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Planned giving is a business that is preoccupied with designing gifts for "older donors," but there is no magic age at which one becomes eligible for a planned gift. While it is true that the economics of most planned gifts begin to work well for the donor and for the charity when the donor is around age 70, there are gift vehicles that can appeal to a demographic younger than the more familiar arrangements. What is "younger?" Planned giving is almost never an option for donors in their 20s and 30s or younger. However, donors aged 40 and older can consider some of the less commonly encountered planned giving options. Also, there are ways to structure familiar gift planning techniques in unique ways.

The characteristics of younger donors are not very different from those of your more mature supporters. They will give when: (1) they have enough assets to afford to give some of them away, (2) they understand and believe in the institution, (3) the institution expresses their values, (4) they and their community are benefited by the institution, (5) they experience personal satisfaction and meaning through giving, and (6) they are asked in the right way by the right person.

Younger donors are also similar to other donors when it comes to tax considerations. Tax advantages are never the only reason that a donor contributes to your charity, but tax consequences can affect how and when a donor provides a gift to your organization.

**Life income as a supplemental retirement vehicle**Life income vehicles can be an ideal way to supplement retirement income. This is particularly true for highly compensated individuals who are younger and still working. These donors are probably contributing the maximum permissible amounts to their qualified retirement accounts. There are a variety of life income arrangements that can be used to accumulate savings during the donor's working years and later be drawn upon as a source of income during retirement.

Charitable gift annuities are fixed income vehicles that do not keep pace with inflation. Therefore few younger donors will be interested in immediate payment gift

annuities. Likewise, the long interval between the contribution and payment of the residuum to charity make the present value of an immediate payment gift annuity with a young donor unattractive to charity as well.

As a result, most charities would not accept life income gifts from donor's younger than 60 or maybe as young as 55. However, the life income plans described below minimize the risk to charity and maximize the benefit to the income beneficiary. These gift plans might justify exceptions to the general minimum age guidelines. By accepting gifts from younger donors, charity has a long time to solidify their relationship with these donors and increase their potential support.

There are familiar planned gift vehicles that are attractive to the younger individual. For example, **a deferred payment gift annuity** is appropriate for someone who wants fixed guaranteed income that is not subject to market risk. If the donor objects to the lack of inflation protection, the deferred payment gift annuity can be structured in a unique way.

**Build-up deferred payment gift annuity**

A deferred gift annuity begins making payments to the annuitant at a future time designated at the time of the gift, which must be more than one year after the date of the contribution. The longer the deferral, the higher the payment once the annuity begins making payments.

A creative twist on the traditional deferred gift annuity is the idea of making annual periodic contributions to build up an account for retirement. A donor could enter in to an annuity contract each year in preparation for retirement. All of these annuities could be timed to begin making payments at the same time, say when the donor turns 65. Alternatively, the start dates of each contract could be staggered so that each year a new contract begins making payments resulting in an increasing payment stream.

Commuted payment gift annuity
While a fixed term gift annuity is not permissible, **a commuted payment gift annuity** gives the annuitant the option to commute the lifetime of payments to a fixed number of payments of equivalent value. Once the annuitant has received all

of the payments, the remaining principal is available for the issuing charity's use.

The commuted payment gift annuity is really a modified deferred gift annuity. In exchange for an irrevocable gift of assets, the charity agrees to pay one or two annuitants a fixed sum each year for life, with payments starting at least one year after the gift. The contract includes language, however, that gives the annuitant the option to commute the lifetime of payments to a fixed number of payments of equivalent value. The annuitant may commute the payments immediately or at any time prior to the date of first payment.

Although a gift annuity cannot be for a term of years or guarantee a minimum number of payments, the IRS has approved gift annuity agreements that permit an exchange of life payments for a lump sum or for installments to be received during a limited period of time.

Such a commutation provision is typically included in the agreement for a commuted payment gift annuity established for a very young annuitant that will be used to pay college tuition, but it could be used anytime a donor wants to give an annuitant (including even the donor himself or herself) the option of receiving term rather than life payments.

How might the commuted payment gift annuity benefit a person approaching retirement? Let's say a donor wants to avoid using his qualified retirement account so that money will be available to benefit charity upon his death. He can establish a commuted payment gift annuity that will make payments from the date of his retirement until he reaches age 70 «. The donor doesn't have to start drawing from his qualified retirement plan until forced to start taking distributions at age 70 « allowing additional years of tax-free growth. The remainder in his taxable accounts at death goes to his family and would get a step up in basis.

**Retirement Flip Unitrust**

Donors who are more financially savvy and willing to take investment risk will not be satisfied with the modest returns of the deferred gift annuity arrangements described so far. These donors are looking for a more sophisticated and flexible planned gift. A charitable remainder unitrust with a flip provision can provide inflation protection for those who are willing to expose their income to market risk

and don't need income until retirement.

The alternative to the deferred annuity is the charitable remainder unitrust with a flip provision. The trust functions as a net income unitrust paying the lesser of the unitrust amount or the net income earned by the trust. Once the flip event occurs the trust converts to a regular payout unitrust paying the stated unitrust amount without regard to the income earned inside the trust.

The flip unitrust allows the principal to grow during the years leading up to the flip event. After the flip, the trust pays the unitrust amount based on the annual revaluation of the principal offering the opportunity for the income to keep up with inflation.

A challenge for the trustee is to minimize trust income in the years prior to the flip triggering event. Even an investment portfolio that emphasizes growth will produce some income albeit very little. Therefore, the flip unitrust will likely generate a small amount of income prior to the flip event.

**Bargain Sale**

Younger donors may own appreciated assets that generate significant capital gains taxes on sale. A bargain sale of appreciated property can be structured to minimize or even completely eliminate taxes. With this gift the donor sells appreciated property to a charity for less than the appraised fair market value, intending to make a gift of the difference between what the property is worth and what it sells for.

The donor receives a charitable income tax deduction for the difference between the property's appraised value and the bargain sale price. The charity can then sell the property and retain the difference between the price it paid and the price for which it sold (or perhaps the charity retains the property and uses it for its tax-exempt purposes).

The bargain sale can appeal to the younger donor who cannot afford to contribute all of a particular asset, especially if the asset is not easily divisible. Examples of this kind of property would include appreciated real estate or tangible personal property. The bargain sale can also be attractive to a donor who is willing to make a gift if they can recover their cost.

**Bequests and other estate gifts**

Younger donors may feel there are too many uncertainties to make significant outright gifts to charity. There are a variety of gifts that become effective on the donor's death that can allow the donor to do something now to benefit your organization.

Research indicates that most individuals make their first will between their late 40s and late 50's. Few individuals with charitable provisions ever change them. You can fill your bequest pipeline by actively marketing bequests to your younger supporters.

A bequest enables individuals both of great wealth and of modest means to make a significant and lasting gift. There may be surprises. Many charities know in advance about only approximately one-quarter of the estate gifts they receive.

The best younger prospects for bequests or other gifts effective at death are those who want to retain control of all their assets during their lifetime. The younger donor may have children to support and perhaps elderly parents to care for.

**Arrangements Similar to Bequests**

Pay/Transfer on Death Accounts A "pay on death" account involves the donor instructing a bank to pay to a charity all or a portion of what remains in an account when the donor dies. A "transfer on death" account entails the donor giving essentially the same instruction to a brokerage firm with regard to investments held in the account at the time of the donor's death. The particulars of each arrangement will depend on the bank or brokerage firm in question.

U.S. Savings Bond Designations Either though a bank or directly with the U.S. Treasury Department, the donor designates that the proceeds of a new or existing savings bond be paid to a charity upon death. There are different types of savings bonds. In some cases the proceeds will consist solely of the donor's principal, whereas other bonds will result in a distribution of both principal and accrued interest.

IRA and Qualified Retirement Plan Designations A donor can designate that a charity receive all or a portion of what remains in an IRA (regardless of the type of IRA) or in most qualified retirement plans, such as 401(k) and 403(b) plans. The custodian of the account simply furnishes the donor with a form that can be completed and returned to the custodian.

Insurance Product Beneficiary Designations These types of products include life insurance policies and various kinds of commercial annuity contracts. The donor simply completes and returns to the insurance company a form designating that a charity receive all or a portion of the death benefit associated with a life insurance policy or the remaining contract value, if any, associated with a commercial annuity.

**Life insurance**

As mentioned above, life insurance is a viable bequest substitute for younger donors. Life insurance does deserve special mention beyond that brief reference. While younger donors may not have significant cash flow there are gift opportunities with life insurance. The cost of policies is lower for younger insured's and it can be a great way to leverage their support for your charity. A life insurance gift might appeal to those who want to assure a significant future endowment with a modest current investment.

A life insurance gift is particularly appropriate for much younger individuals, primarily individuals in their 30s, 40s, 50s, or 60s. However, a life insurance gift may come from those of any age with existing policies they no longer need.

The flexibility of the beneficiary designation allows the younger donor to retain the death benefit if their loved ones are still alive. The donor could indicate that charity receives the death proceeds only if none of the individual beneficiaries is living.

**Conclusion**

A comprehensive planned gift program will seek to maximize gift opportunities. Younger donors who have established a planned gift will be much more likely to consider additional support once they reach the traditional planned giving age. Increased planned giving support from younger donors can fill the traditional planned giving pipeline.

The process of planned giving encourages close engagement with your charity's

mission. By engaging younger donors in planned giving, charities have more time to develop important relationships with supporters. This long history of support will translate into more gifts and larger gifts for charity.



Categories

Definitions - General Gift Planning