April 2014
Vol. 47 No. 4

GIVE & TAKE®

Ideas and Insights from the Sharpe Group

WASHINGTON • MEMPHIS • SAN FRANCISCO

What Goes Up Can Come Down

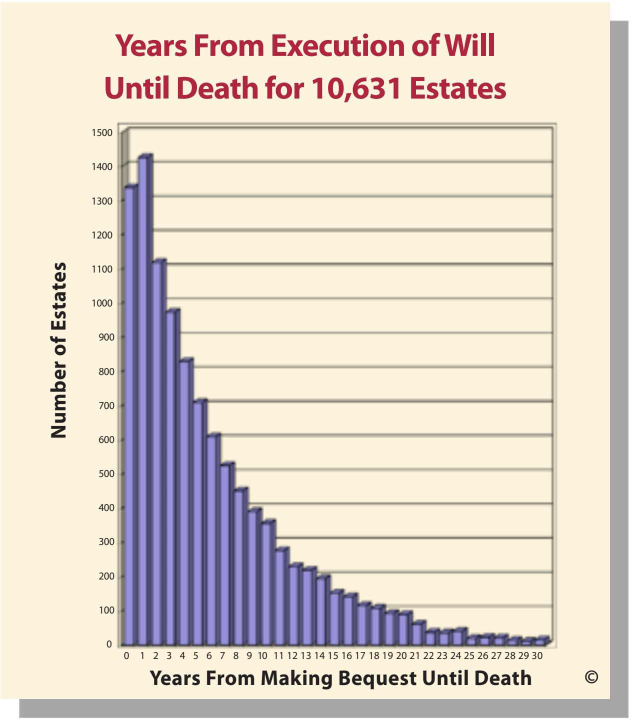
By Robert Sharpe

Over the course of my career, I have often been asked by nonprofit development executives, financial officers, board members and others how long it takes for efforts designed to encourage bequests and other planned gifts to produce a return on investment (ROI).

Common wisdom in the field is that a planned gift development effort can be expected to begin yielding measurable results in as little as three to five years. A number of factors can materially affect that outcome, including the demographics of a particular constituency and the level of marketing and stewardship efforts. If metrics that include new estate commitments are included, the "return" on investment can be almost immediate. For purposes of this article, however, we will focus on results as measured by actual distributions received from estates.

Following the data

Over the past 50 years, Sharpe consultants have analyzed thousands of actual estate gifts received by scores of organizations and have accumulated a repository of data known as the Sharpe KnowledgeBase℠. This data indicates that the most common time period between the execution of a will that contains a charitable bequest and the donor's death is just one year. See the chart at right for an analysis of one group of more than 10,000 representative estates from a large number of organizations of different types.



When situations in which a donor dies the same year the final will is executed are also considered, the data indicates that some 25 percent of bequests nationwide come from those who pass away within one year of executing the will. Just over 50 percent of bequests come from those who pass away within four years of signing their final will and 83 percent within 10 years.

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SHARPE GROUP®

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These statistics are borne out by findings in recent studies[1] by Professor Russell James of Texas Tech University, whose longitudinal study conducted over a 20-year period found that 85 percent of bequest dollars are received from those who pass away after age 75 and 50 percent of those bequests are received within five years of the date the final will was completed. According to Dr. James's research, in more than 50 percent of cases, bequest donors reported having plans with no charitable beneficiaries within five years of death.

Those who find these statistics surprising may want to test them against their own experience. Simply look at charitable bequests received over the past few years and compare the date of the execution of the will with the date of the donor's death. Over more than 50 years of study of these factors, the Sharpe Group has rarely found an organization's experience to deviate from these norms in any appreciable manner.

The reasons for this phenomenon involve the interplay of several factors: gender, marital status, wealth, absence of children, mortality concerns and other determinants.

Keep these facts in mind

The key to influencing bequests and other planned gifts, and in so doing maximizing return on investment over a relatively short time frame, is to be aware of a few truths that guide many of the most successful programs.

1. Studies indicate that as many as 50 percent of Americans die without a valid will. In such cases, there will obviously be no charitable distributions at death. This is why it is important to keep information about the need to make or update a will or other estate plans in front of an appropriate group of donors on a regular basis.

   Those persons who do execute a will normally only do so a limited number of times. The dates wills are executed often coincide with major life events such as a change in marital status, the arrival of children or grandchildren, impending retirement, awareness of approaching mortality or the death of a spouse or other loved one.

2. Persons who have never married or had children typically execute fewer wills over the course of their lifetime than others. They generally execute their final will in the face of illness or advanced age when they are confronted with the fact that inflexible state laws may cause their assets to be distributed to relatives they may not even know. This is an important fact to be aware of, as this group is among the most likely to leave charitable bequests in their final wills.

3. The timing of the final will varies for each individual and is not predictable in any given case, so consistent communication is vitally important.

For these and other reasons, the most successful programs know it is vital to keep messages encouraging bequests and other planned gifts in front of those donors who are statistically most likely to soon be making their final wills.

4. As obvious as it may seem, charities that are included in final wills are the ones that are most important to the donor at that point in time. These are the charities that come to mind when donors are asked if they would like to include charitable provisions in their estate plans.

For these and other reasons, the most successful programs know it is vital to keep messages encouraging bequests and other planned gifts in front of those donors who are statistically most likely to soon be making their final wills. In addition, if proper stewardship is not undertaken, a particular charitable interest may not be top of mind when the donor is executing the final will, increasing the risk that the charity will be left out even if it had been listed as a beneficiary in a previously executed will.

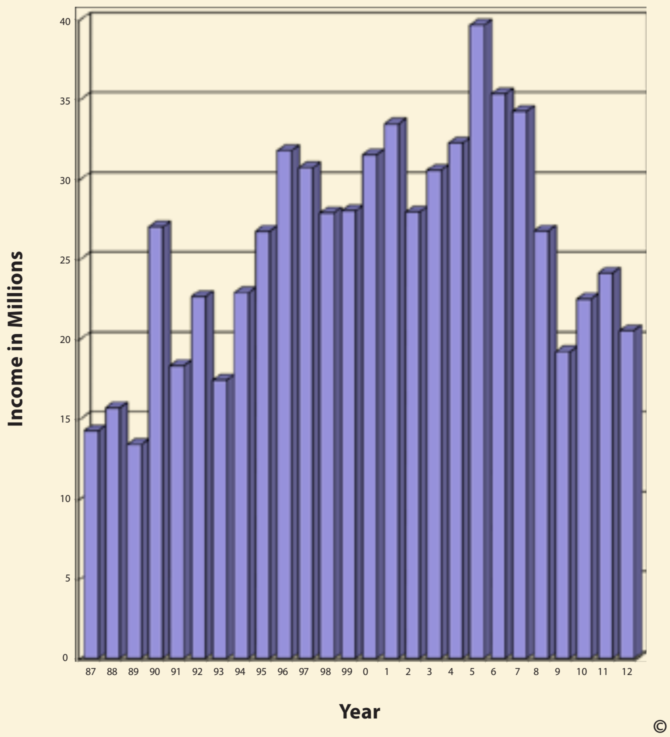
Trimming costs or trimming income?

What does all of this mean at a time when many charitable entities are looking for ways to trim budgets without causing a near-term reduction of income? In too many cases, management and volunteers may conclude that cuts in planned gift marketing and stewardship budgets are "safe" because it could be many years before the impact of these cuts will be felt. Makes sense, right?

Not so fast. What goes up in three to five years can come down just as quickly. Consider the economy. It has now been a full five years since the onset of the Great Recession and the budget cuts many nonprofits experienced in its wake. If effective planned gift marketing and communications efforts can show benefits in three to five years, then logic dictates we should now be seeing the effects of neglect where inappropriate cuts were made.

Note the dip in bequest income experienced by the following organization that dramatically reduced its bequest marketing and stewardship efforts in the mid-2000s.

XYZ Organization Bequest Income 1987-2012



At this organization, bequest donors on average do not make their first gifts to the organization until their mid to late 70s. The organization attempted to save costs by dramatically reducing new donor acquisition efforts while simultaneously decreasing its planned gift marketing and stewardship efforts. Reductions in new donor acquisition and other expenditures in this case led to a precipitous decline in bequest income within a matter of a few short years, following a 20-year period of solid growth.

Is this an isolated case? Unfortunately not. The chart at right shows results from another organization that had enjoyed strong growth in bequest income for many years before experiencing a sharp decline.

This organization not only cut back on new donor acquisition to some extent but also abruptly switched its planned gift marketing from print to online e-marketing beginning in 2005. Unfortunately, this organization did not realize that the average age at the time donors fund gift annuities is 79 and bequest donors, as noted previously, are normally in the same age range when making their final will.

The switch to email-based marketing took place at a time when less than 20 percent of persons in that age range were online. Recent Pew Foundation reports reveal that 62 percent of persons over age 77 are still not online. As a result, this organization inadvertently stopped communicating with as many as 80 percent of its prospective planned gift donors.

Bequest income and numbers of realized bequests both dropped by significant amounts within three to five years after traditional marketing was curtailed. Similar results were experienced in the numbers of new gift annuity commitments.

While this organization increased web traffic from younger persons seeking free will planning kits and discovered a number of bequest intentions from younger persons with life expectancies of 25 years or longer, this approach had little or no impact on donors over 75, the majority of whom were not and are still not online.

Unfortunately, now that this strategy has proven to be harmful, it will take another three to five years to arrest the decline and effect a meaningful reversal. By that time, the program will have experienced 10 years of interruption in growth and approximately $50 million in lost bequest revenue, all to save a small fraction of that amount on more age-appropriate marketing and stewardship efforts.

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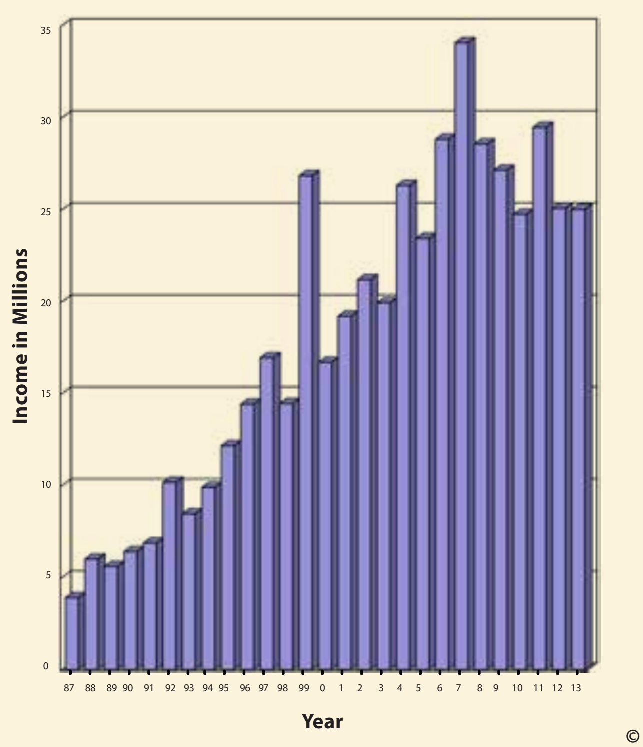
ABC Organization Bequest Income 1987-2013



What Goes Up Can Come Down

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Sharpe Gift Planning Matrix©

	YOUNGER	MIDDLE-AGED	OLDER
WEALTHY	**A1** Gifts of Cash Appreciated Property Charitable Lead Trusts Life Income Gifts for Others	**B1** Gifts of Cash Appreciated Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others	**C1** Gifts of Cash & Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others Charitable Trusts for Life Bequests Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary
MODERATE MEANS	**A2** Gifts of Cash	**B2** Gifts of Cash Appreciated Property Term of Years Trusts Charitable Trusts for Life Pooled Income Fund	**C2** Gifts of Cash & Property Bequests Charitable Trusts for Life Term of Years Trusts Pooled Income Funds Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary
LIMITED MEANS	**A3** Gifts of Cash	**B3** Gifts of Cash	**C3** Gifts of Cash Bequests Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary

Where is the balance?

In the current environment, pressure to spend fundraising dollars wisely will continue, if not intensify. Cost-effective solutions will differ for every program. The place to start is by knowing the age and wealth of your donors. The Sharpe Gift Planning Matrix© was developed a number of years ago to help facilitate this process.

Where bequest and other age-sensitive gift planning options are concerned, savings can be effected and results increased by focusing limited resources on the oldest among your constituency. Don't neglect younger donors, however. A younger donor who reveals a bequest intention can be an excellent source for ongoing giving, including major gifts in some cases. The bequest concept can be kept in front of younger donors through "background" marketing such as gift acknowledgment inserts, ads, articles, tag lines of stationery and other means that are less costly than targeted communications. Online marketing can also be a cost-effective way to plant seeds that will bear fruit in decades to come.

The correct tool for reducing planned gift marketing costs is a scalpel, not an axe. Careful adjustments of marketing and staffing levels should only be undertaken after a thorough study of the demographics of your constituency and consideration of your mission. The goal should be to reduce costs in the near term in a responsible manner without causing a negative impact on funds received in the future. G&T

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Notes

1. *American Charitable Bequest Demographics* by Dr. Russell James. Available at sharpenet.com/resources/white-papers

Sharpe Group President Robert Sharpe will be speaking at the American Council on Gift Annuities conference, held in Baltimore April 9-11. His plenary introduction presentation, "Trends in Planned Giving," is the basis for this article.

Robert Sharpe

Show Donors the Best Ways to Give Through Their Wills

Is your organization among those that are actively and effectively encouraging bequests as a vital source of funding? To help in the process of donor education and motivation, the Sharpe Group offers a series of materials on bequests and estate planning. Designed with the senior donor in mind, these brochures and booklets help you provide your constituents with the information they need to make smart decisions about their long-range estate plans.

Studies have shown that many bequest donors learned about charitable bequests by reading materials sent to them by a charitable interest. Make sure your organization has laid the groundwork for encouraging bequest gifts.

Brochures can reach a wide audience

Sharpe's six-panel brochures on the topic of bequests offer a cost-effective way to reach a large number of donors. Consider periodically communicating with all of your older donors who meet certain criteria, such as those who have made a gift of any size in the last 24 to 36 months or those who have demonstrated a long-term commitment to your institution through a series of gifts over the years.

"Has Congress Changed Your Will?", available in two attractive designs, highlights the need to periodically review estate plans in light of actions recently taken by Congress.

"Questions & Answers About Wills and Bequests" provides answers to the most common questions donors often have on the topic.

Booklets can provide donors with answers

Sharpe also offers a number of booklets with more in-depth information geared to helping donors with their estate planning.

Giving Through Your Will shows a donor who is considering a charitable bequest the various ways to structure the gift and includes a worksheet for donors that guides them through the "Four Ps" of estate planning as they plan their will: people, property, plans and planners.

How to Make a Will That Works includes 38 frequently asked questions about wills along with thoughtful answers to each.

How to Protect Your Rights With a Will outlines what happens to property in the absence of a will and shows how a will can help the donor accomplish long-term goals.

37 Things People "Know" About Wills That Aren't Really So dispels common misconceptions about what a will can and cannot do.

All Sharpe publications may be personalized for your organization—either with your information on the front and/or back covers or through a custom cover and text created in partnership with Sharpe's team of designers, editors and consultants.

Call **901-680-5300** to speak with a Sharpe representative or visit **sharpenet.com** to learn more about Sharpe's wide assortment of brochures, booklets, newsletters and other services. G&T

> "Excellent two days. I feel like I am leaving with some key tools to put in place when I get back to my office."
>
> —Denise Bartolotta, Chicago Zoological Society

2014 Dates for Sharpe Group Training Opportunities

An Introduction to Planned Giving

Learn how to build your planned giving program. Discover the keys to effective communications with your donors. Examine the donor life cycle and how you can help donors make larger gifts today and plan future gifts through bequests, trusts, gift annuities and other techniques. Learn to work effectively with those 65+ who may make up much of your donor base—or soon will. This seminar is appropriate for those who are laying the foundation for a successful gift planning program or are looking to improve the effectiveness of an existing program.

Washington • June 2-3
New York • October 13-14
Chicago • December 8-9

Gift Planning Fundamentals

Who makes the larger gifts and why? Help donors understand the best asset to give, the best way to transfer it, and how timing can affect the size and tax benefits of the gift. Increase your knowledge and understanding of the what, when and how of various gift planning vehicles for maximum gift value and return on investment. Register for this seminar if you are new to planned giving responsibilities and need to learn gift types in more detail or if you could benefit from a refresher course.

New York • July 14-15
Chicago • September 15-16

Integrating Major and Planned Gifts

Learn how major and planned giving can work together for positive results; how to help donors make the best gifts for their age, wealth and other factors, while meeting your current, capital and endowment needs; how to interpret a donor's verbal and non-verbal clues to determine which giving option is right and how to help donors make larger charitable gifts that might not otherwise be possible due to personal planning concerns. This seminar is for you if your organization has both departments and would like to bring everyone together, or if you or others are responsible for both major and planned gifts.

Boston • May 5-6
San Francisco • August 18-19
Washington • November 6-7

See full agendas and register at **sharpenet.com/training** or call **901-680-5318** with questions. G&T

Surprising Gifts Can Come From Loyal, Long-Term Donors

The news is filled with stories of wealthy individuals who make substantial bequests to charity during their lifetimes or through their estates. Consider the Giving Pledge initiative, conceived by Warren Buffett and Bill and Melinda Gates four years ago. The number of billionaires who have committed to give away at least half of their fortunes has risen to well over 100 and includes such famous names as Mark Zuckerberg and Ted Turner.

High-profile donors get their fair share of the spotlight, but they are not the only individuals making a difference. Many donors like to "fly under the radar," maintaining modest lifestyles and shunning attention. Such donors often make smaller charitable gifts in life followed by surprisingly large bequests.

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Consider these recent "millionaire next door" bequests:

- Jack MacDonald, a Seattle attorney who died in September at age 98, lived frugally while quietly amassing a fortune.

  At his death, it was announced that a $187.6 million charitable trust had been established to split the trust's interest income among three charitable institutions: 40 percent to the Seattle Children's Research Institute, 30 percent to The Salvation Army Northwest Division and 30 percent to the University of Washington School of Law.

  Mr. MacDonald had no children of his own and his wife, whom he married in his late 50s, passed away in 1999. He lived simply and built his wealth in the stock market by investing his salary and funds inherited from his parents. Mr. MacDonald lived in a modest one-bedroom apartment and was known to clip coupons and visit multiple grocery stores to take advantage of the best deals. His stepdaughter recalls that he purposely wore sweaters with holes at the elbows in order to disguise his wealth.

  During his lifetime, Mr. MacDonald regularly supported a number of local charities and at one time made a gift of over $500,000 to Seattle Children's. Nevertheless, the three institutions benefitting from the charitable trust were surprised by the size of his final gifts, which are the largest ever received at each.

- Mary Bailey, a widow whose husband died in World War II, spent much of her time at the East 58th Street branch of the New York Public Library system and walking through Central Park. When she died at age 88 in 2011, the Library and the Central Park Conservancy learned that Ms. Bailey had left them each $10 million.

  Ms. Bailey inherited her wealth from her mother's family, which was involved in the manufacturing of the marbleized composition books used in many schools. Despite her wealth, she did not behave like a typical heiress, avoiding the spotlight and preferring the bus to taxis and outdated furniture to designer pieces.

  Ms. Bailey quietly donated to both institutions for years, but she made no gifts to either that would indicate her intention to leave such substantial bequests.

- When Grace Groner passed away at the age of 100, no one suspected she was a millionaire. She lived modestly in a one-bedroom home a friend had willed to her and had worked as a secretary for Abbott Laboratories for 43 years. What no one knew was that the 1931 Lake Forest College graduate had made a $180 stock purchase in 1935 that had grown to a fortune of $7 million by the time of her death.

  Ms. Groner had previously made donations to support her community, including a $180,000 gift to Lake Forest, but the size of the $7 million bequest to Lake Forest was completely unexpected.

While it is clearly important to maintain relationships with donors who are not reticent about displays of their wealth and welcome recognition during lifetime, do not overlook other loyal, long-term older donors. Proper stewardship of such donors may not only lead to rewarding personal relationships but may also yield surprising bequests. G&T

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