



## 2007 National Conference on Planned Giving

October 10-13, 2007 • Gaylord Texan™ Resort • Grapevine, Texas

# **Field Guide to Donor-Centered Giving: New Rules, New Tools, New Culture**

October 11, 2007

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## Field Guide To Donor-Centered Giving: New Rules, New Tools, New Culture

### I. INTRODUCTION

#### A Turning Point: Multi-Dimensional Imaging for Organizations

Steve Meyers is a longtime practitioner of the principles recommended in 2006 in NCPG's Guidelines for reporting charitable gifts. Steve developed a new technology for donor-centered giving stemming from those principles and earlier concepts of total financial resource development (Total FRD). Cynthia O'Donnell, a major/planned gifts officer, sought assistance putting the Guidelines into practice at her hospital when a dispute about recognition threatened the loss of a major gift by her organization. Steve's theories and background help you understand the context and inspiration for his ideas, while Cindy's conversational notes (in boxes) illustrate the ground-level struggles and practical considerations with which we are all so familiar. As you read through the evolutionary process, Steve and Cindy hope their combined perspectives will help fellow gift planners implement these new methods in the field.

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This is a program about new rules, new tools, and building a new culture. The new rules for counting and reporting gifts have tremendous potential to change the meaning of fundraising achievement and to dramatically change the balance of donors' and institutions' interests when negotiating new gifts.



The analogy to modern medical imaging technologies is particularly apt for my organization, since we are science-oriented. These technologies, arising from basic research, allow scientists to peer beneath the surface of the body, to the cellular and molecular levels, to understand the inner workings of our biological systems in multiple dimensions. Thus, new diagnostic paradigms have led to powerful applications that could never have been predicted. These methods benefit all of humanity.

Similarly, the multi-dimensional NCPG Guidelines for Counting and Reporting Charitable Gifts enable us to develop a new technology of donor-centered giving, which allows us to view our fundraising both in three dimensions and 360 degrees. This multi-dimensional approach offers insights into the inner workings of our campaigns and new gift planning applications which were invisible under traditional practices of counting and reporting.

Of course, we do not mean to imply that the contents of this paper will yield life-changing results for all humanity. But within context, we do believe that our technology has *proportionately* powerful ramifications for our industry at large, and for each of your organizations individually.

We are at a turning point. While NCPG's Guidelines can be a great ally, they can also be challenging to implement in the field. Institutions might be asking, "Who needs yet another set of standards to comply with?" And gift planners might be wondering, "What's in it for me?"

Already, the Guidelines have created more sensitive standardized measures of fundraising effectiveness and achievement, and they are becoming increasingly accepted by national fundraising organizations. However, their ultimate value will *not* be better counting. Their greatest legacy may be the as-yet-unknown applications that will lead to a new generation of donor-centered gift arrangements and a more collaborative fundraising culture.

We want to tell you how this new, donor-centered fundraising technology came about, show how it differs from what came before, and suggest how it may be applied in your own organization to help you achieve three objectives:

1. To better understand the dynamics and inner workings of your fundraising campaign;
2. To develop new, more powerful gift strategies with your donors to raise more money; and
3. To build a more collaborative, donor-centered fundraising culture.

## II. UNDERSTANDING THE INNER WORKINGS OF YOUR FUNDRAISING CAMPAIGN

### **New Rules: Donor-centered Giving Technology Based on NCPG Guidelines**

Let's take a close look at how the new rules, the NCPG Guidelines, inspire a new way of counting *and* a new donor-centered fundraising technology. But before we do, let's not take our jargon for granted, or even as figurative. We need to define "technology" first. For this we can utilize a definition by Joel Barker, who writes frequently about paradigm changes and describes himself as a futurist.

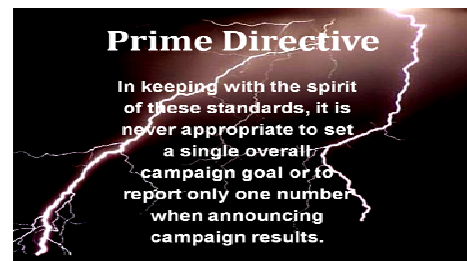
"Technology is:

- The practical application of knowledge
- A manner of accomplishing a task using technical processes, methods, or knowledge
- A set of tools, techniques, and knowledge that can be used in combination or separately to solve problems in specific areas."

As a corollary, wherever there is new technology, there is an opportunity for innovation.

### **The Prime Directive**

The new approach to fundraising comes from the boldest assertion of the Guidelines, what might best be called its Prime Directive. It says that it is *never* appropriate to report only one number when announcing campaign results. Until now, almost all fundraising results were summed up by one number—a calculation of financial value, usually based on FASB standards. The Guidelines mandate a fundamentally different approach, one much more in line with a fundraiser's (or donor's) reality than an accountant's.



The most groundbreaking part of the Guidelines is that they measure fundraising achievement by recognizing three dimensions of charitable giving. These correspond to the way donors actually make their gifts: outright, irrevocable, and revocable. **By explicitly endorsing a multi-dimensional approach to counting completed contributions, the Guidelines implicitly support a multi-dimensional approach for designing new gift plans. This where the new, donor-centered "technology" (tools, techniques, and knowledge) originates.** This program is about how we can use the new gift technologies in the field.

During the initial conversation, Cindy explained her dilemma to Steve. Cindy was motivated by the terrible possibility of losing a major gift from donors because her organization might not recognize their lead trust at face value. This made it urgent for Cindy to introduce the Guidelines to her organization. Cindy needed to build support for the Guidelines before other valuable gifts were affected, but she faced a lot of resistance. She contacted the Editor of NCPG's *Journal of Gift Planning*, Barbara Yeager, and Barbara recommended she speak with Steve.

### **Background—Cindy's Consultation Notes:**

I formed an NCPG Guidelines Task Force (hereinafter referred to as Task Force) to discuss how a situation like mine could be handled better in the future. I believed we needed to adopt the NCPG Guidelines for Reporting and Counting Charitable Gifts (hereinafter referred to as Guidelines). I first became aware of the Guidelines at my local NCPG Chapter, the Gift Planning Council of New Jersey, and from there I contacted the Executive Director of the NCPG, Barbara Yeager, who said I should speak to Steve Meyers at the Weizmann Institute. He had helped form the official NCPG Guidelines Task Force and was instrumental in the writing and adoption of the Guidelines.

We drafted people for the Task Force from each of the relevant Standing Committees of the Board, and one each from the Planned Giving Committee, the Financial Oversight Committee, and the Stewardship Committee. Rounding out the group were our Chief Development Officer and myself, for a total of eight people. This Task Force was formed to consider the adoption of the Guidelines and then to make a recommendation to the Board of Trustees of the Morristown Memorial Health Foundation regarding their adoption.

The Guidelines suggest gifts be counted and reported *at face value*. (The Guidelines leave the issue of recognition up to each organization.) This counting and reporting is different from reporting under accounting and tax rules, which require that deferred gifts be reported at their net present value. Our organization would continue to report gifts the 'old way' to comply with FASB rules. But the Guidelines make an important distinction between "counting" and "accounting" or valuation.

Paraphrasing from the Guidelines:

1. Counting provides a way for charities to record what they do, so that they can report their activity and results clearly to the public, and measure results against fundraising goals.
2. Counting provides a way to measure the intent of the donor, since most donors focus on the dollar amount of their commitment at the time they decide to make it, and not on the net value to the charity in the ultimate sense.
3. All gifts, revocable and irrevocable, current and deferred, should be counted.

The Guidelines suggest that counting be segregated into three categories, following goal setting in the same categories: outright gifts, irrevocable deferred gifts, and revocable gifts, as shown on the reporting format sheet. They recommend that only total results by category be reported externally.

For example, the Guidelines describe how a 20-year lead trust paying \$10,000 per year would be counted as a gift of \$200,000.

The Guidelines also stress the importance of counting revocable gifts, which is the only way to measure fully the efforts of fundraising staff, and to encourage all forms of gift giving. In addition, they point out that revocable gifts can be overlooked or even lost if not counted as part of a comprehensive policy. Regarding measurement of revocable gifts, the Guidelines state: "We recognize that it is difficult to put specific numbers on revocable assets whose ultimate maturation value is uncertain. These numbers may at best be estimates and should reflect both conservative and realistic understanding of each donor's circumstances."

The recognition challenge was the most important issue to the donor to begin with, and that was the issue that almost lost us the gift. Our donor had already given us \$1.1million in the first CLAT which at the time of the negotiation of the second CLAT was worth about \$868,000 in net present value. Our buildings at the hospital had previously been \$4 million each. Since the building, or North addition of the hospital, did not have a separate entrance (as the donor kept pointing out), our CDO decided that we would let the building go for \$3.5 million in NPV. After many discussions with the donor that we must have a total of \$3.5 million to name this addition, we kept negotiating (running a lot of Crescendo proposals/illustrations to get to \$2.4 million additional for the second CLAT, which ended up being a 30 year term). The Donor kept reminding me that he was giving us really \$6.8 million over the next 30 years and that is what he wanted to be recognized for. Originally he wanted to give us a face value amount to total \$3.5 million and not \$6.8 million, but our CDO said that the precedent had been set and we would not let this addition go for less.

Some issues and considerations that arose about the adoption of the Guidelines with our Task Force:

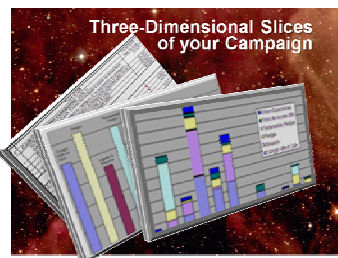
1. By using the counting Guidelines' method of reporting and recognizing at face value, we will report fundraising progress that is different from that reported in the Foundation's audited financial statements and Form 990.
2. Adoption would result in a change from prior methods of recognizing large gifts that may or may not have included deferred payments.
3. Prior donor appeals have focused on the present value of a deferred gift. Recognition of "face value" might create a need for dual levels of naming opportunities--one for cash or short-term deferred gifts and one for longer-term deferrals.
4. The payment term of deferred gifts presents recognition issues. Due to greater uncertainty of realization as the term of the deferral increases, perhaps only the face value of gifts to be collected within a specified time frame (e.g., 25 years) should be counted.

5. Revocable gifts present unique measurement issues. Should policy require that they be subjected to a standard discount (e.g., 50%) for the possibility of revocation? How should we arrive at an appropriate standard?
6. The \$10 million question: If we have a building to name for \$10 million, would we accept a \$10 million CLAT instead of \$10 million in cash or pledged out over five years?

To help Cindy turn this situation around, Steve introduced her to several total financial resource development (Total FRD) profiles he had developed. These “fundraising achievement reports” are based on a novel use of the three dimensions of giving recommended in the Guidelines. Instead of applying them to the goal-setting process, as recommended by the Guidelines, Steve suggested that Cindy apply them to *scanning* past fundraising results in order to create a series of **Total FRD profiles**. These eye-opening profiles revealed precisely how donors had structured their gifts. The results helped Cindy demonstrate that planned gifts *already* had an impact on their corporate campaigns. Thanks to this new technology based on the Guidelines, Cindy convinced her organization to review past policies and begin a process for better recognition of donors.

Let’s look at the tools Steven reviewed with Cindy and which she adapted for her own use.

### A. Using Total FRD Profiles and “Slices” to Better Visualize Your Campaign



Like MRIs and CT scans, these organizational scans (based on the new rules) help make the invisible visible in your campaign. Compared to viewing your results with one single number, the three (and more) dimensions of charitable giving provide an in-depth understanding of your campaign and how it works. Once you can measure these dynamic aspects of your campaign, you can begin to manage them better.

Each of the following scans offers a different perspective, or slice,” of your fundraising results. The first is a strictly “by the numbers” view. The second is a graphical representation, showing subdivisions within the three major categories of gifts. The third allows you to examine different segments of your campaign which are responsible for the overall results.

Figure 1. Total FRD scan

#### 1. By the numbers: Total financial resource development (Total FRD) snapshot profiles

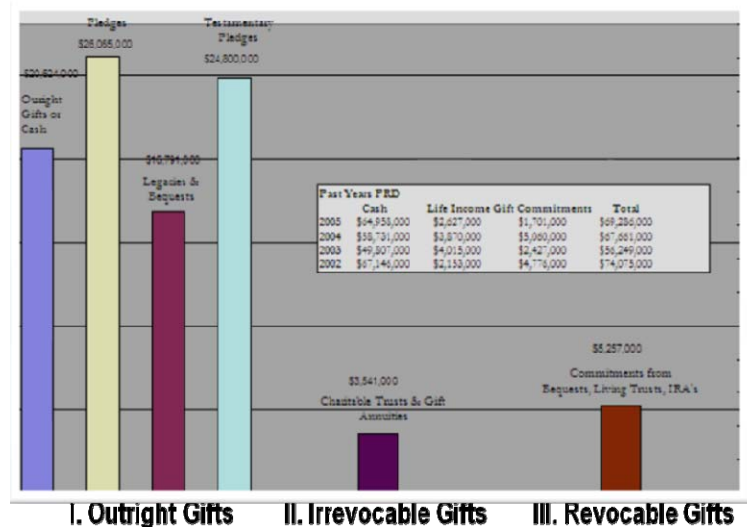
- Multi-dimensional giving, generally consistent with NCPG counting Guidelines
- Gifts at face value, no financial filters pre-applied
- All numbers reconcile with FASB or other contribution income valuation formula

Type of Gift	Fiscal 2006 Year To Date
<b>1 Cash or Equivalent Contributions (note 1)</b>	
A) Outright Gifts or Cash (Does not include income received from CRT's and CGA's, reported in category 2, or payments on pledges)	20,624
B) Legacies and Bequests (cash received from planned gifts) (note 2)	16,791
C) Pledges (except testamentary) (note 3 & note 7)	26,065
D) Testamentary Pledges (planned estate gifts)	24,800
<b>Total Cash and Pledges</b>	<b>88,280</b>
<b>2 Irrevocable Life Income Gifts (note 4)</b>	
A) Charitable Trusts (CRT's)	2,263
B) Charitable Gift Annuities (CGA's)	1,278
C) Other Irrevocable Gifts	-
<b>Total Life Income Gifts</b>	<b>3,541</b>
<b>3 Documented Commitments (note 5)</b>	
A) Gifts with specified amounts	625
B) Estimated value of gifts with amounts not specified (note 6)	4,632
<b>Total Commitments Estimated</b>	<b>5,257</b>
<b>4 Total Financial Resource Development</b>	<b>97,078</b>

Figure 2. Graphic version of Total FRD

## 2. Graphic representation: Total FRD scan

- Same data as in Figure 1, but graphically shows trend and impact of PGs on overall campaign
- Provides management information on inner workings of campaign, strengths and weaknesses
- Shows impact of types of gifts often invisible, if not tracked



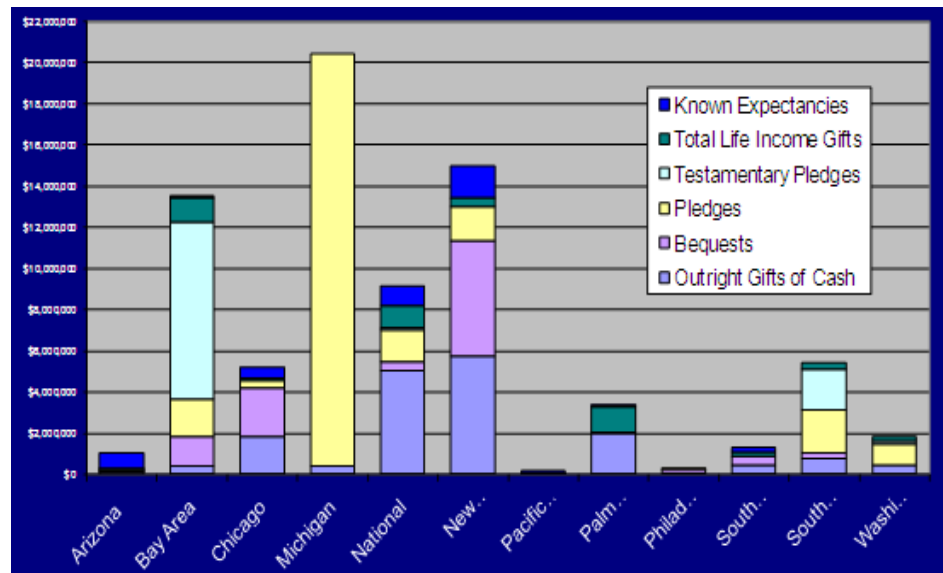
The graphic scan (Figure 2) illustrates the relative asset allocations of different types of gifts acquired during the campaign year. Category I details the group normally seen solely as outright gifts, and finds that the money from legacies and outright gifts amounted to far less than the gift revenues from short-term gifts and testamentary pledges. In Category II, gift annuities and trusts shown at face value are clearly significant contributions, though they would translate as a smaller amount of present value dollars in a financial statement. Looking at the volume of revocable bequests in Category III, one wonders how many documented, known commitments would be sufficient to maintain or increase the number of matured legacies that will later be shown as revenues received in Category I.

## 3. Total FRD by segments

A scan of different regions (Figure 3) is valuable for illustrating the concept of a “portfolio” of different gifts acquired by individual fundraisers.

Figure 3. Total FRD by segments / individual fundraisers

- Shows different types of fundraising achievements by individual contributors
- “Portfolio” effect seen, as each contributor tends to acquire different gifts
- Diversity of gifts seen as a benefit for long-term success



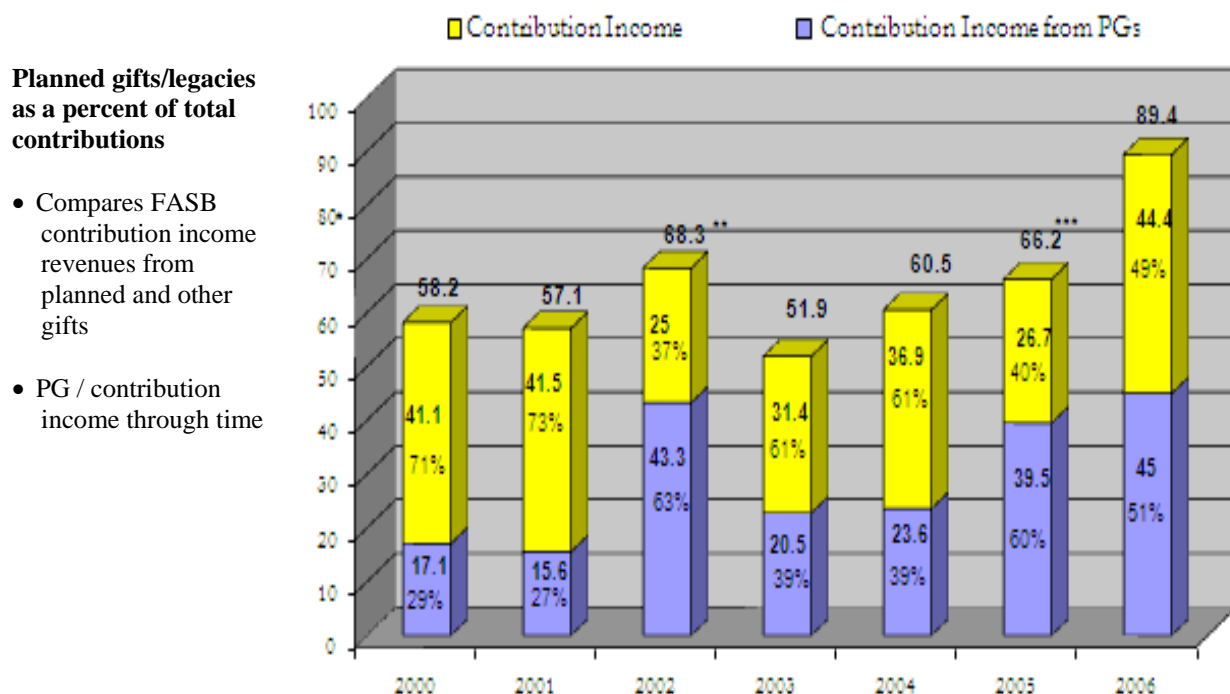
This data encompasses just one year, but using data from a few years reveals that each fundraiser or region has a tendency to garner certain types of fundraising achievements. This could indicate that some individuals are more comfortable with or knowledgeable about raising certain types or structures of gifts, it could reflect the demographics of a region, or both.

As a fundraiser in the field, you know that if you have a great year and receive an outstanding outright/expendable gift, you already have a hole to fill in next year's budget! Our experience is that the regions that have a "diversified portfolio" of outright, irrevocable, and revocable gifts ultimately produce and sustain the greatest revenues (in terms of actual dollars expendable). When you have this type of three-dimensionality in your fundraising achievement, you feel more assured of expendable funds for both today and tomorrow.

## B. Planned Gifts in the Big Picture: Legacies as Part of Total Contributions

The NCPG Guidelines are not meant to replace the financial measures--particularly those of the Financial Standards Accounting Board (FASB)--but to supplement them and provide meaning beyond the numbers. The new rules and the old rules for counting still have to work together. They have to reconcile with each other financially in order to have any credibility. The chart below (Figure 4) is based on the Guidelines' Prime Directive--that it is never appropriate to use just one number to measure performance. But that does not mean that there is no use for the old way of doing things. Here, we are using the old paradigm along with the new one. This chart shows planned gifts revenues against total contribution incomes.

Figure 4. Legacies as percent of total contributions



In the fundraising world, contribution income (FASB) still dominates. But even using the FASB rules, we can gauge the impact of planned gifts on the total campaign. That's what this scan does. While a single year can show a dramatic increase, tracking your campaign over time *appears* to demonstrate that the whole campaign trend actually seems to follow the rise and fall of planned gifts and legacies received.

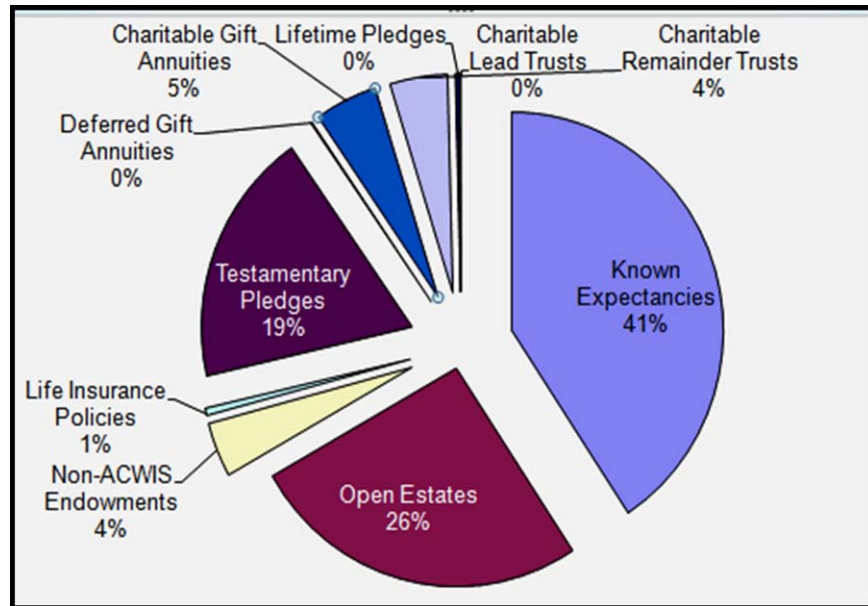
### C. Global Impact of Planned Giving: Establishing a Planned Giving Inventory

Creating a Planned Giving Inventory using the three dimensions of giving allows you to see *all* your gift achievements—even the ones that have not “hit the books” yet. The idea for the PG Inventory came about when our executive asked for some way to gauge the value of our planned giving efforts over the years. What is our program really worth—not so much financially, but in terms of the value of our everyday time reflected in the fundraising achievements?

Figure 5. Planned Giving Inventory

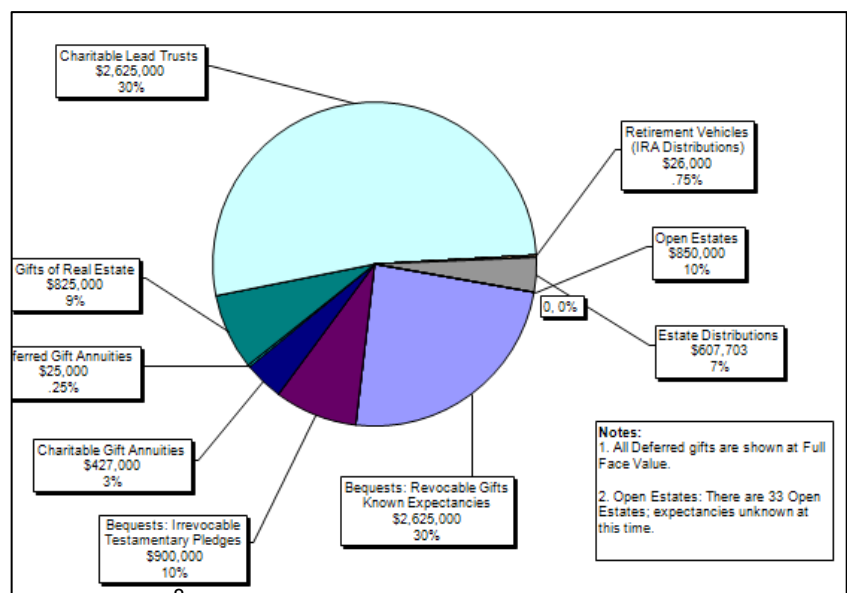
#### Planned Giving Inventory

- Shows all gifts executed but not yet expendable; surprising build-up of major gifts in probate
- Illustrates broad impact of PG program as a type of “asset allocation”
- Represents a “market” for future gifts; many donors still living



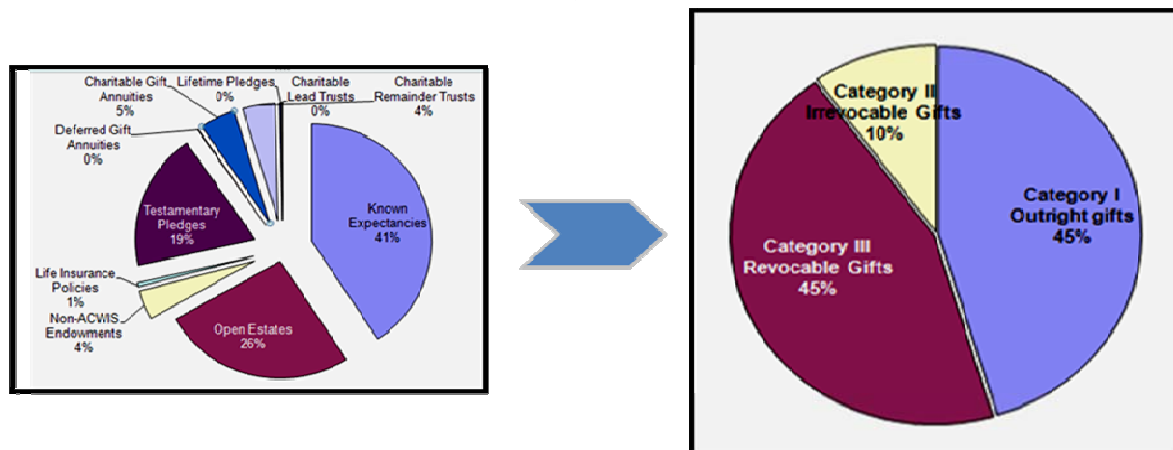
The Planned Giving Inventory lists all the gifts donors had executed on our behalf that had not yet matured at face value. Some had already been shown on our books, others not. You can use this to gauge the relative impact of your planned giving program. Revalue each year. Mark the new ones added to the list. Share it with your regions and staff. While we do not use this as a financial tool, we do place an average value on bequest expectancies and revalue them every year, in order to show the rise and fall of this type of gift. Remember, many of the donors represented in the Inventory are still living. They have already shown a commitment and are a part of the family. As such, they represent a great market for new gifts, both outright and planned.

Cindy’s first PG Inventory demonstrated the big picture and highlights the impact of planned giving in her organization.



While we usually portray the Planned Giving Inventory as many wedges, it can be helpful to represent them in the same three dimensions of financial resource development as current gifts (Figure 6). This allows you to get a much better sense of the balance in your planned giving portfolio. Note that while there are many gift vehicles represented, there are still only three basic ways that donors can structure their gifts (outright, irrevocable, revocable).

Figure 6. Planned Giving Inventory reconfigured as current gifts



Category I gifts, recorded as outright gifts, would include testamentary pledges and open estates. Category II would include gift annuities and charitable remainder trusts where the interest is irrevocable, as well as insurance policies owned by the charity. Category III would be the revocable commitments for bequests and retirement plans, as well as the non-binding but realistic expectation of gifts from donors advised funds.

It is worth noting that the vast majority of recorded gifts would be bequest commitments--whether irrevocable or revocable. There are relatively few of the irrevocable split interest gifts, at least in our organization, though they could become much more important in future years. Seeing the inventory as a sign of future gifts could radically change the way you spend your time. As PGOs, we spend much of our time in gift annuities and trusts because they have some glamour and because "that's what planned giving officers do." However, it is clear that bequests and testamentary pledges are the greatest sources of future gifts. We can add more value to our program if we remember that when we're working with donors--and put *every* kind of gift on the table. This is another reason to consider the three dimensions of giving, not only for counting past gifts, but also for developing new ones.

#### Challenges to Implementing Multi-dimensional Gift Profiles in Your Campaign—Cindy's Notes:

After being introduced to the NCPG Guidelines, we told the Donor that we would recognize his gift at NPV (net present value) and face value whenever we were referring to the gift, which was the best I thought I could do at the time.

At a Financial Oversight Committee, the Chair and almost all members finally agreed that Face Value Recognition would be best going forward; they believed that this was the only way to stay competitive because many other organizations such as the Nature Conservancy and some universities were now recognizing at face value. It was also stated by the Chair of FOC and other members that as we are and should be a donor driven organization, whatever the donor wanted, was what we should do. The Chair felt that the face value recognition approach, which we should advertise as many do on their website and in their periodicals, would only encourage more gifts to the organization. Wasn't that what we wanted?

Simultaneously, we asked a few past donors who also had some present involvement on our committees what they thought, and they were fine with it.

But one major issue was consistency. Having established much precedent over the past 20 years and not wanting to upset past donors (donors some of whom were now on our Board, committees, and who would very likely give lead gifts again to our next Capital Campaign,) our CDO did not want to look at face value recognition, even though some of these donors were OK with the concept. I contacted Barbara Yeager a number of times throughout this

process and found that the NCPG had recently made presentations to AFP and AHP. I knew that if AHP approved the Guidelines and for counting and reporting and if they were also recommending to their members recognizing planned gifts at face value, that my CDO would approve here. So the issue was tabled until we saw what these national organizations were doing.

In the meantime, even though we started with the recognition issue the researching and drafting of a Recognition Policy, we realized that Gift Acceptance must come first and then Recognition policy, so I started with a colleague's draft and we met as a staff a number of times and we now have a draft of a Gift Acceptance Policy that we will present to our Board in September.

Some members of our Task Force made it clear to the other members that these Guidelines would not replace our current accounting system of recording deferred gifts at net present value. This still must be done according to FASB rules. Rather, these Guidelines allow us to report *total* fundraising activity to properly reflect the work of the organization which corresponds to how the donor makes his or her gift. This report or summary *complements but does not replace* our accounting procedures.

The Task Force met three times in 2006 after the Donor's CLAT was signed May 31, 2006. The first meeting was held with all eight members. It was then decided that these issues be brought to all of the three standing committees previously mentioned for discussion at their next meeting. We would meet again, and if all were in agreement, we would recommend to the Board that these Guidelines be adopted and open it up for discussion at an upcoming Board meeting.

The issues of counting and reporting were agreed upon by the Task Force after this meeting, but the issue of recognizing deferred gifts at full face value remained controversial.

Our Chief Development Officer (CDO) was most concerned with offending previous donors (who could be repeat donors) who gave cash pledges. \$10 million over five years does not equal \$10 million over 25 or 30 years--Time Value of Money issue. So we approached a few of our major donors who had named buildings for \$4 million or more and they gave their permission. Our FOC also said that we needed to do whatever encouraged more planned gifts to our organization and to stay competitive in the fundraising arena .

Our CDO still felt uncomfortable. He asked me to gather information from other organizations, especially health care institutions, and to see what AHP was doing. I spoke to their President, who said it would be on their agenda for this summer but he was leaning towards adopting. AFP did in fact adopt the Guidelines this summer.) These national organizations' adoption of the Guidelines was strengthening the case for adoption of the Guidelines in reference to counting and reporting, but we still had the recognition piece to work on.

It drove us to form a recognition policy which our CDO thought should be drafted by the Donor Relations Manager and the Stewardship Committee, with my input. It was discussed at this committee and the others that a limit on the term of years for recognition of deferred gifts be made—e.g., NPV plus 5 or 7 years. I felt that this would further complicate the issue. I was given the task of drafting a gift acceptance policy, which we realized had to be vetted and adopted before the recognition policy could be adopted.

These are both on the agenda for fall Board meetings--acceptance first, and then recognition.

Ultimately, we agreed that we would begin reporting our fundraising activity on the Sample Format Sheet as recommended by the NCPG. This was approved by our CDO and Director of Operations (CFO) and then went to FOC and Accounting sub-committee for approval. This lists all cash, irrevocable, and revocable gifts to our organization in one year and avoids double counting, footnoting, and duplicative accounting work that we were doing with our financial reporting to the Board at Board meetings six times a year and for year end financials, Annual Reports, Audits, etc.

Not only from an Accounting/Financial perspective, but from a fundraising perspective, we now show all the hard work we have done all year. It is all counted, especially the revocable gifts!

### III. NEW TOOLS AND KILLER APPS

#### **Integrative Gifts: New Branch of Donor-centered Gift Planning**

The Guidelines are about counting and reporting in multiple dimensions; they are *not* about how to give. The new, donor-centered technology applies that multi-dimensional approach--not only to counting past results but also to *creating new gifts*. **Integrative gift planning can be viewed as a new branch of donor-centered gift planning--the “killer app” that has emerged from the technology implicit in the NCPG Guidelines.**

#### **From Wikipedia, a definition of the Killer App**

A **killer application** (commonly shortened to **killer app**), in the jargon of computer programmers and video gamers, has come to mean any program ... that is ingeniously coded or unexpectedly useful. Originally, and more broadly, "killer app" has been used to refer to any computer program that is so necessary or desirable that it provides the core value of some larger technology, such as a gaming console, software, operating system, or piece of computer hardware. In this sense, a killer app substantially increases sales of the hardware that supports it.

How will the killer apps of donor-centered gift planning be different from what came before? Gifts, traditionally planned or otherwise, will no longer be viewed as mere transactions, but as “philanthropic building blocks”--part of a scaffold or structure used to help achieve a donor’s goal. Below you will see how this technology provides a very rich planning environment--much more expansive than planned giving alone. You need to be able to consider *all* gift options, not just the ones available in your compartment/department or silo. Some are so powerful they could become the killer apps of donor-centered giving.

In the field, donor-centered giving means moving away from *selling* financial transactions and towards *understanding* donors' real interests. A more descriptive term might be “integrative” gifts: plans that combine the three categories of gifts under one agreement. Under the new rules, you will be using what you already know, but possibly in a completely different way.

#### **A. Integrative Gift Plan with Step-Up Provision**

##### **Resourceful philanthropic family combines gifts to endow Chair**

This example combines almost every kind of gift vehicle to meet a family objective of establishing a professorial chair. A “step-up” provision in the agreement allows the impact to grow as new gifts are added.

Lily’s first husband was a doctor. She and her daughters wanted to memorialize him by creating a Professorial Chair in his name. Lily had been very charitable and also wanted to remember our organization in her estate plans, but there was not enough money available at the moment to fund a Professorial Chair.



To meet the goal, we suggested combining their past giving with current and future gifts they intended to make. The initial new gift would first establish an endowment fund for master’s students and then “step up” to a doctorate, and, ultimately, a Chair, as the fund grows.

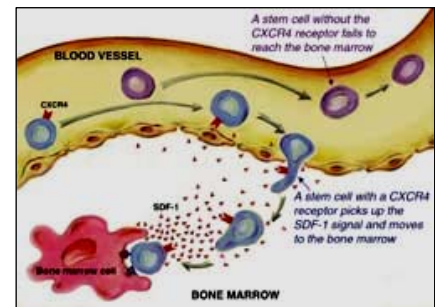
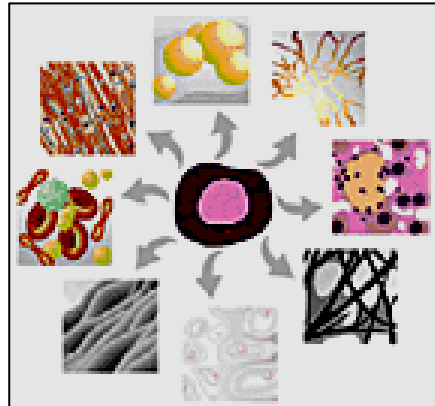
**Benefits and Features:** An umbrella agreement spelled out the donor’s game plan and objectives. There were several “bookable” gifts involved, described under one plan agreement. In the first year, the donor’s daughters pledged and then fulfilled their promise to contribute outright gifts of stock, which were used to establish a permanent endowment that funded the master’s scholarship. Lily also established a legally binding testamentary pledge for a bequest commitment that ultimately would ensure full funding of the Professorial Chair. (This element converted a normally revocable bequest into an irrevocable, bookable pledge.) They already had completed a charitable gift annuity and a charitable trust. The agreement regarding the annuity and CRT added no new pledge elements but merely designated that the ultimate proceeds from those gifts would be added to their endowment to grow the fund even further. With this overall gift plan they were able to step up to being major donors, start up a scholarship immediately, and know their fund would grow in impact in the future. We were able to recognize them in our highest giving circle, because the irrevocable gift commitments were over a million dollars.

## **B. The Virtual Endowment**

### **Donor funds stem cell research--covers annual costs up front, then endows**

In this example, a donor wanted to fund many different varieties of stem cell research but could not immediately make the full \$2 million endowment needed to support this work. She had met the researchers and really wanted to do something *now*. We proposed a new idea to her.

The alternative to contributing the \$2 million as an *outright* gift would be to create a flexible "virtual endowment" gift. To achieve the same result, the donor commits to providing a series of annual gifts (in this case, \$120,000 per year).



Stem cells have the potential to differentiate into any type of cell in the body.

Based on our spending rate, this \$120,000 annual gift is the same amount that ACWIS would be sending to the Institute on an annual basis. The commitment to make the series of annual gifts is "virtually" equivalent to having received and invested a gift of \$2 million in principal.

The donor accepted this plan. Her advisor was happy because he wanted her to give more money to charity, and she was happy because she wanted an extra financial cushion while she was alive. She was really pleased because the impact of her support allowed this research to come into its own.

Our umbrella gift plan included two bookable gifts:

1. The pledge for a lifetime income stream of annual gifts, which is bookable under FASB as a factor of the annual amount times her actuarial life expectancy; and
2. The testamentary pledge of \$2 million, payable upon her demise.

#### **Benefits and Features:**

- Long-term testamentary pledge combined with lifetime annual gifts
- Primarily older donors, since balloon payment typically bequest
- Project starts right away
- Donor recognized in all giving circles

## SAMPLE INFORMATION SHEET FOR THE VIRTUAL ENDOWMENT

### Virtual Endowment Simply Stated – From the Donor’s Perspective To Accelerate, Sustain and Perpetuate Philanthropic Vision

**Virtual Endowment** is a powerful technique to help Weizmann Institute supporters realize during their lifetime an important philanthropic goal that would otherwise not have been achieved until after their demise. For example, you can name a professorial chair or a major research fund, based simply on your intention to continue your annual gifts and remember Weizmann through your estate. Combining these basic philanthropic building blocks in a unified plan can dramatically magnify the impact of your support.

**How it Works** –Working with our gift planning staff, to create your professorial chair, for instance, there are three steps we would follow.

(1) First, you would make a commitment to provide **outright annual gifts for life**. The amount of your annual gift would be equivalent to the amount we would provide the Institute to support the chair on an annual basis. The assurance that you will provide these annual gifts for life, means that your annual gift is the “virtual” equivalent of a fully-funded endowment.

(2) Second, you would also **promise to provide a gift through your estate**. The amount of your bequest commitment would be based on the current and future costs of sustaining a professorial chair. While this promise would be in the form of legally binding document, you would also include the same designation to make this gift in your estate planning documents.

(3) Finally, the third step is taken by Weizmann. In fulfillment of this agreement, Weizmann promises to name the incumbent of your chair during your lifetime, and also to use the principal ultimately received from your estate and other planned gifts you designate to sustain your chair. Future research papers published by your chair’s incumbent will acknowledge your support.

**Recognition** –Weizmann will recognize you immediately for your gift. With your family at your side, you will enjoy the satisfaction of knowing that your program and your values will live on. It will be a great day for you, and a great day for the Weizmann family.

**For Information** – Our gift planning office would be pleased to prepare a personalized plan and work with you and your advisors to help you achieve your philanthropic vision. All gift plans should be reviewed with your own advisors to ensure they fit with your overall financial and tax situation.

*Virtual Endowment – Realizing your bequest during your lifetime*

### **C. Philanthropic Mortgage Endowment** **Donor establishes Chair by building equity in his endowment**



Like many multi-dimensional giving strategies, this approach was co-developed at ACWIS with my colleague, William Samers. A philanthropic mortgage is a way to increase the impact of a long-term pledge. Previously, a donor's major gift project could not begin until after the pledge was completely paid. This approach allows donors to advance their philanthropy in a powerful and creative new way they never thought possible during their lifetime-- by **building equity in their endowment** while paying the annual operating costs.

This example involves a donor who wants to establish a Chair in his family's name. While he clearly has the funds to make such a gift, he is reluctant to part with all the money at once. A Chair costs \$1.5 million. The donor had made a previous outright gift which had not yet been expended which he wanted to use as a "down payment." He wanted to look at paying the rest of the Chair's cost with an annual gift of \$125,000 over periods of ten, twelve, and fifteen years.

While the donor is willing to make an irrevocable pledge so he can receive recognition in our highest giving circle, he wants to pay out the pledge over a much longer time than we would ever be able to accept. We offer him a new solution, one he has never heard of before connected with a charitable project, but it is a concept with which he is very familiar. We call it a **philanthropic mortgage**. This funding strategy can help the donor have a greater philanthropic impact and create his project immediately, rather than having to wait for years. It could be individually tailored to his situation to help the donor establish a Professorial Chair in his family's name.

Under the philanthropic mortgage plan, ACWIS would use part of each payment to cover the annual cost of operating the Chair. The other portion would be used to gradually build the principal of the endowment fund. As the "equity" in the endowment fund grows, the increased income it produces enables more of the payment to go towards building the principal of the endowment, until it is fully funded. At that point, the endowment can sustain the Chair in future years. It is a true philanthropic partnership.

Here are the specific details of the options discussed with the donor:

Figure 7. Philanthropic mortgage proposals

Funding Alternatives	Plan A Donor's Initial Proposal (not an option for donor or ACWIS)	Plan B Philanthropic Mortgage		
		Option 1 10 years	Option 2 12 years	Option 3 15 years
Pledge Term	11.2 years			
Annual Payment	\$125,000	\$192,000	\$168,250	\$145,200
Pledge Cost	\$1,404,508	\$1,920,000	\$2,019,000	\$2,178,000
Additional cost (gift greater than \$1,404,508)	\$0	\$515,492	\$614,492	\$773,492
Date for start-up of Chair	2018	Immediately		

#### Benefits and Features:

- Donor's payments cover both annual operations and grow "equity" (principal) of endowment
- Individually tailored: donor selects from term of years and payment amounts
- Immediate impact: Chair will be created immediately
- Full recognition: immediate recognition in ACWIS and WIS giving circles, including President's Circle
- Campaign leadership: ACWIS gift achievement recorded in the year of commitment
- Pledge of annual gifts for x-years is legally binding and bookable under FASB

## SAMPLE INFORMATION SHEET FOR PHILANTHROPIC MORTGAGE ENDOWMENT

### Philanthropic Mortgage Endowment General Example

One way to fund endowment gifts in support of The Weizmann Institute is to consider a more flexible option of funding that we call a “philanthropic mortgage endowment.” As you know, a mortgage is a financing option that allows you to purchase your home – and live in it – with less than the purchasing price in cash. To do this, you promise to make future payments of both the interest and principal of the loan each year. As the end of the mortgage period approaches, each loan payment covers more of the principal due to the reduced interest on a smaller principal. In the same way, Weizmann’s Philanthropic Mortgage enables you to build “equity” in your endowment with each payment.

A Weizmann Philanthropic Mortgage may allow your family to fund a much greater philanthropic purpose than you ever thought possible. You can start your professorial chair or research project working now, while at the same time building your permanent endowment for it over time. Here’s how it works: You would provide a single sum annually that would be split into two parts; part of the payment on the gift will be paying the yearly cost of operating the research project (the “interest”), while the other portion will be used to grow your endowment fund (the “principal”). As the “equity” in your endowment fund gets larger through each annual gift, the endowment will be able to earn greater interest that can be transferred to the Institute. The annual interest from the endowment fund would supplement the portion of your annual gift needed to fund the operating cost of the project, leaving more of your annual payment to go towards the principal of the endowment until it is fully funded. It is a true philanthropic partnership!

Consider this example. The chart below tracks the growth of the endowment using a 10 year payout to fund a total endowment in the amount of \$2.5 million. It breaks down what percentage of the funds donated each year that will be used for the endowment principal versus the annual operating cost. By providing the funding in this manner, you would cover the annual costs of the research immediately, as well as build your endowment in perpetuity to permanently cover annual research costs.

	A	B	C	D	E	F	G
Year	Endowment value held at ACWIS at beginning of year (G Year before)	Annual Payment by donor to ACWIS	Amount sent to Institute from ACWIS	Portion of Payment used for annual costs (interest) (C-E)	Endowment earnings applied to annual amount sent to Institute (6%) (.06 X G)	Portion of payment applied to endowment (principal) (B-D)	Endowment value held at ACWIS at end of year (A+F)
2007	\$0	\$340,000	\$150,000	\$150,000	\$0	\$190,000	\$190,000
2008	\$190,000	\$340,000	\$150,000	\$138,600	\$11,400	\$201,400	\$391,400
2009	\$391,400	\$340,000	\$150,000	\$126,516	\$23,484	\$213,484	\$604,884
2010	\$604,884	\$340,000	\$150,000	\$113,707	\$36,293	\$226,293	\$831,177
2011	\$831,177	\$340,000	\$150,000	\$100,129	\$49,871	\$239,871	\$1,071,048
2012	\$1,071,048	\$340,000	\$150,000	\$85,737	\$64,263	\$254,263	\$1,325,311
2013	\$1,325,311	\$340,000	\$150,000	\$70,481	\$79,519	\$269,519	\$1,594,829
2014	\$1,594,829	\$340,000	\$150,000	\$54,310	\$95,690	\$285,690	\$1,880,519
2015	\$1,880,519	\$340,000	\$150,000	\$37,169	\$112,831	\$302,831	\$2,183,350
2016	\$2,183,350	\$340,000	\$150,000	\$18,999	\$131,001	\$321,001	\$2,504,351

**Challenges to Integrative Gift Planning In the Field—Cindy’s Notes:**

After Barbara Yeager introduced me to Steve Meyers, he invited me in to meet him in NYC at his offices and review what he was doing with his Counting Process, Inventory, and new, creative tools he was using like Virtual Endowments and Philanthropic Mortgages.

We met and reviewed all of the great work that Steve was doing in the Gift Planning field which was very state-of-the-art. It was very exciting. After meeting with Steve in early February of this year and trying to prepare for our February Board meeting and wanting to report out in a better way (the NCPG way), I put all of my planned gifts on one page for my 2006 year end and then graphed them. As stated before, my inventory numbers were just guesstimates at this point, as all of our planned gifts (dating from 1892, our first bequest from Myra Brookfield, which helped establish our hospital) would have to be tracked. Meeting with Steve also encouraged me to stop tracking all in Excel as we had been doing to date and that my predecessors had done before me, and to finally bite the bullet and get them entered into Raiser's Edge Planned Giving Tracker.

We then discussed the exciting new vehicles that he was using with his donors--the Virtual Endowment and the Philanthropic Mortgage. I have now presented these to five donors; three have been takers. I approached donors who had been giving us substantial annual gifts to name a program or Chair now. The donors were very happy to know that their Program or Service (or Chair) would be continued after they were deceased and that they would be recognized for this gift now, while they were living. Steve gave me drafts of his forms and I went from there!! I focused mostly on the Virtual Endowments.

I have presented one Philanthropic Mortgage to someone who is 53 and am awaiting his response.

We did use a stepped-up gift and made an Endowed Fund with a Virtual Endowment Agreement, which the donor is funding with annual outright gifts from their family foundation, some Cancer Center budget dollars, some Foundation dollars, and insurance.

## IV. BUILDING A MORE COLLABORATIVE FUNDRAISING CULTURE

### **360 Degree Donor-centered Staffing**

Up to this point, we have been using this three-dimensional technology in two ways: to profile the results of your past fundraising and to develop new gifts. But in the real world of fundraising, even three dimensions are not enough to work with a major donor. You need to take an even broader view--a 360 degree panorama.

"Staffing" a major donor is one of the biggest challenges an organization faces. Each donor has their own assets, interests, and timing, and they don't live their lives around our annual campaign cycle. Yet our organizations are highly siloed--structured in ways that don't easily fit with the donors' lives. Annual fund drives, capital fund drives, endowment fund drives, and separate staffing structures for each department all result in a competition for the limited time and resources of the donors. We all know this from our experience in the field.

So we need to unite all of these institutional silos around the interests of the donor. With our **360 degree staffing** approach, a donor can take advantage of all these different perspectives and can shape a better fundraising culture in the process.

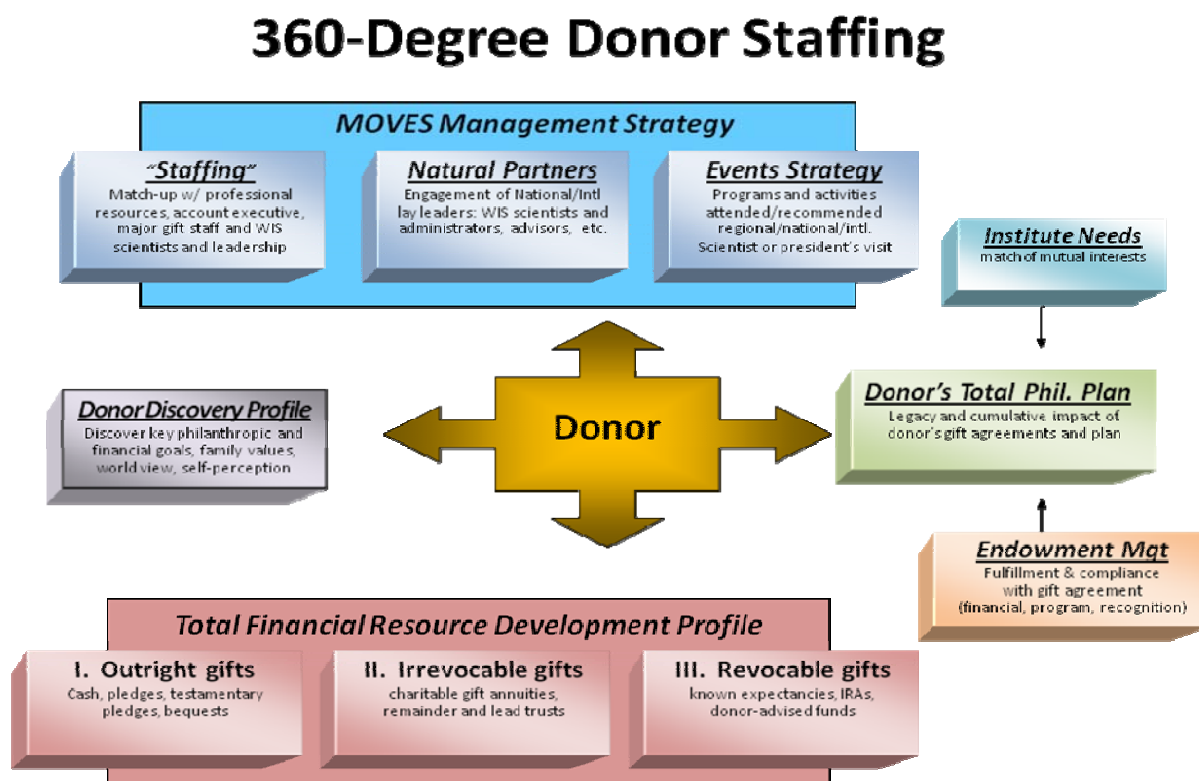


One way to accomplish this is simply to imagine that each of your donors is "a campaign entire"--a fundraising campaign unto themselves. We can translate this into a model of 360 degree staffing for our most significant donors and use it to map out a global plan for each donor that takes into account both the organization's needs and the donor's.

The aim of 360 degree donor-centered staffing is, *prior* to an "ask," to develop a more complete understanding--a discovery profile--of a donor who can have a transformational impact on the organization. Ideally, we approach this in a shared collaborative space, with input from all sides.

Below (Figure 8) is one way to illustrate this global view of the donor in relation to the key players in the organization.

Figure 8. 360 Degree donor-centered staffing



This map is really a template representing the donor as part of the social system of the organization. It provides a format for discussing the key dimensions needed for a holistic profile. It adapts a key idea from Moves Management theory about “natural partners,” which holds that for our most important donors, we should identify a group of select lay leaders, peers, and friends who can best help to advance a gift. Extending this idea, we believe that there can also be a natural *staffing* complement that will work best with a given donor to help bring about the largest and most transformational gifts.

This is a very deliberate approach to staffing. We are finding that the best staffing often involves a team of gift professionals working across departments, each playing a distinct role, coordinated by an account manager.

### **360 Degree Success—Cindy’s Notes:**

I have gotten not only the Major Gift Staff involved in these gifts but also our Donor Relations Manager, our administrative support people, our Director of Operations to discuss Endowment Management, and our CDO and any Natural Partners—doctors, hospital administration, for relationship building with our donors. Steve’s 360 concept has helped us break down our silos with Major Gift Staff and Planned Giving Officers. As a result, we are building a better team and thus becoming a more donor-centered organization.

Bringing the different elements together (multi-dimensional gift planning and interdisciplinary staffing), the 360 degree approach will enable us to provide a much higher level of service and stewardship for our most transformational donors. We are able to systematically examine (1) factors behind the gift, including charitable, financial, and personal motivations; (2) the best “guiding team” and natural partners to work with this donor; (3) the best match-ups between the donor’s interests and the organization’s needs; and (4) where this individual best fits with the organization, not only as a donor but as a door-opener and resource.

Our early experiences with 360 degree staffing are just beginning to reveal the energy generated in a group when all types of gifts are on the table. A donor’s gift could be X...or it could be 5X. Nobody knows. These sessions seem full of risk and possibility, compared to what an individual fundraiser would experience working it out on his or her own.

Besides providing a higher level of stewardship for principal gift donors, 360 degree staffing should help us better marshal and coordinate the organization's total resources for fulfilling their philanthropic goals. Recognizing the true collaborative, interdisciplinary nature of development, the 360 degree approach should promote the most lasting legacy for donors and a more seamless and positive experience of the organization.

## V. CONCLUSION

Like medical imaging technologies which allow us to better understand biological systems, the NCPG Guidelines open up new ways for us to understand the inner workings of our fundraising campaigns and to measure our effectiveness. But their real value is not so much in counting but in providing a *technology* to develop a new generation of donor-centered giving arrangements. Since these new killer apps of donor-centered giving combine both outright and planned gifts, putting them into practice necessarily involves working with staff and resources from many parts of the organization. This can best be done in a collaborative setting with an entrepreneurial spirit.

Even while the benefits of the new technology and associated killer apps sound very positive and transformational, a loud alarm is sounding a very dissonant note. NCPG's recent strategic task force report on the future of planned giving (Journal of Gift Planning, Volume II, Number 2, 2007) pointed out the extremely worrisome trend of erosion of planned giving department staffing and budgets in many organizations. If the task force is correct, there could be a stark choice facing gift planners -- either erosion or integration. That choice represents a turning point, possibly a point of no return, in the history of planned giving. The best antidote for this unfortunate trend may be adoption of new technology of donor-centered fundraising, including the NCPG counting Guidelines, which both promote and foster integration of planned and major gift resources in a more collaborative culture. It is not for nothing that we call these powerful gift arrangements "killer apps," because (like other new technologies) their effect may be to sweep away the old paradigms for how we operate. One thing seems clear: if planned giving officers do not demonstrate added value to the overall fundraising equation, they will be increasingly marginalized.

In the future, how would gift planners actually conduct their jobs under the new donor-centered paradigm? One answer may be that they will no longer be focused exclusively on soliciting gifts as isolated transactions—whether as annual gifts, endowment gifts, or capital gifts—or even separate them under the new categories of A, B, or C. Instead, we could hope for a more holistic vision via integrated gift plans. As the Guidelines and killer apps of donor-centered giving take hold and evolve, we expect gift planners to find new, creative ways to collaborate with colleagues and create new gifts as building blocks in a donor's larger philanthropic plan. Good for donors; good for institutions; good for gift planners.

We encourage you to try some of these new methods and techniques.  
Let us know about your experiences and the impact upon your organizational culture.

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