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Grassroots Fundraising Journal

In This Issue:

Planned Giving: Part Two

How to Make Budget Cuts

Book Reviews

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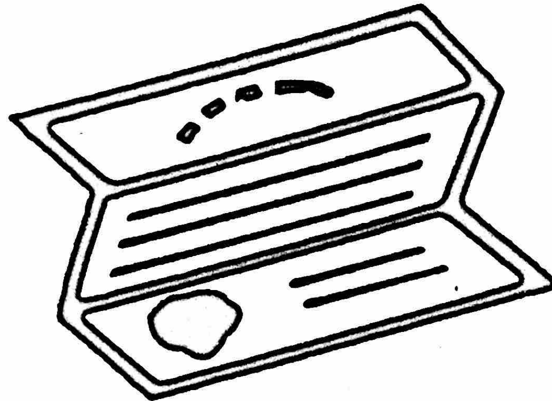


Getting Started in Planned Giving, Part 2

Beyond the Bequest: *Other Kinds of Planned Gifts*

by Kim Klein

In the last article, we discussed the importance of making a will, which is where all planned gifts originate, and we defined the various ways a bequest can be drawn up.

The bequest is the simplest form of a planned gift, and about 60% of planned gifts are made as bequests. However, there are several other giving instruments besides bequests that your organization should know about.

To understand the following planned giving strategies, it is necessary to understand two principles. The first is about taxes. A tax is a fee assessed on the transfer of anything of material value from one person or entity to another. When you sell something for a profit, there is a "gains" tax. In estates valued at $600,000 or more, there is an "estate tax."

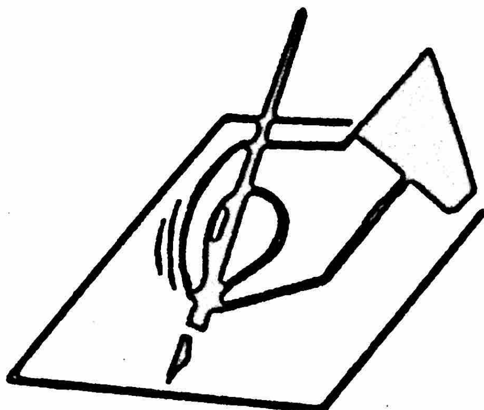
Generally, one of the few things of value that can be moved from one place to another without tax are gifts to charity. A large function of planned giving, in addition to expressing a donor's commitment to a charity, is to lower their estate and capital gains taxes.

The second principle is that everything you own (your assets) has two kinds of value: present value and future value. For example, if I have $1,000 in a savings account earning 10% simple interest, I own $1,000 now, but $1,100 in one year, $2,000 in ten years, and so on. From the point of view of a charity, I can give the entire asset now, or I can give the entire asset later (that is, in my lifetime or as a bequest), or I can split the value, giving some and keeping some. By giving away one value, what I keep may be more valuable, in part because what I give away I don't pay taxes on.

With these two principles in mind, you are ready to understand the most common planned giving instruments.

A reminder before we go further, however. No one in your organization should ever give advice to a potential donor about the best planned giving instrument, help to draw up wills or trust agreements, or negotiate any agreement with a donor that has legal ramifications for the donor's estate. People who work for nonprofits are subject to being accused of "exerting undue influence." The way to avoid that accusation is to know only enough about planned giving instruments to give general information. Each donor must confer with his or her lawyer and financial planner, as well as other family members, before making any decision as final as many of these estate decisions are. As a representative of your organization, you can attend some of these meetings, and you will want to confer with your own lawyer concerning planned gifts that require your organization to be a trustee. Your organization's Board of Directors should also be fully informed before any commitments to donors are made.

The Most Common Planned Giving Instruments



A charitable gift annuity is a contract to pay a fixed amount in exchange for assets transferred to your organization.

Charitable Gift Annuity

A charitable gift annuity is a contract between a donor and your organization in which your organization agrees to pay a fixed amount of income annually (called the "annuity") during the life of the donor in exchange for money or assets transferred to your organization. The amount of the annuity, which you set, is determined by the value of the gift and the age or life expectancy of the person(s) who are to receive the annual income. For large gifts you might want to offer a larger annuity. And a person closer to death receives more because of the shorter number of years the annuity will be paid.

Once the amount of the annual annuity is fixed, it does not alter regardless of the value of the asset. This benefits the organization when the corpus is able to grow and generate more income than the nonprofit is paying out; however, it can be hard on a group if the value falls. Your organization is legally obligated to continue paying the amount you contracted for regardless of the subsequent value of the asset.

Here's an example: a husband and wife, both age 68, wish to increase their retirement income and make a gift to their favorite cause, which happens to be a church. They give $30,000 to the church, which promises to pay them $2,000 in annual income for as long as either of them lives (which is a 6.7% per year return on the $30,000). The couple is allowed an income-tax deduction on the $30,000 gift and, of the annuity income they receive, the portion invested in tax-exempt securities is exempt from income tax.

The church is able to invest the $30,000 in an account that bears 8% interest, which generates more than enough money to make the annuity payment and pay the administrative costs. When both donors have died, the church will have the $30,000 plus any interest they have saved beyond their annuity payments to the donors. The donors could probably have gotten more money from a commercial annuity, but they would not have had the tax deduction and they would not have helped their church.

Deferred Payment Gift Annuity

This annuity is the same strategy as the charitable gift annuity, with the payments deferred until the donor reaches a certain age. This can be an attractive option for younger donors.

For example, a donor, age 35, wants to make a significant gift and guarantee some retirement income. She has a high income now, so the tax deduction is attractive, but she does not need annuity income. In fact, she wants to defer the income from the annuity until after retirement, when her lower income will mean lower taxes. The calculations for this type of annuity should be done by a professional as they depend on actuarial tables of the age at which the donor desirês payments to begin and the age of the donor at the time of the gift.

Trusts

There are a wide variety of trusts that may or may not include charitable provisions, but there are only three standard trusts your organization needs to be familiar with.

1. Pooled Income Fund

A pooled income fund is similar to a mutual fund. The "pool" is made up of contributions from many donors (although it can start out with just one). These contributions are commingled to minimize investment risk and maximize income. Your organization, or an investment firm you designate and oversee, manages the funds. The donors are each paid an annual amount based on the number of shares they own and the amount of money the fund has earned. This can vary from year to year. All of the income from a pooled income fund is taxable because a pooled income fund cannot invest in tax-exempt securities. When any particular donor dies, the amount of his or her original investment is removed from the pool and belongs to the charity.

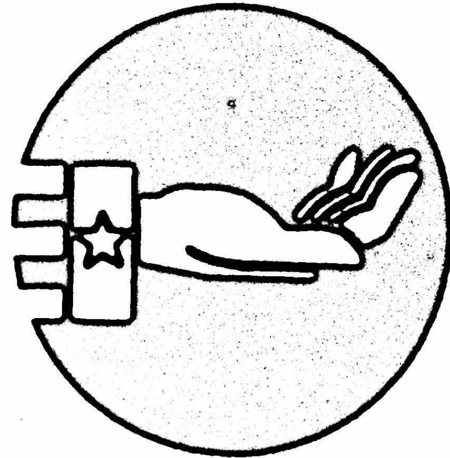
For both charities and donors, the pooled income fund is best for smaller gifts. Where any of the other in-

struments require at least $2,000, and often more, to make them worth setting up, a contribution to a pooled income fund could be as little as $500 and still be worthwhile for the charity, while giving the donor earning potential from a much greater amount of money. (Because larger amounts of money are able to generate more interest, one person's share of the interest from their $500 contribution will be greater if that $500 is part of a $1,000,000 investment than if it is earning interest on its own.) Also, the cost of managing the investment is spread over all the shares in the pool, so only small administrative costs need to be passed on to each donor.

2. Charitable Remainder Annuity Trust

Like an annuity, the annuity trust pays a fixed amount of income for the life of the donor or beneficiary or for a specific period of time, which cannot exceed 20 years. By law, the annuity cannot be less than 5% of the initial fair-market value of the donated asset. The donor can choose how frequently he or she is paid, but it must be at least once a year.

The goal of an annuity trust is maximum income. If the asset makes more than the amount you are paying the donor, you have realized some extra income for your organization. However, if the asset makes less than your payment requirement, you have to fund the payments out of income accumulated by the trust previously or out



A large function of planned giving is to lower a donor's estate and capital gains taxes.

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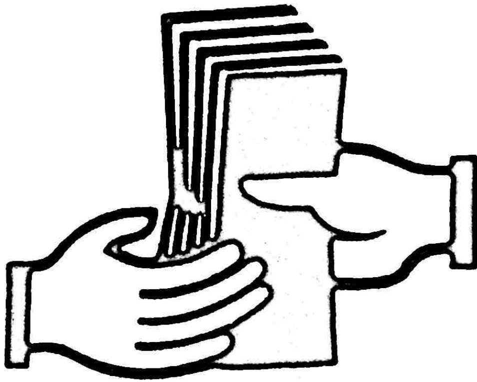

Never give advice to a potential donor about the best planned giving instrument.

of the principal of the trust. From the point of view of the organization, an annuity trust is preferable to an annuity because once you have exhausted the trust principal to maintain your agreed-upon payments, the trust collapses and your payment obligations to the donor cease. Of course, you also no longer have the ability to earn money from that donation.

In an annuity, on the other hand, you always owe the donor the amount you contracted for, even if the amount they gave has long since been used up.

3. Charitable Remainder Unitrust

A unitrust is similar to an annuity trust, except the payout rate (minimum 5%) is based on a fixed percentage of the total value of the trust, determined annually. Growth of the corpus, rather than maximum income, is the investment goal here. This type of trust works well for people holding highly appreciated stocks which may not be paying much income. To sell the stocks would incur a huge capital gains liability, but to transfer them to a unitrust will avoid capital gains and will often give the donor a higher return than before. Income to the donor can go up in this arrangement because it is based on the changing value of the fund.

4. Lead Trusts and Partial Interest

The other type of trust which you may have read about or heard of is the lead trust. Generally, the amounts of money involved in setting up a lead trust are beyond the scope of most institutions. If someone wants to set up

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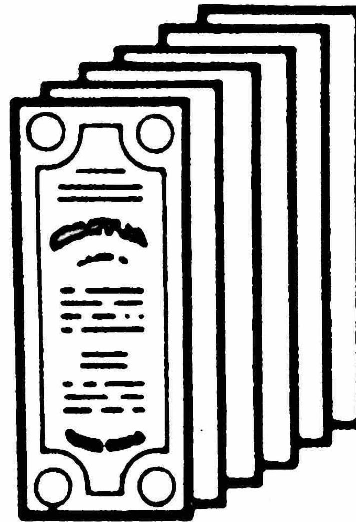
one of these with you, call a lawyer and estate planner for details.

The only difference to understand between the remainder trusts described above and a lead trust is understood again in the split interest theory. In a remainder trust of any kind, the donor gives the tree (remainder interest, or what remains after income interest contracts have been satisfied) and keeps the fruit (income interest). In a lead trust, the donor gives the fruit and keeps the tree by giving the income from property which the donor or a beneficiary keeps.

A donor may also give partial interest to a nonprofit. This can be done through a Qualified Terminable Interest Property (QTIP), a remainder interest in a personal residence, or a gift of partial interest in something that cannot be divided (such as a work of art, where the donor donates one-fourth of the value to a museum, gets a deduction of one-fourth of the value, and gets to keep the artwork three-fourths of the time). Again, these are complicated arrangements and beyond both the scope of this *Journal* and the understanding of this writer. Seek advice from experts in these areas.



For charities and donors, the pooled income fund is best for smaller gifts.

Making a Choice Among Options

In deciding to donate to a particular nonprofit, a donor considers how much he or she believes in the

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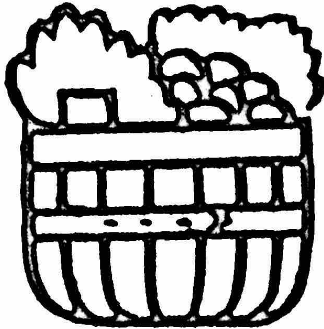

In a remainder trust, the donor gives the tree and keeps the fruit.

work of the organization, looks at how much money he or she has available, and makes the gift. In donating the "remainder interest," the same factors are taken into account, plus some additional very important ones. For example, a donor must consider whether it would be best for the income beneficiary (themselves or someone they name) to receive a fixed annual payment or an appreciation in the value of the trust assets. Does the beneficiary need tax-exempt income? Does the donor want to make sure the corpus of the trust can never be invaded to make required payments, or are present payments more important than depleting or possibly collapsing the trust? How many beneficiaries does the donor want to name (donor only, donor plus spouse, spouse plus child, donor plus friend, friend only, etc.)? The answer to each of these questions will rule out some arrangements and make others more logical.

What Does All this Mean for Your Organization?

By now, you have probably thought, as I often have, "I can't understand this, and even if I could, I don't know anyone to whom this could apply, and even if I did, I wouldn't know how to bring it up, and even if I did, they couldn't understand it, or if they did, someone else probably asked them and I am too late."

These feelings and all others of inadequacy are totally normal. (Why do you think it has taken almost ten years for us to write about planned giving?)

However, once you put your mind to learning what you need to know, allowing yourself not to understand all of it, finding a lawyer or estate planner who does understand more of it, you will realize that planned giving is not that difficult! All along, the obfuscation of planned giving terms and ideas has been part of the structure that keeps small groups small and impermanent.

I have known donors who had a favorite grassroots organization to which they made significant donations and for which they volunteered, only to make planned gifts to their university or another much larger institution. They made this decision because they could not be sure the grassroots group could handle the trust or annuity or whatever. This is a vicious circle, and those of us in fundraising roles in small organizations need to break it by learning as much as we can and convincing some of our bolder (and older) donors to take the leap with us into planned giving. Once a few do it, others will follow. ■

Next: Marketing planned giving programs, including using examples, tailoring materials for your organization, where to start, and how to raise the subject with donors.

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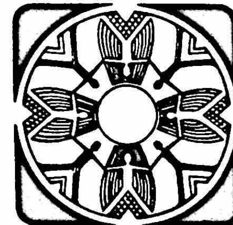

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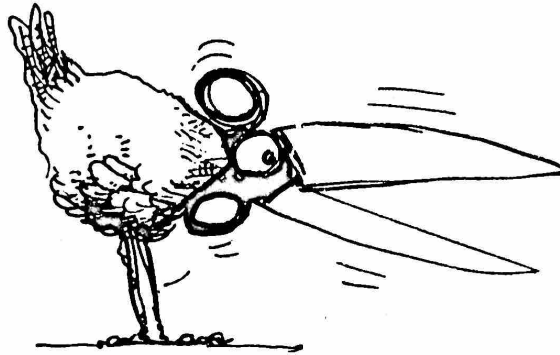

How to Make Budget Cuts

by Kim Klein

No one can have escaped the plethora of ominous headlines about budget cuts in the last few months. The state of Connecticut was virtually closed over the Fourth of July, the city of Philadelphia hovers at the brink of going into receivership, and New York City prepares for an onslaught of finance-induced social problems. Between the recession and the impact of state and federal budget cuts, few nonprofits are not feeling the pinch. Many face the necessity of cutting their own budgets.

But how do you cut your budget? To begin with, a great deal depends on how much money you need to cut, and what percent of your budget that represents. Most grassroots groups operate very close to the edge in the best of times; cutting costs seems absurd when there is already no fat in the organization. However, when cuts must be made there are often ways to ease their impact.

The first step is to ask staff and volunteers to submit any ideas they have for cost cutting, no matter how little money the idea saves. Review your budget category by category, making it clear that staff cuts are a last resort. (In some cases, where whole programs have been cut, or more than 30% of your budget has been cut, staff layoffs will be practically inevitable. However, if you are trying to cut costs by 10–30%, you may be able to do so without losing staff.)

In this article, we present a number of methods we have seen small and large organizations use to cut costs.

Office Supplies

1. *Save all paper that is only used on one side and recycle it.* Use the blank side for drafts of letters and proposals, for internal memos, for taking phone messages, and when possible for photocopying sheets that are for internal records only. Make a line through the wrong side of the paper. Only use "clean" paper for reports, letters, copies, and other documents going to people outside your immediate circle.

2. *Save all large envelopes and re-use them.* For environmental reasons, people are increasingly recycling envelopes, so your group will look politically correct, not cheap, when you do so.

3. *Use file folders over and over again.* Put on new labels. One organization, which had over 3,000 file folders in use, did not order new file folders for two years by being more careful about re-using file folders.

4. *Call other nonprofits and order all your office supplies together,* or join a commercial buying club. Small groups often can't order in enough quantity to qualify for massive bulk discounts, but several groups ordering together can gain substantial savings.

5. *Ask Board members and volunteers to bring you office supplies their firms no longer need.* For example, one law firm dumped a case of "white-out" when they dispensed with their typewriters. A Board member took it to her group, which had one computer and three old

typewriters. They also used it when laying out their newsletter. In another case, an advertising firm changed their logo and discarded their envelopes and stationary (including blank second sheets). The nonprofit group that benefited from this change easily used the large envelopes and made the blank second sheets into stationary. They used the discarded letterhead for scrap paper.

Telephone

For organizations serving regions or operating nationally, telephone bills are a major cost. Also, in many rural communities most calls are toll calls.

1. *Call when rates are low.* Familiarize yourself with all the details about lower rates at different times of day, and which long distance company really does work best for you. Ask staff and volunteers to take expensive calls during low-rate hours, and monitor your bills to ensure this happens.

2. *Have an egg-timer beside each phone* and ask people to turn it over when they start a call. Helping people be conscious of keeping phone calls short will save money.

3. *Limit personal calls.* Some nonprofits have followed a corporate custom of forbidding people to make personal phone calls on company time. In our opinion, this is unnecessary and inhumane. However, asking people to be honorable about personal calls, either not making them often, keeping them brief, or paying for them, seems fair.

4. *Be available for returned calls.* Probably the majority of calls involve leaving a message and getting called back. When you call someone and have to leave a message, be specific about when you will be in your office—and be there. Place calls early in the day or late in the day: aside from possibly getting lower rates, you have a better chance of reaching the person. If you are the only person in the office, don't make ten phone calls in a row, asking people to call you back. When three of these people call you back at the same time, you can only speak to one of them, and then you are returning more calls.

5. *Have enough phone lines.* Finally, if you have several people using your phones, make sure you have enough lines so that people calling your office don't usually get a busy signal. The costs of another line will often be less than calling people back two and three times.

Equipment and Furniture

There are two points to be made about equipment. The old saying, "You have to spend money to make money" is true, and a similar saying, "You have to spend money to save money" is true with regard to equipment. The amount of staff time and lost work time that goes into having bad equipment, cheap equipment or not having equipment at all is staggering. So, in this category, we recommend spending sometimes. The second point is to make sure you have only the equipment you need and don't keep extra items.

1. *Get a decent photocopying machine.* If someone gives you their old machine, their motives may not be charitable; the time and cost of keeping an old machine in good repair may be more than buying or leasing a decent machine. The competition for copiers is intense, particularly in more urban areas, so shop around for your best deal. Many groups find leasing a copier the best option, later trading for newer machines.

2. *Computers.* The same advice goes for accepting donations of computers. You do not need the latest fanciest model, but you also do not need a model that is no longer made, cannot be serviced, and has no instruction manuals. In addition, your computer system should be highly "user friendly" so that you can easily teach staff and volunteers to do data entry or word processing. There are hundreds of small nonprofits saddled with an outdated and burdensome computer system that only one person knows how to use. That person has a lot of power and control and the organization is not getting maximum use of computer possibilities to aid its work.

First, ask staff and volunteers to submit any ideas they have for cost cutting.

3. *Sell or trade equipment you no longer use.* One medium-sized organization had five top-of-the-line IBM electric typewriters donated to them in 1980. The typewriters still worked, but the entire organization uses computers now. They kept one typewriter for the occasional job that is easier to do on a typewriter and sold the others through a classified ad. Their profit: $1,200.

Other examples of equipment not being used often include Gestetner and mimeograph machines (some people collect these, and some places still use them), layout tables (with desktop publishing, many groups have abandoned their layout tables), fans, air conditioners, file cabinets (with computers, many organizations no longer generate as much paper), various computer parts (such as a surplus printer, manuals about programs you no longer use, cables, monitors, etc.).

When selling equipment will not bring anywhere near its fair-market value, try trading for something you need. One group traded a personal computer and dot-matrix printer for a FAX machine that another group did

not use. These trades are not necessarily financially fair, but if it nets you something you need it could be ideal.

For example, a community organizing group was given a TV and VCR by a Board member leaving town. While the equipment was nice to have, the group didn't need it. However, selling it would have brought $300 at most. Another Board member had an '84 Toyota Tercel in excellent condition that he had inherited from his father. Selling it may have brought $1,000, but he didn't need the money and didn't want the time and bother of selling it. Parking the car was difficult and insuring it would be expensive. He traded it for the TV and VCR. The group now has a staff car, which they needed, and the Board member has a TV and VCR, which he wanted, and a tax deduction for the value of his car minus the value of the TV and VCR.

Health Insurance

There are many laws and regulations that cover health insurance, and they differ from state to state and company to company. Find a clever, ambitious and honest insurance agent and he or she can cut your costs dramatically without sacrificing the benefit. Here are two things you may be able to do on your own.

1. *Lower your premium payments.* You don't need to cut benefits in order to cut costs. Many organizations have a low deductible for their employees (say $100–250), making their premium costs high. By raising the deductible to $1000, you can save thousands of dollars in premiums, and set up a fund from which to reimburse employees directly when they incur medical expenses up to the deductible. (Check on how to set up such a fund so that the employee is not paying taxes on the reimbursement.)

> *Have only the equipment you need and don't keep extra items.*

2. *Join other small employers to qualify for group coverage.* Small organizations often cannot qualify for a group plan; however, linking up with similar organizations in your community can give you enough employees for a group.

Rent

1. *Consider moving.* In many places, the bottom has dropped out of real estate. This means property prices

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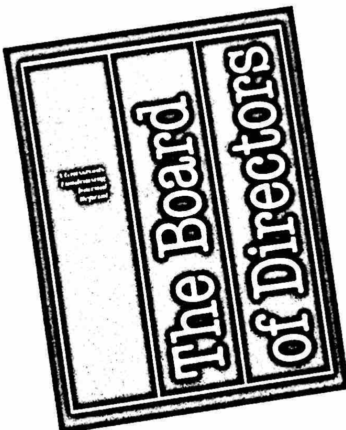

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are much lower, and, in many cases, so are rents. If you rented your office space during a boom, you may be able to find comparable space at a lower price. If you find lower rent elsewhere, your current landlord may meet the price rather than lose you as a tenant. If he or she won't, consider moving.

2. *Consider buying.* Yes, this is an article on cost cutting, but if your organization plans to be around forever, you don't want to be paying ever-increasing rent. Perhaps a board member or a donor will finance an office for you: they put up the down payment, and you pay the monthly mortgage, plus a little to repay the downpayment. Or perhaps you own the property together with strict legal agreements about buyouts. In many parts of the country, now is the time to buy.

Staff

If all else fails, staff costs will have to be considered. Even here, there is room for creativity. In one organization of five full-time staff, three offered to go to two-thirds time for the summer and fall months in order to have more time with their families. Two preferred the arrangement permanently. With a few other adjustments, this organization was able to weather a 35% loss of city funding.

Some people would rather have time than salary, if this is financially feasible. Five people cutting out one day a week will save a sixth person's whole job. This only works in organizations committed to having their staff work decent hours. Situations of forty-hour pay for sixty-hour weeks don't lend themselves to this arrangement.

Have occasional theoretical discussions before budget cuts are forced on you.

Looking to the Future

Budget cuts are never easy, but for most groups they are inevitable at different points in their history. It is helpful to have occasional theoretical discussions about budget cuts before being forced into them, so that reasoning can take the place of panic when the time comes.

Ideally, moving your organization away from reliance on unstable funding sources, such as government or foundations, will be the best preparation for cuts. A broad base of individual donors can provide you with the luxury of never having to make cuts. ◘

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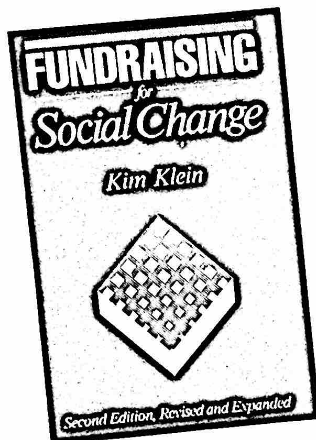

Fundraising for Social Change

BY KIM KLEIN

Now in its second printing, *Fundraising for Social Change* contains the nuts and bolts strategies that all nonprofits need to raise money successfully from individuals.

In this revised and expanded version, Kim Klein has added chapters on:

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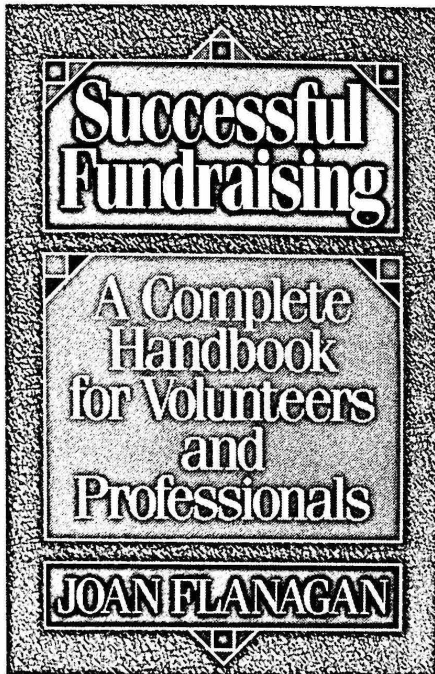
Book Reviews

Successful Fundraising:

A Complete Handbook for Volunteers and Professionals

by Joan Flanagan



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Reviewed by Kim Klein.

Joan Flanagan and I have been friends and colleagues for more than ten years. I learned many of my training skills from Joan at a "training for trainers" sponsored by the Youth Project (now the Partnership for Democracy) in 1979. She has written for the *Grassroots Fundraising Journal* many times over the years, and she cites my book and the *Journal* as "must read" publications. So I had many reasons for being delighted when she told me she was coming out with a new book. Joan is one of the masters in this field, and her latest book marks her best-written contribution to date. It is with pleasure, respect and affection that I review it here.

Flanagan's new book joins with her previous best sellers, the *Grassroots Fundraising Book* and *The Successful Volunteer Organization,* as a superb contribution to the literature on fundraising. Its subtitle, "A complete handbook," is accurate. The book has charts, timelines, graphs, worksheets and many examples, so that no one needs to guess what Flanagan means when she describes tools of the trade. Her worksheets and charts will be widely photocopied and used, as they are applicable to almost any organization.

In addition to being a handbook, this book is also a wonderful source of anecdotes, historical information, legal explanations and inspiration.

Flanagan has been a professional fundraiser and fundraising observer for more than 20 years. Primarily focusing on progressive organizations, her work was originally directed toward small grassroots groups. Over the years, without leaving the grassroots, she has broadened her experience to include very large organizations and more mainstream institutions. This book is aimed at all sizes of organizations and contains examples from every type of nonprofit group.

In addition to overviews and background information, the book presents specific information on direct mail; special events of all sizes; major gifts, including a chapter on planned giving; getting grants and gifts from foundations, corporations and religious institutions; and business ventures.

Flanagan's underlying premise is that the money is available. With 224 million Americans making regular contributions to charity, there is enough money to pay for your work. She is not a Pollyanna, however, and recognizes the increasing competition and the role of government cutbacks in making life more difficult for private nonprofit groups.

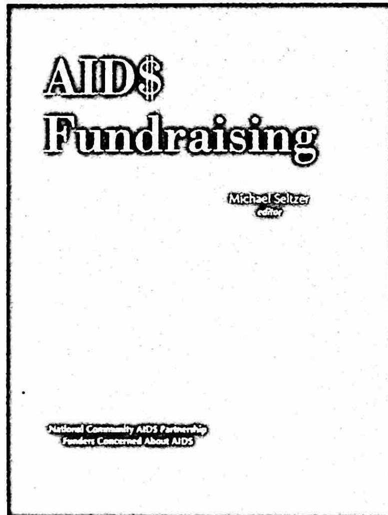
The book is realistic, easy to read, easy to use, spiced with Flanagan's own experience and wit, and is a "must have" for anyone involved in fundraising. ■

AIDS Funding: A Guide to Giving by Foundations and Charitable Organizations

by C. Edward Murphy, ed., $60.00

AIDS Fundraising in the 90s

by Michael Seltzer, ed., $10.00



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The Foundation Center, the nation's foremost authority on foundation and corporate philanthropy, has released the new 2nd Edition of *AIDS Funding: A Guide to Giving by Foundations and Charitable Organizations* and a new companion publication, *AIDS Fundraising in the 90s.*

The new edition of *AIDS Funding* reflects organized philanthropy's growing concern for the pandemic effect of AIDS: the book lists more than three times the number of grantmakers than appeared in the 1st edition in 1988. *AIDS Funding* provides fundraisers with accurate, current information on 538 foundations, public charities, and corporate direct giving programs—a diverse group of funding prospects with a demonstrated interest in supporting projects that combat the disease and empower people with AIDS. The volume offers an excellent starting point for what is surely one of the most crucial funding challenges today.

Statistics Chart Rise in Support

The 2nd Edition of *AIDS Funding* includes lists of recently awarded grants of $10,000 or more for many of the grantmaker entries. These grant descriptions show fundraisers exactly how particular funders have apportioned their grant dollars and which organizations and projects have successfully negotiated the funding process. The grants also provide a statistical base from which researchers can extrapolate larger trends that affect support for AIDS-related organizations. The 2nd Edition documents an encouraging growth of support in the field, listing over 1,400 grants that together account for nearly $100 million. (The 1st Edition listed just under 600 grants, approximately $50 million.) These statistics do not represent a complete picture of AIDS funding, but they do suggest that grantmaking institutions have, in the past few years, devoted a steadily increasing amount of money to the nonprofit organizations on the front line of AIDS services and research.

Companion Book Outlines AIDS Fundraising Strategies

AIDS Fundraising in the 90s, edited by Michael Seltzer and published in conjunction with Funders Concerned About AIDS, will help nonprofit groups develop more successful fundraising campaigns. Specifically designed for AIDS-related projects and organizations, *AIDS Fundraising* covers a vast array of money-generating initiatives, from membership drives to special events, direct mail, and grant applications. A perfect complement to the directory described above, this "how-to" guide will prove invaluable to any AIDS organization that seeks a more secure funding base. ◘

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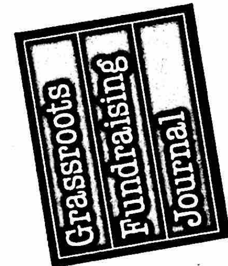

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