaps $1 million be treasured by your small or mid-size nonprofit?

Such gifts are not idle speculation. A gift of $90,000 was made to a small advocacy group by a local dentist; a $150,000 gift was made to a small-town land trust by a retired teacher; and a $1 million gift was made by a single woman to benefit a group serving low-income people. It's worth noting that the group that received the million-dollar gift had been in existence for less than a year at the time it received the gift. All three of these gifts were directed to the nonprofit with few or no strings attached.

Legacy gifts like these could be transformational for almost any small or mid-size nonprofit receiving them. Can you imagine what would happen if, over the next decade, your nonprofit organization periodically received gifts like that? What difference would that make in the day-to-day operations of your nonprofit organization? What difference would it make in your ability to plan and to increase the impact of your mission? It would make much possible—it's the stuff that dreams are made of, isn't it?

For small and mid-size nonprofit organizations, there is a compelling reason to focus on bequests as a tool for fundraising. In the United States, bequests from individuals account for 156 percent more than total corporate charitable giving, or about $22.6 billion in a recent year.[1]

BEQUESTS CAN SAVE AND BOLSTER SMALL AND MID-SIZE GROUPS

How long will difficult economic times last? At the time of this writing in early 2010, a number of economists are suggesting years of sluggish or sputtering economic performance for the United States. They predict no "recovery," but rather a slow emergence of a new economy. Such a new economy will have implications for fundraising work and require changes in how we work. Shifts in donor perceptions, expectations, and giving patterns have already started. In a recent survey, one fundraiser lamented, "We did everything just like we did last year, but it didn't work this year."

Now, and in the coming years, nonprofits will be forced to expand fundraising opportunities with donors in order to maintain their own financial viability. The smart nonprofits will focus on the larger goal of long-term sustainability. A key part of building a model for sustainable funding in the coming decade will be collaborating with their most loyal donors to construct a stream of future income in the form of expected bequests or legacy gifts.

Over the years, large bequests have transformed a number of institutions in the United States. Some of these bequests were spent immediately or over a short period of time; many others were used to start or expand endowments, to establish special programs, or to undertake new endeavors.

New cash infusions from bequests can also make the difference in continued, basic financial resiliency. One nonprofit director put it this way: "We have been talking about bequests now for about six years and are starting to see reliable returns." His organization applied consistent effort and is starting to see consistent results. "Bequests saved our bacon," is how he phrased it to a group of peers.

Legacy gifts have been described as an "ultimate" gift: a final, nonrecurring expression of donor commitment and values. What is important for the executive director or board president to know about these gifts? He or she must understand legacy gifts from two perspectives: that of the organization and that of the donor. From the viewpoint of the organization, how can these gifts, which are often in the tens or even hundreds of thousands of dollars, be used strategically to build the strength of the organization? From the viewpoint of the donor, how can a donor match gifts with lifetime values and how can a donor be confident that the gifts will be used well?

CONVERGING TRENDS DRIVE BEQUEST PLANNING

Events in the lives of donors are a primary driver when it comes to making estate- and financial planning decisions. When using the word "drivers" or "events," I mean the experiences of donors that often spur a decision to make or complete estate plans. Each time someone starts to work on or revisits their estate plans, an opportunity exists to include a nonprofit in that plan.

As an example of what I mean by such events, when I was working with The Nature Conservancy, I received a call from a woman in Prescott, Arizona, to tell me that her younger sister had unexpectedly passed away. Now she had two houses in town and could live in only one. She had just received a newsletter with my name and phone number in it. When she began to think about her new situation, she thought of my organization and picked up her phone to call. Could we talk about how she could plan a gift now and through her estate, she asked? There are many other such events that trigger planning decisions of individuals and couples.

Other trigger or driver events include a reaction to witnessing the poor handling of a friend's estate or an argument among surviving children, changes in health, changes in laws or financial circumstances, birth of grandchildren, and many others. How many people do you know who have updated their will before traveling internationally?

Four converging trends will help drive and encourage an increasing number of prospective donors to make decisions about estate planning. As a result, the coming years hold great potential with regard to bequest fundraising and tremendous opportunity for small and mid-size groups.

1. "The golden age of bequests" is now upon our society. Research strongly suggests that unprecedented numbers of people who will pass away in the next several decades will transfer significant wealth in record amounts.

In this case, the changing needs and psychological stages of aging represent important "event" drivers. Despite recent economic shocks, the potential and opportunity for legacy gifts continues to be vast.

2. Estate tax laws are changing. Regardless of specific legislative outcomes at the federal and state levels, continued change is predictable. This dynamic will prompt an increased volume of tax planning for personal estates. Every time an estate plan is reviewed or created, there is an opportunity for a charitable gift to be included.
3. Large nonprofit institutions have invested countless hours and millions of dollars promoting the concepts of planned gifts and bequests to their donors. Since donors to small and mid-size groups are often donors to larger groups as well, this promotion has helped build a much wider awareness about the tools of giving. Someone else has already worked hard to create this awareness and educated donor base; small and mid-size groups can put this to work in their favor now.
4. In recent times, many people experienced dramatic changes in their economic position—both real and imagined. This visceral shock prompted many to reevaluate long-range plans for themselves, family, and philanthropy. When life and estate plans are reevaluated, there is an opening and opportunity for donors to implement or expand charitable plans.

Current legal and economic factors, combined with an aging population, mean that the coming years present a unique opportunity for small and mid-size nonprofits to make a case for why they are appropriate destinations for bequests, both large and small. This coming period may represent a kind of (positive) perfect storm driving donors' gift planning decisions. Any nonprofit serious about intermediate and long-term sustainability must be proactive now if they wish to set up a pattern or stream of expected bequests to be received over many years to come. Will your nonprofit be ready?

THE GOLDEN AGE OF BEQUESTS

Over the past 40 years, charitable bequests have grown at a faster rate (4.5 percent) than any other category of giving, such as corporate, foundation, and individual giving (Table 1.1). Work done by researchers at Cornell and Boston

TABLE 1.1
Growth Rate of Giving over the Past 40 Years

Type of Giving	Increase
Bequest	4.5%
Foundation	4.4%
Individual	2.8%
Corporate	2.7%

Source: GivingUSA 2009. *The Annual Report on Philanthropy for the Year 2008.* Glenview, IL: GivingUSA Foundation.

College[2,3] suggests that, over periods of 20 years and 55 years, respectively, more than $1.4 trillion, perhaps as much as $6 trillion, will be transferred to charitable causes.[4] We are about 18 years into the first period of the transfer study, and only about $320 billion has been reported.

These general study predictions may come to pass for the long term but not perhaps for the initial 20-year projections.[5] Even if trends don't quite match expectations, there is still a phenomenal amount of money on the move. How many five- or six-figure bequests would it take to transform the work of a small or mid-size organization? The answer is only a few—in some cases, only one. Table 1.2 shows the total amount of bequest gifts in recent years.

Examining the social implications of generations and demographics in their book *The Fourth Turning*, William Strauss and Neil Howe describe the generation born in the 1920s: "Long a reliable generation of donors, the Silent will be legendary philanthropists in their final years. This will reflect a last urge to set things right, like the club that passes on members' Social Security checks to needy young people."[6] People want to help, to make a difference, to leave a legacy. How will your organization enable them to accomplish their dreams? The graying of America continues, which means that every day more and more people are planning their estates.

ESTATE TAX LAW CHANGES

Over the past decade, there have been persistent attempts to eliminate the estate tax. The current tax has a long history dating back to 1916 and the Progressive

TABLE 1.2
Bequest Gift Totals by Year

Year	Bequests (billions of dollars)
1998	12.98
1999	17.37
2000	19.88
2001	19.88
2002	20.9
2003	18.19
2004	18.46
2005	23.45
2006	21.65
2007	23.15
2008	22.60

Source: GivingUSA 2009. *The Annual Report on Philanthropy for the Year 2008*. Glenview, IL: GivingUSA Foundation.

Era, when people such as Theodore Roosevelt and Andrew Carnegie advocated for the estate tax as a reaction, in part, to what they saw as a concentration of wealth in America. Today, people like Bill Gates, Sr., Warren Buffett, David Rockefeller, Jr., and George Soros, all quite wealthy, advocate in favor of keeping an estate tax.

Current estate tax law requires that a federal estate tax form be filed for every deceased citizen with an estate value of at least $3.5 million. Based on current law (2009), in effect the first $3.5 million of an individual's estate would not be subject to federal estate tax (the amount would be double, or $7 million, for a couple). Further changes are expected once the current law expires.

The amount exempt from estate tax means that very few people will be subject to the tax. Bill Gates, Sr., and Chuck Collins write: "The indisputable fact is that the estate tax is paid only by multimillionaires and billionaires, the top one-half of one percent of the wealthiest households in the U.S."[7]

Warren Buffet, appearing before a Senate committee on November 14, 2007, described his view on the value of an estate tax, saying, "Dynastic wealth, the enemy of meritocracy, is on the rise. Equality of opportunity has been on the decline. A progressive estate tax is needed to curb the movement of a democracy toward a plutocracy." Bill Gates, Sr., the father of Microsoft's Bill Gates, agrees. He describes the estate tax as "a commonwealth recycling program. It is an appropriate levy to pay back the commonwealth, that helped create the wealth in the first place."[8]

Opponents of the tax have attempted to shift the emphasis of debate on the issue by labeling it as a "death tax" and suggested (but failed to document) that the estate tax hurts farmers and small businesses.[9]

Research suggests that if the tax were eliminated, overall charitable giving would decrease. The Congressional Budget Office estimated that elimination of the estate tax might cause a decrease in lifetime giving of perhaps 6 percent to 12 percent and in charitable bequests of 16 percent to 28 percent; that could translate into $13 billion to $25 billion per year less for charitable causes.[10] It is in the interest of nonprofits to advocate in favor of the tax both from a practical, as well as a larger social, perspective.[11]

Regardless of arguments for or against an estate tax or about a specific level of tax, I would argue that simply the existence of the tax contributes to increased numbers of estate gifts directed to nonprofits. It's been my observation that the mere existence of an estate tax encourages many to begin and complete estate planning processes. During estate planning sessions, a question professional advisors increasingly pose to clients is one to discover charitable interests. For many people, this can be an important opening to encourage charitable bequests.

WIDER KNOWLEDGE AMONG DONORS

For decades, the detailed knowledge about the many tools of charitable gift planning beyond the simple bequest was the sole province of the charitable gift planner. Such planners were, in turn, employed by only a handful of the largest nonprofits: universities, the biggest hospitals, and national organizations.

In the past decade, there has been a complete reversal of this picture as large numbers of professionals advising clients (or prospective donors, from the viewpoint of the nonprofit) actively entered the market. These estate and tax lawyers, accountants, financial planners, brokers, insurance professionals, trust officers, and even some real-estate brokers increasingly represent themselves as able to help clients (your potential donors) make charitable plans and execute a variety of planned gifts. (See Table 1.3 for an overview of shifts.)

TABLE 1.3
Shifts in Gift Tools and Markets

When	Who (Donors)	Who (Nonprofits)	Why (and How)
1950s through the 1970s	Only the most wealthy	Big, sophisticated institutions	Trusts of all sorts often used for tax avoidance, newsworthy bequests
1980s	Mostly the wealthy	Regional and leading charities	CRTs, PIF for investments and diversification; sale of real estate
Early 1990s	The above plus the upper middle class	The above plus virtually every large charity and leading intermediate-size groups	CRTs, PIF, CGA for diversification of assets
Mid-1990s	The above plus middle class	The above plus many intermediate-size groups	CGA for investment and fixed income
Today	Everyone or almost anyone	The above plus groups of all sizes and shapes	Bequests (including gifts from living trusts and retirement plans)

CGA = charitable gift annuity; CRT = charitable remainder trust; PIF = pooled income fund.

Charitable gift planning has become a regular topic at legal and financial services conferences and continuing education training. Advisors see increased involvement in this area as a way to help them expand relationships with clients, to continue to manage assets instead of passing them to a community foundation or charity, as well as a way to establish a legacy for clients and possibly open up the next generation of family members as possible clients.

Coupled with an explosion of new and continued interest among professional advisors, money managers at all levels have become active in offering an array of products that have charitable components. In fact, in recent years, the amount of money flowing into commercially operated, philanthropically oriented businesses placed several into the top categories of new "funds raised" as compared with the largest national nonprofits.

Reflecting on these trends in a report of the Strategic Directions Task Force of the National Committee on Planned Giving:

- Information about charitable planned giving has proliferated, and it is now easily accessible to all.
- There is heightened charitable awareness and receptivity among donors.
- Planned giving officers have less control now than in the past over donors' gift planning processes and are not the only source of information and advice for donors.
- Models for planned giving operations based upon the ability to control and manage the information are no longer effective.[12]

All of these changes favor small and mid-size nonprofits and begin to encourage loyal donors to complete legacy gifts.

A NEW CLIMATE CHANGE: ATTITUDES ABOUT WHAT IT MEANS TO GIVE

Economists use the term *structural break* to describe the point at which the relationship of trends and patterns change. While I cannot yet point to hard research to support what I am about to write, I have observed—in interviews with donors and in a number of nonprofit fundraising efforts—what I believe is a fundamental shift in the thinking and actions of donors.

What is this "break" that is about to become more apparent? A shift in philanthropy away from a primary focus on "the gift" to a focus on "the impact" has been occurring. Previously, the emotional benefit from giving was often derived from the act itself. More givers now are putting focus on and becoming emotionally connected to the *impact,* or outcome, of the gift. This shift in perspective has profound implications for how nonprofits interact with their donors as established patterns change and new ones emerge.

"Philanthropists and donors may be told daily by appreciative development officers that they are 'making a difference.' But for all the money they give and time they spend, they will not have understood the problem nor seen any change result from their efforts. And they will often feel a certain hollowness in the whole exercise that saps their commitment and diminishes their generosity," writes Mark Kramer, describing a research study of donors.[13]

He continues, "We have created a black hole in philanthropy, capable of absorbing endless amounts of money without demonstrating impact. Until they see results, however, donors don't shift away from giving modest sums to reaching deep and engaging personally in solving social problems. Educating donors, therefore, is not about books or conferences. It is about how nonprofit groups themselves perform, and the opportunities they provide for their major donors to experience the problems and see the solutions they have financed first hand."[14]

To many experienced development or foundation professionals, these donor concerns will not be a surprise. A focus on outcomes has long been an integral part of the cultivation and solicitation of major gifts or in more sophisticated grant-making processes. What's new is the spread of such expectations to a wider audience.

IMPORTANT POINTS TO CONSIDER

- The legacy gift marketplace for 2010 and the years immediately following will be quite different from the period of 1968 to the mid-1990s, when many of the marketing techniques and approaches for planned gifts and bequests that are used today were developed and described in articles and books. The rules have changed. Your organization must acknowledge, reflect upon, and respond to these changes in donor expectations and needs if you are to be successful in securing gifts.
- Four converging trends will help drive and encourage prospective donors to make decisions about estate planning. As a result, the coming years hold potential with regard to bequest fundraising, and there will be a tremendous opportunity for small and mid-size groups. These trends include:

  1. Researchers predict "the golden age of bequests," which is based on age and wealth distribution in the population.
  2. Estate tax laws are in flux and changing. Changes drive review or creation of new estate plans. Every time an estate plan is reviewed or created, there is a new opportunity for someone to include a charitable gift to a nonprofit.

3. Large nonprofit institutions have invested countless hours and millions of dollars promoting the concepts of planned gifts and bequests to their donors. Small and mid-size nonprofits can put this donor knowledge to work in their favor.
4. In recent times, many people experienced dramatic changes in their economic position—both real and imagined. This visceral shock prompted many to reevaluate long-range plans for themselves, family, and philanthropy. When life and estate plans are reevaluated, there is an opening and opportunity for donors to implement or expand charitable plans.