We Start Conversations!

Special Report

August 2010

The Future of Planned Giving

Top 10 Challenges Every Long-Term Nonprofit Faces

A Special Report for Nonprofit Presidents, Development Professionals & Board Members

Faced with a tough economic crisis and rapidly shifting donor attitudes, nonprofits are struggling to maintain financial viability and secure permanence and stability. In this report, we will uncover the top 10 challenges to the most important component of endowment strength and stability—planned giving. We will also discover the one global, seismic shift in approach that can keep planned giving on the track for long-term success. In nearly two decades of assisting nonprofits in the arena of planned giving, two important foundational truths remain unchanged:

- Endowments are critical for the health of every long-term nonprofit
- Proactive planned giving is essential to a strong endowment

Problematically, many nonprofits are struggling to maintain a strong, sustainable planned giving model. Urgent financial needs and short term organizational goals often compete with the long-term nature of planned giving. Leadership must face these issues with courage, conviction and commitment.

planned giving strategies

A Personal Message

If you are reading this report, you are experiencing the weight of the challenges facing every nonprofit organization positioned for the long-term, and you are looking for insights and answers. This Special Report is designed to provide both.

Vibrant giving programs are essential to the multi-generational viability of nonprofits, and healthy endowments are the foundation for the sustained health of every nonprofit that anticipates future needs. It is no longer possible (if it ever has been) to maintain vibrant giving or a healthy endowment without a sustainable, proactive planned giving program yet many nonprofits are struggling to develop

(Continued on page 3)

Nonprofits and their endowments face their stiffest challenges and the answers are no longer found in the past—the donor landscape has changed permanently.

Special Report

The Top 10 Challenges

Let's begin with a review of the Top 10 Planned Giving Challenges, then we'll take a deeper look at each one in detail:

1. Charitable giving is down—across all areas.

2. The recession is hurting even the largest and most generous donors.

3. Planned giving efforts have been largely neglected.

4. More charities are stressed and there are a growing number of charities failing financially.

5. There is an oversaturation of nonprofits competing for the shrinking giving dollar.

6. There is accelerating competition from the financial sector, as more and more for-profit firms enter the charitable space.

7. Outside scrutiny is on the rise as more independent firms spring up that are providing "evaluations" of nonprofits' financial stability.

8. The often ignored donor confidence crisis continues unabated.

9. Planned giving generally suffers from insufficient commitment of resources.

10. Donors are overwhelmed with information, which makes getting your message through to your donors more difficult than ever.

Recent economic challenges and the looming uncertainty have forced donors to reshuffle their priorities and reevaluate the role of charity in their futures.

A Brief History

Let me give you a brief history of this Special Report.

After the 2000-2001 economic and stock market challenges, we brought together a group of about twenty nonprofit leaders for a special gathering. The first reason for this gathering was to create a collaborative environment—to give development professionals a platform to share what was working, what was not working and to identify key challenges.

The second reason was to ask them how we could help. Unanimously, they responded that they needed to know what was happening nationally in the planned giving world. "We know what some of the challenges are day by day and week by week," one prominent Director of Planned Giving shared, "but we need your help to understand what is happening in our industry." Therefore, we began to do some initial research, which led to even more research. Ultimately, it resulted in over a hundred hours of research from which we assembled a Special Report – *The Core Planned Giving Challenges*. Since then, this report has been shared across the United States and Canada—and updated each year.

September 2008 changed everything … again! Therefore additional research was performed and the original report was completely revamped.

The Nonprofit Sector

Most people are unaware of the sheer size of the nonprofit sector. It represents a significant portion of our economy, overseeing almost 13 million employees, or 1 out of every 10 employees in the United States workforce. U.S. nonprofits produce $1.1 trillion in annual revenues—5% of our Gross Domestic Product (GDP). If U.S. nonprofits were a country, it would rank as the sixth largest economy in the world—larger than Canada or Russia! Therefore, the health of the nonprofit sector is critical to the health of our economy. U.S. nonprofits, like many sectors of the U.S. economy, face formidable challenges—not just economic either. In case we are tempted to dismiss these challenges as temporary glitches in an otherwise smooth course of progress, let's take a closer look at the sobering facts underlying each of these challenges.

1. Charitable Giving Is Down

Charitable giving is down, not just in one category, but across the board. In June of each year, Giving USA publishes the latest giving figures as it has for more than 50 years. Giving USA reported, "… this year perhaps more than most, the results will be closely watched by an audience anxious about a troubled economy."

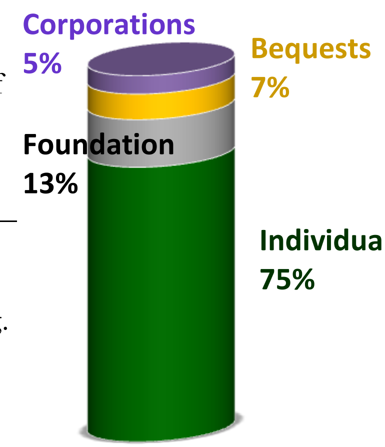
In Giving USA 2009, they reported that annual giving, adjusted for inflation, has dropped significantly:

- ♦ Corporations: down 8.0%
- ♦ Bequests: down 6.4%
- ♦ Individuals: down 6.3%
- ♦ Foundations: down .8%

Although corporate support is critical to many nonprofits, their contributions are last in their impact, making up just 5% of total giving. Foundations are second, at 13%.

The point we're making—individual giving is key—including bequests left by individuals at their passing. Individuals account for 82% of all charitable contributions. According to the latest data, individual giving dropped 6.3% and actually returned to 2004 levels.

Giving Breakdown



Giving USA 2009

(Continued from Page 1)

and maintain such a planned giving program. Certainly, these are difficult economic times; perhaps the worst we have faced since the Great Depression. However, that is not the only cause for concern. The uncertain economic future has created a seismic shift in donor attitudes that imposes challenges that will remain even when the short-term economic climate improves. Facing these demanding circumstances – honestly and effectively – is what this special report is about. Sustaining a successful nonprofit has never been easy; today the challenges may be greater than they have ever been. However, together we can take the first steps toward turning these challenging times into opportunities by taking a hard look at the obstacles and keeping an open mind about a fresh approach to planned giving that benefits both your organization *and* your donors.

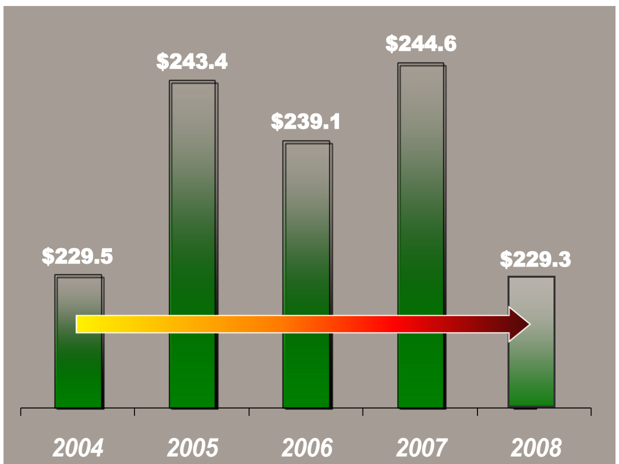
Greg Hammond

Greg Hammond
President

Special Report

2. Recession Is Hurting Even Your Largest Donors

Based on this information, nonprofits might assume, “Okay, but our core base, the age 65 plus donor-of-means, will carry us through, right?” Actually, this assumption is wrong. In the latest Affluent Market Insights 2009, the number of these households, representing a net worth of $1 million or more, has plummeted 28% from 2007 to 2008. In addition, this age group is expected to have the largest giving drop in 2010, according to *Trusts and Estate Magazine*.



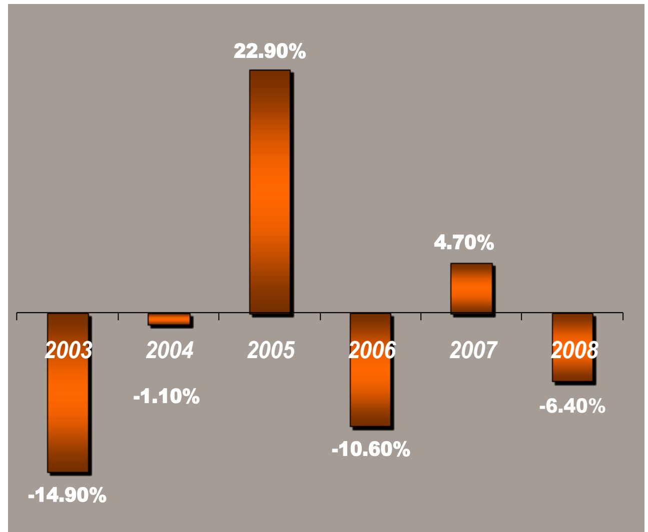
Annual Giving by Individuals Adjusted for Inflation: Giving USA 2009

Giving Back to 2004 levels

3. Planned Giving Efforts Have Been Largely Neglected

Planned giving has many benefits for nonprofits; none more valuable than providing a much-needed “safety net” during troubled times like these. Many nonprofits have vibrant planned giving programs, which should result in measurable progress in gifts that have matured or are positioned to mature. However, the statistics seem to reveal just the opposite. Bequests, long considered the staple of all planned giving programs, have been **down** four of the last six years. Moreover, in the latest information available from the IRS, the number of charitable income trusts has remained relatively flat; therefore, failing to fill the gap.

Bequests Decrease



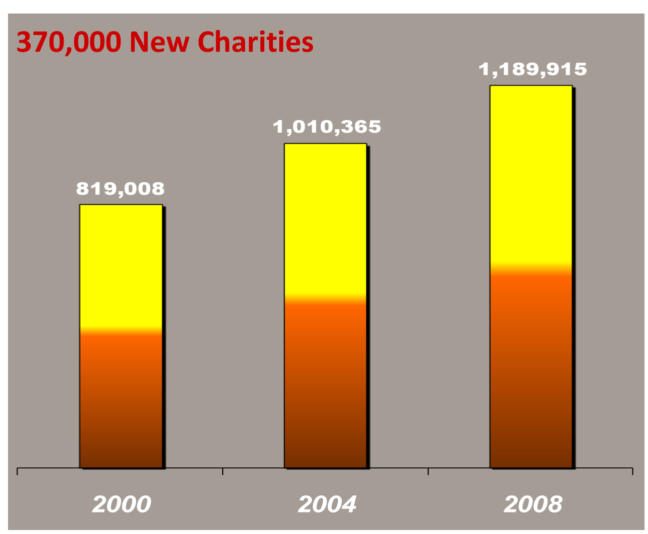
Bequest Giving: Giving USA 2009

4. More Charities Are Stressed and Some Are Even Failing

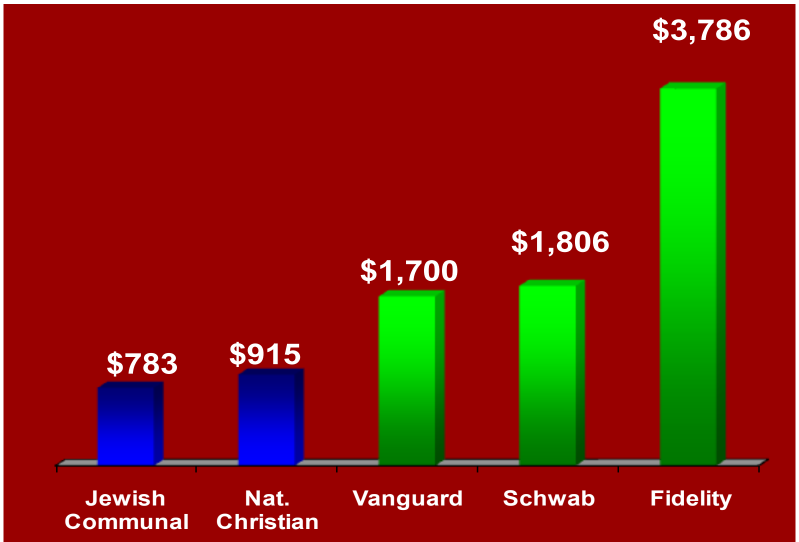
Even though the economy has declined and retracted, the demand for nonprofit services has not; in fact, demand for services has risen considerably. In a recent report, nonprofits reported a 58% increase in the need for services. Alarmingly, 1 in 12 still say they face closure.

5. The Nonprofit Landscape Is Oversaturated

The current cutback in giving has been exacerbated by the fact that there are too many organizations chasing too few dollars. *Giving USA 2009* indicates that 370,000 new charities have been created since 2000. In fact, the number of charitable organizations registered with the IRS since 2000 grew at double the rate of the business sector.



Donor Advised Fund Assets



Philanthropy.com Status

7. There Is More Outside Scrutiny and Testing

The good will that charities once enjoyed has crumbled under the weight of compensation scandals and growing donor skepticism. Today, donors want more accountability, measuring nonprofits like they measure other investments; and they want more information and transparency. To meet this need, a number of independent entities have arisen, touting themselves to donors as the ones looking out for their best interests. The College Sustainability Report Card promote themselves as THE only independent evaluation of campus and endowment sustainability. Charity Navigator bills themselves as America's premier evaluator of charitable health. And, finally, The American Institute of Philanthropy (AIP) is "a nationally prominent charity watchdog service." These kinds of organizations will continue to rise to fill the perceived need for more accountability and outside scrutiny.

6. We Face Competition From The Financial Sector

While the nonprofit sector has been relatively static in its progress, the financial sector has stepped into the picture and seized a growing share of donor-advised funds. As early as 1998, Fidelity Investments' Charitable Gift Fund was the largest grant-making charity in the U.S., raising more money than nonprofit bellwethers like Harvard University, the American Red Cross and the American Cancer Society. Today, Fidelity's Charitable Gift Fund continues to dominate the donor-advised fund landscape—housing four times more money than the next non-financial fund. In addition, the top three donor-advised fund leaders are now financial firms. Not only have these financial alternatives siphoned money away from traditional planned giving and endowment campaigns, to the tune of $7 trillion dollars, they have also changed donor expectations—of what donor-advised funds and their sponsors should do *for them*.

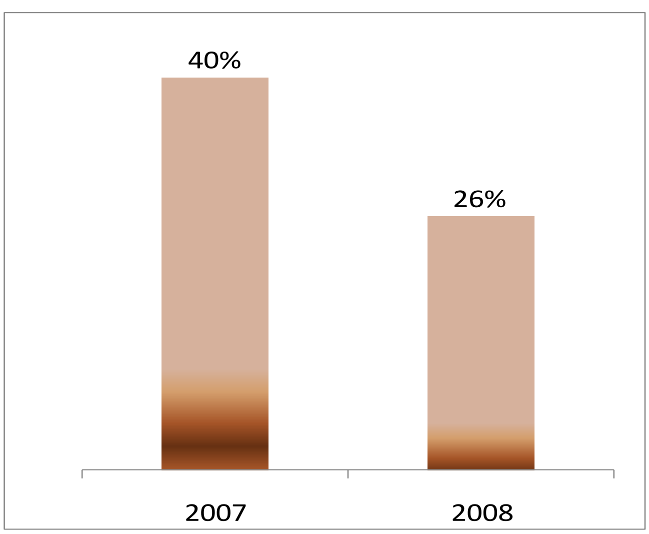
> While no one has compiled data on how many charities have turned to the courts for protection, experts in the field say it has become more common as nonprofits have been pressured by donors to operate more like businesses.
>
> *New York Times, February 20, 2009*

Special Report

8. The Donor Confidence Crisis Continues Unabated

"Surely, it isn't that bad, is it?" asked a seasoned planned giving professional at a recent presentation of this material. In the summer of 2009, a poll by Harris Interactive found that only 1 in 10 Americans strongly believes that charities are "honest and ethical." The 2008 "How Americans View Charities: A Report on Charitable Confidence," revealed a 2003 low-point in general confidence that has not changed significantly since that time. These attitudes are reflected in hard financial numbers. In *The 21st Century Donor,* 6 of 10 surveyed donors said they had dropped their financial support for a nonprofit because they felt it was no longer trustworthy or reliable. Worse, this crisis of confidence is highest among the supporters we need most: those donors aged 57 to 75 who have traditionally been the most generous givers. Moreover, *The 2008 Study of High Net Worth Philanthropy* reported a 35% **decline** in the number of high net worth households that consulted with nonprofit personnel when making charitable giving decisions. Previously, only 4 in 10 sought out nonprofit personnel, but in the latest report that sank to just 1 in 4!

High Net Worth Donors Who Seek Advice from Nonprofits on Charitable Giving Decisions



The 2008 Study of High Net worth Philanthropy—March 2009

9. There Is Insufficient Commitment of Resources to Planned Giving

As we said, some nonprofits have actually created a proactive, sustainable planned giving program; yet for the vast majority, it's still an unfulfilled desire. Often, the biggest obstacles lie within the organization—a lack of demonstrable unwavering commitment, which manifests itself in the following:

- **Inadequate budget:** Too few boards understand the value of planned giving and are willing to make it a priority, which shows up in the lack of funding.

- **Lack of support:** Both fundraising staff and board members are reluctant to pursue planned giving programs, favoring short-term fixes instead.

- **Outdated tools:** Baby Boomers do not like direct mail, hate telemarketing, and will not give via the internet; they prefer face-to-face solicitation, which is time-consuming and expensive. Yesterday's tools-of-the-trade are no longer effective or cost efficient.

- **Not enough time:** Fewer than 1 in 5 fundraisers work full-time in planned giving; instead, many juggle planned giving along with other giving and administrative responsibilities.

- **Short-term focus**: Anyone who came through the Great Depression knows the saying, "You never eat your seed corn." No one, with any sense of tomorrow, would eat the seed corn that was the basis for next year's crop. Yet, many nonprofits have and continue to eat their "seed corn" when they consume every dollar that comes in. The result is a lack of organizational stewardship—sacrificing long-term security for the urgent needs of today. The result of these internal obstacles is a "start-stop-start-stop" approach to planned giving.

10. Donor Information Overload Is Drowning Out Your Message

Your message faces an overwhelming avalanche of information that bombards donors every minute of the day. In America, there are approximately:

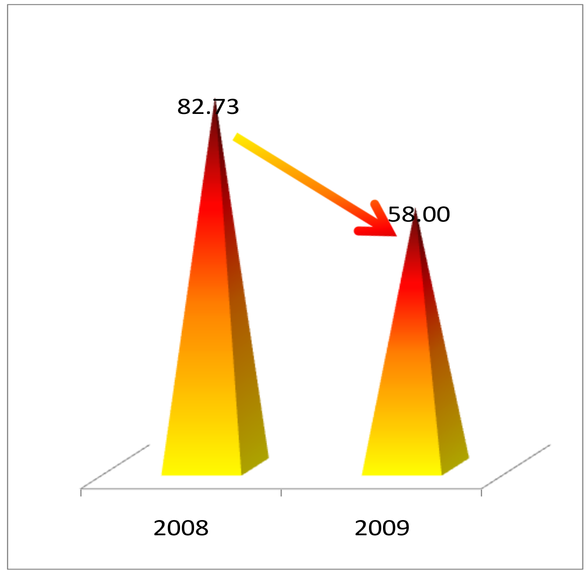
- 260,000 Billboards
- 11,520 Newspapers
- 11,556 Magazines
- 2,218 TV Stations
- 17,271 Radio Stations
- 40,000 New Books
- 60 Billion Junk Mail Pieces

To add insult to injury:

Contemporary Americans get as much mail **in a week** as their parents received in a year. In 1971, we were exposed to an average of 560 marketing messages per day; by 1999, that number leapt to **3,000 per day**. How many marketing messages bombard you and your donors each and every day? In 1998, Google indexed 26 million web pages; just four years later, it was 1 billion. In 2008, Google reported having indexed a staggering **1 trillion web pages**. In response, donors protect themselves by erecting filters and barriers – to *your* messages!

The Center on Philanthropy has been tracking Fundraisers' confidence since 1998. In a recent press release, the center reported that fundraisers' confidence had plummeted 28 percent, to its lowest level since it began.

Fundraiser's Confidence Drops 28%



Center on Philanthropy Press Release – August 3, 2009

General confidence in charitable organizations appeared to hit its modern low point in 2003 and has not moved up or down significantly since. The charitable sector itself has mostly denied the crisis in confidence . . .

2008: How Americans View Charities: A Report on Charitable Confidence

Just as today's nonprofits are facing daunting challenges; so are your donors!

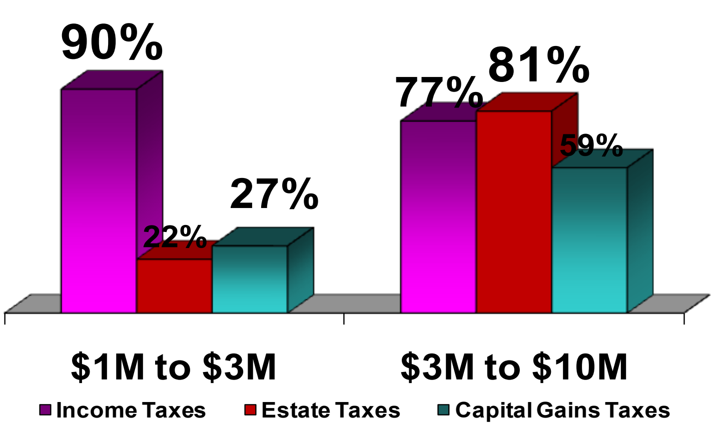
In order to sustain long-term donor relationships with your most valuable donors, it is absolutely essential to begin by understanding where your donors are coming from: what are their greatest fears and needs? The economic challenges not only have forever changed the rules for nonprofits, it has also changed the rules for donors and their futures.

Here is what we know about today's donor-of-means:

1. Fear of Losing Their Wealth is a Donor's #1 Concern

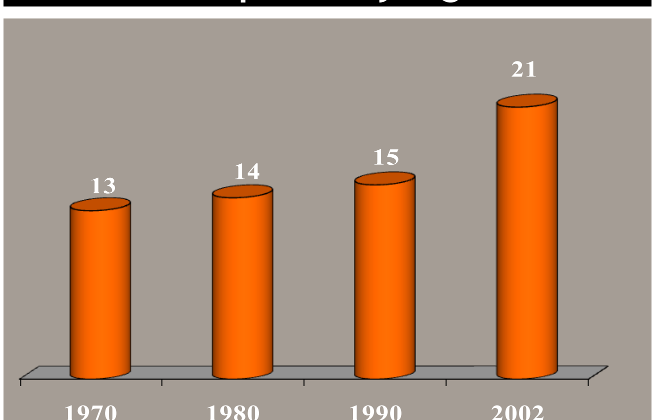
In 2005, long before the economic meltdown, a survey of families with $1 million to $10 million in net worth revealed an alarming statistic: 88.3% said they were very concerned about losing their wealth." This was the answer from millionaires—those who had accumulated between $1 to $10 million. What percentage would be concerned about that today?

Tax Concerns



Information adapted from Cultivating the Middle-Class Millionaire
Copyright ©2005 by Russ Alan Prince Wealth Management Press

Life expectancy: age 65



Life Expectancy Tables

2. Outliving Their Income

In the seventies and eighties, the results of medical advances on life expectancy for a 65 year old were minimal. Not so surprisingly, in the twelve years between 1990 and 2002 (the latest published life expectancy statistics) the average life expectancy for a 65-year old exploded by 40%. Overall, that is good news, of course. However, there is a down side. It has imposed a new financial challenge: the average 65-year old must now fund an additional **six years of lifestyle**!

3. Escalating Medical Costs

According to the *Wall Street Journal*, retirees suffer the impact of a different inflation rate than that quoted on the news for the general population, one that has increased at a significantly faster rate due to ever rising medical costs.

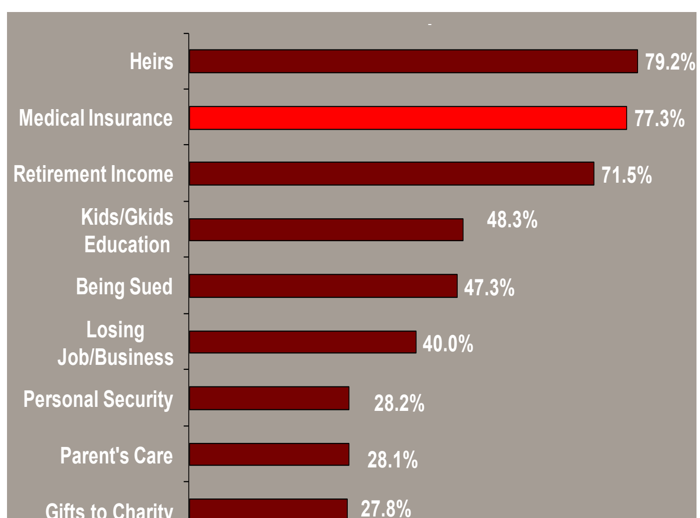
4. Increasing Tax Burden

Donors are deeply concerned about the bite that taxes take out of their income and their wealth. Depending on the amount of wealth that they have accumulated, their tax concerns change—donors with less than $3 million are largely concerned only about income taxes. However, those between $3 and $10 million are almost equally concerned about the impact of estate taxes and income taxes.

5. The Result: A Change in Wealth Priorities Places Charities at the *Bottom*

Donor fears have a very real and immediate impact on your organization. When asked to prioritize their personal interests and responsibilities, charities come dead last, at the bottom of the wealth priority ladder.

Wealth Priorities



Information adapted from Cultivating the Middle-Class Millionaire
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As Nonprofits, What Next?

As our needs mount, we focus on major giving, annual funds and capital campaigns. Why? We have huge needs. Think about this for a moment: how often do donors reflect, "The only time I hear from you is when you want…" A major gift is an "ask" for cash or securities. If your donors are worried about their future, which assets are they least likely to be comfortable parting with? Is major giving the best single focus?

The Dilemma

How do we bring these two seemingly conflicting issues together—charity challenges and donor worries?

A Different Approach

The previous pages paint a challenging picture, no doubt. While the facts are a spur to action, they need not be a cause for alarm. With the right perspective, nonprofits *can* help donors meet their needs and at the same time, better secure their long-term financial viability by growing their endowment.

Warren and St. Foresight

The following story is true, but the names have been changed to respect the privacy of the donor and the nonprofit that both benefited from a proactive, sustainable planned giving program. St. Foresight is a regional hospital that, like many health care institutions, was hit hard by a declining economy. Just as the need for its services was increasing, annual giving and endowment income were declining. However, unlike many nonprofits in similar situations, St. Foresight had consistently taken some of their "seed corn" and invested in a proactive, sustainable planned giving program that included regular donor motivation events.

Warren was a consistent donor who routinely made $5,000 annual gifts to St. Foresight's annual fund. He had concerns (and fears) of his own: he was afraid of running out of money. Although his dad was a hard working dairy farmer, they often struggled to make ends meet. Warren labored beside his dad and learned the value of hard work. He wanted to pass that value on to his kids. He also remembered the angst in the pit of his stomach during the terse conversations his parents had about not having enough money. He vowed those conversations would not be repeated in his home. Therefore, when the invitation came to St. Foresight's donor-centric, planned giving presentation, it caught Warren's attention and he decided to attend. St. Foresight hosted the event every quarter to maintain "charity of choice" status in the minds of its donors. Warren enjoyed the evening, getting a chance to see his friends at the hospital. He was surprised that there was another way to give; a way beyond his cash giving, a way that would help him create an income he could not outlive. Impressed, Warren took the next step – a conversation with a professional. As a result, Warren made a number of changes, which included gifting a stock that he had owned a long time into a charitable income trust.

Benefits to Warren

By utilizing this planned giving strategy, Warren received a number of benefits, including the following:

- He received a substantial income tax deduction
- He repositioned the stock without incurring an upfront capital gains tax
- He created a lifetime income that he couldn't outlive
- He increased his annual spendable income by **24%**

Benefits to St. Foresight

As hosts of the events, St. Foresight received impressive benefits as well:

- Warren immediately doubled his annual gift to $10,000.
- Warren named St. Foresight as the majority beneficiary of the charitable trust.
- When Warren died unexpectedly of a stroke just two years later, the hospital received $963,000.
- St. Foresight was not the only recipient of Warren's generosity. Warren's church received a $250,000 gift and a $200,000 gift went to Warren's alma mater.

The Real Benefit to St. Foresight

Through the strength of its planned giving program over the years, St. Foresight's endowment experienced significant growth, which allowed the funding of special projects throughout the years. However, the real value of the endowment became clear the year following the recession, when the endowment cut a $9.3 million check for the hospital to cover a budget gap at the peak of its financial crisis. Disaster had been averted because the hospital had the willingness year after year to invest in a proactive, sustainable planned giving program; even during the recession, the donor events continued.

The board of many charities do not understand the value of planned giving in building relationships with key donors, and do not prioritize gift planning in the charity's budget.

Philanthropy.com

Lessons Learned

A donor-centric planned giving program succeeds because it speaks to your donors' deepest needs and fears. It shows them how to take care of their own needs, and the needs of the nonprofits they hold dear. Many nonprofits establish donor relationships based on a value exchange model that has not changed in decades. In it, value flows in one direction—from the donor who gives money to the nonprofit that, in turn, provides a service to the overall community; an organization that donors respect and sometimes cherish. As we have seen in the 10 challenges, that model is collapsing. Further, St. Foresight's experience with Warren suggests a new model more appropriate to changing times and demographics: a value exchange that moves *in both directions*, providing benefits to the nonprofit *and the* donor. For the hospital, the change in models has meant significant rewards that have sustained it's mission in good times and bad. However, with the change in models comes a change in focus: instead of relentless messaging about the nonprofit's mission, there needs to be consistent communication on concerns *that affect the donors, themselves.* A balanced approach includes major giving and planned giving.

A Balanced Approach

Major Giving	Planned Giving
Charity Creates Need	Donor Life Stage Creates Need
More Benefits to Charity	More Benefits to Donor
Charity-Focused	Donor-Focused

Mutual Benefits of a Balanced Approach

Remember the mutual benefits of planned giving for your organization and your donors-

Nonprofits Receive:

- Deeper **bonds** with donors who now have ownership in the organization
- Typically, a donor making a planned gift gives a **larger percentage** of their income in annual gifts
- The legacy benefit of the **planned gift**

Donors Receive:

- A lifestyle income they **cannot outlive**
- An advantageous repositioning of assets that **reduces taxation** and **creates tax deductions**
- A lifelong **connection** with your nonprofit
- A meaningful **legacy**

"The last thing charities should do is panic or put their heads in the sand while waiting for this storm to pass."

Del Martin, Chair of Giving USA Foundation

How to Make Planned Giving Work – For You *and* Your Donors

At this point, the goal should be clear – to create a donor-centric, sustainable planned giving program that benefits both your nonprofit organization and its donors. Unfortunately, too many good intentions are undermined by poor execution. In our collaborations with numerous nonprofits, there are key elements that distinguish successful planned giving programs from disappointments—**The subject of our highly rated presentation:**

"The Keys to a Sustainable Planned Giving Program: How to Double the Effectiveness of Your Planned Giving Professional"

Special Report

The Keys To a Sustainable Planned Giving Program

In order to succeed, you need to know:

1. What are the 10 Core Strategies that every planned giving program must achieve?
2. Who are the ideal planned giving donors to target?
3. How will planned giving integrate with your major giving program?
4. What three investments are critical to success?
5. What does your donor funnel reveal about the most important activity for encouraging more gifts?
6. How can you best leverage your investment in your planned giving professionals?
7. Why are donor seminars the most effective tool for your planned giving staff?
8. What are the two tracks your planned giving program must ride on to be successful?
9. How can you implement this approach with limited time and money?
10. How can you duplicate the efforts of a planned giving officer without having to hire another one?

What's Next

How will nonprofits fare in the new future? Hopefully, it's clear by now that there is no status quo—things will not return to the way they were. The institutions that stay the same will, sooner or later, be left behind. Nonprofits will need to maintain their historical mission and commitment to serve and yet embrace new avenues to engage donors in win-win scenarios. Those organizations who are at the forefront will flourish in the new environment. Those organizations that stand idly by will ultimately slip backward.

For More Answers

For answers to these and other urgent development questions, view our FREE program, *The Keys to a Sustainable Planned Giving Program: How to Double the Effectiveness of Your Planned Giving Professional.*

This presentation answers the questions outlined above, as well as showing you how to take your planned giving program to the next level. To schedule this powerful presentation at your nonprofit, please call 800.397.0872 or email kbradley@plannedgivingstrategies.com.
We look forward to helping your organization overcome these challenges!
www.plannedgivingstrategies.com

Who We Are

Since 1995, our group has used our skills to listen to nonprofits and their donors and take what we've heard to build and perfect a proactive planned giving system that is the bridge between organizations and their donors. Through The Donor Motivation Program™ and an international network of trained professionals, we have helped North American charities, large and small, "motivate planned giving!" More than 10,000 donors have attended our Donor Presentation Experience and rated it either "one of the finest" or "absolutely the best" of its type. **Why? Because it "speaks donor!"**

We take our responsibility for your planned giving program's success very seriously, applying best practices learned from the Donor Motivation Program's 15 years of helping nonprofit organizations succeed in fundraising through planned giving.

How can we help you? We're listening!

the proven

solution

Special Report

The Future of Planned Giving Top 10 Challenges Every Long-term Nonprofit Faces

A Special Report for Nonprofit Presidents, Development Professionals & Board Members

planned giving strategies

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Inside- Special Report
The Future of Planned Giving

At Planned Giving Strategies, our mission is to secure the financial stability and continuity of not-for-profit organizations for future generations through the creation and development of successful planned giving programs.