BEQUESTS: WHO WANTS TO MAKE THEM & HOW TO GET THEM

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Introduction

For charities large and small, bequests are the largest source of planned giving revenue. That's right, the lowly bequest. Despite the time, attention, and resources devoted to charitable trusts, gift annuities and complex assets, these more exotic planned giving vehicles typically account for not much more than 10% of realized planned giving revenue. There are always outliers. You might have a huge lead or remainder trust distribution that skews these averages. Nonetheless, the real money in planned giving is in the under-appreciated bequest.

When speaking about "bequests" this includes gifts from wills, living trusts, beneficiary designations such as IRAs and life insurance and any other donor created mechanism to make an end of life gift.

But bequests don't just happen. Proactively marketing, educating, and soliciting bequests from your donor base is required to keep up a steady, and hopefully increasing, flow of bequest revenue. Research into how donors decide to leave money to charity in their will improves our understanding of how to best identify those likely to make a planned gift. Some activities to fill the bequest pipeline are the things one would expect: marketing, solicitation, and other activities to encourage bequest giving. In addition, there are things charities can do proactively to encourage bequest giving, making the bequest decision **easy** and **urgent**.

I. Bequest Giving Behavior

a. Charitable Bequest Trends

Dr. Russell James of Texas Tech University has become widely-acknowledged as the leading academic studying deferred charitable giving behavior. His research is critical to testing the validity of long held beliefs often based on anecdotal evidence and so called popular wisdom. Some of his findings confirm the popular wisdom, some of his work exposes the myths that planned giving development offices have long taken as gospel.

His report *American Charitable Bequest Demographics (1992-2012)* analyzed data from the Census Department's Health and Retirement Study (HRS). The primary purpose of the HRS study is to understand the behavior of older Americans. Fortuitously, the HRS study includes questions relating to charitable bequest giving. It offers a rich source of information about what Americans are actually doing about charitable estate planning without being filtered through the lens of the gift planner.

The HRS study found three critical factors influence a donors decision to leave a charitable bequest. First, the bequest donor must have trust in the organization that will benefit from the bequest. Second, the presence or absence of heirs may be the single most important variable to help identify the bequest donor. Third, the greater the net worth, the more likely a person is to leave a charitable bequest.

The HRS study also showed that of those surveyed, only 5.7% had made provisions for charity in their will or trust. Therefore, one could conclude that a very small percentage of Americans have made provisions for charity in their long term plans. Is it safe to conclude then that 5.7% of an organization's supporters will have included that organization in their plans? In other words, if an organization has 30,000 donor records, will 5.7% or 1,710 of those donors have included the charity in their estate plans? Not necessarily.

The study went on to ask of those who make charitable gifts of $500 per year or more during life, what percentage have included charity in their estate plans. The percentage increased to 9.4% of those surveyed. The take away is that about 10% of those 50 and over who make charitable gifts of $500 a year or more to charity will make a bequest gift to charity, as well.

The rest of what Dr. James' research found is something that veteran planned giving professionals have observed for years. Among those over 50 who make charitable gifts of $500 or more a year, the lack of offspring is the single most important variable that predicts charitable estate plans. Fully 50% of those who make charitable gifts of $500 or more a year and have no children will include charity in their estate plans. That percentage drops to 17.1% when donors have children and dwindles to only 9.8% when the donors have grandchildren. Research from Australia indicates that those with wills and no children are 10 times more likely to include charity in their estate plans.

Does this mean those with children and grandchildren will not establish planned gifts? Absolutely not. Look at completed estate gifts at your own organization. Many of these gifts come from supporters with children and grandchildren. But it is likely that some of the largest gifts come from donors with no children.

There is good news to the importance of childlessness and bequest giving. Demographic trends show that the number of people choosing not to have children is increasing. The number of respondents to the HRS survey who did not have children increased by 22.1% from 1996 to 2006.

b. Factors Highly Correlated to Bequest Giving

Giving and/or involvement

Planned giving veterans almost always have stories of significant bequests from donors with extremely small lifetime giving histories or perhaps no giving history whatsoever. These stories are like the bad penny. Because these cases are unusual, they capture your attention. Research suggests that the number one indicator of the likelihood of a planned gift is a long giving history. (Identification, Death and Bequest Giving, Sargeant, Sheng (2008). If the frequent giver also makes larger than average gifts, usually annually, the likelihood of a planned gift goes up. A long history of giving at higher than average amounts marks these donors as more likely to include charity in their estate plans. (James 2008)

Presence or absence of heirs

Since giving is a social act, the inclusion of a charity in one's estate plans raises the charity to the status of a surrogate family. Think of your organization as one of your planned gift donor's children. If a donor has human children, the challenge of elevating your charity to the status of an alternate child is daunting.

Do donors with children still include charity in their estate plans? Certainly. To achieve that status, the charity must have a close emotional connection to the donor, the kind of connection that is driven by how the donor correlates their success, health, values, or religious faith with the charity.

As with all families, the more children, the smaller the fraction of the estate to be passed to each child. A donor with children will have to make hard choices about whether, how much, when and how to make the gift to charity, their stand-in child.

Experience tells us that some donors with children still include charity in their estate plans. We've already established that research shows that donors without children are more likely to include charity in their estate plans. Take a donor with children who has a long, generous giving history, volunteer service, and a deep connection to the charity. Compare this donor to a person with no children who has never made a gift to the charity, never volunteered, and has only a modest connection to the charity. The person with no children and a tenuous charitable engagement is far more likely to leave a bequest to the charity than the engaged donor with children.

The implications of this research are far reaching. Every donor database has a way to record information about the donor's children, probably even their grandchildren as well. But few if any databases make any provision for recording those with no children. If you are not recording this data currently, ask your database manager to help implement a system that allows recording donors with no heirs. The next time you are prioritizing who to see first, call on childless prospects first.

The importance of the lack of heirs bodes well for the future of planned giving. Demographic trends point to an increasing number of individuals choosing not to have children. . (Childlessness up among All Women; Down among Women with Advanced Degrees http://www.pewsocialtrends.org/) The pool of those highly likely to include charity in their estate plans is growing.

Educational Level

There is a strong correlation between educational achievement and the likelihood to include charity in one's estate plans. . (The growth of charitable estate planning among Americans nearing retirement, James, Lauderdale, and Robb 2009) The likelihood of a bequest increases if a donor has an undergraduate degree versus only a high school diploma. The likelihood increases even more if the donor has a graduate degree.

The importance of educational accomplishment to estate giving has similar implications as knowing a prospect has no children. When prioritizing prospects for qualification and cultivation, initials such as M.D., J.D., PhD., MS or even BA should push these prospects up the list.

Life Events

Planned gifts are frequently influenced by events in a donor's life. Events that disrupt the donor's routine or force focusing on unexpected or upsetting life changes can trigger the estate planning conversation. These disruptions need not be negative things. The birth of a child or grandchild, the sale of a business, a promotion, or retirement can trigger reexamination of estate plans and how charity fits in.

Negative events like the death of a spouse, a diagnosis of cancer or a heart condition, divorce or losing a job can also force the donor to contemplate her mortality and consider her charitable priorities.

Watch for life events that can signal an opportunity to discuss including charity in a donor's plans. Keep in mind that some of these disruptive episodes in a donor's life can cut both ways. We've already seen that the birth of a child or grandchild can materially reduce the likelihood of a donor making a charitable bequest. Cash events such as a promotion, receiving a large inheritance, or selling a business will increase the likelihood of a donor making a charitable bequest.

The challenge of using life events as a field mark of a planned giver is that life events are not easily known by the fundraiser. Not all of a charity's supporters will have a life changing experience at the same time. It's not possible to predict who in the database will experience a cash infusion. Therefore the importance of life events on donor decision making is managed on the retail level (one on one between donor and fundraiser) rather than on the wholesale level (mass communication through direct mail or social media.)

II. Filling the Bequest Pipeline

Awareness Marketing

The most effective way to motivate prospects to include your organization in their estate plans is to ask them to do so face to face. The reality is that there is only one of you (or a handful of other planned giving staff) and it's impossible to personally touch each and every person likely to consider a charitable bequest.

To build a bequest pipeline you also need to engage in marketing activities that do three things. First, bequest marketing messages should convey why someone should include your organization in their estate plans. Two, communicate that your charity is interested in and capable of accepting estate gifts. (This point seems obvious, but it is remarkable how many prospects at least claim they were unaware a charity would like to receive a charitable bequest.) Third, marketing should make it easy for a prospect to get the information they need to add your charity to their estate plans.

Content Marketing

Content marketing is the act of creating and distributing relevant and valuable content to attract and engage your bequest prospects. The goal is to prompt the prospect to take action. That could be something like the prospect calling for more information or filling out an online form to request more information. Content marketing operates on the assumption that there is a population willing to trade their attention for information that is useful to them. It's a powerful and cost-effective method of acquiring new prospects.

Lately for-profit companies have been finding sales growth and loyal customers by producing useful, original content rather than blasting out promotional messages (the broadcast model). Ironically, this approach borrows from the traditional nonprofit practice of focusing more on education than self-promotion! You don't need a budget for a television advertising campaign when an avidly-read newsletter will do. Relevant and engaging content is one of the main ways that any institution can establish authority and gain trust.

Prospects who engage with your charity are increasingly expecting content that will help them learn more about your work and show them why their support makes a difference. Your content needs to serve three different audiences: (a) non-donors who don't know your organization (prospecting); (b) non-donors who know your organization (cultivation/awareness); and (c) existing donors (stewardship). Effective marketers create and/or use available content to meet the requirements of all three audiences, although not necessarily in the same message.

Bequest Donor Messaging

As already mentioned above, the inclusion of charity in a donor's estate plans raises charity to the status of family, particularly with the childless, charity may act as surrogate family. Develop this personal relationship with those closest to your organization. Consider who your bequest donors are. Audit files of estate gifts received in the past. What was the relationship of your organization to the bequest donor? What makes the bequest donor different from other donors to your charity?

Some non-profits have a predictable constituency. Religious denominations have congregants, universities have alumni, and hospitals have grateful patients. Arts organizations, museums, botanical gardens and other membership-based non-profits learn of those who support their missions through long time subscribers and event attendees. These subscribers may also be annual fund donors, but not necessarily. Some charities have broad national missions like disaster relief charities, disease charities, nature and animal charities, and national social service organizations. These organizations with a wide-ranging mission may have the biggest job of identifying their supporters through self-identification.

Regardless of the mission of the charity, the annual fund is the traditional foundation for building a bond with donors over long periods of time. Those with long-term memberships or attendance should also be considered potential estate gift prospects. The supporter of a membership organization may have a transactional relationship with such a non-profit. The season ticket holder to a symphony may view the symphony as a vendor of a service for which the ticket holder pays. As with all giving of significance, the job is to move the donor from transaction to relationship.

The way to take the supporter from transaction to relationship is to make the value of donor support tangible. Marketing messaging for bequest donors should communicate the longevity and continued relevance and impact of a charity and its mission. Feature stories of realized bequests both large and small can emphasize how long the charity has been making a difference. The example of charitable bequests from those a bequest prospect considers peers sends a strong social norm message. Even among those who are philanthropic, only a small minority have included a charitable bequest.

Social Norming

Dr. James' review of the HRS study mentioned above confirms that a minority of people have charitable estate plans in place. These data suggest that most people perceive (correctly) that very few individuals will include charity in their estate plans. There are a variety of reasons for this perception. Some donors self-report that estate giving is only for the wealthy. Since estate giving is in fact uncommon and also very private, many donors may not be aware of anyone who has included charity in their estate plans.

Messaging that estate giving is a social norm has been observed to increase how receptive a person will be to suggestions that they include charity in their estate plans. Research conducted in the United Kingdom supports the conclusion. 3,000 people going through the estate planning process were divided into three groups. One group was not asked directly if they wanted to leave a charitable bequest. The second group was asked "Would you like to leave any money to charity in your will?" The last group was asked the question in a way that suggested charitable bequests are common or "normal" among those writing their estate plans. "Many of our customers like to leave money to charity in their will. Are there any causes you're passionate about?" The differences between the three groups regarding their charitable decisions were dramatic. The percentage of people leaving a charitable bequest rose from 5.0% in the no ask group, to 10.4% in the simple ask group, to 15.4% in the social norm ask group. A simple statement of social norms before the ask increased participation in giving by 50% of participants. **(**Cabinet Office Behavioural Insights Team (2013) Applying behavioural insights to charitable giving)

Testimonials from those who have included charity in their plans can provide a form of social norming. Select donors, and use images and language that reflect the type of bequest donor to be targeted. A picture of a donor in an expensive suit in front of luxurious yachts bobbing at anchor will likely appeal to those of means. A picture of an active couple on a hike in casual clothes will likely attract the attention of a broader cross section of supporters.

Social normative messaging has to strike a balance. If the appeal of a testimonial is too narrow, you may alienate those who don't identify with the target demographic. If the message is too broad, it may not resonate with very many potential bequest prospects at all.

Making the Case

A prospect who is motivated to action by the example of others must also feel like charity is going to carefully steward their resources. Estate gift donors have worked a lifetime to accumulate their wealth. These donors want to be sure the recipients of their largesse are not going to squander their gift.

Testimonials about realized bequests that demonstrate careful adherence to the donor's wishes can establish credibility. Marketing messaging about insuring that the donor's wishes will be carried out can assuage fears about the management of philanthropic estate gifts.

What about the desirability of unrestricted bequests? All charities would prefer to receive unrestricted bequests that can be spent where the need is greatest. There is a difference between encouraging donor restriction and insuring that charity will honor the donor's limitations, if any. Marketing materials can even say "unrestricted giving will insure that a bequest remains relevant." These messages can still allow that a donor may want to support a particular area of interest.

Articles and advertising that showcase work that would not have happened "but for" philanthropic support send a strong message for both outright and estate gift donors. Such stories are rarely as clean as "this building was built with this donor's money." Transformational gifts often come from multiple sources, partly philanthropic, partly through financing, and/or partly from fees for services such as tuition or payments for medical care.

Push, dig and keep digging to develop compelling narratives that demonstrate how philanthropy makes the charity's work possible. These stories don't have to be high profile, high dollar cases. A bequest to establish a fund to pay for transportation for indigent patients so they can make their appointments can be heartwarming, compelling, and show how even modest gifts can make a big difference.

In short, mission focused marketing is compelling and likely to engage the bequest donor prospect. Mission focus does not mean citing statistics, big numbers, or stories of high level impact. Personal, compelling narratives that connect the reader to the beneficiary's mission are more likely to engage. There is strong academic evidence that people tend to give to an identified versus anonymous victim or beneficiary of a charity's services. Tell success stories about actual beneficiaries with photographs of the beneficiaries rather than a general description of the work that the charity performs. These findings suggest that presenting identifiable information about actual people can engage the bequest prospect which then promotes giving. Compassion Fade: Affect and Charity Are Greatest for a Single Child in Need Västfjäll D, Slovic P, Mayorga M, Peters E (2014) , Neural Underpinnings of the Identifiable Victim Effect: Affect Shifts Preferences for Giving, Genevsky A(1), Västfjäll D, Slovic P, Knutson B. J. Neurosci., October 23, 2013.

Bequest Language

Make bequest language available as widely as possible. Sample bequest language is fine, but the donor's estate planner will know how to draft a charitable provision. The planner does need from the charity the legal name, current address, and tax identification number. Anyone in the development office should be prepared to provide the organization's full legal name and tax identification number.

Of course, you would prefer that the estate planner talk to you and tell you about their client. Confidentiality rules prevent the planner from disclosing anything about their client unless the client specifically authorizes disclosure. Since most bequest donors don't disclose their intentions to charity prior to death, it is preferable to make bequest language widely available.

It can be persuasive if an attorney calls regarding bequest information if you inquire as to the donor's particular area of interest. This can lead to a conversation about insuring that the donor's wishes are carried out. This sort of discussion can head off gifts that are impractical or otherwise can't be accepted.

If bequest information is difficult to find or requires too much disclosure, you are inviting the prospect to select another charity. Bequest language should be on your organization's website in an easily found location, and included in all planned giving print materials. Print materials including bequest information should be available at all events, even if not planned giving related. At an annual donor dinner for example, remarks from the podium should include acknowledgment of those who have included the charity in their estate plans, even if not by name. Also, the emcee for the event should mention that print materials regarding bequest giving are available at the event.

Staff Training
There is little or no need for formal planned giving training except for those directly involved in fundraising. Nonetheless, everyone working for a non-profit who comes in contact with potential bequest donors should know how to handle a question about estate giving. At a minimum, everyone who hears about interest in an estate gift should know to make a referral to the development office. Doctors who have grateful patients, professors who have grateful alums, curators who encounter appreciative patrons should know what to say if estate giving comes up. If asked, "What can I do to help?" the answer should be "remember us in your estate plans."

Receptionists, secretaries, administrative assistants or anyone who is likely to be the first point of contact at a charity should know how to handle requests about outright or deferred giving. (Be careful. While I was working for a hospital I would get calls about making a "donation" at the donor's death. What the callers really wanted to know was how to make organ or whole body donations for medical research at their death!) The non-fundraising employee doesn't need to know the difference between a will or a living trust or the different types of life income plans. These important gatekeepers need only to insure that the deferred giving request gets to the development office.

Even in the development office, non-planned giving specialists don't need to understand estate taxes, probate, or the particular details of making an estate gift. Implementing a charitable bequest is generally going to require the donor to engage an impartial estate planning lawyer. Development staff should have a basic understanding of why anyone needs an estate plan and how to make that happen. It is common for prospective bequest donors to ask for recommendations of competent estate planning counsel. First, never make a "recommendation" of any particular professional. Frame the discussion as providing information or referrals, not a recommendation. If the donor is dissatisfied with a recommendation to a particular planner, it could reflect badly on the charity.

III. Obstacles to Bequest Donor Identification

The experience of most non-profits is that they only are aware of a minority of bequests prior to the death of the donor. The rate of self-identification varies somewhat depending on the type of charity, the total number of bequest donors (the smaller the program, the more likely that bequest donors have self-identified), and the efforts of the non-profit to identify bequest donors. Experience suggests that active bequest programs will be aware of only about 30% of bequests in advance of the donor's death. The size of the bequest does not seem to influence whether the donor self-identifies prior to death. Why are bequest donors so reluctant to tell charity that they are in their will or trust?

Confidentiality
The disposition of ones assets at death is a highly personal matter. It is not unusual for family members (even spouses!) not to be aware of a decedent's estate plan prior to death. The emotional and psychological barriers associated with estate planning deter people from making an estate plan in the first place. Once complete, people are loath to reveal the details of such plans prior to death for the same reasons.

Assuring the bequest donor complete confidentiality is one way to assuage their fears and disclose their bequest intentions. Of course these donors can be acknowledged as anonymous in external reporting. But what does “confidential” mean in your office? Does confidentiality mean that only select people have access to the donor’s information? Does it mean that the bequest intention is not generally publicized, but it is known to those in the development office?

Honoring the donor’s confidentiality also means not pressing for copies of the donor’s estate planning documents. Unless the donor places conditions on the charity in exchange for the bequest (name a building, create an endowment, etc.), there is little reason for the charity to press a donor for documentation of a bequest intention. Even in a case where the charity is expected to provide recognition for a bequest, the operative provisions relating to the charitable bequest are usually all the charity needs to see.

Flexibility/Irrevocability

The bequest is attractive to many, if not most, bequest donors because of its flexibility. A charitable bequest can be contingent on the occurrence of a certain event. For example, the charity may only receive the bequest if a donor’s spouse predeceases the donor. A charitable bequest need not be for a specific dollar amount. For example, a bequest may be for a percentage of the residue of the donor’s estate after specific bequests are satisfied. This flexibility gives the donor the assurance that their wishes will be carried out.

The key to flexibility for many donors is also that the charitable bequest is revocable. If a donor changes her mind or her circumstances change, her estate plan can be altered. This revocability is understandably a concern to charities that stand to benefit from charitable bequests.

If a donor reveals a bequest intention to charity and later changes her mind, the donor may be embarrassed or otherwise reluctant to change her plans. The bequest donor may worry the charity will pressure her to put the charitable provision back in her plans. For these donors, revealing the charitable bequest at all, regardless of the level of detail, could put the donor in an uncomfortable position. Reassurances from the charity that it will honor and respect the bequest donor’s ability to revoke may not comfort these donors.

Stewardship

Many charities encourage bequest donors to reveal their intentions so the charity can “celebrate” or “thank” the donor while they are alive. The concerns about flexibility and confidentiality trump the bequest donor’s desire for recognition or appreciation in most cases. The small number of known expectancies prior to death is evidence of the bequest donor’s reluctance to reveal her intentions.

For those who do self-identify their charitable bequest intentions, by all means celebrate the news through acknowledgment from your leadership at the highest levels. These gifts are significant enough to warrant recognition from your board chair and CEO. The traditional mechanism to acknowledge these donors is membership in your legacy society and the attendant stewardship that entails. That being said, it is a myth that the desire for stewardship or the perks associated with your legacy society are what motivate most prospects to reveal their bequest intentions.

There are certainly some bequest donors who crave the attention associated with revealing their plans. In most cases, however, the opposite is true. Don't dwell too much on the "special benefits" of membership in your legacy society to motivate prospects to self-identify. For those identified bequest donors, ongoing meaningful stewardship is important to stay in the donor's plans.

Motivating the Bequest Donor to Self-Identify
As an initial matter, don't get too excited about this advice. Despite best efforts, we've already established that the majority of bequest donors will not self-identify for reasons already discussed at length. There is at least one genuine, altruistic reason for the donor to let charity know there is a bequest expectancy coming. The charity needs to be sure it can carry out the donor's wishes.

Without knowing about a bequest intention before a donor dies, the donor is guessing and hoping that her estate gift will fulfill the donor's intentions and the needs of the charity. There are several flaws to the donor maintaining the confidentiality of her bequest. The donor may want the benefitting charity to do something that is outside the scope of the charity's mission. The intention could be impractical for the charity to carry out.

For example, in one case an avid opera fan created a trust, effective at her death, to underwrite the performance of certain operas. The opera company determined that these productions would be prohibitively expensive even with the support from the donor's trust. The opera company was permitted to substitute productions within the budget of the trust support instead. Had the donor discussed her intentions prior to her death, the trust could have been funded with assets sufficient to underwrite the productions she intended or otherwise made her intentions more flexible.

Errors in something as simple as the name of the organization to benefit from a charitable bequest are all too common. National charities with local chapters are frequently the subject of disagreements about whether the donor intended the national or local entity to benefit. Organizations with similar sounding names are often confused. (For example, Berea College is in Berea, Kentucky. Baldwin-Wallace College is in Berea, Ohio. Poor drafting has led to confusion over which college should benefit from a bequest for "Berea College in Berea, Ohio.") Inclusion of the tax identification number as well as the name of the charity can head off much of the confusion regarding names of the charity.

There are sufficient examples in the cases litigated over donor intent to make it clear that bequest donors and the benefitting charities should negotiate <u>before</u> the death of the donor, not after. These litigated cases are notable because of the size of the gifts involved. The majority of these cases involve many millions of dollars. It is reasonable to also conclude that estates involving far less money have also been the subject of disagreement, but have not made it to the point of being reported cases.

IV. Talking to prospects and motivating them to action

a. Starting the conversation

Planned givers share certain field marks, characteristics they have in common, but once identified, a prospect must be matched with the planned gift vehicle appropriate for the prospect.

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.

It is the tendency of planned giving professionals, particularly those with legal or financial backgrounds, to immediately engage the planned giving prospect in a discussion to determine the vehicle most appropriate for the prospect. As we've seen, the technical aspects of the gift discussion are the last part of the conversation. These gifts are driven by emotions that engage the donor's passion.

The place to start is uncovering the source of the passion that will drive the gift decision. An effective way to reveal a donor's motivation is to let them tell their story. Certainly no later than the qualification phase of engaging a prospect, ask them why they support or otherwise engage in your organization's mission. Ask open ended questions, sit back, and let them tell their story.

Consider opening with questions like:

- What inspired you to make your first gift to our charity?
- How did you become involved with us?
- Of all the things our organization does, which ones do you consider most important? Why?
- There are other organizations with missions similar to ours. Why did you choose to become involved with us?

It is likely someone who has already provided financial support for your organization will feel particularly engaged with an aspect of your mission. Food bank donors may be passionate about child nourishment, but less concerned with job skills training the charity may offer. An academic medical center may conduct research in many areas of concern, but the donor is passionate about early detection of breast cancer.

The stronger the engagement with the donor's passion, the more likely the donor is to consider a planned gift. The challenge for all fundraisers, not just planned giving specialists, is the pressure to raise unrestricted dollars. The problem of encouraging unrestricted giving is particularly acute in the case of planned gifts. If including charity in long term plans raises that charity to the status of family, a broad request for general support is hardly likely to tap into the emotions that drive planned gifts. The donor must feel that support for a charity will fulfill an important need in their life. Only then will the donor be motivated to take action to include charity in her plans.

b. Overcoming inertia

Engaging in the process of planning one's estate forces a person to confront an array of unpleasant topics. Estate planning requires contemplating the things we don't want to focus on. The primary stumbling block is confronting one's own mortality. The process can also shine a light on dysfunctional family issues, favoritism for certain family members, trust in one's family, friends and advisors, not to mention that it can be expensive.

The emotional and financial barriers are probably why so many people die without a will or estate planning of any kind. It's easier to avoid the topic altogether. Therefore, inertia resulting from avoidance is a major obstacle to getting a donor to take action even if she is passionate about your mission.

Making the Planned Gift Decision ***Easy***

One way to overcome inertia is to offer easy ways to make planned gifts. Beneficiary designations on retirement accounts, life insurance, commercial annuities, and other financial accounts are an easier and less stressful way for a prospective planned giver to take action than adding a charitable bequest to a will or living trust. Completion of a relatively simple beneficiary designation form is all that is needed to leave a gift to charity.

Qualified retirement plan assets are particularly appropriate for estate giving because of the tax burden on those assets at death. 401(k)s and 403(b)s are the most common examples of what are known as qualified retirement plans. By the time a donor dies, most qualified plans have been transferred into self-directed IRAs. These plans are funded with pre-tax dollars and grow free of income and capital gain tax, which makes them valuable sources for funding charitable gifts.

The rules on distributions of IRA assets can create a significant tax burden on the plan owner and her named beneficiaries. The worst possible result is for the plan owner to name her estate as beneficiary of an IRA. The retirement plan is included in the gross estate for estate tax purposes. In addition, the retirement plan is reported as income on the plan owner's death as if she took all of the assets out of the account and triggered income tax on the entire account balance.

The increase of the estate and gift tax exemption to $5,430,000 with the ability to automatically double that exemption for a married couple has made all but a very few Americans concerned about estate taxes. Income taxes on the other hand are at a relatively high level, with a top bracket of 39.6%. The more tax-wise thing for an IRA owner to do at death is to transfer her IRA to a new "rollover" IRA for the benefit of her heirs. That avoids the income tax being due at the time of the plan owner's death. But the rollover IRA is just delaying the inevitable. Eventually the beneficiary of the rollover IRA will have to take the money out of the account and that withdrawal will be taxable at ordinary income rates. Anecdotally, many of those who inherit rollover IRAs will often "raid" the IRA and pay income taxes. Despite the donor's careful planning, the heirs could upset the plan and generate significant income taxation.

But if the donor makes the IRA payable to charity upon her death, the value of the IRA is deductible as a charitable contribution on the donor's estate tax return. The IRA is therefore not included in the donor's taxable estate. Because the income is payable to a tax-exempt entity, the income taxes are not reportable. The IRA gift for the benefit of charity avoids both the estate and income taxes otherwise due. Considering the tax cost to transfer IRAs to heirs, the IRA gift to charity costs the heirs little when compared to other assets.

While every planned giver should be encouraged to consult a professional advisor, even when changing a beneficiary designation, the reality is that most donors won't seek advice. The cost and the time required to engage the assistance of an attorney or accountant is one of the barriers to overcoming donor inertia. Even though the donor <u>should</u> consult an advisor before making changes to beneficiary designations, many donors will make changes without seeking advice.

Another way to overcome donor inertia, particularly with beneficiary designations, is to suggest that the donor consider making charity a beneficiary of only a portion of the financial account. Acknowledging that the donor has multiple personal and philanthropic priorities increases the fundraisers credibility as being genuinely focused on the donor's goals.

Making the Planned Giving Decision ***Urgent***

The Legacy Challenge

Some charities have had success with creating a sense of urgency to encourage donors (and fundraisers) to focus on planned giving. A national disease charity set a goal to acquire 100 new legacy society commitments in a seven-month period. Every commitment to include the charity in one's estate plan would result in an immediate matching gift of $1,000 to support current disease research. The current gifts were provided by planned gift donors who were passionate about encouraging others to consider including the charity in their estate plans. The challenge generated 128 new notifications of estate commitments. This represented an 83 percent increase in known bequest commitments over the prior fiscal year.

A legacy challenge can be structured in a number of ways. In the example above, a group of donors agreed to make outright current gifts for every bequest intention realized. You may have a board member or donor of significant means who would like to see more planned gifts or would like to increase the charity's endowment and who would be willing to sponsor a match. The donor would have to understand the rules of the match. Do planned gifts that existed prior to the pledge count against the match? Is there a dollar minimum on a gift to qualify for the match? Do beneficiary designations count as well as bequests from wills and trusts? Do the commitments have to be irrevocable? What kind of documentation is required to qualify for the match: mere notification or complete copies of executed estate documents?

The general rule is to err on the side of inclusion. Qualification for the match should have few obstacles to overcome. Motivating donors to undertake the estate planning process is hard enough without creating additional roadblocks. On the other hand, the donor providing the match needs to feel like the match has motivated gifts that will be of lasting significance. An approach that is too liberal trivializes the importance of the match.

The match that results in a current gift on identification of a qualifying commitment is probably the most compelling. Estate gift donors are often apologetic that their gift will not be realized for many years. The immediate matching gift can make a difference for your organization today. The challenge match could be that the donor increases his or her gift. Such a structure is probably not as compelling. But a material increase in the challenge donor's gift could be effective as well. The match should be time restricted to increase the urgency of the match. That being said, the lengthy process required to plan an estate argues for a comparatively long time to complete the challenge, for example a year-long challenge period.

The challenge can create an urgency on the part of planned gift donors to overcome the obstacles holding them back from engaging in the charitable planning. Some would argue that many of these gifts may have already been in place. The challenge merely motivated the donor to disclose planning that was completed before the challenge happened. Certainly that may have been the case for some of these newly identified commitments. There are likely others for whom the challenge was the tipping point to get them to finally take action. Why does it make a difference if these are mostly notifications of planning already in place? The charity now has new planned givers to engage in its mission and steward so the charity stays in the estate plan.

Endowing the Annual Gift and Virtual Endowments

Another way to create a sense of urgency on the part of the bequest donor prospect is to tie into the importance of the donor's annual support. Let's say an annual fund donor has been contributing $1,000 a year for a long time. Discuss with the donor how they can endow their annual gift. The idea is that the donor leaves an estate gift that is large enough to replace her annual support in perpetuity. A gift of $20,000 to an endowed fund with a 5% spending policy would generate an annual distribution from the endowment of $1,000 replacing the donor's annual gift. The endowment is established essentially in perpetuity. The endowment will live on long after the donor has passed.

Endowing an annual gift can also be a way to honor or memorialize a loved one. For example, a donor has been making annual gifts of $2,000 to underwrite the cost of an award named in memory of her late mother. The donor is a woman of modest means and couldn't create an endowment during her life sufficient to generate the award. The donor provides that at her death, her estate will make a gift of $40,000 to establish an endowment that will underwrite the award. The endowed gift can provide ongoing support for the annual award that celebrates the life of her mother, even after the donor's passing.

This example also highlights the concept of the virtual endowment. The concept is that the donor will provide the cash flow to fund the payments from the endowment in the form of an annual gift. Upon the donor's death, an amount sufficient to fully fund the endowed fund is made to the charity's endowment. The donor gets to see the endowment at work during life, and the charity is able to celebrate the donor's generosity while the donor is still around.

Create a Legacy Gift Campaign

For many charities, fundraising campaigns have become a way of life. Campaigns have the ability to focus philanthropic interest in a particular area of need. Most commonly, campaigns are conducted to raise capital for building projects. The momentum needed to get dollars in the door is easier to generate when contractors need to be paid and the charity needs new facilities.

Some capital campaigns also include an endowment component. The new facilities will require resources to cover operating and maintenance expenses. Some charities engage in pure endowment building campaigns. Endowment gifts are often, but not always, funded from planned gifts, including wills and trusts. But as with all campaigns, the current cash goals drive the activity of the endowment as well as the capital campaign.

Consider creating a legacy gift campaign. A legacy gift campaign is unlike a legacy challenge in that there is not a donor making matching gifts to motivate estate gifts from others. The legacy gift campaign differs from a capital campaign in that there are not current cash goals. (But if a donor wants to make a current gift, they shouldn't be turned away!) The legacy gift campaign will also differ from the endowment campaign in that there will not be a stated dollar goal to the campaign. The goal of the legacy gift campaign is to materially increase the number of estate commitments to benefit the charity.

The legacy gift campaign could be structured similarly to other fundraising campaigns. The quiet phase would be to approach the organization's closest friends, senior staff, board members and certain key donors. After obtaining commitments from this internal constituency, the campaign would turn its attention to the general public.

The goal of the campaign is to get a signed letter of intent that the donor will create a deferred gift to benefit the charity. The donor also states in the letter of intent the date by which they anticipate having the deferred gift in place.

Just as with other campaigns, the entire development staff, and potentially volunteer solicitors as well, will make the legacy gift the primary focus of their development efforts for some fixed period of time. Establish a goal for the number of letters of intent for the campaign and set a time limit within which the goal will be achieved.

The goal for the number of letters of intent should be a stretch for the organization to achieve. For example, if the charity normally gets ten bequest intention notifications of a year, set a goal of 40 bequest intention notifications in a 2-year period. Just as with capital campaigns, the stretch goal pushes staff and donors to achieve far more than they thought possible. A legacy gift campaign is a good way to bridge the gap between campaigns focused on current gifts. Donor fatigue tends to set in during campaigning. Many donors will be relieved when they realize they don't have to write a check or transfer assets now to meet the charity's legacy gift goals.

V. Conclusion

Since bequests are the largest source of planned giving revenue it makes sense to devote time and resources to this important revenue stream. Continuously market bequests, educate prospects, and solicit bequests from your donor base. Target those prospects who exhibit the characteristics highly correlated with bequest giving. Be prepared to overcome prospect inertia. Proactively encourage bequest giving by making the bequest decision easy, compelling, and urgent. Your organization will benefit substantially as a result.