Executive Summary

Developing a successful planned giving program can be a complex undertaking. But it is one that is well worth the trouble. Extensive research has shown that planned giving is about lifestyles and loyalty, not wealth. Many organizations still think they have to find the millionaires in their database to secure planned gifts. The truth: everyone in your annual fund program has the potential to be a planned giver. This means you have more control over the process than you think. Equipped with solid information and the right marketing strategy, your organization can build a successful planned giving program.

Making Planned Giving Work For You

Planned giving strategy tips for every organization

Lawrence Henze, J.D., Managing Director, Blackbaud Analytics

Contents

"Golden Age of Philanthropy" 1
About Planned Giving 1
What Makes a Planned Gift Donor 2
Using Research to Identify Your Best Prospects 3
Using Marketing to Reach Out to Your Best Prospects 4
Conclusion 5
Appendix A: Types of Planned Gifts 6

"Golden Age of Philanthropy"

Americans will transfer at least $41 trillion between 1998-2052, according to a study[1] by the Social Welfare Research Institute at Boston College. At least $6 trillion of that funding will be bequests to charity, according to authors Paul Schervish and John Havens, who wrote that "a golden age of philanthropy is dawning."

With so many philanthropic dollars up for grabs, nonprofits need to position themselves to capture a share of the wealth. Research from the National Committee on Planned Giving[2] shows that although 42 percent of Americans have wills, only about nine percent have included charities. But once charities are included, they stay: 97 percent said they had not revoked a charitable provision. An additional 14 percent of those surveyed said they had considered including a charitable bequest in their wills — even though no nonprofit has asked them to do so. This leaves a largely untapped market.

About Planned Giving

Planned giving, once called deferred giving, refers to any charitable gift that requires more thought and planning to execute than the average donation. Planned giving has traditionally been defined as the gift that an individual makes near the end of his or her lifetime. There are many kinds of planned gifts, from simple bequests in a will or an estate plan, to annuities, charitable remainder trusts, charitable lead trusts, pooled income, life insurance and life estates.

Nonprofits often have trouble securing planned gifts. Why? The answer generally boils down to four basic factors: targeting the wrong prospects, sending the wrong appeal, asking too late and soliciting planned gift prospects for major gifts instead so the organization can get the money more quickly.

Many charities assume that their major gift donors will be their best prospects for planned gifts. When these solicitations fail, organizations are left with the impression that planned giving is just not right for them. Other organizations send broad-based planned giving mailings to older

[1] *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, by Paul G. Schervish and John J. Havens. Social Welfare Research Institute, Boston College, Boston, MA, October 1999.

[2] *Planned Giving in the United States 2000: A Survey of Donors*. National Committee on Planned Giving.

Faced with poor responses to their planned giving solicitations, many organizations have focused on soliciting annual funds rather than expending resources to seek out future dollars. If you are doing this, however, you could be missing a major opportunity to strengthen the long-term viability of your charity.

donors, telling them about a multitude of planned giving vehicles and asking them to contact the organization for more information. In my experience, returns on such requests for information often average less than one percent. Moreover, little – if any – personal follow up is done with the prospects who do not respond.

The historical lack of meaningful research on planned giving has done little to help nonprofits rethink their strategies. It is often difficult to get reliable, accurate information on planned giving donors, as between 70-90 percent of all bequests are unknown to the charity until after the donor's death. Add to this the fact that, for many groups, their small cadre of planned gift donors are trustees, board members and others with unusually close relationships to the charity, and much of what researchers thought they knew about planned giving prospects has proved to be wrong.

Faced with poor responses to their planned giving solicitations, many organizations have focused on soliciting annual funds rather than expending resources to seek out future dollars. If you are doing this, however, you could be missing a major opportunity to strengthen the long-term viability of your charity.

What Makes a Planned Gift Donor?

The most recent National Committee on Planned Giving survey offers some insight into why people make charitable bequests:

- 97 percent say they care about the charity
- 82 percent want to do something special
- 35 percent use planned giving as an income or estate tax planning strategy
- 21 percent say they know someone at the organization

Research, including the National Committee on Planned Giving survey, has also provided a better understanding in recent years of who makes the best planned giving prospects. The answer: **annual gift donors**. Contrary to conventional wisdom, most major gift donors have made their big donation to the organization — and, in my experience, are unlikely to make a second large gift. As a result, it is important for charities to focus attention on building long-term relationships with those donors who are counted on for donations year after year.

Not every annual gift donor is alike; and different types of people are likely to gravitate to different planned giving vehicles. The good news is that there are some income and lifestyle factors that can help you to distinguish your best bequest prospects from your charitable gift annuity or charitable remainder trust prospects:

- Older retirees on fixed incomes who still give to the charity, although the size of their annual donation may have plateaued or gone down, are likely to make a charitable bequest as they want to make a final gift to the organization they care about the most.

- Younger married couples in their forties and fifties are also good charitable bequest prospects. They typically still have children at home, tend to have moderate to upper-moderate incomes, and are active consumers who use credit and get credit much more aggressively than older retirees.

- Single females over age 65, many of whom have outlived spouses, are excellent prospects for charitable gift annuities. They tend to be living on fixed incomes and are worried about their future income stream. Annuities appeal to them because they guarantee an income stream for the rest of their lives.

- Wealthier people between their mid-50s and age 70 are good charitable remainder trust prospects. They are typically fiscally aggressive, and their credit histories and lifestyles indicate that they are upscale and ostentatious. Some may in fact have made a major gift prior to establishing a trust.

Armed with these donor profiles, there are steps you can take to identify and target the planned giving prospects in your database.

Using Research to Identify Your Best Prospects

According to research on fundraising and philanthropy, each person in your database has an ultimate gift potential for your organization. For many, the ultimate gift potential may be $0. Perhaps they are not charitably inclined — or an alumnus only gives to his graduate school, or a former patient paid a large bill and does not think of your hospital as a charitable entity. Other people in your database, however, may be loyal donors, giving pretty much the same amount year after year.

According to the concept of ultimate giving potential, there is a third category of people in your database: those who are likely to make a large donation. These are the people you should analyze most closely and with whom your organization should build relationships. They include three types of donors:

- those who will make a major gift (however defined by the organization);
- those who will make some form of planned gift; and
- those who will do both.

As you look at your donors, their lifestyles and their giving histories in order to identify your best planned giving prospects, it is important to avoid using misleading data.

My experience shows that this last category is typically comprised of the 15 percent of prospects at the top end of your donor list who know your charity the best.

As you look at your donors, their lifestyles and their giving histories in order to identify your best planned giving prospects, it is important to avoid using misleading data. Most generic models used to identify individuals to approach, for example, will steer you toward people who have reached a certain age and income level. While you might find some good major gift prospects, this does nothing to identify who is likely to make a planned gift. Similarly, an intuitive model will look at those people in your database who have already made a planned gift — mostly trustees with a close affinity to your organization and other top donors — and assume that all your planned giving prospects will share similar characteristics. Yet the research on planned giving makes clear they do not.

The good news is that individuals who make planned gifts, whether to a university, a hospital, a human rights group or an art museum, tend to look very similar from organization to

Lawrence Henze, *managing director of Blackbaud Analytics, has extensive experience in fundraising, market research and the application of predictive modeling services to the nonprofit marketplace.*

The founder of Core Data Services, which Blackbaud acquired in 2001, he has also served as vice president of predictive modeling services at USA Group Noel Levitz and president of The Philanthropic Division of Econometrics, Inc.

Mr. Henze has 15 years of experience in development, raising more than $125 million, primarily for higher education institutions. During his career, he has personally reviewed the giving histories of more than 30,000 planned givers across the country. He holds a BA in political science from Carroll College in Wisconsin, and an MA in public policy and administration and a law degree from the University of Wisconsin at Madison.

organization. This is where predictive modeling can help. Our statistical models incorporate over a decade's worth of planned giving behavior around the country. This means that we can apply historical giving patterns to analyze your database and create profiles of your annual donors by type of planned gift.

Although it is important to understand who your best bequest prospects are, or your best "trust" prospects, this knowledge does not instantly translate into fundraising success. You still need to solicit planned gifts for your organization. Here again, your profiles can help you to devise the best marketing approach for these different potential donors.

Using Marketing to Reach Out to Your Best Prospects

Understanding how to ask for a donation is always critical, and research on planned giving offers useful guidance to steer the right message to the right person. Here are some tips to help you get started:

1. Keep your message simple

When soliciting for a planned gift, simplicity is key. The most successful solicitations are clear, concise and focus on only one type of planned gift at a time. Because we know that bequest prospects are different from annuities prospects, for example, there is no reason to send anyone information about both giving vehicles. And do not talk about a CRAT[3] or a CRUT[4] — eliminate the acronyms, technical language and insider jargon in favor of plain English.

2. Make anniversary date solicitations

The best time to ask someone for a donation is when he or she is most likely to make one. You should analyze your database to learn which donors faithfully give in a particular month or quarter. If you know when someone gives each year, then you can gear your solicitation to that time of year (and eliminate mailings they will never respond to and telephone calls that might annoy them). This will save you money even as you build a more meaningful relationship with your donors. In addition, research shows that anniversary date donors tend to be good planned giving prospects.

3. Adopt a segmented solicitation strategy

No solicitation strategy will be effective if you do not ask the right way. Segmenting your database based on who responds to what type of solicitation (e.g. direct mail as opposed to telemarketing) will improve your response rates and save your organization money. Understanding who gives — and what solicitation different individuals will respond to — also offers you another way to target potential donors. Research shows, for example, that people who respond to direct mail solicitations have historically been more likely than telemarketing-responsive people to be good planned giving prospects.

4. Cultivate relationships with annual donors

Once you understand that your best planned giving prospects will come from the ranks of your annual givers, the next step is to build an ongoing relationship with these individuals. Ideally, officers and other top representatives of your nonprofit should reach out to consistent givers once they reach age 40 to cement their relationships with the organization. While the personal touch is

[3] Charitable Remainder Annuity Trust

[4] Charitable Remainder Unitrust

time consuming, the long-term payoff can be substantial.

5. Encourage your annual fund staff to collaborate with your planned giving team

Successfully securing planned gifts is all about building relationships with donors. Make sure the staff managing your annual fund understands both the importance of promoting long-term relationships and how their work can help result in larger gifts to the organization over time. If a spot opens up on either team, make sure you place emphasis on hiring a good communicator. Technical expertise is abundantly available from financial planners and attorneys.

Conclusion

Nonprofits are discovering that the right planned giving program can bring in significant donations and provide a future income stream for their organizations. A successful program depends on solid research, savvy marketing and — most importantly — understanding the characteristics of a typical planned gift donor. Once your planned giving strategy is in place, your nonprofit will be poised to capture a share of the estimated $6 trillion in philanthropic donations up for grabs over the next half-century.

about Blackbaud

Blackbaud is the leading global provider of software and related services designed specifically for nonprofit organizations. More than 12,500 organizations use Blackbaud products and consulting services for fundraising, financial management, business intelligence and school administration. Blackbaud's solutions include **The Raiser's Edge®, The Financial Edge™, The Education Edge™, The Information Edge™, WealthPoint™** and **ProspectPoint™**, as well as a wide range of consulting and educational services. Founded in 1981, Blackbaud is headquartered in Charleston, South Carolina, and has operations in Toronto, Ontario; Glasgow, Scotland; and Sydney, Australia.

For more information about Blackbaud solutions, contact a Blackbaud account representative. In the United States and Canada call toll-free 800-443-9441. In Europe call +44 (0) 141 575 0000 or visit us on the web at **www.blackbaud.com**

Blackbaud

Appendix: Types of Planned Gifts

Donors are making a number of different types of planned gifts. Here are some of the most popular ones.

- **Bequest** — A provision in a will or estate plan that allocates all or part of the individual's estate to a designated charity.

- **Charitable Remainder Trust** — An irrevocable trust that pays a specified annual amount to one or more people for a fixed period of years (often the life of the individual). At the end of the term of the trust, the remaining trust assets are distributed to the charity. A charitable remainder annuity trust provides a fixed payment; a charitable remainder unitrust pays out a fixed percentage of the trust value each year.

- **Charitable Lead Trust** — Similar to a charitable remainder trust, but the principal reverts to the donor or his or her designated heirs at the end of the trust term. If the principal reverts to the donor, he or she gets a charitable income tax deduction; if an heir, that person gets a charitable gift tax deduction.

- **Charitable Gift Annuity** — An irrevocable transfer of property (e.g. securities) in exchange for a contract to pay the donor an annuity for life. Because the value of the property exceeds the value of the annuity, it is partially a gift to the institution.

- **Life Insurance** — An arrangement in which a donor gives a life insurance policy to the charity. The cash value of that gift is tax deductible, as are any future premiums the donor may opt to pay on that policy. Note that only life insurance policies that are paid in full qualify as planned gifts.

- **Life Estate** — An arrangement in which a donor gives her home to the nonprofit while retaining the right to live there for the remainder of her life. The donor receives an immediate income tax deduction. The charity may sell the property upon the donor's death.

- **Pooled Income Fund** — An arrangement, similar to a mutual fund, in which a donor contributes to a fund and receives a share of the proceeds based on the percentage of his contribution. Donors pay no capital gains on the transfer of appreciated property. When the donor dies, his shares transfer to the charity.