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All planned giving donors are philanthropically motivated, but many cannot or choose not to make major gifts. By learning about the donor's financial and psychological situation, you can often find a planned giving vehicle that will appeal to the donor who otherwise is not willing to make a gift. The options are many, ranging from a small revocable bequest commitment to a large irrevocable planned gift arrangement.

Since planned gifts are usually (but not always) made from assets other than cash, it is of paramount importance to learn as much as possible about the donor's assets. Some types of property are more appropriate for funding life income plans than others. Similarly, certain assets make better testamentary gifts.

In addition, it is important to seek to understand the donor's financial and psychological needs. A significant aspect of an irrevocable planned gift is the opportunity it provides for a donor to retain some interest in the gift during his or her lifetime. Other factors to consider may be tax savings and/or cash flow. You need to be able to select the planned giving vehicles that will resonate with the donor and match her specific circumstances and desires.

Characteristics of Planned Gift Donors

The classic planned gift donor will be older, typically over age 70. These individuals have already accumulated sufficient assets for retirement. They may be interested in redeploying assets to use during retirement. The planned gift donor will have sufficient assets to maintain their current lifestyle. The amount that is "sufficient" is quite flexible. It will vary widely depending on the donor's lifestyle and budget. A high flying lifestyle may indicate great wealth but also require a healthy cash flow to maintain. A modest lifestyle may indicate a focus on accumulating and husbanding wealth, not spending it.

The planned gift donor will have a history of support of charitable causes important to him or her, albeit that support may have been at very modest levels. Review your database for donors who have made regular contributions over a long period of time. These people have been accumulating wealth up until now, not redistributing their wealth to charity.

Likely planned gift donors share common characteristics. These donors are often, but not always, nearing or in retirement. They often will be characterized as "cash poor" but "asset rich." Potential planned gift donors may own highly appreciated property which may be stock, real estate, or a family business. Still, it is important to remember that a good planned gift prospect is philanthropically motivated to support your organization; while there are certain tax incentives to make a planned gift, a planned gift is not a substitute for an investment.

Recognizing a planned gift prospect

You need to listen to signals that your prospect may be interested in a planned gift. If the prospect alludes to illiquid assets, such as real estate, or to multiple financial goals, a planned gift may be appropriate. You may be talking to a planned gift prospect if they talk about a family or closely-held business, mention concerns about providing for heirs, or make note of assets that are producing no income. In general, a planned gift will be of interest if a prospect expresses a desire to make a major gift using assets other than cash or to make a major gift under a will or other estate plan.

Starting the conversation

One of your responsibilities as a fundraiser is to match the donor's objectives with the right philanthropic goal. In order to do this, you need to build trust with the donor, encourage them to share their philanthropic and financial goals, and learn how planned giving can help them.

Asking open-ended questions can encourage your prospect to explore new possibilities. Ask questions that encourage your prospects to talk and share ideas. Learn to ask open-ended questions by becoming familiar with some of the most common ways to phrase them. Some sample phrases with which to start open-ended questions include: "What would happen if?" "I wonder?" "What do you suppose?" More specifically, you need to get your prospect to talk about her philanthropic goals with questions like: "In the best of all possible worlds, what would you do to support our charity?" or "What's holding you back from reaching your charitable goals?"

In order to get your prospect to talk about her estate/financial plans, ask: "What is your number one concern about your estate/financial plan?" or "What are your estate planner and financial planner doing to help you achieve your charitable goals?"

With these questions above, you'll begin to drill down to the planned gift conversation. Consider asking your prospect increasingly targeted questions such as "What topics would you like me to send you some information on?" or "Which techniques that I have described would be of interest to you?"

Presenting Planned Giving Options

Developing an in-depth understanding of a prospect's lifestyle, assets, and objectives will help you determine the ideal planned gift vehicle for that individual. The combination of things such as personal behavior (lifestyle), asset allocation and access to funds (assets) and charitable desires (objectives) will allow you to see the donor through one of a series of Classic Planned Gift Donor Profile prisms. Let's review some of the most common Classic Planned Gift Donor Profiles.

Bequest Donor Profile

For most organizations, the largest source of planned giving dollars is the bequest. Giving USA has reported that out of $316 billion in charitable contributions in 2012, $22 billion or 7% of total charitable giving came from bequests. Since 1966, bequest giving has grown about 4.5% annually, and about 5.5% annually since 1996.

If your prospect is interested in making a major gift but can't afford to part with her principal now, a bequest is probably a good choice. The bequest is also a good choice if your prospect wants maximum flexibility over her gift and wants to maintain control over her assets. Those prospects with interest in multiple charities and multiple financial obligations are probably going to be interested in a bequest.

Life Income Donor Profile

The typical life income donor can't part with their principal now to make a major gift, but also is looking to increase her current income to maintain lifestyle needs. These donors may own highly appreciated assets. These assets may not be generating sufficient current income and may trigger significant capital gain if sold and reinvested in a different investment vehicle.

A variety of planned gifts can generate income for the donor or the donor's designated beneficiaries. There are three broad categories of life income arrangements: charitable gift annuities, charitable remainder trusts, and pooled income funds. Current interest rates make the pooled income fund a poor choice for almost all life income donors.

Charitable Gift Annuity Donor Profile

Charitable gift annuities are the most popular life income gift. Accurate statistics are hard to come by, but conservatively there are thousands of organizations that offer gift annuities and hundreds of thousands of gift annuity contracts are in place.

The typical gift annuity prospect is looking for fixed, guaranteed income that she can't outlive. The gift annuity is a simple contract that is relatively easy to administer. This simplicity is a key reason for the gift's popularity with charities.

If a prospect is of relatively modest means, the gift annuity is a good planned gift option. According to a survey conducted by the American Council on Gift Annuities in 2009, the average size of a gift annuity is $43,371. That means donors with relatively modest resources are capable of funding a gift annuity.

The older the annuitant, the higher the rate paid from a gift annuity. The 2009 ACGA survey found that at the time immediate gift annuities are funded, the average age of annuitants is 79. The same survey also found that approximately 56 percent of annuitants are female.

Charitable Remainder Annuity Trust Donor Profile

A prospect interested in fixed income, but who wants to benefit multiple charities, may be interested in a charitable remainder annuity trust. Since gift annuities can only pay income to one or two income beneficiaries, a remainder annuity trust will also be of interest to prospects who want to provide income to more than two beneficiaries.

A remainder annuity trust pays a fixed income to the donor, but unlike the gift annuity, the payout rate is not tied to the annuitant's age and the payment obligation is that of the trust, not the charity. The costs to establish and administer an annuity trust are much higher than for a gift annuity, so annuity trusts tend to be funded with $100,000 or more.

In short, a gift annuity is typically the better choice except in the narrow circumstances mentioned above. As you might expect, the annuity trust is far less popular than the gift annuity. In 2011, the last year for which the IRS has published statistics, there were 15,862 annuity trusts in existence.

Charitable Remainder Unitrust Donor Profile

A unitrust prospect is looking for an income stream that can keep pace with inflation. Since a remainder unitrust pays a percentage of its income as revalued annually, if the trust grows in value, the beneficiary's income will also grow. But the unitrust income will go down if the trust value declines. Therefore, a unitrust is subject to market risk. The unitrust beneficiary must be willing to balance market risk against her desire for the potential of inflation protection.

The methods for determining the payout of a remainder unitrust payout are also remarkably flexible, making the remainder unitrust the vehicle of choice for donating illiquid assets. If your prospect holds closely-held business assets, real estate, or any asset not easily converted to cash, the unitrust with a flip provision is an ideal life income arrangement.

Remainder unitrusts are far more common than remainder annuity trusts. IRS statistics show that in 2011 there were 93,828 unitrusts in existence.

Retained Life Estate Donor Profile

Retained life estate prospects are interested in making a gift of their personal residence or farm. These prospects often have made provision for or are considering giving the property to charity under their will. However, they want to continue living in their home. These gifts are particularly beneficial for those in higher tax brackets in need of a large and immediate income tax charitable deduction.

A retained life estate donor deeds his or her home, second home, or farm, to charity, while reserving the right to continue to use the property for life or a term of years. The donor receives an immediate income tax deduction at the time of the gift. The donor also remains responsible for all ordinary expenses related to the property, such as real estate taxes, insurance, and routine maintenance. When the retained life estate terminates, the charity becomes sole owner of all rights in the property and can then use it or sell it and use the proceeds.

Charitable Lead Trust Donor Profile

The charitable lead trust donor is typically a very wealthy individual who wants to pass property to children or grandchildren at reduced transfer tax cost. These prospects may also want to defer distribution to heirs until the heirs are more mature. The lead trust prospect may also want to pass a unique asset, such as a family business, to heirs at reduced transfer tax cost. Finally, the lead trust is a planned gift for the prospect who wants to provide current support for charity.

The most commonly used variation of the charitable lead trust makes fixed payments to charity at least annually during its term. The beauty of the lead trust from the charity's perspective is that no one has to die and no time has to pass before charity starts receiving its gift. At the conclusion of the lead trust term, typically a period of years, the trust distributes its remaining principal to one or more individuals designated by the donor. Charitable lead trust payments can be a fixed amount (lead annuity trust) or a fixed percentage of the value of the trust as revalued annually (lead unitrust).

There is plenty of discussion of lead trusts these days, especially because of the current very low IRS discount rates. Nevertheless, in 2011, only 6,617 charitable lead trust tax returns were filed with the IRS. The average principal value of those trusts, however, was $2,159,982. Each of those trusts is paying income to one or more charities every year. That's a lot of "now" money to have working for you.

Conclusion

Identifying your prospect's financial and philanthropic objectives is the key to finding the best way for your prospect to make a gift. Once you've identified a prospect's objectives, match the prospect with the vehicle that best helps her achieve those objectives. Keep in mind that the most popular planned gifts, bequests and gift annuities, are the ones that are the simplest to complete. However, keep in mind that more advanced options are available when justified by a prospect's needs. If you have questions about matching a prospect to the best planned gift option, don't hesitate to contact a member of PG Calc's client services team at 888-474-2252.

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