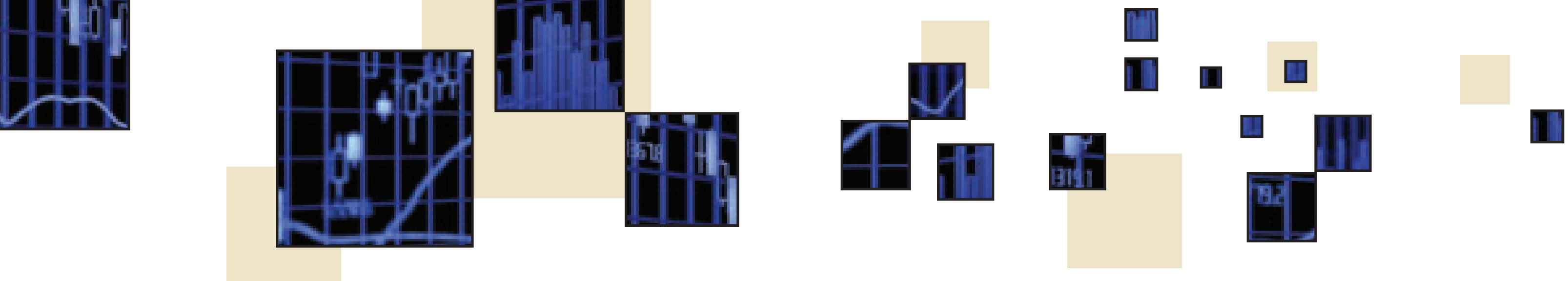


## The Case for Gift Planning: Analyzing the Cost to Raise a Planned Gift Dollar

*Kristen Dugdale*

When I entered the industry in 1997, I came to a program with an almost 15-year history in gift planning. It was the start of an economic boom, and every major fundraising effort had a department focused on raising deferred and complex outright gifts. During the bear markets of 2002 and 2003, however, resources tightened. The University was faced with steep budget cuts, as was the Foundation. The already pressing need for current dollars became even more pressing. As our trusts and annuity pool began to lose value, direct questions arose over the real impact the gifts would have at termination. For the first time in our organization, we began to question whether it made sense to put current resources into a program that focused on deferred gifts.

We were certainly not alone. As I attended the NCPG National Conferences in 2002, 2003 and 2004, I spoke with colleagues across the country facing similar issues. I attended a wonderful session presented by Betsy Mangone and Cynthia Krause detailing the results of a survey they conducted which showed (among other things) a trend in fundraising shops to “blend” major and planned gift functions, with the result being a smaller “gift planning” effort insofar as “gift planning” implied deferred gifts only. My colleagues and I discussed at length the challenges of advocating for more resources to our programs. During these “stressed times,” some programs felt the need to cut back in gift planning, and others saw a strong need to actually *increase* gift planning efforts (but, beyond anecdotal or qualitative hunches, could not explain why).

During this time, I could not find a good article or presentation in the industry that helped answer tough questions we were facing at the CU Foundation in a *quantitative* way. Does gift planning still make practical sense? Is it too complex? Does it carry too much liability/risk? What is our return on investment in gift planning? How can you quantify the lost opportunity cost of putting current dollars into a program that yields future results, and does the ultimate gain offset more immediate costs? What is the real cost and benefit of gift planning to our organization?

NCPG was very helpful in formulating its *Valuation Standards for Charitable Planned Gifts*. That was a standardized method to evaluate the estimated impact of our deferred gifts at termination. NCPG’s *Guidelines for Reporting and Counting Charitable Gifts* also helped answer questions about the importance of gift planning in an overall campaign effort at a time when those of us in higher education were also managing questions about the new Council for Advancement and Support of Education (CASE) *Management Reporting Standards*, which did not provide for a method of reporting on revocable deferred gifts. Although these task forces provided all the ingredients to the recipe, I still did not have a road map to the finished product. How could I make the

**Abstract:** The author describes the efforts of her department to communicate the benefits of planned gift fundraising to the organization’s managers, highlighting both the qualitative and quantitative case for the program. She details her method for determining the cost to raise a planned gift dollar. Syllabus for Gift Planners code: 4.01.04

case for more resources in gift planning? Did I still believe a gift planning effort made sense? Could I (both qualitatively and quantitatively) make that case to the senior management at the Foundation?

When new senior management came to the Foundation in 2006, we were presented a renewed opportunity to take a close look at the gift planning group's budget and fundraising goals. With the help of several esteemed professionals in our industry, the *qualitative* case for gift planning was easy to make. However, it was our chief financial officer who helped guide us to the structure he was looking for in making the *quantitative* case. Both are discussed below. After making an effort to look at our history and setting reasonable expectations for the future, we (together with senior management) created a quantitative way to measure the department's success going forward, and endorsed again the importance of gift planning to the overall fundraising efforts of the CU Foundation. New resources were allocated to the department.

## Background

Over its 24-year history, the gift planning program at the University of Colorado Foundation has amassed an almost $50M life income portfolio, more than 418 documented bequest expectancies, and more than 900 current members of the Heritage Society. The Gift Planning Group contributed approximately $165 million (or 23 percent of total gifts, after netting out our largest gift) to the last campaign. Regardless of this success, because of the need for current dollars at the University, and because of the expense and liability incurred in maintaining a gift planning effort, all agreed that it was healthy and appropriate to look at whether it made sense to continue putting resources toward our gift planning effort for the next campaign.

## The Qualitative Case

Several individuals in our industry gave me advice for making the *qualitative* case for gift planning at the CU Foundation. I am forever grateful for their willingness to share their insights with me. I am also grateful for those who published articles that I greatly relied on in making our case.

The University of Colorado has enjoyed 130 years of fulfilling its mission of teaching and research. It will continue its mission for hundreds more

### Resources

Making the Qualitative Case for Charitable Gift Planning
"The Compelling Case for Planned Giving," by G. Roger Schoenhals, *Planned Giving Today*, November 1995

"Ten Rebuttable Presumptions About Planned Giving," by Tom Cullinan, *Planned Giving Today*, January 2002

"Examining the Role of Planned Giving in Capital Campaigns," Robert F. Sharpe, Jr., *Give & Take*, January 2002.

Donor Characteristics and Trends
"How to Successfully Navigate the Planned Giving Paradigm Shift," Cynthia Wilson Krause and Betsy Mangone, *Proceedings of the National Conference on Planned Giving*, 2004 (available in PDF format in the NCPG Online Library)

"Maximizing the Benefits of Your Gift Annuity Program," Frank Minton, *Proceedings of the National Conference on Planned Giving*, 2003 (available in PDF format in the NCPG Online Library)
*Planned Giving in the United States: A Survey of Donors*, National Committee on Planned Giving, 1991 and 2000. (More information on this survey is available at www.ncpg.org/resources/donor_survey.asp?section=5. The report of the 2000 survey is available for purchase; the 1991 survey report is out of print.)

The Foundation has historically calculated and reported the *overall* cost per dollar raised (i.e., our costs divided by the total of ALL our fundraising efforts). However, we determined that because of the uniqueness of a deferred gift effort, it made sense to pull gift planning out of the overall economic analysis of the Foundation's fundraising effectiveness and look at the economics of gift planning on a stand-alone basis.

years. Completing that mission will require not only current resources, but a continual flow of resources into the future to supplement what can be raised currently. The CU Foundation best serves the University of Colorado when it both raises current gifts, and creates a strong pipeline of deferred gifts. It was, in fact, this pipeline of maturing deferred gifts that helped "buoy" gift totals during the recent hard economic times.

In addition to meeting the University's short- and long-term funding needs, a gift planning effort also addresses the needs of our donors. The University's long history has developed an ideal constituency for a gift planning effort. With aging Baby Boomers, and an almost four-fold increase in alumni over the age of 75 (due to the effects of the GI Bill), we must be able to respond to all of our donors in helping them fulfill their philanthropic goals while not ignoring their financial and estate planning goals.

As we move to the next campaign, our Gift Planning Group has recommended identifying two sub-campaigns to which donors can make contributions. They might include a campaign for outright gifts and a campaign for deferred gifts (both revocable and irrevocable). Donors should be solicited for "blended gifts." In other words, every donor who makes an outright gift should be asked to also contribute in a significant way to the deferred gifts campaign (a "CU in the Future" campaign, for example). We recommended that development staff foundation-wide be directed and held accountable for raising not only outright gifts for their units, but to also identify and record deferred gifts (both revocable and irrevocable) for the future.

From a managerial standpoint, this type of campaign works best when unit-based development staff and gift planning staff share credit for individual gifts closed together. Our stated annual goal includes both gifts identified and closed by our department, and gifts for which we provide assistance to other development staff. Our goal is, in essence, a "shadow count" of the activity (both deferred and complex outright) happening on the campuses and in the individual units.

**The Quantitative Case**

With a full understanding of the qualitative case for gift planning, our CFO asked us to complete a cost-per-dollar-raised analysis for our department. This was in response to a request on our part for more resources directed toward our efforts. As we were between campaigns, we had the unique opportunity to look at our recent history, sharpen our pencils and do a thorough analysis.

That analysis showed that (at least at the CU Foundation) a gift planning effort will raise larger amounts in real dollars using fewer resources than the Foundation average. It is intuitive that donors may be able to give more at death than during their lifetime. It is also intuitive that donors may be able to give more of their assets irrevocably, if they are shown tools which help them keep or direct the income from their assets throughout their retirement or otherwise. But when you consider these larger gifts on a present value basis, do they cover the costs of maintaining a program to solicit and manage them?

The Foundation has historically calculated and reported the *overall* cost per dollar raised (i.e., our costs divided by the total of ALL our fundraising efforts). However, we determined that because of the uniqueness of a deferred gift effort, it made sense to pull gift planning out of the overall economic analysis of the Foundation's fundraising effectiveness and look at the economics of gift planning on a stand-alone basis. As such, we separated out the gift planning annual goal and ran a cost-per-dollar-raised analysis against the costs for the gift planning effort.

**Our Assumptions**

The first step in our analysis was to outline the assumptions.

**Stated Goal**

We started by setting an overall goal for the program for the next fiscal year. We set the goal by looking at the historical data on our program's performance since 1995. We recognized the importance of keeping track of historical results early on in our program. These numbers included all booked revocable and irrevocable gifts (see Worksheet, page 27).

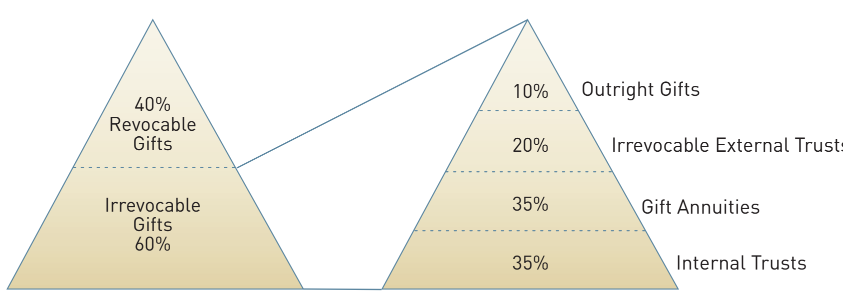
Some organizations may include both identified revocable gifts (those identified and recognized while the donor is alive) and realized revocable gifts (cash in the door at the donor's death) in their goals. Although our goal included newly identified bequests and other revocable gifts, our goal did NOT include realized bequests (realized at the donor's death), realized charitable remainder trusts and annuities, realized IRA distributions, or realized life insurance policies as we did not want to raise any concerns of double-counting or taking "credit" for gifts which come in "over-the-transom," or dollars realized which are not connected to the direct fundraising effort of our *current* development staff.

It should be noted, however, that over $60M came to the CU Foundation during the last campaign in the form of realized bequests. We all know that it takes real time and effort on the part of a gift planning staff to communicate with estate representatives and family members to "close" those dollars. It is also worth noting that a good portion of those dollars came in largely because of the 24-year history of our department, and our (and our predecessors') genuine efforts to encourage those gifts and "fill the pipeline." It is our responsibility, going forward, to ensure the pipeline remains steady. Finally, it should be noted that those dollars are included in total dollars raised on an annual basis in our *overall* fundraising totals. They go into the annual cost-per-dollar-raised analysis of the total program to which we were comparing our results.

The average annual amount raised since 1995 in the CU Foundation's gift planning department (net of realized deferred gifts) is approximately $15.2M. Our current goal is $13.4M. We set our goal for the next fiscal year at $15.5M, which would be a 15.6 percent increase over the last fiscal year goal. Although the historical numbers reflect dollars raised when markets and capital gains rates were high, the numbers also reflect dollars raised without a full-on gift annuity program, which we are just now implementing (only two percent of planned gifts in our last campaign came in the form of gift annuities). According to a presentation by Frank Minton at the 2003 National Conference on Planned Giving, almost 70 percent of annual new gift dollars were in the form of gift annuities during the calendar year 2002. In talking with financial institutions who administer gift annuities on behalf of charities, these numbers seem to be stabilizing around the 50 percent range.

**Goal Divided by Gift Type**

We then took our $15.5M goal, and split it by gift type in accordance with information garnered from the last campaign (see diagram). Each dollar goal by gift type was then assigned a present value, using the following assumptions.



**Average Horizon Per Gift Type**

Our average horizons per gift type were determined as follows:

**Charitable Remainder Trusts (both internal and external):** Trusts were given an average horizon of **20 years**. This number was derived by looking at the average of the remaining horizons on the trusts currently in our program. An argument could be made that this horizon is too short, as we did the analysis on data we had in a current spreadsheet and did not go back to each individual file to determine the original gift date. However, the assumed horizon could also be considered too long, as we did not include trusts which might have terminated early. As such, to be conservative, we added five years to the combined average horizon for the trusts.

**Gift Annuities:** Gift annuities were assigned an average horizon of **12 years**. Again, this number was reached by averaging the remaining horizon on all annuities in the current program. Because of the issues stated above for trusts, three years was added to the average horizon for gift annuities. In the case of gift annuities, we also considered the horizon (and American Council on Gift Annuities suggested rate) for a 75 year-old.

**Bequests and Other Revocable Gifts**: We made an assumption that about 50 percent of bequests we identify will be specific and about 50 percent identified will be either a residual bequest or a percentage of the donor's overall estate, which, by the way, is almost always larger than a specific bequest (see the article by Robert F. Sharpe, Jr., cited in the Resources sidebar). We then applied an annual total return of three percent to the amount of revocable gifts categorized as "residual," and carried the goal out to a projected future value. For both specific and residual bequests, we then calculated present values based on an assumed average horizon of 10 years.

This horizon assumption is arguably high. During our analysis, we had our Development Services department pull a report for us showing all recorded revocable gifts which had been later realized in the history of our organization. The average number of years between when the gift was recorded and when it was realized was only four years. Robert F. Sharpe, Jr., has pegged that number at about three years. We used 10 years in our analysis to ensure that we were looking at the most conservative estimates possible.

We did not, however, discount the revocable gifts in anticipation of some of those gifts not coming to fruition. This was due to the results of NCPG's Survey of Donors conducted in 1992, and updated in 2000. (See the Resources sidebar for more information about these surveys.)

The 1992 donor survey indicated that 92 percent of donors who designated a charity in their wills did not change the terms of the bequest, and 86 percent did not change the amount of their bequest. Of those who had changed the amount, roughly one in 10 did so to *increase* the overall amount of the bequest. Only one in 100 decreased the amount of the bequest. The rest of the donors made changes solely for "mechanical reasons." When asked why

*continued on page 26*

*Dugdale, continued from page 9*

they might have changed the charitable provisions of their estates, 51 percent of donor's said "assets and/or income had changed." Most compelling, 91.2 percent said they had never taken a specific charity out of their will.

Those numbers were reaffirmed in a follow-up survey of donors conducted in 2000. Nearly three out of four bequest donors indicated that they had never made any change in their charitable bequests, although 69 percent of donors indicated that they HAD revised other portions of their wills. Among those who did make a change in their charitable bequests, half did so only to increase the bequest amount. Fewer than one in ten decreased the amount, and the most common reason for doing so was listed as "a change in assets."

**Average Payout Rates, Investment Assumptions, Discount Rate**

We then made further assumptions for the analysis including an average payout rate for trusts and annuities (seven percent), average investment returns (nine percent for trusts and annuities, and three percent for residual and percentage bequest intentions), and an assumed discount rate (9.5 percent, which was derived by looking at the three-year return on our endowment assets).

**The Calculation**

Using the above assumptions, we took each gift type goal out to its estimated future value and then calculated the net present value of each. We then totaled each gift type goal for a present value amount of our overall fundraising goal (the "Net Present Value Total Goal"). We divided our current costs for the department into that number, including, but not limited to, salaries, gift annuity registration (for our new effort), marketing, and direct and indirect costs of trust management. In determining our cost number, we netted out any costs that the CU Foundation would incur to continue to manage the current trust program on the theory that if we decided to discontinue our efforts in gift planning completely, there would still be a cost for maintaining the current life income portfolio until depleted. The resulting number was the assumed cost to raise new gift dollars in gift planning ("Cost to Raise New Gifts").

By dividing the "Cost to Raise New Gifts" into the "Net Present Value Total Goal," we discovered that our **cost to raise a dollar in gift planning is 11 cents**. We have set a goal to defray certain costs in managing the current trust portfolio, which should bring our cost per dollar raised down to less than 10 cents on the dollar, *almost half that of the CU Foundation's current cost to raise outright gifts*.

We will go back to this analysis again and again to measure our actual performance against our costs, so that we might manage our costs and thus our total effectiveness.

**Conclusion**

What did this analysis teach us? If your organization is in a position to wait for the termination of established deferred gifts, a gift planning effort is a very efficient way to raise money. The gifts will generally be larger. The costs will generally be lower.

At the University of Colorado Foundation, our mission is to help fund the University on both a short- and long-term basis. Our desire is to be prepared to provide a full array of giving methods to our donors. Our plan is to take advantage of the obvious economies of scale in gift planning, and to continue to place a strong emphasis on raising and managing deferred and complex gifts.

*Endnote: I would like to express my gratitude to our current planned giving services provider, Kaspick & Co, for their immense help in creating this analysis. This work was done in partnership with them.*

**State Annual Goal = $_______________________________**

In stating your annual goal, you may choose to not include realized bequests, realized CRTs, realized annuities, realized life insurance policies, realized retirement plan assets, etc., to avoid any issues of double counting. You would include the identification of any new revocable gifts (including bequests) by your current staff.

**Divide Annual Goal by Gift Type. The following are some examples.**

New CRTs for which your institution serves as trustee, including the amount of any additions to existing CRTs.

New trusts identified for which your organization does not serve as trustee, *and* for which your organization (as charitable beneficiary) is listed irrevocably, including the amount of any additions to previously identified external trusts.

New gift annuities (including deferred)

Outright gifts, including cash, stock, tangible property, irrevocable pledges, lead trust distributions, business interests, real estate, gift portion of bargain sales, IRA gifts under the Pension Protection Act of 2006, ownership of life insurance (cash value), and other outright gifts which were brought in with the assistance of gift planning professionals in your department.

All revocable gifts (bequest intentions as specific, percentage and residual, IRA beneficiary designations, insurance beneficiary designations, external trusts for which you are a *revocable* charitable remainderman, and commitments from living trusts). *This will likely be your largest category.*

New pooled income fund gifts. (CUF did not consider new PIF gifts in its stated goal, as we do not anticipate getting any in the coming fiscal year. These gifts have tapered off tremendously.)

**Set Assumptions** (CUF values are shown; these values should be replaced by values appropriate to the experience of the organization using this worksheet. In the *Valuation Standards for Charitable Planned Gifts,* NCPG provides default values for some assumptions. NCPG defaults are evaluated annually and updated as necessary.)

Gift Type Average Horizons
- Trusts, both internal and external.................................................. 20 years
- Gift annuities .........................................................................12 years
- All bequest intentions and other revocable gifts ...........................10 years
- Pooled income fund gifts (CUF did not include in annual goal)

Average Payout Rate per Gift Type
- Trusts...................................7%
- Gift annuities ........................7%

Discount Rate ............................9.5%
(CUF used the endowment return over the previous three years)

Investment Assumptions

Trusts.......................................................................................9%

Annuities..................................................................................9%

Residual and percentage bequest intentions.................................3%

Specific bequests (not applicable)

Outright gifts (not applicable)

**Calculate the net present value of the current goal for each gift type using the NCPG *Valuation Standards for Charitable Planned Gifts,* or a method of your choice. Total the net present values of each goal by gift type to arrive at your "Net Present Value Total Goal."**

**List Direct and Indirect "Costs" of your program. The following are some examples.**

Staff salaries and benefits

External and internal costs of trust and annuity management (if you serve as trustee). This may be fees paid to an outside services provider and/or salaries of internal staff in your finance department, costs for preparation of tax returns, mailing costs, etc.

Marketing costs

Registration and other fees (for gift annuities)

Office overhead (including travel and other costs incurred in raising new gifts)

All other costs identified in your budget

**List Any Department "Revenue" (aside from new gifts).** The following are some examples:

Fees charged directly to trusts

Fees charged directly to annuity pools or PIF trust

Fees charged to outright gifts brought in by members of your department

Fees on new endowments created by outright gifts brought in by members of your department

Tax on constituency (for example, contributions from schools, colleges or the University which are "earmarked" for a gift planning effort)

Any unrestricted dollars raised for your program

Other

**Determine Cost to Raise New Gifts**

Costs – Revenue = ___________________ ("Net Departmental Costs")

Net Departmental Costs – Costs to Maintain Current Portfolio through Depletion (if you manage one or more gift annuity pools or serve as trustee of a current trust program) = _____________________ ("Cost to Raise New Gifts")

**Divide "Cost to Raise New Gifts" by "Net Present Value Total Goal" to arrive at "Cost to Raise a Planned Gift Dollar."**

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