Special Report

The Top Ten Challenges To Planned Giving

A Special Report for Nonprofit Presidents, Development Professionals and Board Members

Faced with continuing economic uncertainty and rapidly shifting donor attitudes, nonprofits are struggling to maintain financial viability and secure permanence, stability and strength.

In this report, we will uncover the top 10 latest challenges to the most important component of endowment strength and stability—planned giving. We will also discover the one global, seismic shift in approach that can keep planned giving on the track for long-term success. In nearly two decades of assisting nonprofits in the arena of planned giving, two important foundational truths remain unchanged:

- Endowments are critical for the health of every long-term nonprofit
- Proactive planned giving is essential to a strong endowment.

Problematically, many nonprofits are struggling to maintain a strong, sustainable planned giving model. Urgent financial needs and short-term organizational goals often compete with the long-term nature of planned giving. Leadership must face these issues with

A Personal Message

Uncertainty remains… challenges abound… and, yet, so do opportunities. Nonprofits have an extraordinary occasion to provide leadership and solutions to donors. Planned giving is the ideal solution for the challenges facing nonprofits and their donors.

If you are reading this report, you are experiencing the weight of the challenges facing every nonprofit organization positioned for the long term, and you are looking for insights and answers. This Special Report is designed to provide both.

Vibrant giving programs are essential to the multigenerational viability of nonprofits, and healthy endowments are the foundation for the sustained health of every nonprofit that anticipates future needs. It is no longer possible (if it ever has been) to maintain

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THE DONOR MOTIVATION PROGRAM™
We Motivate Planned Giving!

Charities and their endowments face their stiffest challenges and the answers are no longer found in the past—the donor landscape has changed permanently.

courage, conviction and commitment.

The Top 10 Challenges

Let's begin with a review of the Top 10 Planned Giving Challenges, then we'll take a deeper look at each one in detail:

1. Charitable giving is up slightly—yet, still struggling in the current climate of uncertainty.
2. This climate of uncertainty impacts even the largest and most generous donors.
3. Planned giving efforts have been largely neglected.
4. More charities are stressed and there are a growing number of charities failing financially.

Recent economic challenges and the looming uncertainty have forced donors to reshuffle their priorities and reevaluate the role of charity in their futures.

5. There is an oversaturation of nonprofits competing for the shrinking giving dollar.
6. There is continued and accelerating competition from the financial sector, as more and more for-profit firms enter the charitable space.
7. Outside scrutiny is on the rise as more independent firms spring up that are providing "evaluations" of nonprofits' financial stability.
8. The oft-ignored donor confidence crisis continues.
9. Planned giving generally suffers from an insufficient commitment of resources by the organization.
10. Donors are drowning in information, making getting your message through an overwhelming task.

A Brief History

Let me give you a brief history of this Special Report.

After the 2000-2001 economic and stock market challenges, we brought together a group of about twenty nonprofit leaders for a special gathering.

Our first reason for this gathering was to create a collaborative environment—to give development professionals an environment to share what was working, what was not working and to identify key challenges.

Our second reason was to ask them how we could help. Unanimously, they responded that they needed to know what was happening nationally in the planned giving world. "We know what some of the challenges are day by day and week to week," one prominent Director of Planned Giving shared, "but we need your help to get a handle on the bigger issues and trends facing our industry."

Therefore, we began to do some initial digging, which, ultimately resulted in over a hundred hours of research and analysis.

We then assembled a Special Report – The Core Planned Giving Challenges. We invited over one hundred planned giving professionals and ended up hosting about eighty-five for our Power Point-based Special Report. Since then, we have shared it across the United States and Canada—and updated it every year. As you can imagine, the economic implosion of 2008 brought to light even more issues.

The Nonprofit Sector

Most people are unaware of the sheer size of the nonprofit sector. It represents a significant portion of our economy, overseeing almost 13 million employees, or 1 out of every 10 in the United States workforce. U.S. nonprofits produce $1.4 trillion in annual revenues—5% of our Gross Domestic Product (GDP).

If U.S. nonprofits were a country, it would rank as the sixth largest economy in the world—larger than Canada or Russia! Therefore, the health of the nonprofit sector is critical to the health of our economy.

U.S. nonprofits, like many sectors of the U.S. economy, continue to face formidable challenges—not just economic. In case we are tempted to dismiss these challenges as temporary glitches in an otherwise smooth course of progress, let's take a closer look at the sobering facts underlying each of these challenges.

1. Giving Up, Yet Struggling

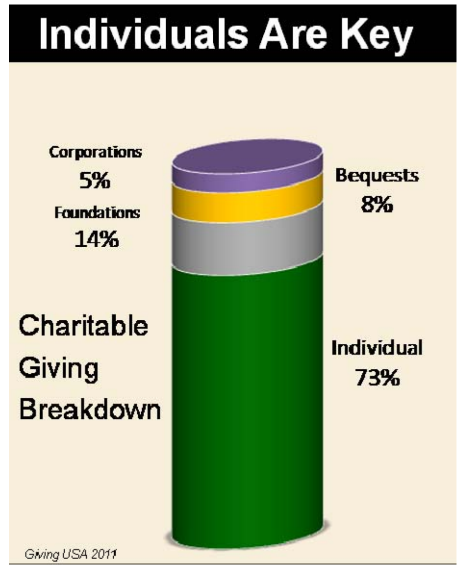
Charitable giving, on the whole, is up slightly—a bright spot in the giving landscape. Giving from individuals was also up slightly in 2010. Despite the uptick, it has yet to recover from the losses sustained in the past 5 years.

Giving USA, which publishes the latest giving figures each June, also analyzes the numbers and the trends in giving. Their perspective is that the current giving environment "...reflects the modest economic recovery achieved in 2010."

In Giving USA 2011, they reported that overall annual giving, adjusted for inflation, increased 2.10 percent, as follows:

- Individuals: up 1.1%
- Bequests: up 16.9%
- Foundations: down 1.8%
- Corporations: up 8.8%

Although corporate support is critical to many nonprofits, their contributions are last in their impact, making up just 5% of total giving. Foundations are second to last in impact, at 14%. Individual giving is key—including bequests left at their passing, individuals account for 81% of all charitable contributions.



According to the latest data, individual giving hasn't returned to 2004 - 2007 levels.

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vibrant giving or a healthy endowment without a sustainable, proactive planned giving program.

Yet many nonprofits are struggling to develop and maintain such a planned giving model. Certainly, these are uncertain economic times. However, that is not the only cause for concern. The uncertain economic future has created a seismic shift in donor attitudes that imposes challenges that will remain even as the economic climate and uncertainty improves.

This Special Report is designed to help you face these demanding circumstances—honestly and effectively—and better equip you to face these challenges head on with your donors by providing solutions that are win-win. Sustaining a successful nonprofit has never been easy; today, the challenges may be greater than they have ever been. However, together, we can take the first steps toward turning these challenging times into opportunities by taking a hard look at the obstacles, and keeping an open mind about a fresh approach to planned giving that benefits both your organization *and* your donors.

Scott Keffer, Creator and CEO

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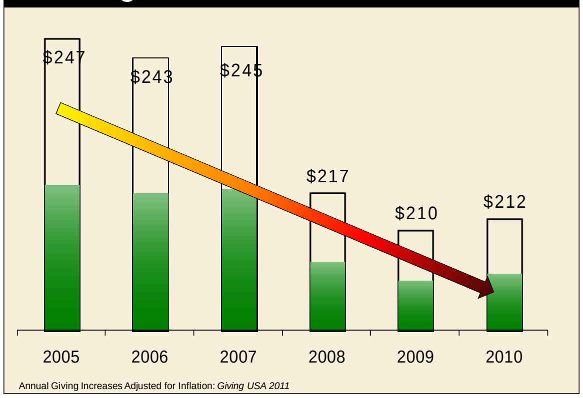
Giving Still Below 2005 Levels



2. Recession Is Hurting Even Your Largest Donors

Based on this information, nonprofits might assume, "Okay, but our core base, the age 65 plus donor-of-means, will carry us through, right?"

Actually, this assumption is flawed. In the latest *Affluent Market Insights 2011*, the number of these households worth $1 million or more has recovered slightly to 8.4 million, but has yet to return to the 2007 level of 9.2 million.

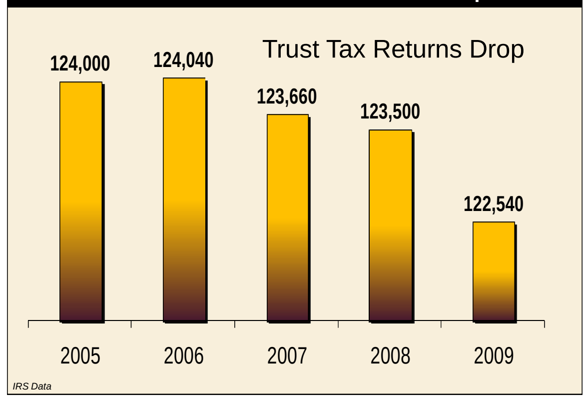
In addition, according to *The 2010 Study of High Net Worth Philanthropy*, average giving from this group plummeted 35 percent.

3. Planned Giving Efforts Have Been Largely Neglected

Planned giving has many benefits for nonprofits; none more valuable than providing a much-needed "safety net" during troubled times like these.

Many nonprofits have vibrant planned giving programs, which should result in measurable progress in gifts that have matured or are positioned to mature. However, the statistics seem to reveal just the opposite. Bequests, long considered the staple of all planned giving programs, have been down five of the last ten years and are still below the 2005 levels. Moreover, in the latest information available from the IRS, the number of charitable income trusts has dropped below the 2005 levels as well.

Charitable Trusts Drop



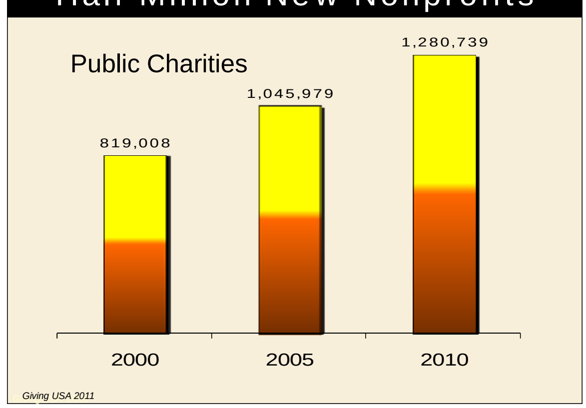
4. More Charities Are Stressed and Some Are Even Failing

Even though the economy has declined and retracted, the demand for nonprofit services has not; in fact, demand for services has risen considerably.

In the Philanthropy Journal's recent article, *Nonprofits' Financial Stress Persists*, they report, "Nonprofits expect continuing financial strain and operating challenges this year…" Adding further strain, "85 percent expect an increase in service demand this year…"

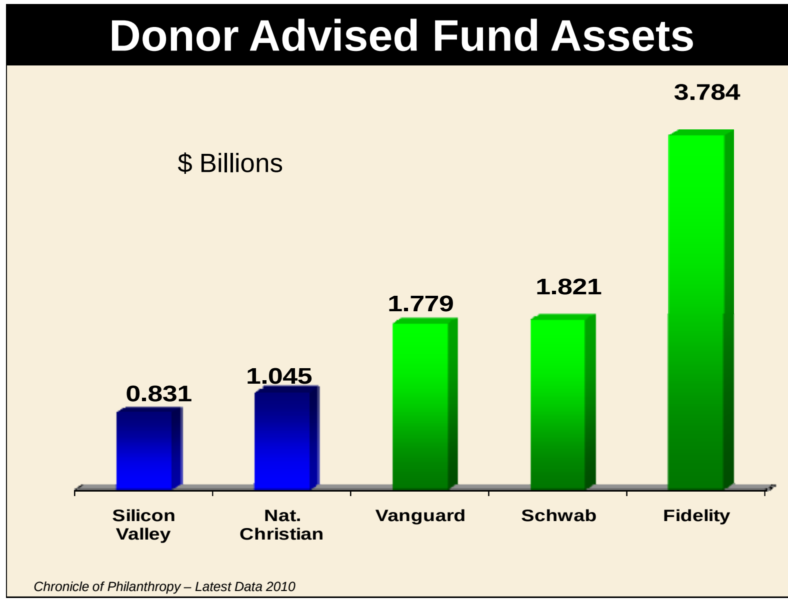
5. The Nonprofit Landscape Is Oversaturated

Half Million New Nonprofits



The current cutback in giving has been exacerbated by the fact that there are too many organizations chasing too few dollars. *Giving USA 2011* indicates that a half a million new charities have been created since 2000—half of them since 2005.

In fact, the number of charitable organizations registered with the IRS grew at double the rate of the business sector.



6. We Face Competition from the Financial Sector

While the nonprofit sector has been relatively static in its progress, the financial sector has stepped into the picture and seized a growing share of donor-advised funds.

As early as 1998, Fidelity Investments' Charitable Gift Fund was the largest grant-making charity in the U.S., raising more money than nonprofit bellwethers like Harvard University, the American Red Cross and the American Cancer Society.

Today, Fidelity's Charitable Gift Fund continues to dominate the donor-advised fund landscape—housing almost four times more money than the next non-financial fund. In addition, the top three donor-advised fund leaders are now financial firms.

Not only have these financial alternatives siphoned money away from traditional planned giving and endowment campaigns, to the tune of $7 trillion, they have also changed donor expectations—of what donor advised funds and their sponsors should do *for them*.

7. There Is More Outside Scrutiny and Testing

The good will that charities once enjoyed has crumbled under the weight of compensation scandals and growing donor skepticism. Today, donors want more accountability, measuring nonprofits like they measure other investments; and they want more information and transparency.

To meet this need, a number of independent entities have arisen, touting themselves to donors as the ones "looking out for their best interests."

The College Sustainability Report Card promote themselves as THE only independent evaluation of campus and endowment sustainability. Charity Navigator bills themselves as America's premier evaluator of charitable health. And, finally, The American Institute of Philanthropy (AIP) is "a nationally prominent charity watchdog service." These kinds of organizations will continue to rise to fill the

"The slow recovery of the economy will certainly impact just how quickly charitable giving will rise to pre-recession levels."

Giving USA 2011—The Annual Report on Philanthropy for 2010

perceived need for more accountability and outside scrutiny.

8. The Donor Confidence Crisis Continues

"Surely, it isn't that bad, is it?" asked a seasoned planned giving professional at a recent presentation of this material.

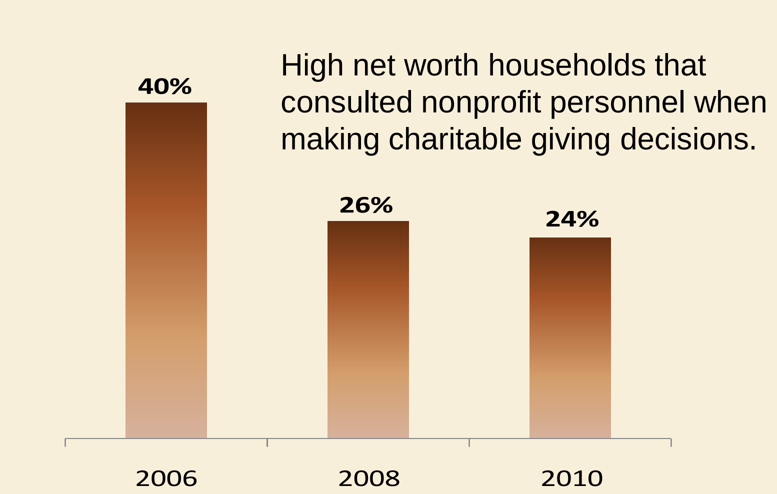
A shocking poll by Harris Interactive found that only 1 in 10 Americans strongly believes that charities are "honest and ethical." The latest *How Americans View Charities: A Report on Charitable Confidence*, revealed a "2003 low-point in general confidence that has not changed significantly since that time."

These attitudes are reflected in hard financial numbers. In *The 21st Century Donor*, 6 out of 10 donors surveyed said they had dropped their financial support for a nonprofit because they felt it was no longer trustworthy or reliable.

Worse, this crisis of confidence is highest among the supporters that we need the most: donors aged 57 to 75 who have traditionally been the most generous givers.

The 2008 Study of High Net Worth Philanthropy reported a whopping 35% **decline** in the number of high net worth households that consulted with nonprofit personnel when making charitable giving decisions. *The 2010 Study of High Net Worth Philanthropy* shows a further slight decline.

Nonprofits' Advice Declines



The 2008 and 2010 Study of High Net Worth Philanthropy

9. There Is an Insufficient Commitment of Resources to Planned Giving

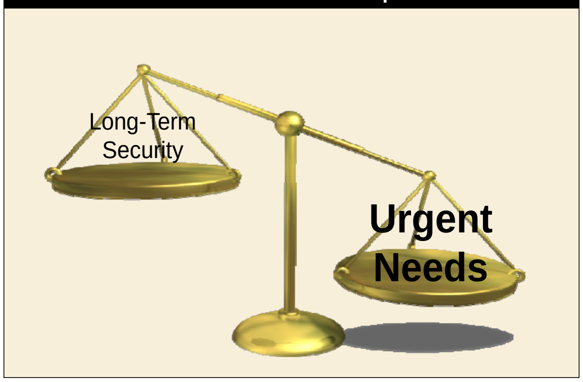
As we said, some nonprofits have actually created a proactive, sustainable planned giving program; yet, for the vast majority, it's still an unfulfilled desire.

Oftentimes, the biggest obstacle lies within the organization—a lack of long-term commitment to planned giving, which manifests itself in the following:

- **Inadequate budget:** Too few boards understand the value of planned giving and aren't willing to make it a priority, which shows up in the lack of funding.
- **Lack of support:** Both fundraising staff and board members are reluctant to pursue planned giving programs, favoring short-term fixes instead.
- **Outdated tools:** Yesterday's tools-of-the-trade are no longer effective with today's donors... or cost efficient. For example, Baby Boomers do not like direct mail, hate telemarketing, and will not give via the Internet; they prefer face-to-face solicitation, which is time-consuming and expensive.
- **Not enough time:** Fewer than 1 in 5 fundraisers work full-time in planned giving; instead, juggling it along with other giving and administrative responsibilities.
- **Short-term focus**: Anyone who came through the Great Depression knows the saying, "You never eat your seed corn." No one, with any sense of tomorrow, would eat the seed corn that was the basis for next year's crop. Yet, many nonprofits have and continue to eat their "seed corn" when they consume every dollar that comes in. The result is a lack of organizational stewardship—sacrificing long-term security for the urgent needs of today.

The result of these internal obstacles is a “start-stop-start-stop” approach to planned giving. What does this on-again, off-again approach say to your donors?

Lack Of Organizational Stewardship



10. Donor Information Overload Is Drowning Out Your Message

Your message faces an overwhelming avalanche of information that bombards donors every minute of the day. In America, there are approximately:

- 260,000 Billboards
- 11,520 Newspapers
- 11,556 Magazines
- 2,218 TV Stations
- 17,271 Radio Stations
- 40,000 New Books
- 60 Billion Pieces of Junk Mail Daily

To add insult to injury:

Contemporary Americans get as much mail **in a week** as their parents received in a year.

It has been estimated that in 1971, we were exposed to an average of 560 marketing messages per day; by 1999, that number exploded to **3,000 per day**.

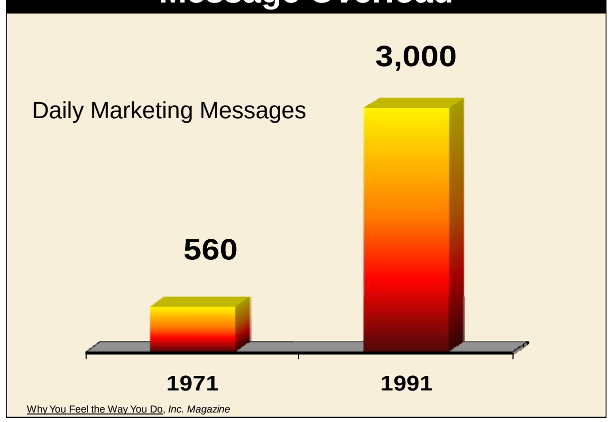
Many nonprofits we analyze believe that a website solves the problem. Our question to them: “Have you analyzed how many donors are actually going to your website… and how long are they staying?”

In 1998, Google indexed 26 million web pages; just four years later, it was 1 billion. In 2008, Google reported having indexed a staggering 1 trillion web pages.

How many marketing messages bombard **your** donors each and every day?

In response, donors protect themselves by erecting filters and barriers to the daily barrage of messages—even *your* messages!

Message Overload



> “General confidence in charitable organizations appeared to hit its modern low point in 2003 and has not moved up or down significantly since. The charitable sector has mostly denied the crisis in confidence…”
>
> **How Americans View Charities: A Report on Charitable Confidence**

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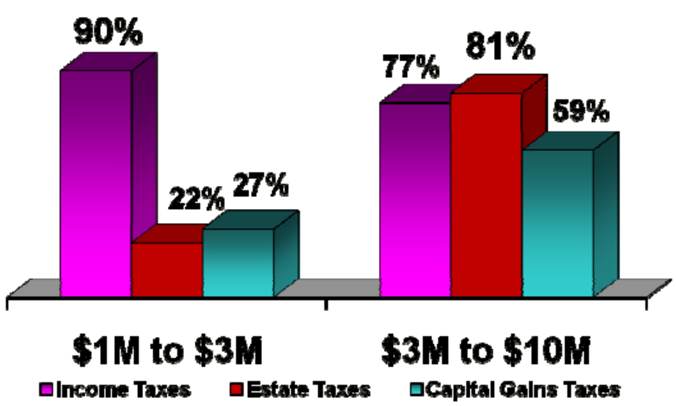
Just as today's nonprofits are facing daunting challenges, so are your donors!

In order to sustain long-term relationships with your most valuable donors, it is absolutely essential to begin by understanding where your donors are coming from—what are their greatest fears and needs?

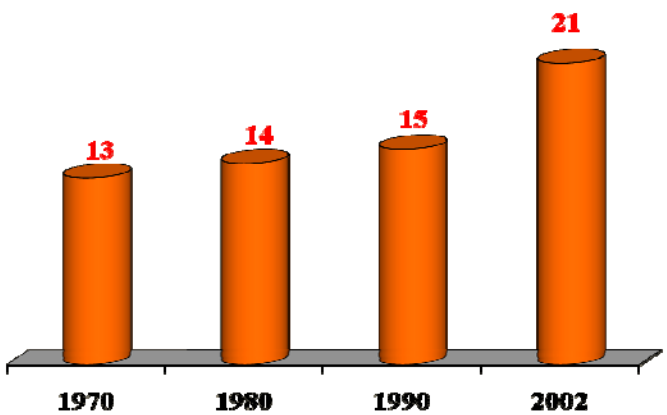
Economic challenges have not only forever changed the rules for nonprofits, they have also changed the rules for donors and their futures. Here is what we know about today's donor-of-means:

Tax Concerns



Information adapted from Cultivating the Middle-Class Millionaire Copyright ©2005 by Russ Alan Prince Wealth Management Press

Life Expectancy: Age 65



Life Expectancy Tables

1. Fear of Losing Their Wealth Is The Donor's #1 Concern

In 2005, long before the economic meltdown, a survey of families with $1 million to $10 million in net worth revealed an alarming statistic: 88.3% said they were "very concerned about losing their wealth." This was the answer from millionaires—those who had accumulated between $1 to $10 million.

What percentage would be concerned about that today?

2. Outliving Their Income

In the seventies and eighties, the results of medical advances on life expectancy for a 65-year old were minimal.

Not so surprisingly, in the twelve years between 1990 and 2002 (the latest published life expectancy statistics), the average life expectancy for a 65-year old exploded by 40%. Overall, that is good news.

However, there is a down side. It has imposed a new financial challenge: the average 65-year old must now fund an additional **six years of lifestyle**!

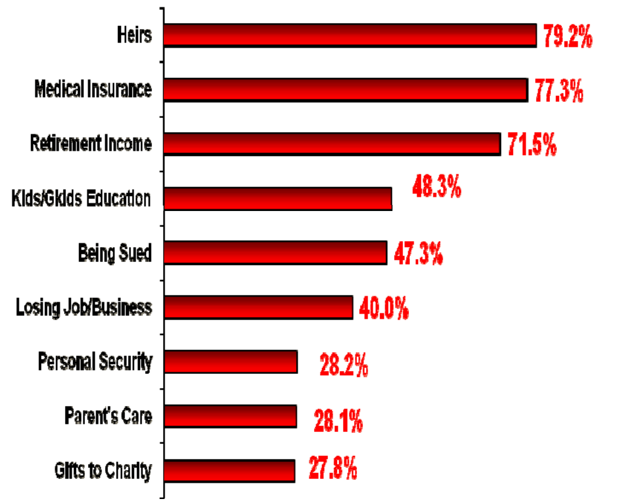
3. Escalating Medical Costs

According to the *Wall Street Journal*, retirees suffer the impact of a different inflation rate than that quoted on the news for the general population, one that has increased at a significantly faster rate due to ever-increasing medical costs.

4. Increasing Tax Burden

Donors are deeply concerned about the bite that taxes take out of their income and their wealth. Depending on the amount of wealth that they have accumulated, their tax concerns change—donors with less than $3 million are largely concerned only about income taxes. However, those between $3 and $10 million are almost equally concerned about the impact of estate taxes and income taxes.

Wealth Priorities



Information adapted from Cultivating the Middle-Class Millionaire Copyright ©2005 by Russ Alan Prince

5. The Result: A Change in Wealth Priorities Places Charities at the *Bottom*

Donor fears have a very real and immediate impact on you, the charity. When asked to prioritize their personal interests and responsibilities, charities come dead last, at the bottom of the wealth priority ladder.

As Nonprofits, What Next?

As needs mount, nonprofits often focus strictly on major giving, annual funds and capital campaigns. Why? Present needs.

Reflect on this for a moment: how often do donors think, "The only time I hear from you is when you want… money!"

A major gift is an "ask" for cash or securities. If your donors are worried about their future, which assets are they least likely to be comfortable parting with? Is major giving the best single focus?

The Quandary

How do we bring these two seemingly conflicting issues together: charity challenges and donor worries?

A Different Approach

The previous pages paint a challenging picture, no doubt. While the facts are a spur to action, they need not be a cause for alarm. With the right perspective, nonprofits *can* help donors meet their needs and, at the same time, better secure their long-term financial viability by growing their endowment.

Joe and St. Foresight

The following story is true, but the facts have been altered to respect the privacy of the donor and the nonprofit that both benefited from a proactive, sustainable planned giving program.

St. Foresight is a regional hospital that, like many health care institutions, was hit hard by a declining economy. Just as the need for its services was increasing, annual giving and endowment income were declining. However, unlike many nonprofits in similar situations, St. Foresight had consistently taken some of their "seed corn" and invested in a proactive, sustainable planned giving system that included consistent donor motivation events.

> "The boards of many charities do not understand the value of planned giving in building relationships with key donors, and do not prioritize gift planning in the charity's budget."
>
> **Philanthropy.com**

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Joe was a consistent donor who routinely made annual gifts to St. Foresight's annual fund. At age 77, he had concerns (and fears) of his own: he was afraid of running out of money. Although his dad was a hard working dairy farmer, they often struggled to make ends meet. Joe labored beside his dad and learned the value of hard work. He wanted to pass that value on to his kids. He also remembered the angst in the pit of his stomach during the terse conversations his parents had about not having enough money. He vowed those conversations would not be repeated in his home.

Therefore, when the invitation came to St. Foresight's donor motivation, planned giving, presentation, it caught Joe's attention and he decided to attend. St. Foresight hosted the event every quarter to maintain "charity of choice" status in the minds of its donors.

Joe enjoyed getting a chance to see his friends at the hospital. Even more surprising, he enjoyed the presentation… and he understood it. It seemed to speak directly to him—and his concerns.

Moved by what he heard, Joe took the next step – a conversation. As a result, Joe made a number of changes, which included gifting a stock that he had owned forever into a charitable income trust, and adding his favorite charities as beneficiaries of his IRA and estate through his Will.

Benefits to Joe

By utilizing these planned giving strategies, Joe received a number of benefits, including the following:

- He received a substantial income tax deduction
- He repositioned the stock without incurring an upfront capital gains tax
- He created a lifetime income that he couldn't outlive
- He increased his annual spendable income by **24%**.

Benefits to St. Foresight

As hosts of the events, St. Foresight received impressive benefits as well:

- Joe immediately increased his annual gift to $10,000 a year
- Joe named St. Foresight as a beneficiary of the trust, his IRA and his estate
- When Joe died unexpectedly of a stroke just two years later, the hospital received $963,000
- St. Foresight was not the only recipient of Joe's generosity. Joe's church received a $250,000 gift and a $200,000 gift went to Joe's alma mater.

A Balanced Approach	
Major Giving	Planned Giving
Charity Creates Need	Life Stage Creates Need
More Benefits to Charity	More Benefits to Donor
Charity-Focused	Donor-Focused

The Real Benefit to St. Foresight

Through a long-term commitment to a sustainable donor-centric, planned giving model, St. Foresight's endowment experienced significant growth, which allowed the funding of special projects.

However, the real value of the endowment became clear the year following the recession, when the endowment cut a $9.3 million check for the hospital to cover a budget gap at the peak of its financial crisis. Disaster had been averted because the hospital had the willingness year after year to invest in a proactive, sustainable planned giving program. Even during uncertain economic times, the donor motivation presentations continued.

Lessons Learned

A donor motivation, planned giving program succeeds because it speaks to your donors' deepest needs and fears. It shows them how to take care of their own needs, and the needs of the nonprofits they hold dear.

Many nonprofits establish donor relationships based on a value exchange model that has not changed in decades. In it, value flows in one direction—from the donor who gives money to the nonprofit that, in turn, provides a service to the overall community, one that donors respect and sometimes cherish.

As we have seen in the ten challenges, that model is collapsing. Further, St. Foresight's experience with Joe suggests a new model more appropriate to changing times and demographics: a value exchange that moves *in both directions*, providing benefits to the nonprofit *and* donors.

For the hospital, the change in models has meant significant rewards that have sustained its mission in good times and bad. However, with the change in models comes a change in focus: instead of relentless messaging about the nonprofit's mission, there needs to be consistent communications on concerns *that affect the donors, themselves.*

A balanced approach includes major giving and planned giving.

Mutual Benefits of a Balanced Approach

Remember the mutual benefits of planned giving for your organization and your donors:

Nonprofits Receive:

- Deeper **bonds** with donors who now have ownership in the organization
- Typically, a donor with a planned gift gives a **larger percentage** of their income in annual gifts
- The legacy benefit of the **planned gift**.

Donors Receive:

- A lifestyle income they **cannot outlive**
- An advantageous repositioning of assets that **reduces taxation** and **creates tax deductions**
- A lifelong **connection** with your nonprofit
- A meaningful **legacy** they can leave to your organization.

How to Make Planned Giving Work – For You *and* Your Donors

At this point, the goal should be clear – to create a donor-centric, sustainable planned giving program that benefits both your nonprofit organization and its donors.

Unfortunately, too many good intentions are undermined by poor execution. In our collaborations with numerous nonprofits, there are key elements that distinguish successful planned giving programs from disappointments.

That is the subject of our highly-rated presentation:

The 10 Key Results From A Sustainable Planned Giving Program: How to Double the Results From Your Planned Giving Efforts

Planned giving provides the perfect win-win solution to the challenges that nonprofits face, as well as solving the biggest needs of your donors.

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The Keys To a Sustainable Planned Giving Program

This presentation answers the following:

- ❑ What are the 10 Results that every planned giving program must achieve?
- ❑ Who are the ideal planned giving donors to target?
- ❑ How will planned giving integrate with your major giving program?
- ❑ What three investments are critical to success?
- ❑ What does your donor funnel reveal about the most important activity for encouraging more gifts?
- ❑ How can you best leverage your investment in your planned giving efforts?
- ❑ Why are donor seminars the most effective tool for your planned giving staff?
- ❑ What are the two tracks your planned giving program must ride on to be successful?
- ❑ How can you implement this approach with limited time and money?
- ❑ How can you duplicate the efforts of a planned giving officer without having to hire another one?

What's Next

How will nonprofits fare in the new future? Hopefully, it's clear by now that there is no status quo—things will not return to the way they were. The institutions that stay the same will, sooner or later, be left behind.

Nonprofits will need to maintain their historical mission and commitment to serve, and yet embrace new avenues to engage donors in win-win scenarios. Those organizations who are at the forefront will flourish in the new environment. Those organizations that stand idly by will ultimately slip backward.

For More Answers

For answers to these and other urgent development questions, view our FREE program, *The 10 Key Results From A Sustainable Planned Giving Program: How to Double the Results From Your Planned Giving Efforts.*

This presentation answers the questions outlined above, as well as showing you how to take your planned giving program to the next level. To schedule this powerful presentation at your nonprofit, please call (412) 854-7860 or email us at answers@DonorMotivation.com.

We look forward to helping your organization overcome these challenges! ■

Who We Are

Since 1995, we have used our skills to listen to nonprofits—and their donors—and take what we've heard to build and perfect a proactive planned giving system that is the bridge between organizations and their donors.

Through THE DONOR MOTIVATION PROGRAM™ and The Donor Motivation Professionals of North America, a network of trained professionals, we have helped North American charities, large and small, "motivate planned giving!" More than 15,000 donors have engaged in our C^2 Donor Presentation Experience and rated it either "one of the finest" or "absolutely the best" of its type. Why? Because it "speaks donor!"

How can we help you? We're listening!

THE DONOR MOTIVATION PROGRAM™

We Motivate Planned Giving!

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Rev. 9.1