23 Planned Giving Terms You Should Know

A Glossary of Common Terms

Katherine Swank, J.D., Consultant, Target Analytics, a Blackbaud Company

Executive Summary

You've established a planned giving program and you're ready to make personal appointments with your top prospects, but you fear you're not yet fully confident in your knowledge. Don't panic! Most conversations about planned gifts don't start with technical questions; rather, they center on donors' wishes to have an impact on the organization's needs. When the time comes, you will be ready — this glossary of terms, which uses practical examples, will give you a basic working knowledge of key words common in ongoing planned gift conversations.

Contents

Terms Commonly Used In The Administration of a Planned Giving Program

1) Planned Gift or Planned Giving: Once called **deferred giving**, "planned giving" or "planned gift" 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, including, but not limited to: simple bequests in a will or an estate plan, charitable gift annuities, charitable remainder trusts, charitable lead trusts, and non-cash assets.

2) Bequest Intention or Planned Gift Intention: This is a donor's indication of his or her intent to leave a future gift. An intention is neither a legal nor binding commitment upon the donor's estate. Rather, it is a courtesy notification of the donor's desire to make a future gift. With the average bequest gift hovering at around $35,000, many organizations treat these donors as they would a major donor and include them in a legacy recognition club. Because of the non-binding nature of the intention, however, it is most wise to provide benefits that are either of no cost or low cost, such as listing donors in acknowledgement publications, sending them special invitations or advance notices for organizational activities, or perhaps giving them a token thank-you gift.

3) Bequest Notification or Planned Gift Notification: This is an estate representative's official notification that a bequest or other estate gift has come to realization. If the gift is a percentage of an estate, a remainder gift, or a gift of personal property, it may not be possible to determine the value of the gift immediately. In this case, a gift expectancy value may be used.

Continued on following page

4) Bequest Expectancy or Planned Gift Expectancy: This is a term commonly used within planned giving programs to unofficially report the value or approximate value of gifts to be received in the future. Some organizations use an expectancy value of $1 for gifts until a more appropriate value can be determined. Other organizations choose to use an average gift expectancy value. This is often arrived at by using a 5 or 10 year rolling average of actual planned or bequest gifts received by the organization. Be careful not to inflate that value by including unusually large gifts. Because some planned gifts may not be received for months or years from a complex estate or where an asset must first be sold, having an expectancy amount helps to provide a picture to organizational leadership and other staff members of the importance that bequest gifts have on future revenue.

5) Cost Per Dollar Raised: Usually presented in dollars and cents, the "cost per dollar raised" attempts to calculate the effectiveness of a fundraising effort or campaign. The cost per dollar raised concept can be applied to a specific solicitation piece such as the *May 2008 Gift Annuity Solicitation Appeal*, or it can be applied to an entire campaign or program such as the *Bequest Marketing and Solicitation Effort*. There is no standard method between organizations, so costs per dollar raised can vary widely depending on what expense items are being included. Typically for planned giving solicitation efforts, costs are limited to the printing, mailing, and postage expenses that may or may not include mail house and data processing expenses. To assess the cost per dollar raised for a comprehensive planned giving program, staff salary and benefits, office expenses, outside vendor and legal/financial management, as well as other larger budgetary expenses, might be considered in the cost.

6) Return on Investment or **"ROI":** This term is used by some organizations in place of the term "cost per dollar raised" and means essentially the same. In a more global setting however, ROI has non-monetary objectives such as public awareness of a product or new sales leads. In the financial world it means the ratio of money gained or lost on an investment relative to the amount of money invested.

Legal And Technical Terms Commonly Used in Estate Planning

7) Charitable Bequest: This is a provision in a will, trust, or estate plan that allocates a gift to a designated charity. The most common gifts to nonprofit beneficiaries are cash, securities, and real property including homes and personal property (things). Many wills and trusts are still written with quite formal language and might be similar to this example:

I give, bequeath, and devise the sum of fifty-thousand dollars ($50,000) to St. Mark's Church, located at 123 Main Sreet., Middletown, Alabama.

The most common gift amounts are usually stated in one of the following ways:

a) A **specific amount**, such as the example above.

b) A **percentage amount**, such as ". . . Ten percent (10%) of my estate to St. Mark's Church . . ."

c) A **remainder amount** also called "residue," such as "After all specific bequests have been paid, I give, bequeath, and devise the remainder of my estate, including real and personal property, to St. Mark's Church . . ."

Continued on following page

About the Author

Katherine Swank, J.D.

With more than 20 years of legal and nonprofit management experience, Katherine Swank has raised approximately $215 million for national healthcare and public broadcasting organizations, as well as an independent law school. Prior to joining Blackbaud in May 2007, Ms. Swank was the national director of gift planning at the National Multiple Sclerosis Society, where she provided fundraising consulting services to the Society's chapter leadership and development staff for six years. She is an affiliate faculty member of Regis University's master of nonprofit management degree program in Denver, teaching classroom and online courses on wealth and philanthropy. She holds an independent studies degree from the University of Northern Colorado and a law degree from the Drake University School of Law in Des Moines, Iowa.

8) Contingent Bequest: This is a provision in a will, trust, or estate plan that allocates a gift to a designated charity as an alternative to a higher priority bequest or condition to be met. Contingent bequests can also incorporate specific amounts, percentage amounts, or remainder amounts, such as the examples above, within them. For instance:

"In the event that (named individual) predeceases me, I give Marcus University Foundation, 2345 East Street, Centerville, Texas, 25% of the residue of my estate to be used wherever the needs and opportunities are greatest."

9) Securities: Used for planned gift purposes, "securities" is a general term that includes the following: shares of corporate stock or mutual funds, bonds issued by corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments that can be exchanged for money.

10) Non-Cash Asset: When related to an outright gift or a planned gift, this term usually refers to an asset such as securities, life insurance policies, CDs, retirement accounts, real property, and the like. Conversely, gifts of currency and checks, as well as gifts using credit cards, are considered **cash** or **cash-equivalent assets**.

11) Real Property: "Real property" is a general term that encompasses land, land improvements such as buildings and machinery sited on the land, as well as the various property rights associated with owning the land, buildings, and machinery. Real property that is mortgaged or otherwise is subject to another person's preceding claim is known as encumbered. Charitable gifts of encumbered property have their own sets of challenges and tax consequences.

12) Personal Property or Tangible Personal Property: Think of this as things that can be touched or things that are tangible. Examples of gifts of tangible personal property to charities include book collections, art, and jewelry. It does not include however, cash or cash equivalents such as checking accounts.

13) Charitable Gift Annuity: This is an irrevocable transfer of property (e.g., cash, securities) in exchange for a contract to pay the donor or the donor's designee an annuity for life. Depending on state law, payments could begin immediately or may be allowed to be deferred until a future date. Because the value of the property exceeds the value of the annuity, it is partially a gift to the institution. While most charitable gift annuity contracts are established between the donor and the organization to receive the remainder gift amount, community foundations have been given permission from the IRS to issue such gift annuity contracts on behalf of other qualifying charitable organizations. Additionally, there are different types of charitable gift annuities, and not all states permit the use of each type.

a) When all of the annuitants have passed away, the **residuum**, or remains of the initial gift plus any interest income, is distributed to the charity to be used according to the contract's directions. Usually, this is for general use by the charity but may be restricted by the donor for a particular use, such as student cholarships or biomedical research.

Continued on following page

b) A college **tuition annuity** allows a donor to create a single-life annuity that defers payments until a child or grandchild is expected to enter college. The child has the option of accepting the annuity payments for his or her lifetime or to receive much larger payments over a shorter period of time, usually four to five years.

14) Charitable Remainder Trust: This is 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) A **charitable remainder annuity trust** provides a fixed payment as determined and stated in the trust document.

b) A **charitable remainder unitrust** pays out a fixed percentage of the trust value each year as determined and stated in the trust document. The value of the unitrust is recalculated annually to determine the current payout.

15) Charitable Lead Trust: This is similar to a charitable remainder trust, except that the annual payments are given to a charitable organization and the principal reverts to the donor or to his or her designated beneficiaries at the end of the trust term. If the principal reverts to the donor, he or she gets a charitable income tax deduction; if to another, that person gets a charitable gift tax deduction.

16) Income or Current Beneficiary: This is the person(s) or entity(ies) that receive(s) the current income or distributions from a trust according to its terms.

17) Remainder Beneficiary: This is the person(s) or entity(ies) that receive(s) the remaining assets from a trust when its controlling terms have been met or its term of years for existence has come to an end.

18) Life-Income Gifts: A generic term used to describe a variety of charitable gift vehicles that provide an income, usually for life, to a donor and/or his or her designated beneficiaries. Life income gifts include, among other things, charitable gift annuities, charitable remainder trusts, both unitrust and annuity trusts, and charitable lead trusts.

19) Split Interest Gifts: These gifts, usually involving property or business interests, start with the idea of making a partial gift of an asset to charity while still retaining a partial interest in it. Because the donor retains some portion of the assets or the income from the assets, the term “split interest gift” is derived. The “split” refers to the fact that ownership is now divided between the original owner and in our case, a charity. Splitting the interest creates a problem in determining the value of the portion given to charity (**gift portion**) and the value of the portion which was kept (**retained interest**).

Continued on following page

20) Present Value: The value that a gift expected in the future would be worth today. A future gift of $100,000 is not as valuable as a gift of $100,000 today due to factors such as inflation, currency fluctuations, and investment risk. Financial advisors may use the phrase **time value of money**, referring to the way the value of money changes over time. The present value of a gift of $100,000 to be received five years from now, given a 5% discount, would have a present value of only $78,352.62.

21) Fair Market Value: This is an estimate of what a willing buyer would pay to a willing seller, in a free market, for an asset or a piece of property.

22) Cost Basis: This term generally means the purchase price of an asset or property. An asset's value will change over time and can therefore appreciate or depreciate from its original cost basis. Its value at the time of gifting would be classified as **appreciated** if it was worth more than was paid for it. Conversely, it would have **depreciated** value if it was worth less than was originally paid.

23) Capital Gains: When investment (or capital) assets are held for longer than a year and then sold to another person or given to a charity, the gain or appreciation in the value of the asset is subject to government taxation on the gain (or profit). If the price of the asset has declined instead of appreciated, this is called a **capital loss**. Capital gains occur in both real assets, such as property, as well as financial assets, such as stocks or bonds.

About Blackbaud

Serving the nonprofit and education sectors for 30 years, Blackbaud (NASDAQ: BLKB) combines technology and expertise to help organizations achieve their missions. Blackbaud works with more than 25,000 customers in over 60 countries that support higher education, healthcare, human services, arts and culture, faith, the environment, independent K-12 education, animal welfare, and other charitable causes. The company offers a full spectrum of cloud-based and on-premise software solutions and related services for organizations of all sizes including: fundraising, eMarketing, social media, advocacy, constituent relationship management (CRM), analytics, financial management, and vertical-specific solutions. Using Blackbaud technology, these organizations raise more than $100 billion each year. Recognized as a top company by Forbes, InformationWeek, and Software Magazine and honored by Best Places to Work, Blackbaud is headquartered in Charleston, South Carolina and has employees throughout the US, and in Australia, Canada, Hong Kong, Mexico, the Netherlands, and the United Kingdom. For more information, visit www.blackbaud.com.