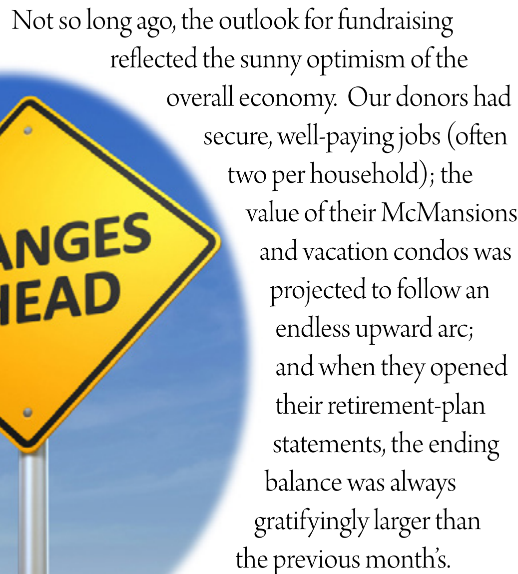
Wake Up and Smell The New Paradigm

Bold Fundraising versus Diminishing Returns

by John Foster



Not so long ago, the outlook for fundraising reflected the sunny optimism of the overall economy. Our donors had secure, well-paying jobs (often two per household); the value of their McMansions and vacation condos was projected to follow an endless upward arc; and when they opened their retirement-plan statements, the ending balance was always gratifyingly larger than the previous month's.

In that kinder, gentler era, annual unrestricted giving – considered the foundation of any good fundraising program – was expected to ride comfortably and indefinitely on **the rising tide of our donors' economic security** and sense of well-being. (Planned Giving was wearing its own pair of rosy glasses at the time, which we'll get to in a moment.)

What a difference a few years and some economic "uncertainty" make. Today, nonprofits are facing the same financial dislocations – and the reduced revenues – that are confronting individuals and for-profit organizations in these troubled times.

The cost of meeting our institutional needs keeps growing, but when we turn even to long-term, "loyal" donors for annual support, we find too often that, hard-pressed financially and worried about the future just as we ourselves are, they are reducing their gifts, holding off to later in the fiscal year to make a commitment, or declining to make a gift altogether.

Scarce Dollars Run Fast

If fundraisers should be taking any lesson away from the last few years, it is this: *Charitable gifts, especially annual gifts, are made from discretionary dollars.* Your donors may think the world of you and of the institution you represent, but if one of their household's jobs disappeared this year and it's come to a choice between a $500 gift to you or outfitting two kids for a season of travel soccer, guess which check is going to get written this fall.

Note that "discretionary" applies to annual gifts made not just from cash but also in the form of appreciated securities. Despite all the marketing efforts we and our predecessors have made over the years to educate prospects about the valid benefits of substituting stock for cash, the prospect contemplating an annual gift of stock in the $500 to $2,500 range **still looks over his or her portfolio before making a decision**, and is keenly aware that any securities given to you this year will produce a further reduction in the value of an already battered investment account.

In the meantime, we're asking the same prospects for more annual support; asking for that support more times each year, and getting the same or reduced dollar-value of gifts as a result of our efforts.

Case in point: My mother died early last spring, after a lifetime of modestly supporting a few charities whose work she respected. As of late summer, we were still receiving gift appeals to her from those charities (even though we had notified them of her death), and from ever-hopeful charities she had never supported.

Now, nothing goes on forever, and we should be confident that economic conditions in general, and fundraising results in particular, will improve over time (but remember Lord Keynes' reply to

Over...

Let's consider an alternative for this Age of Uncertainty

some windy projections from a fellow economist: "Yes, yes, old man, that's all very well, but in The Long Run we'll all be dead.") Yet even if good times return soon, it's possible for fundraisers to draw some non-traditional conclusions from the hard times we're currently slogging through.

Radical Fundamentals

Let's start with this thesis: a well-managed, healthy **endowment fund**, generating predictable (and growing) unrestricted income each year for your organization, can be persuasively marketed to your constituents as good financial management and a relief from seemingly endless annual appeals; the concept of your organization's saving for the future – as your older donors did in their personal financial lives – and not just asking them for money every time you need it – **as their spendthrift children do** – will appeal to the Greatest Generation cohort; planned gifts can be creatively employed to raise endowment gifts and you can market them, close them, and add them to your gift totals.

Here, the required disclaimers: First, a campaign for endowment gifts can never wholly supplant your organization's ongoing need for steady annual gifts. Second, a donation to your endowment, even though it may be sweetened by the tax and income benefits of a planned gift and thus swallowed by your donor in one gulp, will still be significantly larger than the relatively small annual gifts he or she is used to making. And finally, your initial prospects for endowment gifts will tend to be your older donors, many of whom will tell you that they've already made their estate plans.

Next, while we're at it, **let's debunk a few myths** we in the planned giving community have been cheerfully living with over, say, the last ten years. First, we can stop waiting by the phone for the announcement that the $X Trillion Intergenerational Transfer between the Greatest Generation (sometimes we fondly call them our Millionaires Next Door) and the Baby Boomers began this morning. The theory was that the value of Mom and Dad's home, retirement accounts and savings would grow exponentially until those assets fell into the (grateful) hands of their families and favorite charities. But -- just like the rest of us, seniors are living with the lowest interest rates on CD's and other saving instruments offered in years; with decimated retirement and investment accounts, and with tumbled-down house values. (Don't even ask about the profit-and-loss situation of seniors who've had to sell up in this market and move into an assisted-living or long-term care facility.)

And what of their children? Jarred by economic uncertainties, suddenly unsure of when or if they'll be able to retire, still helping their own children with the costs of finishing college and starting a career – the last thing they want is to see their parents transfer assets that they're suddenly really counting on to your non-profit.

Bolder Approaches for Troubled Times

Now, we in planned giving are supposed to be the creative, non-traditional fundraisers. Looking over the current state of our economy and mood of our donors, *let's try out some marketing and gift strategies that might fit these troubled times, reduce repetitive solicitations that meet diminishing responses, and build our endowments in the process.* Consider:

- We will need to tell our prospects clearly and persuasively **why the need for endowment is critical** and why, even in (and especially in) these uncertain economic times, **we must increase that endowment**. This will require competently prepared marketing materials, and the various members of the fundraising team (including the head of development and the head of the annual fund) will have to speak from the same script. Fundraisers will also have to be ready to explain how their endowment fund works, how it compares in size and performance to the endowments of comparable non-profits, and how and by whom it is invested and managed.

What a difference a few years make

- To meet older prospects' objections that they have already completed their estate planning and so can't make a gift to your endowment fund through bequest or life-income gift, let's be ready with advice on **simple codicils for a new bequest**, and display **sample gift annuity agreements** on our websites and in our marketing materials, to highlight the simplicity of the transfer process.
- Even if your older prospects are convinced that an endowment gift is manageable and affordable, **are their children objecting to Mom and Dad making such a gift**? Then consider setting up a separately identified fund within your overall endowment, named for the family. Provide diligent stewardship to both the older donors and the children, showing the growth and distributions from "their" fund. Solicit follow-up gifts from the children. Result? You'll have created an inter-generational link among the family members, bonding them not only with your organization but also with each other.
- Looking for non-traditional planned gifts that can be directed to your endowment fund? Consider the trend that **seniors are living longer but dying more expensively**. Every day more and more ninety-year-olds begin receiving medical and long-term care at the most skilled, advanced – and costly – levels ever before offered. Their lives are thus prolonged (and if it's Mom or Dad, who can argue with that?), but many will live on to encounter illnesses that require even more complex – and, again, costly – treatment. Worry about the expenses of their last years is a daily reality for many seniors.

  Standard planned giving marketing procedure is to promote *deferred gift annuities* among prospects in their late 40s and 50s, who are looking for deductions to offset high current income and for extra retirement income starting at about age 65. That still works, but let's think about **marketing deferred annuities to prospects currently in their seventies**, with payments timed to begin when the donor reaches age 80 or 85. These older DGA donors will get the assurance of an additional source of income when they fear they may need it most. The charitable deduction generated by the annuity may be a relatively minor benefit to the donors, but they will appreciate payments that are partly tax-free. Your non-profit will close an irrevocable gift that will ultimately be added to your endowment fund.
- Or, consider that **seniors are living in their houses longer, maintaining them less well**, then needing to sell them (to fund their move into a retirement or nursing facility) in a depressed and choosy housing market. Recent market studies confirm that the few buyers still out there are selecting brand-new or "move-in condition" homes over "fixer-uppers," no matter how discounted the prices of those latter houses are. Unfortunately, many seniors worry about expenses and become pre-occupied with medical problems, and let their houses grow shabby.

  Your non-profit may be able to offer older prospects a **retained life estate**, giving you irrevocable ownership of the house and some ability to maintain and upgrade it, and giving the donors the assurance that they can live in their homes, at reduced cost, for as long as they wish *and* receive a tax deduction.

  Alternately, you may be able to suggest a **charitable bargain sale**, paying the donors a discounted amount for their home that they can use as the entry fee for a retirement facility.
- We've saved the most iconoclastic strategy for last. The concept of donating appreciated assets directly to a charity, instead of selling them and giving the charity the cash proceeds, is taught before the lunch break on the first day of Fundraising 101. And, like most accepted truths, this one really is valid (even when the capital gains rate is a relatively measly 15 percent).

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Appreciating the unappreciated

But – what is the fundraiser's response when the prospect claims, "I don't *have* any appreciated assets this year?" Short of wrapping your arms around the prospect and blubbering, "To tell the truth, I don't have any either!" **you might consider suggesting that the prospect sell some depreciated assets.**

Let's consider this hypothesis: You're soliciting a prospect for a $5,000 gift to your endowment fund. In the classic scenario, prospect would give you stock with a current fair market value of $5,000 but a cost basis (what she originally paid for the stock) of $2,500; and in return receive a charitable deduction for the entire amount of the gift ($5,000) and avoid tax on the capital gain of $2,500. **Sweet**.

Now, let's consider an alternative for this Age of Uncertainty -- the donation of an asset that has lost half its value: Same prospect, but with a battered investment portfolio and little disposable/discretionary cash. Same $5,000 gift solicitation, but now prospect **sells** stock with a fair market value of $5,000 but a cost basis of **$10,000**; she then gives you the $5,000 cash proceeds.

The result to your non-profit is the same under either option: a gift of $5,000 to the endowment fund.

Here's what happens to the donor employing the **buy-high/give-low second option**: she gets a $5,000 charitable deduction for her gift, the same as if she had donated the appreciated stock, and she is credited with a $5,000 capital loss that she can apply against taxable gains from other transactions during the year. Tell her that when the market goes up again ("When's that going to happen?" she asks you rather pointedly), her gift will ensure a ready $5,000 cushion against any capital gains she may want to take.

Yes, we cooked the books a little bit to make a point in the final bullet, but look at the premise it explored from a marketing rather than tax-accounting perspective: for fundraisers trying to close gifts in this economy, many solicitations today aren't answered by "Should I use appreciated asset #1 or appreciated asset #2 to make my gift?" but by "Show me how I can make any kind of gift at all this year." Rather than mailing out one more piece on Gifts Through Appreciated Assets that will seem woefully out-of-touch with reality by its recipients, suggesting a gift of depreciated assets – or an endowment gift instead of an annual gift, or a deferred gift annuity for 80-year-olds, or a bargain sale for Mom's old house -- will get the prospects off the "I can't help you this year" dime and show them that your non-profit is creative and empathetic with their plight.

The fundraising response to tough economic times can't be.

Lets lay off asking for big gifts for a while, nor can it be let's cross our fingers and send out more of the same, just more frequently. It is: *Our non-profit must keep on doing the good work that you value. Here are some ways that, even this year, you can join with us.*

John Foster is an experienced professional planned giving fundraiser and a contributor to *Planned Giving Tomorrow*.

"Donors understand saving for the future"

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