Thru the Looking Glass

“Changing Strategies for Major Gifts”

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Charitable Estate and Gift Planning Specialists

Pyramid of Giving

ESTATE & PLANNED GIVING
Request
Donor Commitment

MAJOR GIVING
Endowment Campaign
Capital and Special Campaign
 Grants
Major Gifts from Individuals
Major Gifts from Corp. and Foundation

ANNUAL GIVING
Volunteer-led Annual Giving Campaign
Special Events, Activation
Honor and Memorial Gifts
Direct Mail, Acquisition

Investment
Involvement
Interest
Information
Identification

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We live in interesting times!!!!

Changing financial environment means changing strategies.

Well Rounded Development Program

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Overview of Campaign Phases

Integrating Major and Planned Gift Strategies and Techniques During the Capital Campaign

Key to successful integration of planned and major gifts with capital efforts is to take charge of the process at an early stage to make sure that the appropriate gift cultivation, gift opportunities, and gift types are age and wealth appropriate for the prospect/donor.
Refers to a process conceived by David R. Dunlap and G. Taylor “Buck” Smith to bring discipline and management to the initiatives that create experiences that build to ultimate gifts. First used at Cornell University over 25 years ago, now ubiquitous.

The “moves” are initiatives that you use to move volunteers and staff along the process of establishing and building satisfying and rewarding philanthropic exchange relationships.

It’s “management” because it brings disciplined system and accountability to the emotional process of seeking substantial philanthropic support.

Three types of Moves Management Initiatives:

1. **Foreground Activities** . . . Individually oriented initiatives that are conceived and executed with one person in mind.

2. **Background Activities** . . . Initiatives planned for groups that include prospective ultimate gift donors.

3. **Gift Solicitations**
Getting Started
1. Select five to ten really good prospects
2. Plan time on your calendar
3. Create a Moves Management file for each prospect
4. Research public sources and your own sources of information
5. Identify each prospect’s natural partners

Getting Started
6. Engage the natural partners
   A. Select a prime natural partner and secondary partner
   B. Complete biographical, professional, and community involvement information

Getting Started
7. Establish your system to manage initiatives
   A. Gift objectives
   B. Background activities planning
   C. Foreground activities planning
   D. Track all initiatives in your file
   E. Perform your “moves cycle” monthly
**Getting Started**

8 Use your system to manage initiatives
   A. Create useful reports for volunteers
   B. Focus on building to victories
   C. Be persistent
   D. Add new prospects through nomination
   E. Delete prospects

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**What does all this mean to me?**

Focus on relationships . . . give people a chance to repay or buy a little privilege (or meet other needs)

Focus on philanthropy as your organization’s community capital

Charity begins at home . . . invite your donors in to meet and be part of the family . . . but treat them better than you would treat your family!

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**What does all this mean to me?**

Form small Leadership Teams of governance and non-governance volunteers and professionals or staff to cultivate and solicit gifts

Manage for lots of small victories over time rather than a few big “scores”

Constantly encourage leadership by example . . . including yourself
Prospect Identification
Prospect Qualification
Interest Identification
Moves Plan Initiated
Initial Invitation
Involvement Process
Regular Gift Made
Major Donor Evaluation Completed
Solicitation Plan Completed
Solicitation
Gift Pending
Gift Closed
Stewardship
Initial Thanks

You now know about our campaign we hope you will consider a $100,000 commitment to help us build the new Heart Hospital?

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Major and Planned Gifts during a Campaign Financial and Estate Decisions

- Prospective donor hears
  - “Do I have $20,000 a year in discretionary income (or securities) to give each year for 5 years or $33,333 for the next 3 years?”

- Interested but not willing to make an outright gift so we say…
  - “Would you consider an estate gift of $100,000?”

- Maximizing gift participation from lead and major gift donors…instead of …..
  - “Can we count on you for a gift in the $100,000 range?”
Planned Gifts and a Campaign
Financial and Estate Decisions

- Maximizing gift participation from lead and major gift donors...consider...
- "Would you consider a gift of $100,000 if we can show you how you can do it?"

Donor Concerns

- Lower interest rates forcing seniors who were "net savers" to become "net spenders" and to search for new solutions
  - decide between their "needs"
  - and their "wants" and "wishes"

The challenges ahead

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A Century of Investing
Compounded Annual Rates of Return

<table>
<thead>
<tr>
<th>Decade</th>
<th>Rate</th>
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<tbody>
<tr>
<td>1926-2002</td>
<td>10.6%</td>
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<tr>
<td>30's</td>
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<tr>
<td>40's</td>
<td>9.2%</td>
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<tr>
<td>50's</td>
<td>19.4%</td>
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<tr>
<td>60's</td>
<td>7.8%</td>
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<tr>
<td>70's</td>
<td>5.9%</td>
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<tr>
<td>80's</td>
<td>17.5%</td>
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<tr>
<td>90's</td>
<td>18.2%</td>
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Source: Ibbotson Associates, Russell 2000 index

A Decade of Investing
Vanguard 500 Index Fund 1993-2004

<table>
<thead>
<tr>
<th>Year</th>
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<tbody>
<tr>
<td>1993</td>
<td>9.89%</td>
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<td>1994</td>
<td>1.18%</td>
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<tr>
<td>1995</td>
<td>37.45%</td>
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<tr>
<td>1996</td>
<td>22.88%</td>
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<td>1997</td>
<td>33.19%</td>
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<td>1998</td>
<td>28.62%</td>
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<tr>
<td>1999</td>
<td>21.07%</td>
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</table>

Source: Vanguard.com, $100,000 (2000) worth $62,400 by 2003

Interest Rates 1993 - 2005
Total Return on Money Market Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
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<tbody>
<tr>
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<td>3.01%</td>
</tr>
<tr>
<td>1994</td>
<td>4.08%</td>
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<tr>
<td>1995</td>
<td>5.82%</td>
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<tr>
<td>1996</td>
<td>5.29%</td>
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<tr>
<td>1997</td>
<td>5.44%</td>
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<tr>
<td>1998</td>
<td>5.38%</td>
</tr>
<tr>
<td>1999</td>
<td>5.01%</td>
</tr>
</tbody>
</table>

Source: Vanguard Prime Money Market Fund Investor Shares * 6/1/05

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Donor Behaviors

Stages Of Our Financial Life

Donor Hierarchy of Needs

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Thru the Looking Glass
“Changing Strategies for Major Gifts

Need for Personal Significance

Values

Relationships

Financial = Security

Legacy = Obligation

Wealth Optimization

Social Capital

Lifestyle & Opportunity

Legacy of Grover Chestnut

TAX REPORT

Money

10 Secrets from the Investor Who Turned $5,000 into $22 Million

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Expressions of Commitment

Sense of Commitment

Involvement = Distinctiveness

Interest & Caring = Credibility

Knowledge & Understanding = Believability

Awareness

Expressions of Commitment

Cultivation requires experience . . . Properly motivated and managed experience builds towards an ultimate gift.

Money represent values

- Depression babies born prior to 1935
- World War II babies born 1935 - 1945
- Baby boomers born 1946 - 1964
- Baby busters born 1965 - 1977

Money represent values

- We fought for it...Save, Save, Save
- 35 million 65+
- We earned it...Save a little, spend a little
- 76 million 55+
- 4% single, 63% married, 20% widowed, 11% divorced
- 33% IRAs

Money represent values

- We are owed it...First spend, then save for it
- 65 million 40-54
- 11% single, 15% divorced
- 41% have IRAs
- 44% have aging parents & and kids under 21
- We deserve it, but probably won’t get it...It’s hopeless
- 89 million 18-39
- 47% single
- 34% have IRAs

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Money represent values

- Baby boomers (born 1946 - 1964)
- Baby busters (born 1965 - 1977)

Millionaires in training

Barriers to Philanthropic Gift Planning

- Resistance of advisors
  - Poor knowledge or expertise
  - Planning bias
  - No personal giving

Barriers to Philanthropic Gift Planning

- Donor emotional barriers
  - Not wanting to relinquish control
  - Fear of facing death...indecision
  - Fear of what children will think
  - Analysis paralysis

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Major Gifts and a Campaign

- Goal is best possible gift from each donor
- Suggest the most appropriate option to make a contribution and which assets to use to fund the contributions
- The nature of a donor’s personal objectives leads the gift planner towards some and away from other charitable plans or methods

Major and Planned Gifts during a Campaign

- Goal is best possible gift from each donor
- Understanding lead gift donor’s personal goals, personal financial situation, family goals, assets, plans in place

Source: Robert F. Sharpe, Jr.

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Major and Planned Gifts during a Campaign

- Focus on prospective lead and major gift donors
- Select priority needs with likely lead and major Gifts in Mind
- Calculated before current needs are prioritized and selected

Gift Decision Cycle
Segmentation by age

<table>
<thead>
<tr>
<th>Donors</th>
<th>Donors</th>
<th>Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 50</td>
<td>50 - 70</td>
<td>Over 70</td>
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</tbody>
</table>

Gift Decision Cycle
Segmentation by wealth

<table>
<thead>
<tr>
<th>Segmentation by Wealth &amp; Income</th>
<th>Wealth &amp; Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Average Means</td>
<td>Highest Average</td>
</tr>
<tr>
<td>Average</td>
<td>Income</td>
</tr>
<tr>
<td>Income</td>
<td>Average</td>
</tr>
</tbody>
</table>

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Major Gifts and a Campaign
Financial and Estate Decisions

❖ How will it effect me?
❖ How will it impact my heirs?
❖ What effect will it have on my security?
❖ What will my children think?
# Gift Decision Cycle

## Age and Wealth Based Matrix Code

<table>
<thead>
<tr>
<th>Code</th>
<th>Gifts</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>Gifts of cash and property, charitable lead trusts, term of years trusts, life income gifts for others, charitable trust for donor’s life, bequests, gift annuities, life insurance beneficiary, retirement plan beneficiary</td>
</tr>
<tr>
<td>D</td>
<td>Gifts of cash, deferred gift annuities</td>
</tr>
<tr>
<td>E</td>
<td>Gifts of cash, appreciated property, term of years trusts, charitable trusts for life, pooled income fund, gift annuities, deferred gift annuities</td>
</tr>
<tr>
<td>F</td>
<td>Gifts of cash, appreciated property, bequests, charitable trusts for life, term of years trusts, pooled income funds, gift annuities, retirement plans and insurance beneficiary designations</td>
</tr>
</tbody>
</table>

Matrix source: Robert F. Sharpe, Jr., NCPG presentation, 2000

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Philanthropy has many faces

- Each segment represents a characteristic and distinctive way a donor group approaches philanthropy
- A set of typical attitudes and beliefs
- A range of considerations
- A process of evaluation
- A style of involvement

“One set of motivations tend to dominate people’s decisions”

Source: Russell Prince study

Philanthropy has many faces

- Communitarian 26%
- Devout 21%
- Investors 15%
- Socialites 11%
- Repayers 10%
- Altruists 9%
- Dynasts 8%

Source: Russell Prince study
"DOING GOOD IS GOOD BUSINESS"

Affluent individual donors who give with one eye on the nonprofit cause and one eye on personal tax and estate consequences

Source: Russell Prince study

THE INVESTOR

Give the same way they invest
Rely on quality of people involved
Being affluent does not impose a moral imperative to give
Motivation to give is on result not the mission of nonprofit

Want public and private acknowledgment and attention and nonprofit to look out for their interests

Pat and John

Pat 1/1/1925 (80)
John 1/15/1919 (86)
First met them in 1997 when they were considering moving into a retirement resort community and donating their home for life income, interest stimulated by Foundation mailing
John served on Foundation Board, now retired
Pat did volunteer work at Hospital, now retired
Second marriage for both in their 70s, prenuptial agreement
Pat's only son died at 53, estranged family
John has three children, 4 grandchildren and 5 great grandchildren, one grandchild is a Dominican Priest
Pat and John

- Overall objectives
  - Secure retirement lifestyle and income
  - Periodic gifts to children and grandchildren, maybe 529 plans for grandchildren
  - John’s assets going mainly to children
  - Pat’s assets going to John’s children (“as much as I can”), and three charities
  - Save on taxes, lower income taxes, Zero Estate Plan
  - Control of assets during life
  - Help charitable interests
  - Pat’s assets $7,000,000, all liquid
  - John’s assets $4,000,000, all liquid
  - “Investor Philanthropic Style”

Pat and John

- Financial
  - Actively concerned about estate planning for family and charity
  - Giving history 1986 – 1997, $190 in memorial gifts
  - 1997 – Pat established a one-life gift annuity for $25,499, joins the Hospital’s Scroll Society ($10,000 club), gift generates income for new retirement home expenses, does $180,000 cash annuity for Retirement Home
  - 1998 – Pat established a two-life gift annuity for $10,398
  - 1999 – John establishes a Charitable Remainder Trust with local bank in unknown amount with children as 10-year beneficiaries after his death and Hospital and Church as remainder beneficiaries
  - 2000 – Pat establishes a two-life Charitable Remainder Trust (CRT) for $300,000, with three charitable beneficiaries
  - Hospital, Kansas Medical School of deceased husband and Lutheran Missions
  - 2002 – John adds $40,000 to Pat’s CRT for Hospital campaign
  - 2003 – Pat establishes a one-life gift annuity for $74,351 (bigger deduction)
  - 2004 – Pat establishes a two-life gift annuity (6%) for $184,580, for four different Hospital projects

Gift Annuity with Life Insurance

- Charity
- Donor
- Insurance
- Annuity
- Payment
- #1

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**Gift Annuity and Life Insurance**

1. Select $500,000 in appreciated stock
2. Select stock with low dividend yield or 2-3%
3. Estimated dividend for stock $10k - $15k
4. Step 1: transfer $500,000 to one-life gift annuity
5. Annuity rate 8% annual payment $40,000 per year
6. One time tax deduction of $239,281
7. Deduction generates savings of $96,908 in Federal and NC taxes
8. Tax savings replace lost income for next 6 – 10 years
9. Step 2: Use annuity payment to cover life insurance premium on $900,000 policy
10. Insurance will be owned by Hospital
11. Premium payments of $40,000 will be fully deductible
12. Because you will pay taxes on the annuity payment your net deductible amount will be $16,625
13. Hospital will credit last year’s gift annuity, the current gift annuity and the life insurance value and give you credit for a $1,500,000 recognition unit

**Gift Annuity plus Life Insurance**

Heart Hospital
Age 80

Insurance $900,000

Annuity

$500,000

$40,000

$239,281 one time

Tax Deductions

$23,375

Heart Hospital

Annuity

Insurance $900,000

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Charlie and Barbara

- Charlie 2/18/1940 (65)
- Barbara 7/4/1940 (64)
- Newly retired with significant retirement assets
- Lives primarily from pension and income produced by stock dividends
- Will start IRA withdrawals at age 70 1/2
- Donor tired of changes in asset value of some stocks in their portfolio

Hospital needs cash for new cancer project and Charlie and Barbara have been asked for a major leadership gift based on the recommendation of their financial advisor knowing of Barbara’s recent breast cancer experience

Charlie and Barbara have retained John as their financial advisor who has exerted significant influence over their financial affairs
Charlie and Barbara

Wachovia High - Low
1996 - 2005
- 1996 $37.93 - $31.31
- 1997 $50.13 - $40.43 split
- 1998 $61.25 - $40.94
- 1999 $60.75 - $32.00
- 2000 $34.92 - $23.50
- 2001 $35.30 - $25.22
- 2002 $38.15 - $28.57
- 2003 $46.00 - $32.12
- 2004 $51.60 - $43.05
- 2005 $56.28 - $48.92
- 2006 $?

Charlie and Barbara

- own Wachovia
  - 3,000 shares
  - Dividend $1.48 per share
  - pretax gross income $5,340
  - Income net of taxes $4,635
cost basis $50,000, value $150,000
- Solution split Wachovia shares
  - 33% outright to charity
  - 66% to gift annuity
Charitable deduction for outright gift of $50,000 @ 25% saves $12,500 in tax payments

Charitable Gift Annuity

- Property $100,000
- Principal $100,000
- Foundation $100,000

1. Gift property to charity. Partial figure $66,667 gain may save $2,603. Income tax deduction of $31,133 may save $8,000.
2. Annuity of $5,600.00 for two lives. Tax-free amount $970.42. Estimated two lives payout of $149,520. Effective payout rate 6.6%.
3. Quarterly payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

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Charlie and Barbara

- Use $100,000 to establish a two-life charitable gift annuity to replace lost retirement income from outright donation of $50,000 in Wachovia stock.
- Pre-gift status:
  - Income: $5,340
  - After tax: $4,635
- Post-gift status from gift annuity:
  - Income: $5,600
  - After tax: $4,625
  - Increase: $85

- Charitable deduction for $75,000 gift annuity is $26,026 @ 25% saves $6,507 in tax payments.
- Total taxes saved $19,007 or a government return of 38% of your outright $50,000.

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