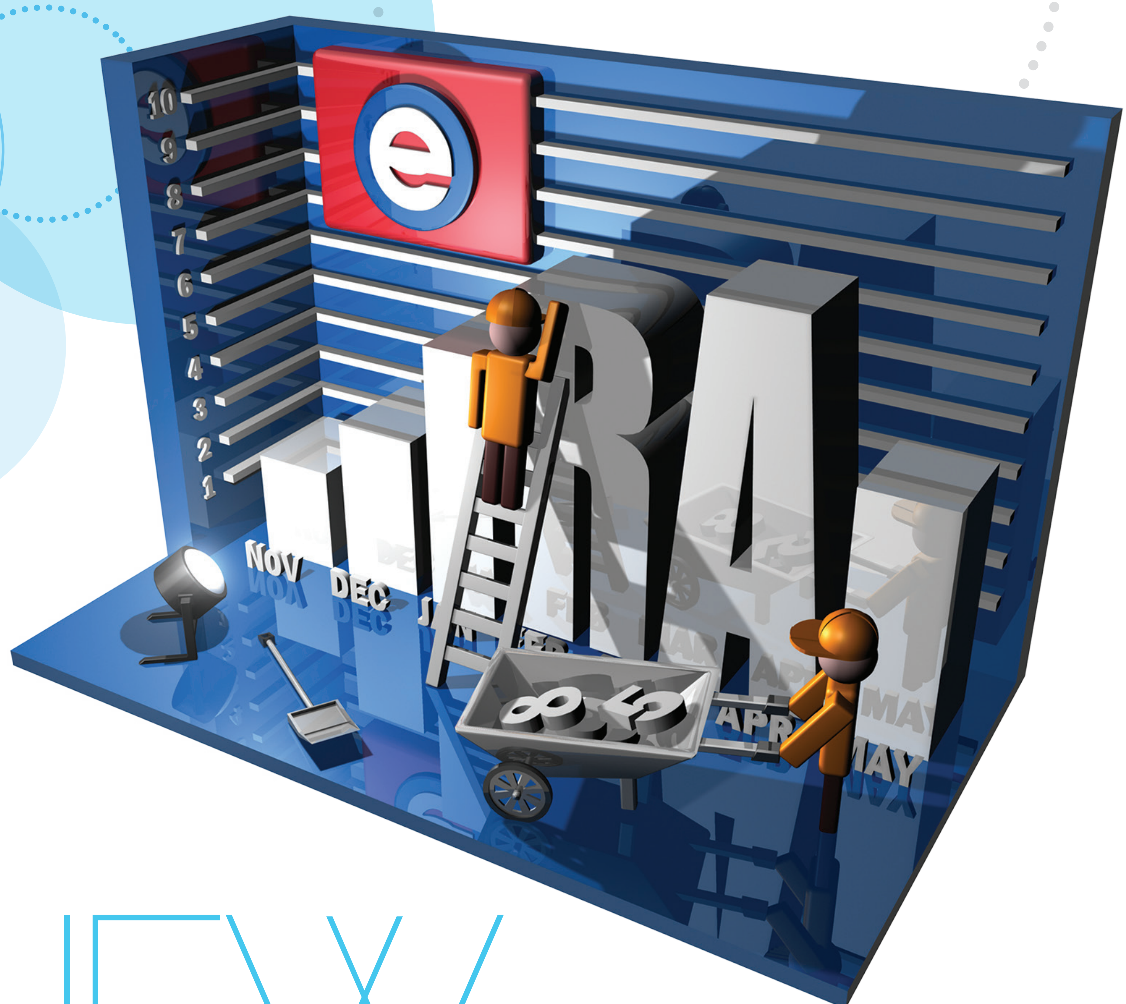

NEW Annual Fund WITH IRA ROLLOVERS

By Charles Schultz, J.D.

Crescendo

Integrated Marketing for Planned Gifts

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NEW Annual Fund WITH IRA ROLLOVERS

Annual funds have been built up by nearly all organizations. Charities allocate substantial resources to growing and cultivating the annual fund. Many organizations have been building their annual fund for decades or even a century.

A new opportunity exists to produce significant growth, even if your organization has a very mature annual fund. There is an excellent potential to build a strong new annual fund with dramatic growth through IRA charitable rollover gifts.

The current gifts IRA rollover was initially passed in August 2006. Between 2006 and 2015, it was renewed, but often very late in the year. This late passage created an "on again, off again" marketing challenge. With the uncertainty and difficulty in marketing the IRA rollover, there was not sustained growth in IRA gifts.

However, in December 2015 the Path Act made the IRA rollover permanent. Donors over age 70½ may now plan each year to make transfers directly from an IRA to a charity.

With the very substantial pool of IRA funds and the opportunity to have a consistent marketing program, the "New Annual Fund" potential is enormous. Charities may be able to build new annual funds that could increase their cash gifts each year by 30%–50% of the existing fund.

The Federal Reserve reported in early 2016 that household wealth is $88.1 trillion. Household wealth peaked in 2007, declined in 2008 and has recovered. It is again at a high level.

The wealth in America is divided into four categories. First, there is cash and cash equivalents. This includes certificates of deposit, bonds, money market funds and similar investments and securities.

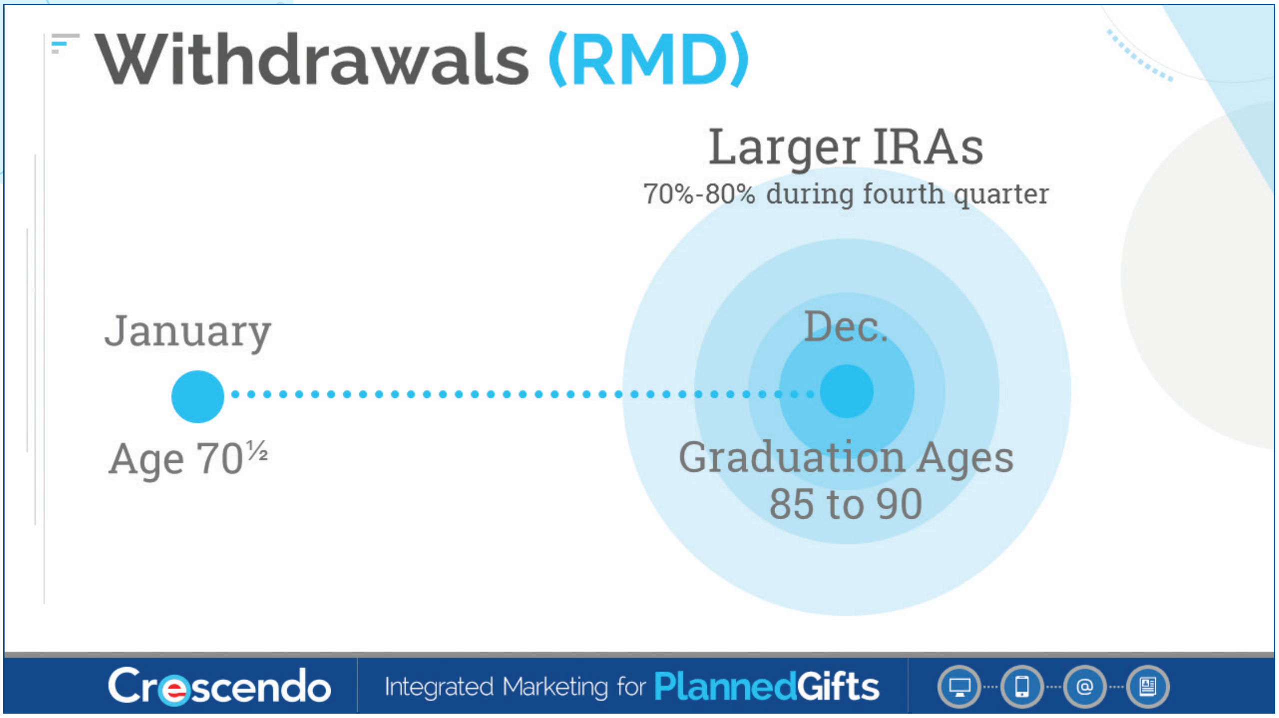
Second, there is real estate. Home equity has rebounded and is a major personal asset. Many individuals also own rental property, development land, commercial buildings and other real estate. With the economic recovery, real estate has regained its strong position in the investment marketplace.

Third, the various forms of equities have also rebounded. The Standard & Poor's 500 index has more than doubled since the market bottom in 2008. Equities include individual stocks, stock mutual funds, private equity and hedge funds.

The fourth category in the Federal Reserve report includes a plethora of retirement plans. Most of the retirement plans are qualified plans. The plans that are qualified generally may be funded with pretax dollars and benefit from tax-free growth. Of these two investment benefits, tax-free growth is the most helpful. However, both benefits are attractive. An exception to the pretax dollars rule is the Roth IRA or Roth 401(k).

The proliferation of plans include the IRA, 401(k), 403(b), Section 457 plans and various types of defined benefit and defined contribution plans.

While the qualified plans are not yet a full quarter of the total and estimates are that the total retirement plans are in the range of $15–$18 trillion, it is probable that $3 to $4 trillion of this amount is owned by individuals 70½ or older. These funds are either in an IRA and eligible for the rollover or are in another type of qualified plan that maybe rolled over into an IRA. After that rollover, the IRA funds may be used for a qualified charitable distribution (QCD).



Each IRA owner over age 70½ is required to commence withdrawals. The withdrawal is called the required minimum distribution (RMD).

Most IRA owners follow the Uniform Table to calculate the appropriate distribution. The balance on December 31 is multiplied by a fraction with one as the numerator and the Uniform Table life expectancy as the denominator.

The distribution typically starts at about 3.8% at age 71. The distribution increases each year until it passes 7%, when the IRA owner is in his or her mid 80s. If an IRA owner survives into his or her 90s, the distributions increase each year and may reach 8% to 12%. Because IRA earnings are not likely to be this amount, many IRA owners will enjoy growth during their early 70s. However, as payments increase, there will be some drawdown between ages 85–95.

For those who have larger IRAs, it is quite common to take a single distribution of the RMD each year. Your author was speaking to a group of CPAs in Santa Barbara and asked them two questions. First, what percent of your clients take a single distribution? The CPAs reported that around 70%–85% of their clients are fairly affluent individuals and take a single distribution each year. The second question was, "When do your clients take that single distribution?" The CPAs replied that the vast majority of their clients take a single distribution in the fourth quarter, between October 15 and the end of November each year.

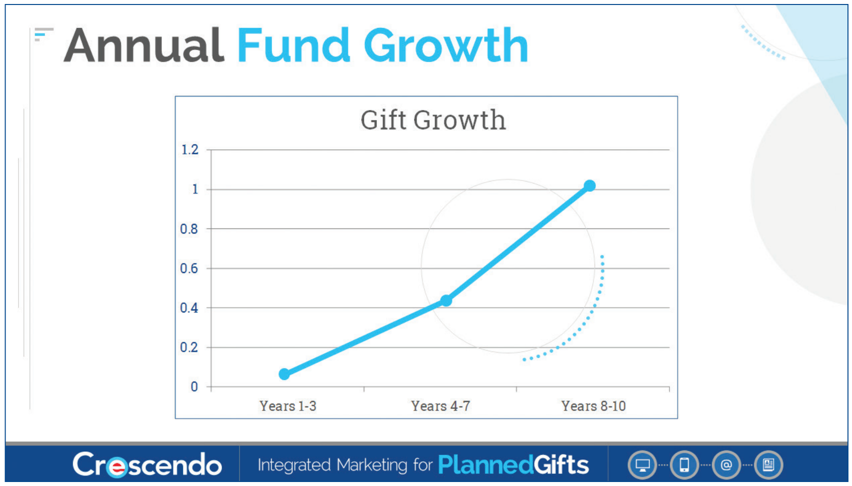
The common practice for individuals with large IRAs is to take that single distribution in the fourth quarter.

The fact that the IRA owner did not take distributions during the first three quarters suggests that he or she does not need the funds. They obviously have other income to cover food, shelter and clothing the balance of the year. For this reason, these donors have an excellent opportunity to consider a qualified charitable distribution (QCD).

CPAs explain to their clients with substantial incomes that taking the RMD will increase their adjusted gross income. This has numerous adverse effects and may lead to phaseouts of various benefits that will increase their taxes. For this reason, many of these individuals are excellent candidates for a QCD because the transfer directly to charity will reduce their adjusted gross income and make their tax returns less complicated.

Many organizations have been building their annual fund for decades. In the early years of the annual fund, there is often modest growth between years one and three, greater growth from years three to five and increased growth from years five to 10.

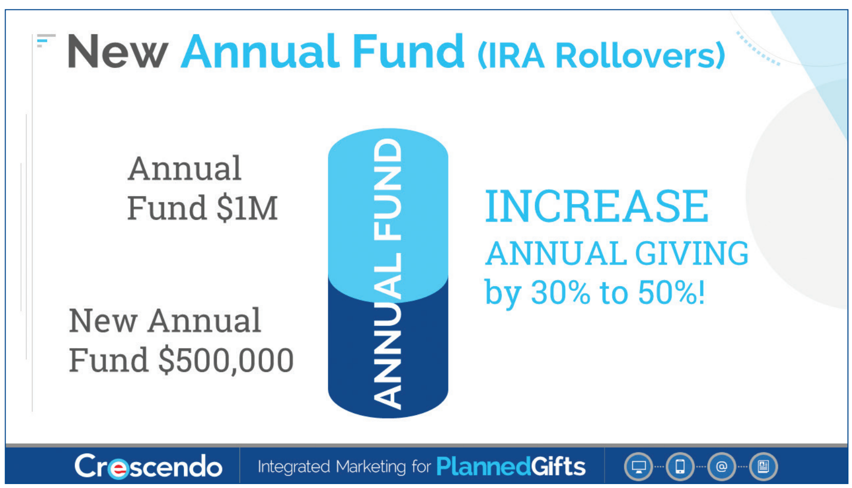
It is quite probable that the pattern for a "New Annual Fund" from IRA rollovers will be quite similar. When individuals who are over age 70½ start making QCDs, they are likely to continue that process each year. As is true with many annual fund donors, the individuals may increase that amount. Because the federal tax rules increase the RMD each year and the QCD qualifies for their RMD, there is federal incentive for individuals to make a larger IRA rollover each year.



A consistent marketing program by a nonprofit will encourage your senior friends to follow this pattern in increased giving. In **Good to Great**, author James Collins emphasizes the importance of "pushing the flywheel." Success for both for-profit and nonprofit organizations comes from a steady growth in a favorable program.

By continuing to market the "New Annual Fund," charities are continually pushing the flywheel. This will in time produce many IRA rollover gifts and substantial New Annual Fund revenue.

How much revenue may be expected from the New Annual Fund? To some extent, it depends on the number of loyal donors who are over age 70½. However, because many organizations find that a significant percentage of their donor base is in the category, there are likely to be many individuals who could and will make large gifts from their IRAs. With $3–4 trillion in the potential IRA pool now open to charitable gifts through consistent marketing programs, there should be sustained growth in the new Annual Fund revenue. While the number of years for maturity for the program is likely to be from five to 10 years for most organizations, the cumulative effect of a marketing program could be significant. The New Annual Fund may equal 30% to 50% of the existing annual fund.



Consider a specific example. Assume that a large university has an annual fund that is producing $2 million. This success has been built up over the past eight decades and represents a significant commitment of both staff and financial resources.

The hoped-for result for a consistent marketing program is to generate a New Annual Fund that is an additional 30% to 50% of the existing fund. If the higher percentage could be reached with a mature marketing program, additional funds may equal $1 million per year.

A 30% to 50% increase in annual fund amounts is possible with an effective IRA rollover marketing campaign. This IRA rollover campaign includes three eBlasts and a multichannel marketing effort each September. The three eBlasts are designed to encourage the donors to think about the potential for making a new annual fund gift. While some donors may choose to make an IRA rollover gift early in the year, the vast majority of IRA gifts will be made during the fourth quarter of the year.

The January eBlast markets the IRA rollover as a gift option for the new year. Donors may want to consider new ideas. Particularly if they are taking a single distribution later in the year, they may want to consider an IRA rollover gift.

Taxes are likely to be "top of mind" on April 15. The April 15 eBlast emphasizes that an IRA rollover will lead to a lower AGI this year than on the tax return just submitted. This lower AGI may result in a significantly reduced income and a simpler tax return.

July 15 is a summer reminder eBlast. It discusses the new opportunity to jump-start fall planning. It is designed to encourage donors to consider giving options during the summer season. Hopefully, they will be receptive to an IRA rollover in the fall.

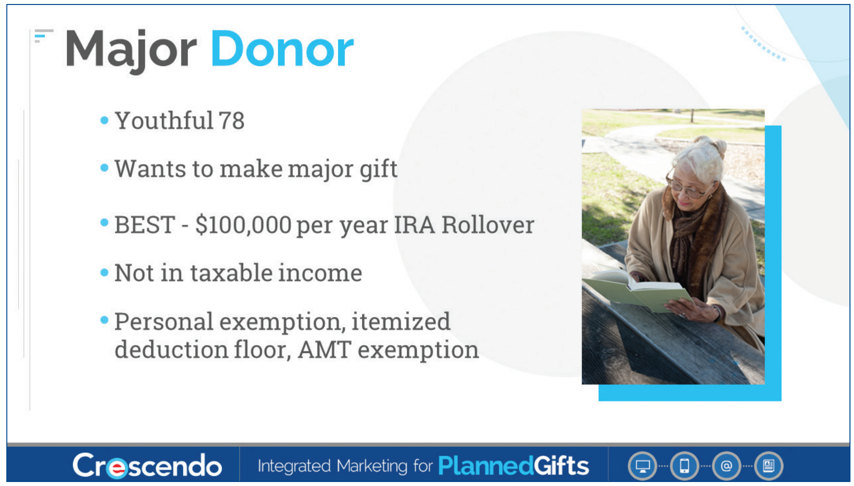
Starting on September 15, a nonprofit may launch a three-week multichannel marketing campaign. Since most donors with larger IRAs take a single distribution in the fourth quarter, this is a perfect time to run the campaign.

The full multichannel campaign includes website banners and donor stories, an eNewsletter header for the weekly eNewsletters and eBlasts. During the three weeks, perhaps two eBlasts would be sent.

The print contract is a postcard that may be sent to donors. To make the best use of available budget resources, many nonprofits will mail postcards to loyal donors who are over age 70½. It also will be helpful to use social media posts and to place links to the IRA rollover donor story on your Facebook posts.

There are several basic rules that should be covered on the IRA charitable rollover gift. The IRA owner must be over age 70½ and there must be a direct transfer from IRA custodian to charity. Because there is no reported income, there is also no charitable income tax deduction. However, the donor will save a substantial tax by not having to include the regular taxable IRA distribution in his or her income.

There are several profiles for IRA rollover gift donors. Two key profiles for many nonprofits are the major donor and the generous donor. Ms. Donor is a youthful age 78. She now has entered the time period of life where the required minimum distribution is increasing significantly each year. Because she would like to fund a substantial project, she is able to transfer $100,000 from her IRA to her favorite charity.

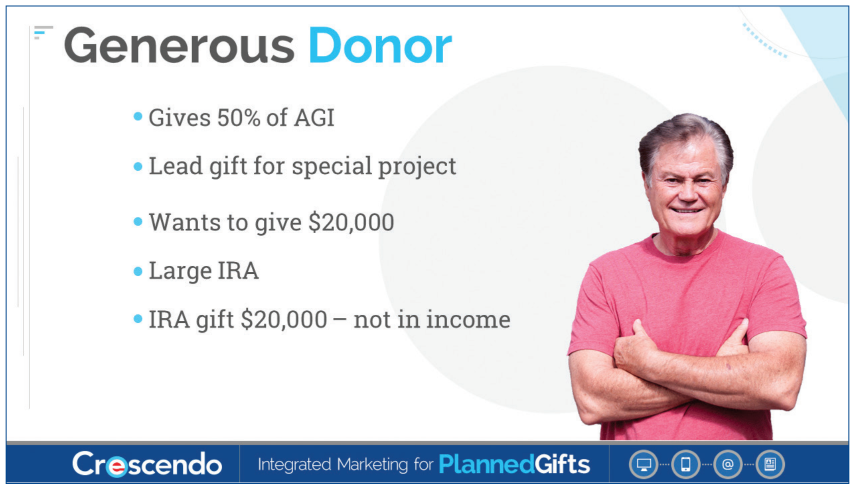


This has multiple benefits. First, the $100,000 IRA rollover is larger than her RMD. Therefore, her RMD is fulfilled and there is no other payment required. In addition, she does not increase her AGI by $100,000. If she were to take this into income, there would be phaseouts of her personal exemption, the itemized deduction floor and particularly her AMT exemption. Keeping her AGI lower both simplifies her tax return and saves substantial taxes.

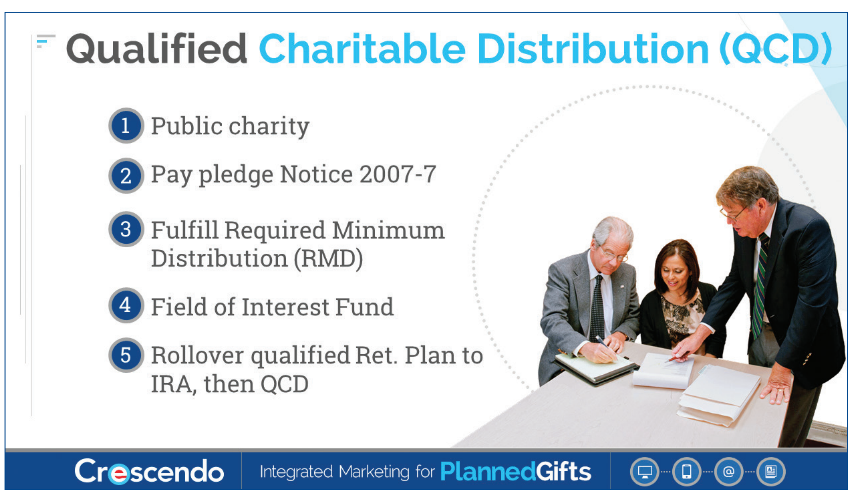
A profile for the major donor is someone who is a director, trustee or loyal friend. He or she typically has significant assets and a large IRA. Your organization is donor's favorite charity, and he or she would like to make a large gift. In addition, they recognize the value of simplicity on their tax return.

Some seniors are very philanthropic and give each year to the 50% deduction limit. If they have a substantial IRA and desire to do more, they may make IRA rollover gifts above the 50% level. There also have been some donors who had substantial carry-forwards. If they use IRA rollover gifts for their regular giving, because they are outside their normal income tax reporting, they will be able to deduct the carry-forwards this year.

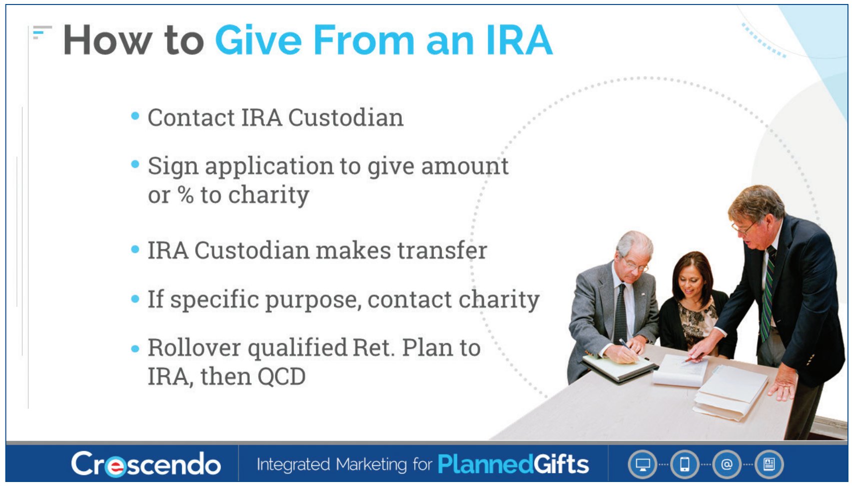
John is a generous donor and regularly gives up to 50% of his adjusted gross income. He would like to make an additional $20,000 lead gift for a special project. Because John has a large IRA, he can transfer the $20,000 directly from the IRA to charity. This has no consequence for his current income, and he continues to give 50% of that to charity.



The IRS name for the IRA rollover is a qualified charitable distribution (QCD). The rollover must be to a public charity or an operating private foundation. Notice 2007-7 indicates that the rollover may be used to pay a pledge. It also may fulfill the required minimum distribution (RMD) for the year of the IRA rollover gift. It may be to a field of interest or designated fund, such as a scholarship or medical research fund. Finally, many other types of qualified plans (such as a Sec. 403(b) or Sec. 401(k) plan) do not qualify for the IRA rollover. However, most other qualified plans may be rolled over to an IRA. After moving the retirement plan to an IRA, it may be used for a QCD.

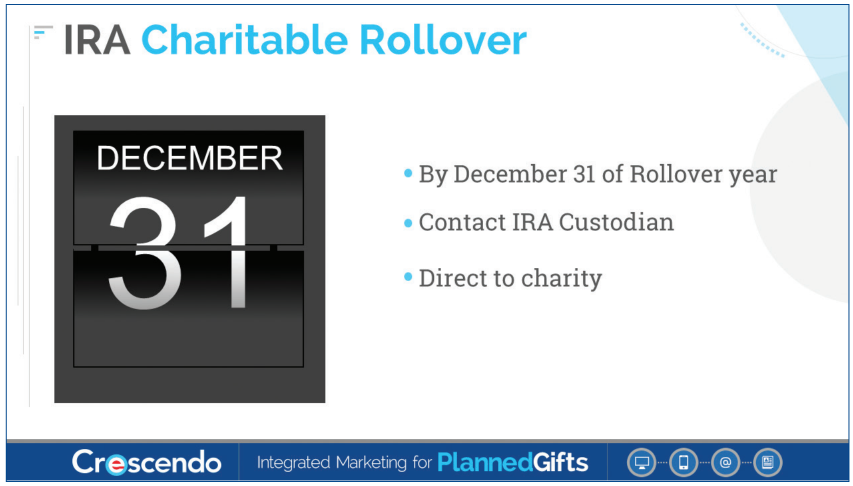


There are several specific strategies for making an IRA rollover gift. First, a donor should contact his or her IRA custodian. The custodian may have a specific application for a QCD. Complete that application to give a specific amount or percent of an IRA to charity. The IRA custodian will make a transfer directly to the charitable organization. Particularly if a donor gives to a designated fund or for a specific field of interest, it is useful to contact the charity and notify them to expect a transfer from the IRA custodian.



There are several limitations on the IRA rollover gift. When the IRA rollover bill was passed in 2006, the Senate Finance Committee Chairman and House Ways and Means Committee Chairman decided it would be used primarily for gifts that have immediate benefit to the needy. Therefore, Congress did not permit IRA rollovers to a supporting organization, a donor advised fund or life income plan. Therefore, it is not possible under current law to make a transfer to a charitable remainder unitrust, an annuity trust or a charitable gift annuity. In addition, there is a prohibition against a donor benefit gift. The IRA rollover must be 100% charitable. A donor may not use an IRA charitable rollover for the purpose of funding a charity dinner, because part of the value is the dinner provided by the charity to the donor.

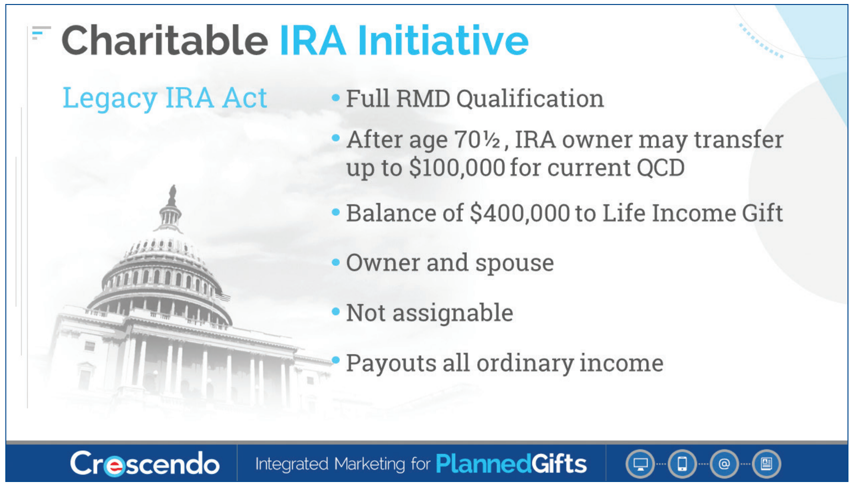
The IRA charitable rollover must be completed by December 31 of the rollover year. This is consistent with the requirement to take the RMD during the calendar year. Because some IRA custodians take two to three weeks to process the rollover, it is important to start an IRA rollover by the first week of December. This allows ample time for the custodian to complete the transfer to the qualified charity.



A Sec. 501(c)(4) organization has been developed to promote life income IRA rollovers. The Charitable IRA Initiative is led by President Lindsay Lapole, Chair of the American Council on Gift Annuities, Vice President Michael Kenyon, President of the National Association for Charitable Gift Planners, and Sister Georgette Lemuth, Executive Direction of the National Catholic Development Conference. The Secretary is John Pierce of Concordia University, and attorney Conrad Teitell is volunteer counsel.

The charitable IRA Initiative has been successful in obtaining introduction of the LEGACY IRA Act (H.R. 5171). This bill permits an IRA owner age 65 and above to transfer up to $400,000 per year for a life income gift. The qualified life income gifts include an immediate gift annuity, a standard unitrust or an annuity trust. A life income gift must pay to the IRA owner or to the owner and spouse.

There are several provisions for the act that are quite helpful in potentially obtaining passage. The distribution qualifies for the RMD in a manner similar to the existing and current IRA rollover. Because the current rollover applies after age 70½, at that point the donor may transfer the initial amount for a current QCD and the balance of the $400,000 into the life income QCD. The amounts in the life income plan may be paid to owner or owner and spouse and are not assignable. Because the donors will generally use a traditional IRA for rollovers, all the payouts are taxed as ordinary income.



The Charitable IRA Initiative is supported by a bipartisan group of members of the House Ways and Means Committee. The Charitable IRA Initiative Board of Directors encourages all nonprofits to support this bill and hopes that it will be passed within the next two years.

Passage of the permanent IRA rollover provides a wonderful opportunity for all nonprofits. Because charities now may have a consistent marketing program over multiple years, there is an ability to encourage many donors over age 70½ to start making annual gifts through the IRA rollover. Because these gifts fulfill the RMD and that amount goes up each year, it is logical that many donors will continue to increase their giving through an IRA charitable rollover. If charities have a solid and persuasive marketing program over 5, 10, 15 or more years, the New Annual Fund can provide large increases in current cash gifts. Consistent IRA marketing programs could lead to a New Annual Fund that is 30%–50% of the amount each year received through the existing annual fund.