

C A M B R I D G E A S S O C I A T E S L L C

PLANNED GIVING

2000

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ABSTRACT

1. In November 1999, Cambridge Associates LLC (CA) initiated a study of planned giving among its member institutions. Forty-two nonprofit member institutions elected to participate in the study. CA is pleased with the thoughtful responses received from survey participants and wishes to thank each respondent for the time and effort taken to answer the survey's many questions.
2. Although planned giving assets were small relative to the average endowment of the institutions surveyed, the need for programs to develop in a thoughtful and deliberate manner is critical given their increasing importance and complexity. Individuals are expected to make generous gifts to nonprofits over the next several years as a result of increased wealth and an effort to reduce taxable estates, and the competition for charitable dollars will increase. It is vital, therefore, for nonprofit institutions to make planned giving programs both accessible and flexible.
3. Planned giving programs at many institutions face a number of challenges. There may be a tension between fund raisers and those charged with investment oversight, derived from a lack of mutual understanding, which can reduce the benefits of planned gifts. In addition, inadequate gift acceptance criteria, poor investment planning, and high administrative costs can further complicate the situation.
4. This report details Cambridge Associates' recommendations to nonprofits to combat the challenges mentioned above and summarizes the data collected from the survey. CA recommendations include:
 - (1) Asking the Board to review annually the planned giving program;
 - (2) Including both Development and Investment Committee members and the respective staff members on a Planned Giving Oversight Committee;
 - (3) Having an active Planned Giving Oversight Committee that guides the overall strategy and function of the planned giving program;
 - (4) Prioritizing both the generation of new gifts and the maximization of the estimated net present value (NPV) of the expected remainder value;
 - (5) Accurately calculating the estimated NPV of the expected remainder interest for a true measure of the wealth generated by the program;

- (6) Writing a comprehensive planned giving policy statement that covers program goals, use of matured remainder interests, program evaluation criteria, gift acceptance criteria, procedure for handling exceptions to gift acceptance criteria, gift crediting policy, assignment of oversight responsibility, assignment of day-to-day responsibilities, asset allocation targets, expected total return objectives, performance evaluation criteria, and cost allocation policy;
- (7) Allowing donor restrictions only for gifts of considerable size;
- (8) Formalizing both an internal and an external statement of gift criteria (the former should include the estimated NPV of the expected remainder interest, the discount rate used to calculate NPV, minimum age requirements for each vehicle, minimum size of initial gift for each vehicle, minimum size of follow-on gifts for relevant vehicles, and maximum payout rates);
- (9) Establishing a payout rate discipline that reflects the expected asset allocation of the gift as well as the life expectancy of the income beneficiary, the income beneficiary's level of dependence upon the income stream, and the donor's level of donative intent;
- (10) Determining asset allocation jointly with the investment manager;
- (11) Reviewing detailed quarterly investment reports and using a flexible reporting capability; and
- (12) Tracking all internal and external costs of the program and equitably allocating them between the income beneficiary and the remainderman.



CAMBRIDGE ASSOCIATES LLC

SUMMARY

Introduction

The bull market of the 1990s created significant wealth in the United States and has contributed to the large intergenerational transfer of assets that will occur as baby boomers age. Individuals are expected to make generous gifts to nonprofits as a result of increased wealth and efforts to reduce taxable estates. Complicated estate tax planning laws actually have helped the planned giving industry in this respect because they have created numerous gifting vehicles that institutions may offer potential donors.

In addition to colleges and universities, there are many independent schools as well as religious, social service, and cultural organizations that continue to initiate or further develop their planned giving programs. In general, nonprofit institutions prefer outright gifts to planned gifts; however, many individuals will elect to make a planned gift to the nonprofit(s) of their choice to reduce their tax burden and maintain a certain income stream. As the competition for charitable dollars increases, it becomes more important for institutions to balance their two competing needs: (1) making planned giving programs both accessible and flexible for potential donors and (2) making programs economically sound for the remainderman.

The complicated nature of planned giving vehicles and the tension, which may exist between the fund raisers and those charged with investment oversight due to a lack of mutual understanding, can reduce dramatically the benefits of planned gifts. Inadequate gift acceptance criteria, poor investment planning, and high administrative costs can further complicate the situation. The purpose of this report is to provide an analytical framework for nonprofit institutions facing an influx of planned gifts.

Significance of Planned Giving

The majority of dollars raised by nonprofit institutions comes from outright gifts to the institution. Because planned giving is comparatively small, many institutions dedicate fewer resources to this area. In addition, the lack of easily quantifiable objectives in measuring planned giving programs and the complexity of planned giving vehicles further add to the challenges facing institutions. Nevertheless, planned giving programs have a long history among endowments. Of the 42 institutions that responded to our survey (see Exhibit 1 for a breakdown by type of nonprofit), the median year of the planned giving program inception was 1978, with the earliest program formed in 1954 and the most recent in 1999. As of June 30, 1999, the median market value of planned giving assets for the 36 respondents who answered the question was \$14.9 million while the range was \$166,000 to \$403 million. The sample average was \$33.2 million in planned giving assets.

CA created a survey subset of the 15 nonprofits that had planned giving assets with market values over \$25 million. Of these institutions, the median year of the planned giving program inception

was earlier (1971); the median market value for planned giving assets was significantly larger (\$70.4 million); and the sample average in planned giving assets for this subset group was also larger (\$43 million). The data from this "large program" subset will be referenced in the report only when they are significantly different from the responses of all participants. In general, larger programs operated closer to the ideals set forth throughout this report.

Although the planned giving asset pools of the surveyed institutions were small relative to the respective endowments (see Exhibit 2), the need for programs to develop in a thoughtful and deliberate manner is critical given their increasing importance and complexity. Planned giving assets as a percent of total endowment market value averaged 8% (10% for the larger 15) among survey respondents as of June 30, 1999 (the range was from 0.3% to 52%). In addition, for fiscal year 1999, survey participants received planned gifts totaling 9% (15% for the larger 15) of all gifts and pledges. What is most noteworthy, however, is that most institutions expected planned giving donations to increase to at least 20% of total dollars raised in their current or future capital campaign (as shown in Exhibit 3, responses ranged from a low of 0% to a high of 60%). The larger institutions believed these donations would rise to represent, on average, 33% of total dollars raised. Moreover, 83% of total participants said that the priority of planned giving had increased significantly, in many cases spurred by the hiring of a full time planned giving director or the initiation of a major capital campaign.

Planned Giving Vehicles

When making a planned gift, an individual receives an income tax deduction for a portion of the donation and an income beneficiary retains an interest (typically income) until his/her death (there may be more than one income beneficiary but for simplicity this report will refer to it/them as singular). From the recipient institution's perspective, the value of a planned gift is typically deferred, unlike an outright gift that is available to an institution for immediate use. The tax deduction allowed by the IRS for a planned gift is smaller than that for an outright gift because the estimated net present value (NPV) of the remainder interest generated by the planned gift is lower. Donors benefit from the partial tax deductibility of the gift; the income beneficiary benefits from the income stream that is agreed upon between the donor and the institution; and the institution benefits from a donation that it might not otherwise have been able to solicit.

The vehicles of planned giving are numerous and multifaceted; charitable remainder trusts, pooled income funds, gift annuities, and charitable lead trusts all allow institutions to tailor payout structure, asset allocation, and gift acceptance criteria. From the donor's perspective, a choice of vehicles allows for greater flexibility in the receipt of income. A brief summary of planned giving vehicles follows (see the Glossary for more detailed definitions).

Charitable Remainder Trusts (CRTs)

A CRT allows the donor to designate one or more income beneficiaries who will receive a stream of payments during the trust's life. The charity receives the remainder value at the trust's maturity (i.e., the death of the income beneficiary). The trustees control the asset allocation of the CRT. A charitable remainder annuity trust (CRAT) pays the income beneficiary a fixed annual payment equal to at least 5% of the initial fair market value of the trust assets. A charitable remainder unitrust (CRUT) pays the income beneficiary a variable annual payment equal to at least 5% of the fair market value of the trust as valued annually.

Twenty-one institutions reported having CRTs. Charitable remainder unitrust assets averaged \$18.5 million with a range of \$1.6 to \$78.3 million. Average participant size was \$430,000 with a median of \$390,000. Asset growth in charitable remainder unitrusts averaged 37% from 1998 to 1999 with a median of 10.5%. Growth rates ranged from -8.4% to over 275%. Charitable remainder annuity trust assets averaged \$2.3 million with a range of \$20,000 to \$7.9 million. Asset growth in annuity trusts was lower, averaging 6.3%.

Pooled Income Funds (PIFs)

Pooled income funds, as the name implies, pool the gifts of multiple donors. In a PIF, the designated individual receives a stream of payments for life with the charity receiving the principal remaining in the individual's account upon his/her death. The donor or his/her designee receives a set percentage payout based on his/her share of the PIF; the income beneficiary's dollar receipts fluctuate with the principal's market value. In essence, from the income beneficiary's perspective, PIFs function like CRUTs.

Thirty-two respondents reported having at least one pooled income fund in 1999, and fund asset sizes ranged from \$5,000 to \$67 million with a median of \$1.2 million (the median for the larger institutions was \$7.5 million) and an average of \$5 million. The growth rate from 1998 to 1999 for the largest pooled income fund of each participant was 4.5%. Excluding four programs that had significant decreases in 1999 but including all other reported PIFs, average pooled income fund assets grew over 7.1% for the year. Fifteen institutions reported data for a second pooled income fund with a median of \$1.4 million and an average of \$2.5 million while only five institutions reported a third fund (median of \$3.1 million and average of \$2.7 million).

Twenty-nine institutions reported the number of participants in their primary pooled income fund. Total participants ranged from a low of two to a high of 214 with an average of 58. Eight of the 29 funds contained over 100 participants while 15 funds contained fewer than 25 participants, reflecting a

significant gap between the larger and smaller pooled income funds. The average participant size within each pool was \$5,300 and the median was \$4,000. Participant account values ranged from a low of \$1,000 to a high of \$35,800.

Gift Annuities (GAs)

A gift annuity also allows the donor to designate an income beneficiary who will receive a stream of payments for life, but the payments are set at a fixed dollar amount at the time of the gift. At the time of donation, the charity assumes complete control of the gift and the income beneficiary becomes a general creditor of the charity. Gift annuities offer a deflation hedge for the income beneficiary because the stream of payments is a fixed dollar amount guaranteed by the institution. In essence, from the income beneficiary's perspective, GAs function like CRATs.

Twenty-seven institutions reported accepting gift annuities. Gift annuities experienced significantly higher growth rates than PIFs from 1998 to 1999. The average reported growth rate for regular gift annuities was 21%. Growth ranged from -65% to 110%. Total assets in gift annuities averaged \$5 million in 1999 and ranged from \$6,000 to \$28 million. The average participant size for gift annuities was \$8,700 with a median of \$7,400. Deferred gift annuities were smaller in terms of aggregate dollars but had a larger average size (\$26,000 with a high of \$2 million).

Charitable Lead Trusts (CLTs)

A charitable lead trust provides a charity with a stream of payments for the trust's life and the donor's selected remainderman beneficiary receives the money in the trust upon its termination. This report does not focus on CLTs because most respondents did not have comprehensive data available for them.

Governance of Planned Giving Programs

Oversight Committee Guidelines and Responsibilities

To create a successful Planned Giving Oversight Committee, an institution should adhere to two dictates. First, the Committee must include members of both the development and investment communities in structuring, overseeing, and augmenting a planned giving program. This will become especially important going forward due to the expected influx of planned gifts and their increased role in the financial success of institutions. As a first step, the Oversight Committee should include members of both the Investment and Development Committees of the Board of Trustees. Although Development and Investment

Committees historically have been quite separate in their methods and overall goals, the two entities can prove complementary in achieving a strong planned giving program. As a second step, but equally important, the Oversight Committee should also include both the development and investment staff from the institution. Investment Committee members and staff should inform Development Committee members and staff on the investment implications of the gifts; Development Committee members and staff, in turn, should help Investment Committee members and staff understand the importance of planned vehicles as a marketing tool for potential donors and for multi-gift donors.

The second dictate to which a successful Oversight Committee should adhere is to remain active in understanding both planned giving policies and assets in hand. This involves setting and/or approving requisite policies and procedures, monitoring the planned giving program, and reviewing summary planned giving reports on a quarterly basis, if not more frequently. In addition, the Oversight Committee should make sure that the institution's Board of Trustees is aware of the planned giving program, reviews performance updates at least annually, and reevaluates programs as they change in size or structure.

Contrary to the recommendations cited above, survey results indicated that Development Committees alone were the most frequent overseers of planned giving programs. This is not particularly surprising given most institutions' focus on gift generation, but it is a practice that should be altered. The following table summarizes the responses of the 34 institutions that indicated which Board Committee oversaw the planned giving program:

| <u>Oversight Group</u> | <u>Number of Respondents</u> |
|--|------------------------------|
| Development Committee | 12 |
| Joint Development and Investment Committee | 7 |
| Investment Committee/Subcommittee | 4 |
| Alumni Affairs | 3 |
| Executive Committee | 1 |
| Planned Giving Committee | 1 |
| Other | 3 |
| No Group Exists | <u>3</u> |
| Total | <u>34</u> |

Six of 23 survey respondents said their Oversight Committees met on a quarterly basis (recommended) while three indicated they met on a semi-annual basis; the remaining 14 institutions indicated they met on an annual basis or periodically as needed. Few Boards of Trustees discussed planned giving on a regular basis, but did see planned giving reports regularly.

The Planned Giving Oversight Committee should guide the overall strategy and function of the planned giving program and should include members from both the development and the investment communities (both Board members and staff). The day-to-day responsibility of building and guiding a planned giving program, however, should lie jointly between the Development and Investment Offices. The importance of unifying the two offices' functions with respect to planned giving should not be understated, and this harmony should be reflected in the functionality of the planned giving program. To function in a comprehensive fashion, the Oversight Committee should be explicitly responsible for all of the following tasks:

- Setting planned giving policies;
- Approving new planned giving vehicles;
- Approving gift acceptance criteria;
- Approving exemptions from gift acceptance criteria;
- Approving asset allocation;
- Reviewing investment performance;
- Reviewing estimated NPV of expected remainder interest;
- Approving and selecting external service providers;
- Reviewing program costs; and
- Approving cost allocation among and between beneficiaries.

At best, approximately half the surveyed institutions had an Oversight Committee that accepted several of the responsibilities outlined above. At worst, only 9% of Oversight Committees evaluated cost allocation among beneficiaries. The responsibilities accepted by the Oversight Committees of our survey participants included:

| <u>Responsibilities</u> | <u>Percentage of Institutions</u> |
|---|---------------------------------------|
| Set planned giving policies | 51 |
| Approve new planned giving vehicles ¹ | 53 |
| Determine gift acceptance criteria | 56 |
| Allow exceptions from gift acceptance criteria | 33 |
| Decide asset allocation | 33 |
| Review investment performance | 40 |
| Review estimated NPV of expected remainder interest | 14 |
| Select external service providers | 30 |
| Review program costs | 16 |
| Determine cost allocation among beneficiaries | 9 |

¹ 67% of the larger institutions.

For the survey participants who reported that the Oversight Committee did not hold the responsibilities mentioned above, other individuals took charge. The results are summarized in Appendix A; as expected, development-oriented decisions were generally the responsibility of the Development Committee and/or staff and investment-oriented decisions were generally the responsibility of the Investment Committee and/or staff.

In terms of the day-to-day responsibilities, 67% of survey participants responded that the Development Office was responsible for income beneficiaries, 10% said the Investment Office took responsibility, and 24% indicated it was a joint effort between the Development and Investment Offices (see Exhibit 4). Investment matters, on the other hand, were the responsibility of the Investment Office for 71% of respondents, while 10% used the Development Office, and 19% used a joint group.

Staffing

An integral part of an effective planned giving program is the existence of a focused staff; however, the size and complexity of the planned giving program should dictate the number of full time equivalent staff (FTEs).

Survey participants reported average planned giving assets per FTE of \$7.7 million, with a median of \$4.8 million (the range was \$100,000 to \$35.6 million). The average of total FTEs reported by participants was 3.9 and the median was three, with a range of 0.5 to 15.3. The 15 larger institutions had a mean of 5.9 and a median of four. In general, more planned giving FTEs worked in Development than Investments (see Exhibit 5 for more detail). The 15 larger institutions had significantly larger numbers of FTEs, particularly in Development, suggesting that more manpower is needed to staff adequately the development aspect of planned giving programs than the investment aspect.

- The average number of FTEs in Development was 2.2 and the median was 1.5, but the responses ranged from 0.2 to 7.5. The 15 larger institutions had a mean of 3.3 and a median of three.
- FTEs in the Investment Office (whose responsibility it is to monitor planned giving assets and performance) ranged from zero to four with a mean of 0.6 and a median of 0.3 (these data included FTEs from the Business Office, Treasurer, Finance, and/or Accounting Offices).
- Administrative FTEs (mostly from Development or the Planned Giving Office) ranged from zero to 9.5, with a mean and a median of one.

Planned Giving Objectives and Policies

Program Priorities

The two highest priorities in a planned giving program should be the maximization of the estimated NPV of the expected remainder value and the generation of gifts. Though a natural tension exists between these two objectives, an institution must reconcile them to avoid allocating limited development, administrative, and/or trustee resources to a program that will not handsomely benefit the institution over the long-term. An institution should set a clear NPV objective for the expected remainder interest of any planned gift. For example, if an institution sets a 50% minimum objective (in other words the estimated NPV of the expected remainder interest must be at least 50% of the nominal gift value at the time of receipt; the recommended discount rate is a projected institutional inflation rate²), the tension should be fairly resolved and a reasonable expectation would be set.

There are additional objectives that planned giving programs should strive to meet. While these might be less critical than the maximization of remainder value and the generation of gifts, they are nevertheless important. Their relative degree of importance, however, will vary from institution to institution. These other objectives include the following: the generation of repeat donor gifts, income beneficiary satisfaction, investment performance, administrative quality, positive word-of-mouth, and fair market value of assets received (i.e., the size in nominal terms of a planned gift). While institutions inevitably will vary with respect to which objectives are primary and which are secondary, the last objective listed above should be the least important.

As shown in Exhibit 6, survey participants placed a stronger emphasis on the development of a planned giving program than on the investment and financial aspects. Institutions included in our survey indicated that the satisfaction of income beneficiaries was their highest priority; the second highest priority was generation of new donor gifts. The maximization of expected remainder value was the second least important objective while the fair market value of assets received ranked least important.

² A reasonable proxy for this rate is the estimated Consumer Price Index (CPI) plus 1%.

Written Policy Statements

All institutions with a planned giving program should articulate in written form a comprehensive planned giving policy statement that outlines the following:

- Program goals;
- Use of matured remainder interests;
- Program evaluation;
- Gift acceptance criteria;
- Procedure for handling exceptions to gift acceptance criteria;
- Gift crediting policy;
- Assignment of oversight responsibility;
- Assignment of day-to-day responsibilities;
- Asset allocation targets;
- Expected total return objectives;
- Performance evaluation criteria (i.e., investment and administrative); and
- Cost allocation policy.

Program goals outlined in a planned giving policy statement should include overall program goals, income beneficiary-oriented goals, and remainderman-oriented goals to ensure a well-balanced program and an institution-specific resolution of any possible tensions between the objectives of the Development and Investment constituencies.

A comprehensive policy statement should also outline asset allocation targets and expected return objectives. For CRTs, these policies should be organized into "buckets" or strategies into which a CRT could be placed depending upon the degree of donative intent, the income beneficiary's dependence on the benefit stream, and the age of the income beneficiary. For example, there could be three distinct strategies that reflect a high, moderate, and low allocation to equities.

Twenty-eight or 67% of the surveyed institutions reported having a written planned giving policy. These policies consistently appeared to be oriented more towards the development than the investment aspect of a planned giving program. For example, the majority of these institutions outlined gift acceptance criteria (93%), had a procedure for handling exceptions to gift criteria (75%), and had a gift crediting policy (68%), but very few covered asset allocation (25%), expected total return (18%), and use of matured remainderman interest (14%). In addition, only 36% reported having performance evaluation criteria and a cost allocation policy.

Donor Restrictions

Institutions can allow donors to place restrictions on the ultimate disposition of the remainder interest generated by their planned gifts. Typically, institutions' gift acceptance criteria set a minimum of considerable size. While the definition of "considerable size" will vary by institution, an acceptable minimum for CRTs historically has been \$50,000. Due to the administrative burden created by restrictions, the minimum should be higher. An equitable approach would be to set the minimum as follows: the estimated NPV for the expected remainder interest (using a projected institutional inflation rate as the discount rate) should be equal to the minimum established by the institution for its restricted endowment gifts. In addition, no restrictions should be allowed on GA or PIF gifts for which the estimated NPV of the expected remainder interest does not meet the restricted endowment gift size.

Almost all of the responding institutions (93%) allowed donors to restrict CRTs with the conditions typically being economic feasibility and/or minimum nominal gift values.³ While respondents' conditions were sensible, they lacked the level of specificity that CA recommends.

Gift Crediting

While donors would like to receive credit for the nominal value of their gift, an institution generally should give credit for the estimated NPV of the expected remainder interest of the gift⁴, in fairness to other donors who give outright gifts to the institution. For example, a donor who gives \$30 million as an outright gift "deserves" more credit than a donor who gives a \$30 million planned gift that has an estimated NPV of \$10 million. Nevertheless, all institutions obviously welcome any gift and are interested in pleasing donors. Regardless of the decision an institution makes for gift crediting purposes, it is imperative that the Planned Giving Oversight Committee and the Board of Trustees use records that focus on the estimated NPV of the gift's expected remainder interest (with a projected institutional inflation rate to discount the expected remainder value) for a sound economic assessment of the value added to the financial resources of the institution by the planned giving program.

Of the survey participants who answered how they credit CRTs, PIFs, and GAs, approximately 50% used the nominal value of the original gift. It is noteworthy that most of the larger institutions (73%) used the nominal value. These results reflect a sensitivity to donors (which is understandable) and an interest in building goodwill to cultivate future gifts.

³ CA interpreted this condition to mean that the estimated NPV of the expected remainder interest should be 50% of the nominal value of the gift at the time of receipt.

⁴ Using a projected institutional inflation rate to discount the expected remainder values.

Trusteeship

Larger institutions were more likely than their smaller-sized peers to accept sole trusteeship of planned giving assets. Thirteen of the 15 "larger" institutions (87%) would serve as sole trustee while only 58% of total participants stated that they would be sole trustee of planned giving assets. In all cases institutions indicated that the remainderman interest must be at least 50% of the nominal value of the gift in order for them to agree to serve as co-trustee. Twenty-four respondents (57% of participants) also stated that they would act as a co-trustee of a planned giving asset (tempered by comments of "rare" and "on a case by case basis") and six institutions (14% of participants) would accept trusteeship of a revocable trust on a case-by-case basis. All institutions would accept real estate gifts but most required a due diligence review, fair market value analysis, environmental reviews, etc.

Multiple Remaindermen

As investments become more complex and small nonprofits proliferate, more and more donors will be asking "larger" nonprofits to become a trustee or co-trustee of a CRT with more than one remainderman. The increasingly competitive gift environment suggests that flexibility on this issue will be a winning strategy.

Of the institutions responding to our survey, 27 or 64% indicated that they would serve as a trustee or co-trustee of a CRT with more than one remainderman (12 or 80% of the 15 larger institutions indicated that they would serve in this role). Of these 27 institutions, 15 or 56% required an estimated NPV of expected remainder interest of at least 50% for their institution. The remaining institutions had no policy addressing the question of multiple remaindermen.

Statements of Gift Acceptance Criteria

All institutions should formalize both an internal and an external statement of gift acceptance criteria. An internal statement should include the following:

- Minimum level for estimated NPV of expected remainder interest as a percentage of the original gift;
- Discount rate used to calculate NPV;
- Minimum age requirements for each vehicle;
- Minimum size of initial gift for each vehicle;
- Minimum size of follow-on gifts for relevant vehicles; and
- Payout rates for each vehicle.

An external statement should be more general than the internal statement, setting parameters and giving guidance to donor solicitors (who are often volunteers) and to potential donors without confusing them or scaring either away.

An internal statement of gift acceptance criteria existed for 35 of the 42 survey participants (83%). As shown below, the majority of these 35 institutions did not focus on the investment aspect of a planned giving program.

| <u>Criteria</u> | <u>Percent of Institutions</u> |
|--|--------------------------------|
| Minimum size requirement for each vehicle | 77 |
| Minimum size of follow-on gift for relevant vehicles | 53 |
| Payout rates (by age or asset class) for each vehicle | 51 |
| Minimum age requirements for each vehicle | 47 |
| Discount rate used to calculate NPV | 30 |
| Minimum level for estimated NPV of expected remainder interest | 28 |

Age and Gift Size Minimums

Institutions generally set minimum age requirements for each planned gift vehicle. However, having a more flexible approach may make increasing sense as competition for planned gifts increases. Under a more flexible approach, life expectancy becomes one of a number of factors used to estimate the NPV of the expected remainder interest as a percent of the original gift in nominal terms. There are no hard and fast rules governing what the target should be for the estimated NPV of the expected remainder interest as a percent of the initial gift value, but a reasonable choice is 50% (a reasonable discount rate is a projected institutional inflation rate; a good proxy for this is the Consumer Price Index plus 1%). Institutions also generally set a gift size minimum for each planned giving vehicle. Because the administrative burden represents a fixed cost, the greater the minimums the more efficient the planned giving program becomes which translates ultimately into larger realized remainder interests.

For survey participants, the minimum donor age, minimum average gift size ranges, and minimum estimated NPV of expected remainder value as a percentage of the original gift for PIFs, GA, and CRTs are summarized in Exhibit 7. For PIFs it is noteworthy that the survey allowed participants to enter data for up to six funds, but participant responses were significant for only two. For PIFs, the initial and follow-on contribution ranges were lower than for gift annuities. Relative to PIFs and GAs, charitable remainder trusts typically had higher initial contributions and lower targets for the estimated NPV of expected remainder values as a percent of the original gift.

Payout Rate

For both CRTs and GAs, the discipline that an institution follows to determine its payout rate for a planned gift should be a function of several variables. First and foremost, the payout rate should reflect the expected asset allocation of the gift and the life expectancy of the income beneficiary (in other words, it should be driven by a calculation of the estimated NPV of expected remainder value as a percent of the original gift; to calculate NPV, a projected institutional inflation rate should be used to discount the expected remainder values). Two other important aspects to consider are the income beneficiary's degree of dependence on the stream of benefits and the extent of the donor's donative intent (i.e., if an income beneficiary is not dependent on the stream of payments and the donor's intent was to give as much as possible to the institution, a lower payout rate would make more sense). Additional elements to consider include the age of the income beneficiary, initial gift size, and current investment environment.

Our survey results found little relationship between the asset allocation of a gift and its payout rate. In addition, many respondents could not answer survey questions regarding asset allocation. In setting a payout rate, most institutions focused on the extent of donative intent; the income beneficiary's age was the second most important, and the least important factor, according to the survey participants, was the initial gift size (see Exhibit 8).

Participants were also asked to outline the payout percentage by age bracket for CRUTs, CRATs, and GAs (see Exhibits 9 and 10 for average responses). For comparative purposes CA has added the most recent rates published by the American Council on Gift Annuities (ACGA) as of July 1, 1999, to Exhibit 10. In general, the surveyed institutions used payout rates lower than the ACGA's rates. This was particularly true for the older age brackets (56 to 85 years of age). For individuals under age 55, however, the surveyed institutions on average adopted payout rates slightly higher than the recommended ACGA rates.

Investments

Investment Strategy and Asset Allocation

Institutions should establish and follow investment guidelines for managing their planned giving program. These guidelines should cover how assets are managed (i.e., mutual fund, internal pools) as well as asset allocation and expected long-term return. CRTs can be managed either internally or externally, depending on the resources and skill level of the institution's staff. PIFs may not be commingled which makes prudent internal management of small pools difficult. Subject to regulators' constraints, GAs should be invested in the endowment pool since they represent assets of the institution at the time of receipt.

A diagram of potential investment structures can be found in Exhibit 11. Today, many institutions are moving towards establishing in-house commingled pools or using externally organized mutual funds and/or banks' common trust funds to invest their planned giving assets (excluding GAs).⁵ For the in-house commingled pool option, there are two alternatives: (1) establish alternative unitized, commingled, balanced account pools⁶ and invest each trust and PIF in an appropriate pool (II on Exhibit 14) or (2) establish separate equity and fixed income pools (both of which are unitized) and invest each trust and PIF in one or both pools to create the appropriate asset mix (III on Exhibit 14). An example of the former is an institution establishing an income-oriented pool, a balanced pool, and a growth-oriented pool. A trust that requires high current income would be placed in the income-oriented pool (higher allocation to fixed income), while a trust with a relatively young beneficiary might be placed in the growth pool with a higher exposure to equities. The advantage of such a system is achieving adequate diversification by combining the institution's trust assets. In addition, the institution benefits from assigning investment responsibility to multiple equity and fixed income managers and minimizing reporting costs. Similar diversification for smaller trust asset pools or PIFs can be achieved by investing the individual trusts in mutual funds or commingled bank funds (IV and V on Exhibit 14). In this case, the accounting and unitization systems necessary to monitor the individual trusts are already in place, and the trusts and PIFs gain access to portfolio managers not otherwise available, can invest across multiple asset classes, and benefit from economies of scale in both investing and trading.

Regardless of an institution's asset management decision, the asset allocation of its investments should be determined either by the institution alone or jointly between the institution and its investment manager, with final approval from the institution. Survey results confirmed that nearly all institutions were involved in the asset allocation decisions for their planned gifts. Twenty of the 42 participants (48%) reported that the institutions generally determined asset allocation independently, 20 (48%) said it was jointly determined (19 of those 20 reported that the institution expresses final approval) and only two (5%) stated that the investment manager makes the decision alone.

Survey data regarding planned giving vehicles' investment strategy, current yield/payout, expected total return, and asset allocation were sparse and at times not statistically significant. Again, this suggests that institutions do not focus on the investment aspect of planned giving programs as much as they do on the development aspect.

Twenty-six institutions answered the question regarding current yield/payout on PIFs. The median was 5.2% with a range of 3.3% to 6.9%. In contrast, only 16 institutions answered the corresponding expected total return question with a median of 7% and a range of 5.5% to 12.2%. Eighteen institutions

⁵ The pools can be invested either internally by staff or externally by investment managers.

⁶ Equities and fixed income held in one pool.

described PIFs' allocation to equities, with a median of 30% and a range of 0% to 80%. Twenty-three responded to the fixed income allocation, with a median allocation of 58% and a range from 1% to 99%. Seventeen survey participants answered the question on an allocation to cash, with a median of 3% and a range of 0% to 100%. With respect to CRUTs and CRATs, almost no institutions could answer questions regarding investment strategy, minimum/maximum age limits, current yield/payout, expected total return, and asset allocation.

Calculating the Estimated NPV of the Expected Remainder Interest

The actual value of a planned giving program should not be measured by the sum of donors' gifts or current market values but instead by the sum of the gifts' expected remainder values, in current dollars (in other words the estimated NPV), net of all costs. This is critical because two gifts with identical market values might actually represent very different expected present values. By calculating the estimated NPV of their planned gifts, institutions will develop a more accurate understanding of their assets, their economic value, and their risks. These expected remainder value calculations should be the basis for most (if not all) planned giving decisions, including the allocation of institutional resources.⁷

To calculate the estimated NPV of an expected remainder interest net of all costs, an institution must collect the following data:

- Current market value of the gift;
- Payout rate (and frequency);
- Costs;
- Life expectancy of the income beneficiary;
- Investment strategy (i.e., asset allocation) and projected investment returns; and
- Discount rate.

The current market value and payout rate should be readily available. Gathering all related expenses and fees could be a more challenging task, but it does give the institution a chance to revisit its policies regarding allocation of costs. While the IRS unisex life expectancy tables can be used to estimate each gift's expected maturity, some institutions add several years (for example, five) and, thereby, assume that their benefactors/beneficiaries will live longer than "average". Projected investment returns should be developed based on asset allocation policies (and could include a range of market conditions).

⁷ For example, planned giving officers should be rewarded in part on the expected NPV of the planned giving assets raised, not just on the nominal dollar volume of gifts raised.

The discount rate institutions should use to discount the expected remainder values is a projected institutional inflation rate (the estimated CPI plus 1% is a reasonable proxy for this rate). This calculation is essentially a purchasing power analysis, measuring whether the gift will grow as fast as the institution's budget (and therefore maintain its purchasing power) so that at termination it can support the programs envisioned by the donor at the time of the gift. This is different from the discount rate typically used for tax purposes, which is the IRS discount rate.⁸ The majority of institutions surveyed (88%) chose to use the IRS rate, while 6% used the Higher Education Price Index (HEPI). In addition, only eight of the surveyed institutions (19%) could estimate NPV of the expected remainder interest net of all costs.

Sample Question #1

CA used the computer program "PG Calc" to analyze alternative asset allocations (stocks versus bonds) for a \$50,000 straight unitrust with a 6% payout rate (assuming that the beneficiary was 62, in good health, and had no special investment concerns). The table below presents the estimated NPV of the expected remainder interest as a percent of the nominal gift value for various stock/bond allocations. The 4.5% discount rate reflects the CA recommendation of using a projected institutional inflation rate to discount the expected remainder values (the CPI plus 1% or 4.5%). For comparative purposes, the table below also presents the calculation with the IRS discount rate (7%) since the majority of surveyed institutions reported using it.

| <u>Asset Allocation</u> | *4.5% discount rate* | *7% discount rate* |
|-------------------------|---|--|
| | Est. NPV of Expected Remainder Interest/Nominal Gift Value (%) ⁹ | Est. NPV of Expected Remainder Interest/Nominal Gift Value (%) ¹⁰ |
| 50% Stocks/50% Bonds | 46 | 28 |
| 60% Stocks/40% Bonds | 50 | 30 |
| 70% Stocks/30% Bonds | 55 | 32 |
| 80% Stocks/20% Bonds | 59 | 35 |

As the reader will note, higher stock allocations over the long-term are expected to yield greater remainder interests assuming that stock and bond returns maintain their historical norms over the life of the trust.

⁸ As of December 2000, the CPI plus 1% was 4.5% and the IRS discount rate was 7%.

⁹ Nominal return assumptions include: 9.1% for 50% Stocks/50% Bonds, 9.5% for 60% Stocks/40% Bonds, 9.9% for 70% Stocks/30% Bonds, and 10.3% for 80% Stocks/20% Bonds. The income tax rate assumption is 39.2% and the capital gains tax rate assumption is 20%.

¹⁰ Ibid.

The table below presents the mean allocation and range for survey participants answering the sample question outlined above.

| | <u>Pooled Mean (%)</u> | <u>Range (%)</u> |
|------------------------|------------------------|------------------|
| U.S. Equities | 53 | 30-70 |
| International Equities | <u>10</u> | 0-26 |
| Subtotal | 63 | |
| Fixed Income | 31 | 0-70 |
| Cash | <u>3</u> | 0-35 |
| Subtotal | 34 | |
| Other | <u>3</u> | 0-24 |
| Total | <u>100</u> | |

This allocation implies an estimated NPV of expected remainder interest/nominal gift value of 51%¹¹ (using the projected institutional inflation rate as a discount rate). Using the IRS discount rate, the estimated NPV of the expected remainder interest/nominal gift value would be 30%.¹²

Of the 24 respondents to these questions, only 15 reported the average annual compound returns for their asset allocation for the five years between 6/30/94 and 6/30/99; the median was 16% (range of 9% to 18%).

Sample Question #2

CA also used "PG Calc" to analyze the range of rates survey participants stated they would offer a 72 year-old annuitant for a \$10,000 GA. Survey participants offered a median rate of 7.7% with a range of 7%-9% (with 29 responses). The 4.5% discount rate in the table below reflects the use of a projected institutional inflation rate to discount the expected remainder values (the CPI plus 1% or 4.5%). For comparative purposes the table also presents the calculation with the IRS discount rate (7%).

¹¹ The nominal return assumption is 9.6%. The income tax rate assumption is 39.2% and the capital gains tax rate assumption is 20%.

¹² Ibid.

| <u>Payout Rate (%)</u> | <u>*4.5% discount rate*</u> | <u>*7% discount rate*</u> |
|------------------------|---|---|
| | <u>Est. NPV of Expected Remainder Interest/Nominal Gift Value (%)</u> ¹³ | <u>Est. NPV of Expected Remainder Interest/Nominal Gift Value (%)</u> ¹⁴ |
| 7.0 | 71 | 51 |
| 7.7 | 62 | 44 |
| 9.0 | 44 | 32 |

As the reader will note, higher payout rates over the long term are expected to yield lower remainder interests assuming that stock and bond returns maintain their historical norms over the life of the trust.

Investment Manager Reports

Reports generated by investment managers for PIFs, CRTs, and GAs should be generated on a quarterly basis at a minimum, but monthly would be preferable, and these reports should include comprehensive information on assets under management. For example, a standard report for each individual planned gift invested should include:

- Current market value of the assets;
- Current yield;
- Total return (measured by month, quarter, calendar year-to-date, fiscal year-to-date, one year, three years, five years, and since inception);
- Standard deviation (measured by month, quarter, and year);
- Benchmarks;
- Payout (dollar amount and percent of market value);
- Investment strategy and/or asset allocation;
- Estimated NPV of expected remainder interest (this is absolutely crucial);
- Beneficiary data (name, age, sex); and
- Type of vehicle (CRAT, CRUT, PIF, GA).

¹³ The nominal return assumption is 9.5% (reflecting an asset allocation of 60% Stocks/40% Bonds). The income tax rate assumption is 39.2% and the capital gains tax rate assumption is 20%.

¹⁴ Ibid.

In addition, the report generation process should be flexible enough to include:

- Individual gift data;
- Totals for all planned giving assets;
- Subtotals for each planned giving vehicle type; and
- Sorting/subtotaling options by inception year, payout percentage, beneficiary age, investment strategy, and trust size.

While not all managers will be able to provide the services mentioned above, institutions should request them on a regular basis. Over time, demand should drive competitively-oriented managers to create sufficiently detailed reports.

Most survey respondents' manager reports were received on a quarterly basis and contained only the most basic information such as quarterly total return, benchmark returns, payout information, and investment strategy (see Exhibit 12). What is perhaps most surprising is that only five institutions (12% of survey participants) received manager reports with the estimated NPV of the expected remainder interest for their PIFs, CRTs, and GAs. As mentioned previously in this report, the estimated NPV is the only way to gauge the economic value of a planned giving program.

In response to questions regarding the flexibility of investment managers' report generation, respondents indicated that the more "creative" the request the less likely it was to be met (see Exhibit 13). For example, 14 of the survey participants (33%) received reports with totals for all planned gifts, and 15 (36%) received subtotals for each planned giving vehicle. In contrast, sorting and subtotaling by payout percentage was received by only seven institutions (17%). In addition, only six institutions (14%) reported receiving reports that allowed sorting and subtotaling using multiple sort criteria.

Planned Giving and the Endowment

The endowment should not be a benchmark in terms of managing a planned giving program, but it is relevant because donors often view making a planned gift as similar to contributing directly to the endowment but with tax benefits.

Twenty-four percent of the survey participants indicated that investment performance of planned giving assets was compared to that of the endowment and the comparison frequency ranged from monthly to annually.

Administration

Internal Versus External Administration

All institutions have the choice between internal and external administration of their planned giving programs. While the survey did not specifically ask for explanations of institutions' decisions, they are usually based on several factors, including precedents, the availability (or lack thereof) of skilled internal staff, the ability to charge fees to the trusts, perception of quality, and the ability to change current practices. Generally speaking, internal administration should be more cost effective than external administration and should allow closer coordination of development goals and priorities while providing donors with more personalized and timely service. Donor beneficiaries who enjoy strong personal relationships with the planned giving staff often become good prospects for future gifts. There are disadvantages, however, to internal administration including a lack of access to expertise on trust and tax issues, difficulty in retaining experienced staff, absence of insulation from adverse donor reactions when errors are made, and the relative difficulty of fairly allocating administrative costs between the income beneficiary and the remainderman.

Tracking Costs

Institutions should track both external costs (investment fees, custody, administration, and advisors) as well as internal costs (staff salaries, staff employment benefits, and overheads). Active tracking ensures that those charged with the oversight of the planned giving program can make well-informed decisions about the future direction of the program. An equitable allocation of these costs is an equal split between the income beneficiary and the remainderman.

As shown in the table below, the easier costs to track were more likely to be tracked by survey participants. While this practice is understandable given time and resource constraints, Cambridge recommends actively tracking all costs.

| <u>Costs Tracked</u> ¹⁵ | <u>Percentage of Institutions</u> |
|--|-----------------------------------|
| <u>External Direct</u> | |
| Separate account fees | 45 |
| Mutual fund or commingled account fees | 26 |
| Custody | 31 |
| Administration | 55 |
| Advisors | 36 |
| <u>Internal Direct</u> | |
| Staff salaries | 31 |
| <u>Internal Indirect</u> | |
| Staff employment benefits | 17 |
| Overhead | 12 |
| Other | 12 |

¹⁵ Sample comprises 42 institutions.

When asked to submit actual cost information by planned gift type, nearly all survey participants were unable to comply either because the data were unavailable or too difficult to calculate. Participants also were unable to answer questions regarding the allocation of planned giving costs among income beneficiaries, the remainderman corpus, and the operating budget. Anecdotal evidence informally leads to the conclusion that the costs were typically allocated to the institutions' operating budgets.

Conclusion

CA recommends the following strategies to nonprofit institutions to combat the challenges mentioned above:

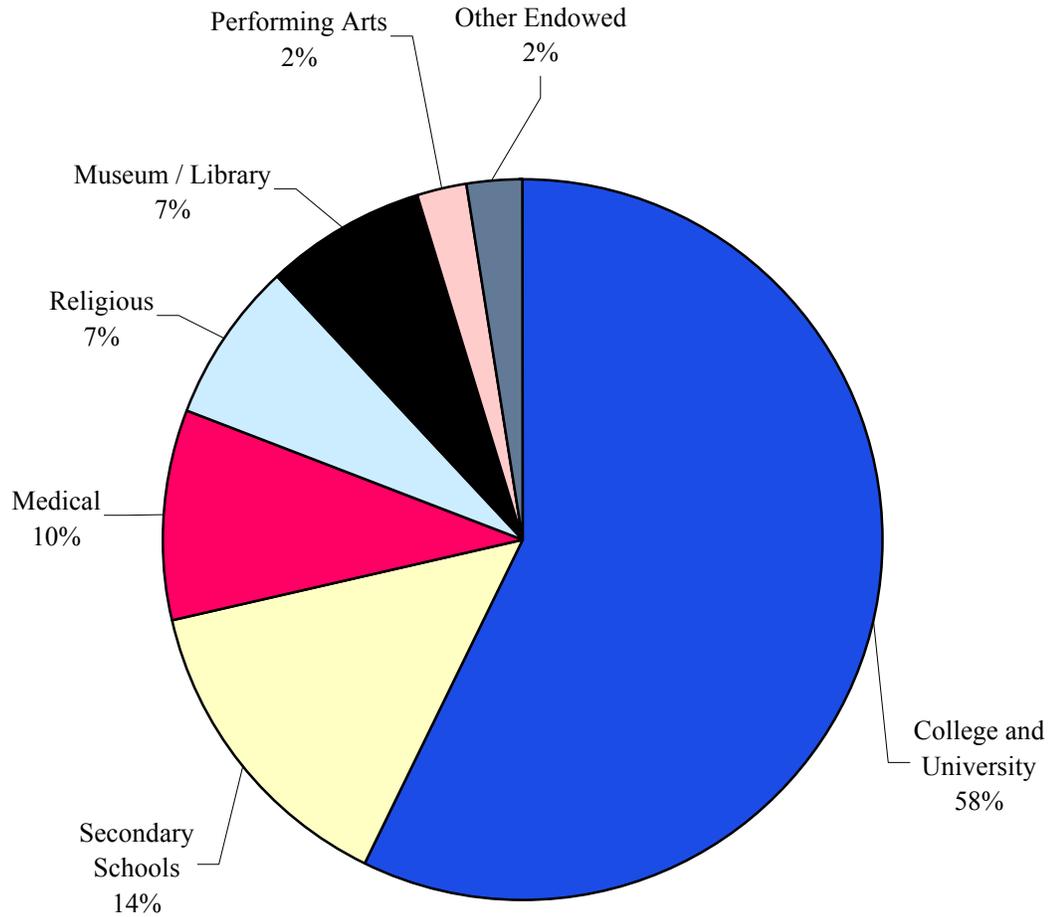
- (1) Asking the Board to review annually the planned giving program;
- (2) Including both Development and Investment Committee members and the respective staff members on a Planned Giving Oversight Committee;
- (3) Having an active Planned Giving Oversight Committee that guides the overall strategy and function of the planned giving program;
- (4) Prioritizing both the generation of new gifts and the maximization of the estimated NPV of the expected remainder value;
- (5) Accurately calculating the estimated NPV of the expected remainder interest for a true measure of the wealth generated by the program;
- (6) Writing a comprehensive planned giving policy statement that covers program goals, use of matured remainder interests, program evaluation criteria, gift acceptance criteria, procedure for handling exceptions to gift acceptance criteria, gift crediting policy, assignment of oversight responsibility, assignment of day-to-day responsibilities, asset allocation targets, expected total return objectives, performance evaluation criteria, and cost allocation policy;
- (7) Allowing donor restrictions only for gifts of considerable size;
- (8) Formalizing both an internal and an external statement of gift criteria (the former should include the estimated NPV of the expected remainder interest, the discount rate used to calculate NPV, minimum age requirements for each vehicle, minimum size of initial gift for each vehicle, minimum size of follow-on gifts for relevant vehicles, and maximum payout rates);

- (9) Establishing a payout rate discipline that reflects the expected asset allocation of the gift as well as the life expectancy of the income beneficiary, the income beneficiary's level of dependence upon the income stream, and the donor's level of donative intent;
- (10) Determining asset allocation jointly with the investment manager;
- (11) Reviewing detailed quarterly investment reports and using a flexible reporting capability;
and
- (12) Tracking all internal and external costs of the program and equitably allocating them between the income beneficiary and the remainderman.

EXHIBITS

Exhibit 1

SURVEY PARTICIPANTS BY INSTITUTION TYPE



Note: Sample comprises 42 institutions.

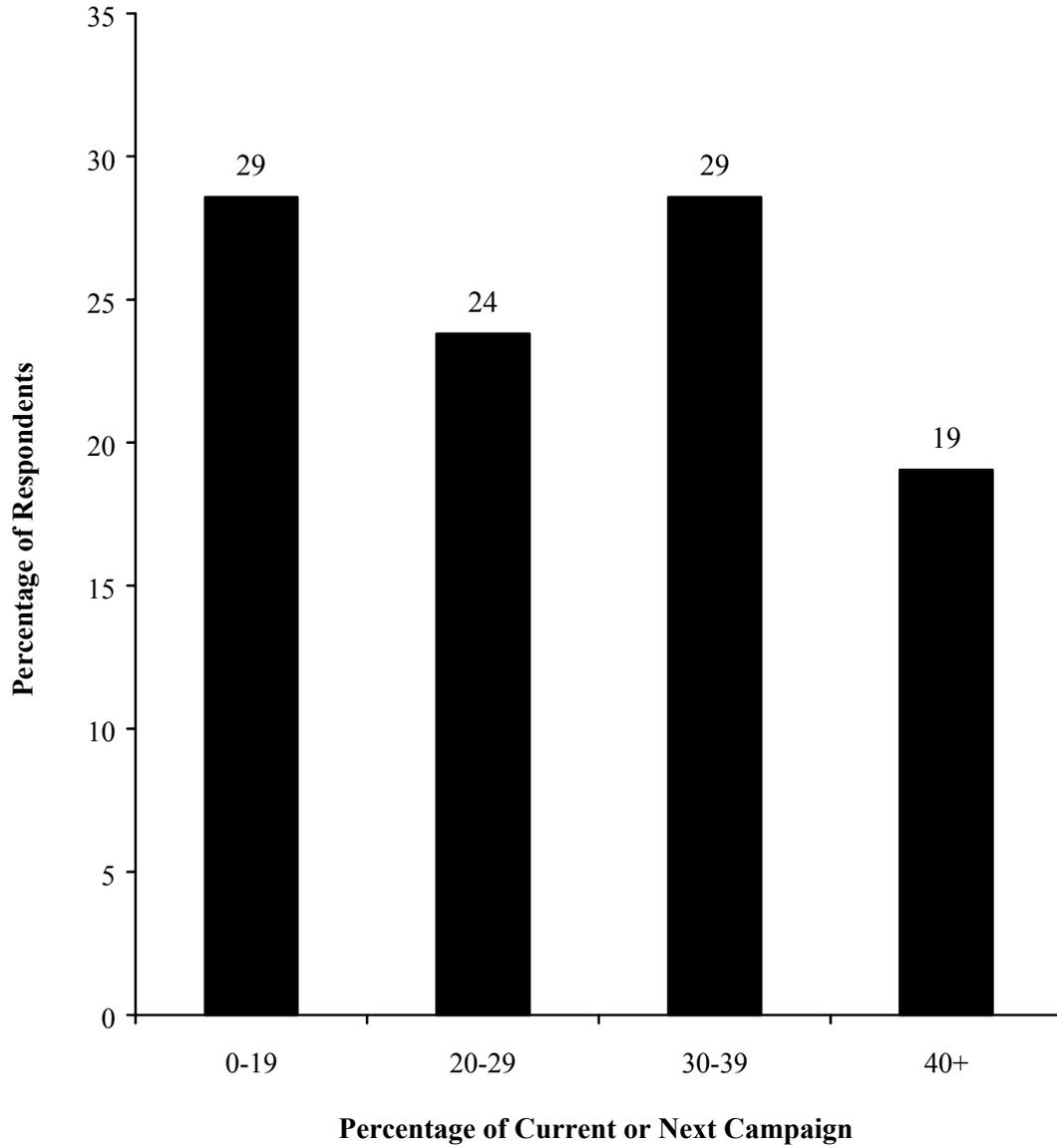
Exhibit 2
MARKET VALUE OF PLANNED GIVING ASSETS
As of June 30, 1999

| Institution Code | Planned Giving Mkt Value (\$000) | Endowment Mkt Value (\$000) | Planned Giving As % of Endowment |
|-----------------------------|---|--|---|
| 1 | 50,000 | 1,984,000 | 2.5 |
| 2 | 30,559 | 264,738 | 11.5 |
| 3 | 12,030 | 470,580 | 2.6 |
| 4 | 1,490 | 105,900 | 1.4 |
| 5 | 403,000 | 6,200,000 | 6.5 |
| 6 | 42,660 | 872,000 | 4.9 |
| 7 | 28,300 | 54,200 | 52.2 |
| 8 | 279 | 1,300 | 21.5 |
| 9 | 900 | 74,000 | 1.2 |
| 10 | 39,853 | 290,420 | 13.7 |
| 11 | 5,248 | 302,800 | 1.7 |
| 12 | 34,700 | 578,400 | 6.0 |
| 13 | 19,600 | 430,000 | 4.6 |
| 14 | 73,300 | 634,500 | 11.6 |
| 15 | 3,900 | 14,700 | 26.5 |
| 16 | 44,747 | 905,680 | 4.9 |
| 17 | 85,000 | 1,600,000 | 5.3 |
| 18 | 166 | 28,337 | 0.6 |
| 19 | 1,550 | 161,100 | 1.0 |
| 20 | 38,397 | 516,238 | 7.4 |
| 21 | 900 | 16,100 | 5.6 |
| 22 | 1,400 | 140,000 | 1.0 |
| 23 | 59,170 | 450,000 | 13.1 |
| 24 | 5,500 | 140,000 | 3.9 |
| 25 | 10,661 | 216,137 | 4.9 |
| 26 | 61,822 | 677,000 | 9.1 |
| 27 | 14,000 | 300,000 | 4.7 |
| 28 | 16,000 | 336,000 | 4.8 |
| 29 | 15,800 | 406,800 | 3.9 |
| 30 | 2,677 | 82,900 | 3.2 |
| 31 | 2,300 | 404,000 | 0.6 |
| 32 | 9,600 | 53,200 | 18.0 |
| 33 | 900 | 54,900 | 1.6 |
| 34 | 36,200 | 355,500 | 10.2 |
| 35 | 43,290 | 381,130 | 11.4 |
| 36 | 1,000 | 321,000 | 0.3 |
| Mean | 33,247 | 550,654 | 7.9 |
| Median | 14,900 | 311,900 | 4.9 |
| High | 403,000 | 6,200,000 | 52.2 |
| Low | 166 | 1,300 | 0.3 |

Note: Sample comprises 36 institutions.

Exhibit 3

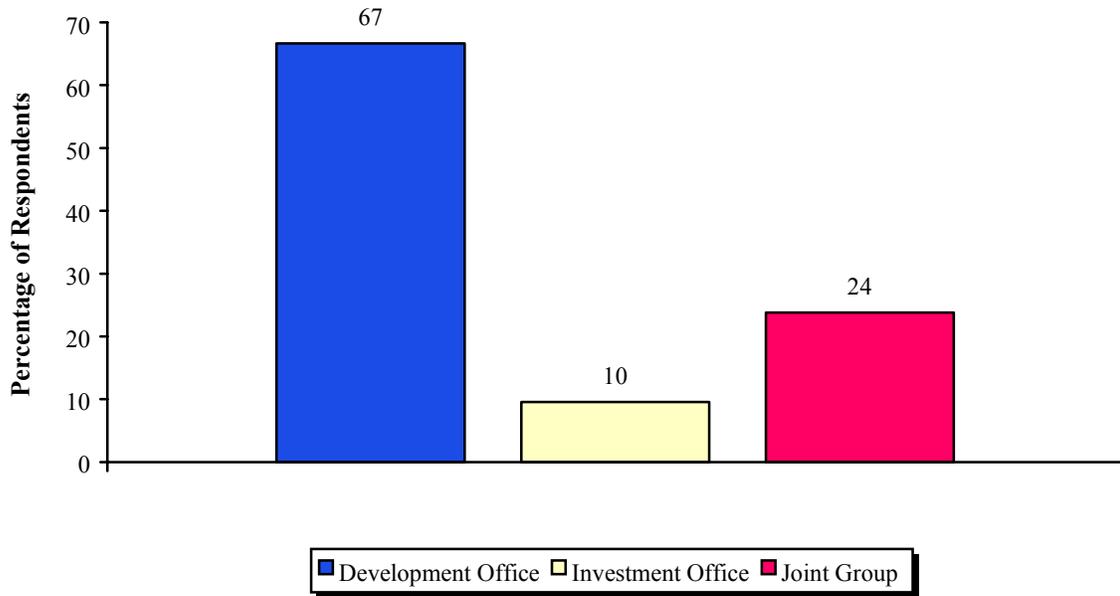
PLANNED GIVING ASSETS AS A PERCENTAGE OF CURRENT OR NEXT CAPITAL CAMPAIGN



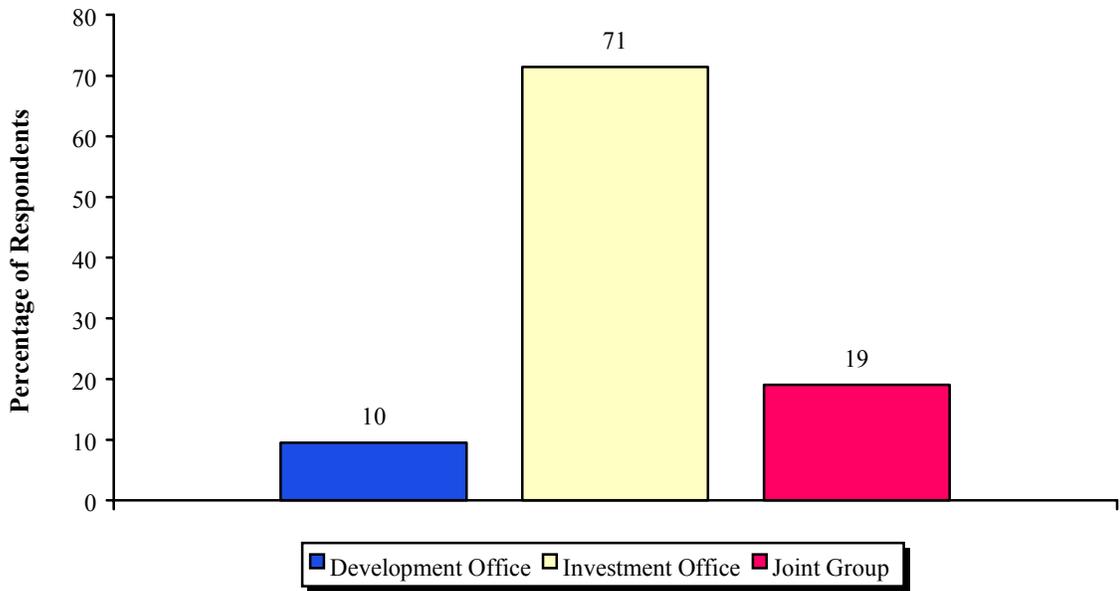
Note: Sample comprises 21 institutions.

Exhibit 4

**BODY RESPONSIBLE FOR
INCOME BENEFICIARY MATTERS**



**BODY RESPONSIBLE FOR
INVESTMENT MATTERS**



Note: Sample comprises 42 institutions.

Exhibit 5

**NUMBER OF FULL TIME EQUIVALENT (FTE) STAFF
INVOLVED IN PLANNED GIVING**

| Institution Code | Number of FTE Staff per Function | | | | Total PG \$Mil/FTE |
|---------------------|----------------------------------|-----------------|---------------------|----------------------|-----------------------|
| | A Development | B Investment | C Administration | A+B+C Total Staff | |
| 1 | 0.4 | 0.8 | 1.1 | 2.2 | 35.6 |
| 2 | 0.7 | 0.1 | 0.5 | 1.3 | 7.4 |
| 3 | 2.0 | 1.0 | 1.0 | 4.0 | 3.5 |
| 4 | 1.0 | 1.0 | 1.0 | 3.0 | 0.3 |
| 5 | 2.0 | 0.1 | 1.3 | 3.4 | 4.6 |
| 6 | 3.0 | 3.0 | 3.0 | 9.0 | 5.0 |
| 7 | 1.0 | 0.1 | 0.1 | 1.2 | 4.4 |
| 8 | 1.0 | 1.0 | 0.5 | 2.5 | 0.1 |
| 9 | 1.0 | 0.0 | 0.0 | 1.0 | 16.0 |
| 10 | 1.0 | 0.1 | 0.3 | 1.4 | 20.0 |
| 11 | 1.0 | 1.0 | 1.0 | 3.0 | 1.3 |
| 12 | 1.0 | 0.3 | 1.0 | 2.3 | 0.4 |
| 13 | 1.0 | 0.0 | 1.0 | 2.0 | 0.1 |
| 14 | 3.0 | 0.1 | 0.3 | 3.4 | 21.6 |
| 15 | 0.5 | 0.1 | 0.4 | 1.0 | 2.7 |
| 16 | 1.0 | 0.0 | 0.0 | 1.0 | 1.5 |
| 17 | 6.0 | 4.0 | 0.0 | 10.0 | 5.0 |
| 18 | 1.0 | 1.0 | 1.0 | 3.0 | 3.6 |
| 19 | 5.5 | 0.3 | 1.3 | 7.0 | 6.2 |
| 20 | 2.0 | 0.5 | 1.0 | 3.5 | 8.1 |
| 21 | 5.0 | 2.0 | 1.0 | 8.0 | 10.6 |
| 22 | 5.5 | 0.3 | 9.5 | 15.3 | 26.4 |
| 23 | 0.2 | 0.2 | 0.2 | 0.5 | 3.0 |
| 24 | 2.0 | 1.0 | 1.0 | 4.0 | 3.0 |
| 25 | 7.5 | 0.5 | 1.0 | 9.0 | 6.9 |
| 26 | 6.0 | 1.0 | 0.8 | 7.8 | 5.0 |
| 27 | 1.0 | 0.1 | 1.0 | 2.1 | 0.7 |
| 28 | 1.5 | 0.3 | 0.3 | 2.0 | 2.8 |
| 29 | 1.0 | 0.5 | 0.5 | 2.0 | 15.3 |
| 30 | 1.5 | 0.0 | 0.1 | 1.6 | 0.6 |
| 31 | 2.0 | 0.0 | 2.0 | 4.0 | 10.7 |
| 32 | 2.0 | 0.1 | 0.1 | 2.2 | 15.8 |
| 33 | 2.0 | 1.0 | 2.0 | 5.0 | 0.5 |
| 34 | 3.0 | 0.1 | 0.1 | 3.2 | 12.5 |
| High | 7.5 | 4.0 | 9.5 | 15.3 | 35.6 |
| Low | 0.2 | 0.0 | 0.0 | 0.5 | 0.1 |
| Mean | 2.2 | 0.6 | 1.0 | 3.9 | 7.7 |
| Median | 1.5 | 0.3 | 1.0 | 3.0 | 4.8 |

Note: Sample comprises 34 institutions.

Exhibit 6

PRIORITY OF PLANNED GIVING OBJECTIVES

(Highest Priority = 1)

| Priority Rank | <u>Frequency of Priority Rank</u> | | | | | | | | | | | Average Rank | Number of Respondents |
|--------------------------------------|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|--------------|-----------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | <u>7</u> | <u>8</u> | <u>9</u> | <u>10</u> | <u>11</u> | | |
| <u>Objective</u> | | | | | | | | | | | | | |
| Income Beneficiary Satisfaction | 19 | 15 | 3 | --- | --- | --- | --- | --- | --- | --- | --- | 1.6 | 37 |
| Generation of New Donor Gifts | 16 | 12 | 7 | 3 | 1 | --- | --- | --- | --- | --- | --- | 2.0 | 39 |
| Positive Word-of-Mouth | 15 | 15 | 4 | 3 | --- | --- | --- | 2 | --- | --- | --- | 2.2 | 39 |
| Administration Quality | 12 | 12 | 11 | 3 | 1 | --- | --- | --- | --- | --- | --- | 2.2 | 39 |
| Generation of Repeat Donor Gifts | 10 | 17 | 7 | 3 | 1 | 1 | --- | --- | --- | --- | --- | 2.3 | 39 |
| Investment Performance | 8 | 10 | 9 | 8 | 1 | --- | --- | --- | --- | 1 | 1 | 3.0 | 38 |
| Maximum Remainder Value | 8 | 6 | 11 | 4 | 3 | 1 | 3 | --- | 1 | --- | --- | 3.2 | 37 |
| Fair Market Value of Assets Received | 5 | 9 | 6 | 6 | 3 | 3 | 3 | 2 | --- | --- | --- | 3.6 | 37 |

Note: Maximum number of respondents for each objective is 39.

Exhibit 7

GIFT REQUIREMENTS

| | <u>Minimum Age</u> | | <u>Minimum Gift Size (\$000)</u> | | | | <u>Median Min. (%) Est. NPV of Remainder Interest/ Original Gift</u> |
|------------------------------------|--------------------|--------------|----------------------------------|--------------|------------------|--------------|--|
| | <u>Median</u> | <u>Range</u> | <u>Initial</u> | | <u>Follow-on</u> | | |
| | | | <u>Median</u> | <u>Range</u> | <u>Median</u> | <u>Range</u> | |
| Pooled Income Funds | | | | | | | |
| Fund 1 | 50 | 21 - 60 | 5 | 1 - 100 | 1 | 0 - 5 | 50 |
| Fund 2 | 50 | 50 - 65 | 5 | 1 - 100 | 1 | 0 - 2 | 50 |
| Fund 3 | 50 | 50 - 65 | 10 | N/A | 1 | 0 - 1 | NA |
| Fund 4 | 50 | 50 | 10 | N/A | 1 | 0 - 1 | NA |
| Gift Annuities | | | | | | | |
| Regular | 55 | 21 - 75 | 5 | 1 - 250 | 1 | 0 - 10 | 50 |
| Deferred | 50 | 21 - 65 | 5 | 1 - 250 | 1 | 0 - 10 | 50 |
| Charitable Remainder Trusts | | | | | | | |
| Unitrusts | | | | | | | |
| Straight | 50 | 21 - 60 | 100 | 10 - 500 | --- | --- | 33 |
| Net Income Only | 50 | 21 - 60 | 100 | 10 - 500 | --- | --- | 33 |
| Net Income with Make-up | 50 | 21 - 60 | 100 | 10 - 500 | --- | --- | 33 |
| Annuity Trusts | 50 | 21 - 75 | 100 | 10 - 500 | --- | --- | 35 |

Note: Sample comprises 33 institutions.

Exhibit 8

PRIORITY OF FACTORS USED TO DETERMINE PAYOUT RATE

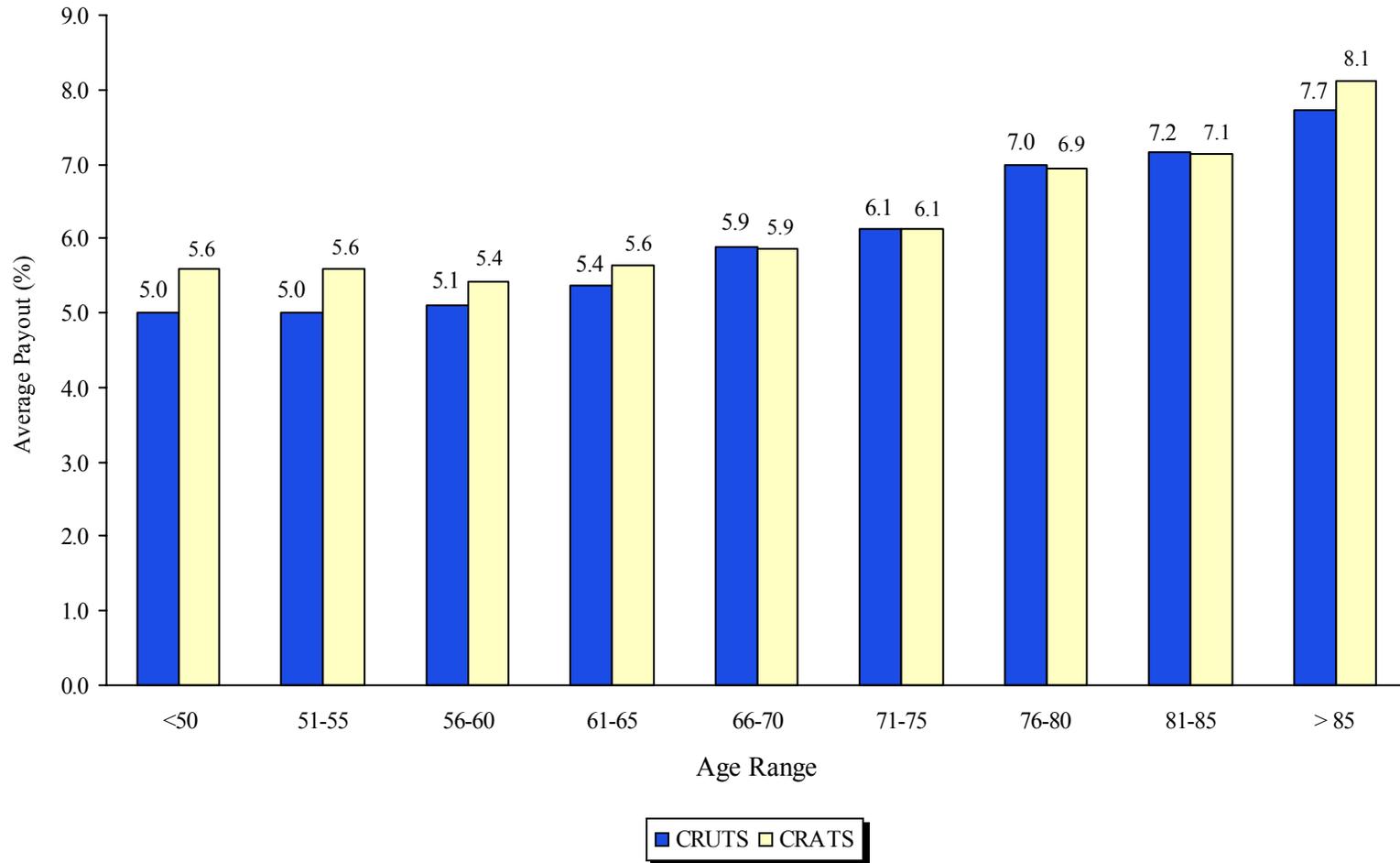
(Highest Priority = 1)

| Priority Rank | Frequency of Priority Rank | | | | | | | | Average Rank | Number of Respondents |
|-------------------------------------|----------------------------|----------|----------|----------|----------|----------|----------|----------|--------------|-----------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | <u>7</u> | <u>8</u> | | |
| <u>Objective</u> | | | | | | | | | | |
| Extent of Donative Intent | 7 | 8 | 4 | 3 | 2 | 2 | 1 | --- | 2.4 | 27 |
| Beneficiaries' Age | 9 | 6 | 10 | 4 | --- | --- | 1 | 1 | 2.6 | 31 |
| Beneficiaries' Dependence on Payout | 8 | 8 | 6 | 3 | 1 | --- | 2 | --- | 3.4 | 28 |
| Current Investment Environment | 3 | 4 | 7 | 7 | 2 | 2 | 1 | 3 | 3.5 | 29 |
| Initial Trust Size | 1 | 4 | 9 | 3 | 3 | 2 | 1 | 3 | 3.6 | 26 |

Note: Maximum number of respondents for each objective is 31.

Exhibit 9

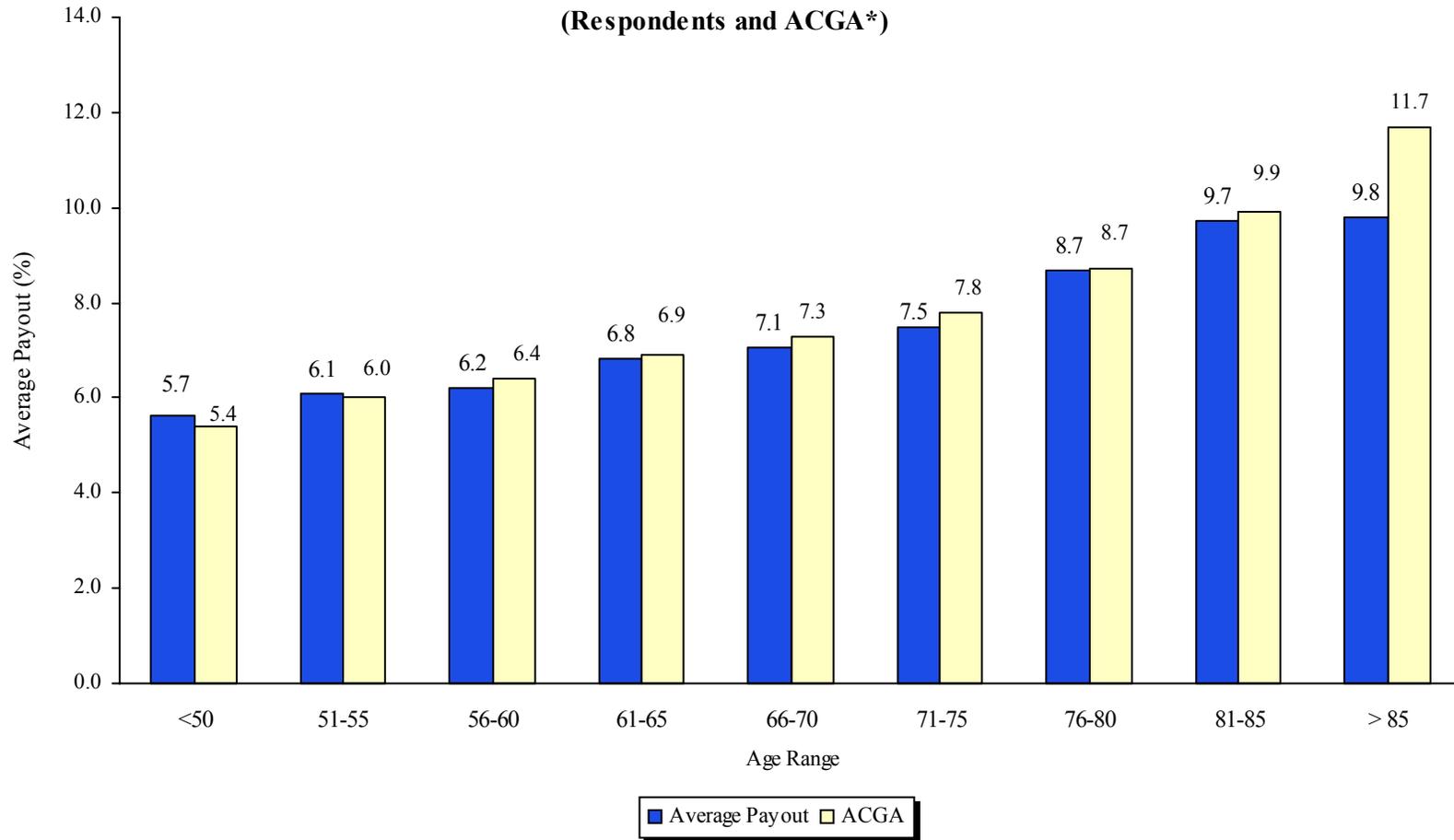
AVERAGE PAYOUT RATE FOR CRUTS AND CRATS BY AGE



Note: Sample comprises 20 institutions although not all institutions listed a payout rate for each age range.

Exhibit 10

**AVERAGE PAYOUT RATE FOR GIFT ANNUITIES BY AGE
(Respondents and ACGA*)**



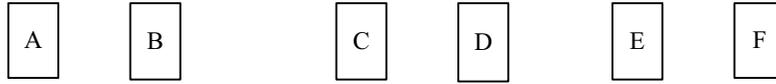
*Recommended Gift Annuity Rates by the American Council on Gift Annuities. The ACGA payout rate shown is for the midpoint age in each age range, (i.e., age 53 for the age range 51 to 55, age 58 for the age range 56 to 60, and so on). Age 35 was used for under 50, and age 89 was used for over 85.

Note: Sample comprises 21 institutions.

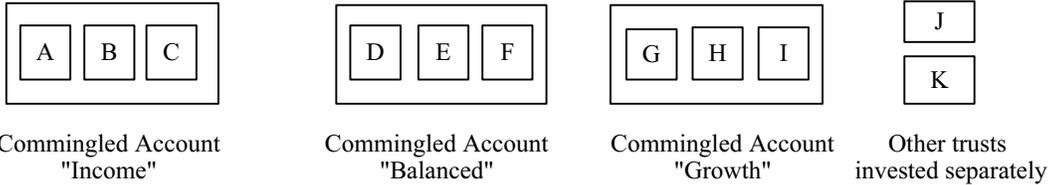
Exhibit 11

POSSIBLE INVESTMENT STRUCTURES

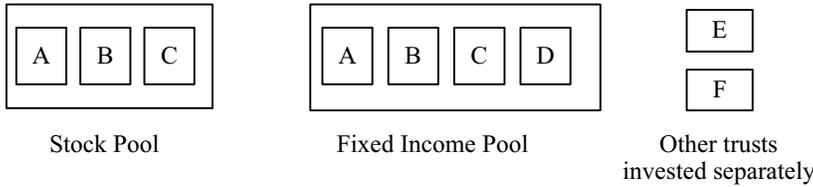
I. Invest each trust and pooled income fund separately.



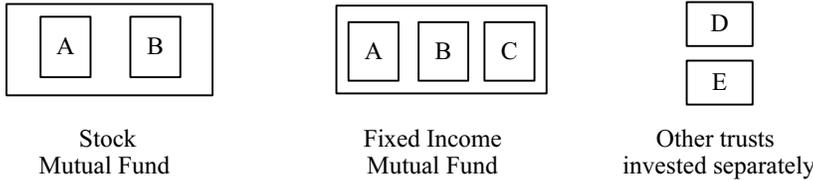
II. Commingle similar trusts into one account.



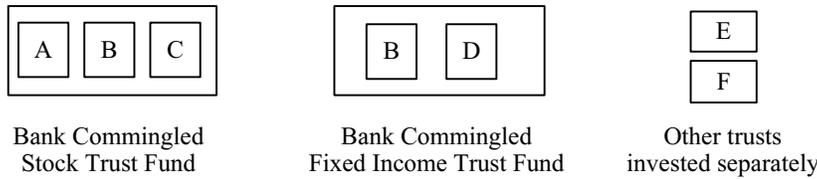
III. Establish separate stock and fixed income pools and invest the trusts in the pools.



IV. Invest the trusts and pooled income funds in mutual funds.



V. Invest the trusts and pooled income funds in bank commingled trust funds.



VI. Invest planned gift assets in the endowment where possible.

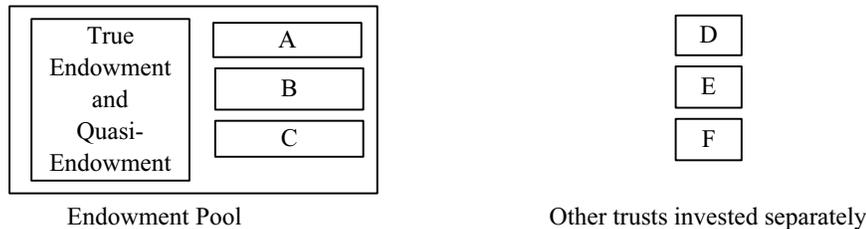


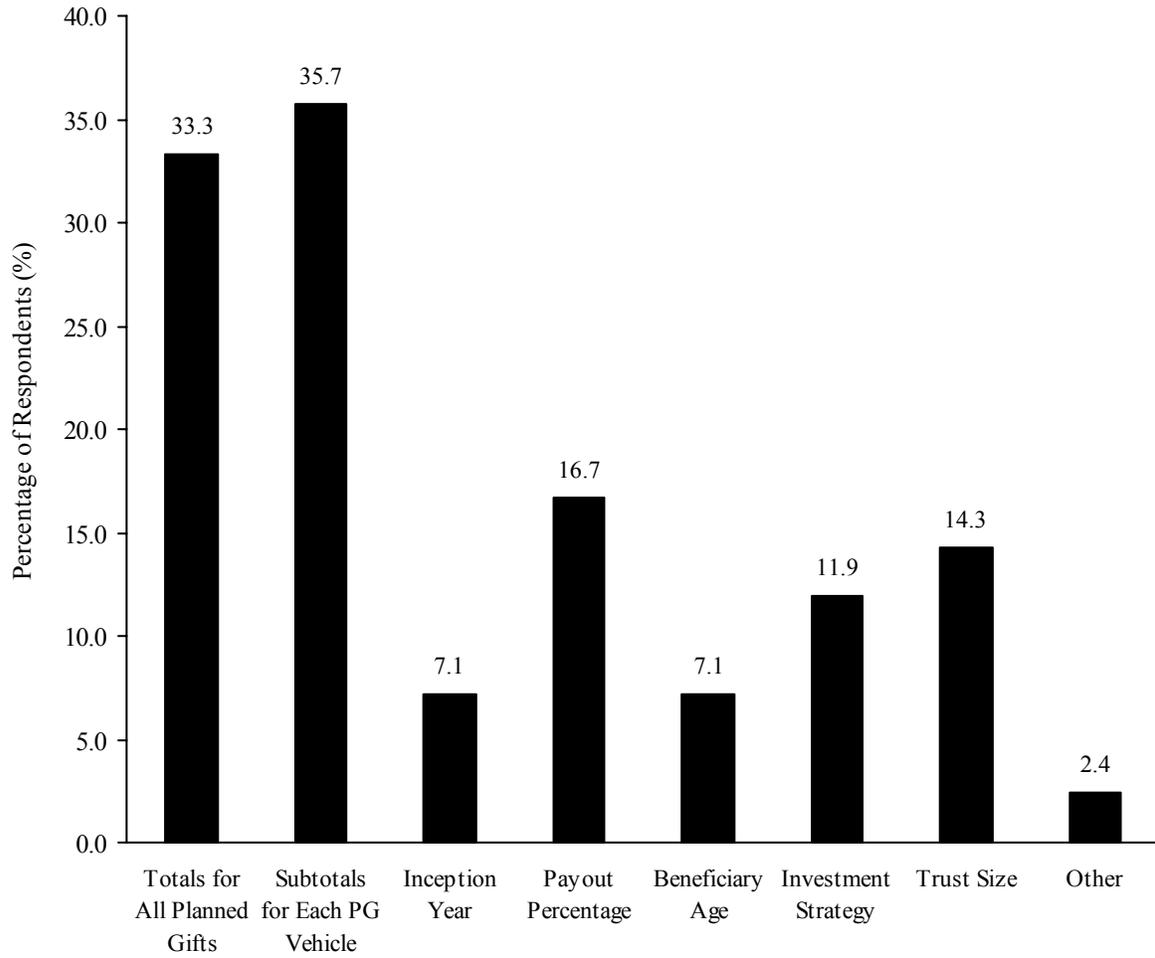
Exhibit 12**CONTENTS OF INVESTMENT REPORTS****Percentage of Respondents**

| <u>Report Item</u> | <u>Pooled Income Fund (%)</u> | <u>Charitable Remainder Trust (%)</u> | <u>Gift Annuity (%)</u> |
|---|--|--|------------------------------------|
| Current Market Value | 64 | 55 | 50 |
| Current Yield | 55 | 45 | 36 |
| Returns | | | |
| Month | 7 | 14 | 12 |
| Quarter | 33 | 29 | 26 |
| CYTD | 26 | 26 | 21 |
| FYTD | 10 | 7 | 5 |
| One-Year | 24 | 26 | 26 |
| Three-Year | 17 | 21 | 19 |
| Five-Year | 17 | 17 | 14 |
| Since Inception | 17 | 14 | 7 |
| Standard Deviation | | | |
| Monthly | 2 | 2 | 2 |
| Quarterly | 14 | 12 | 10 |
| Annually | 10 | 2 | 5 |
| Benchmark Returns | 33 | 36 | 33 |
| Payout | | | |
| Dollar Amount | 36 | 33 | 21 |
| Percent Market Value | 17 | 26 | 19 |
| Investment Strategy | 33 | 29 | 24 |
| Est. NPV of Expected Remainder Interest | 12 | 12 | 12 |
| Beneficiary | | | |
| Name | 31 | 33 | 21 |
| Age | 2 | 5 | 5 |
| Sex | 5 | 5 | 5 |

Notes: Sample comprises 42 institutions. Data represent only respondents answering "true" and do not include respondents who answered "false" or left the question blank.

Exhibit 13

FLEXIBILITY OF INVESTMENT REPORTS



Note: Sample comprises 42 institutions.

APPENDIXES

APPENDIX A**INDIVIDUALS/GROUPS WITH OVERSIGHT RESPONSIBILITIES**

When the Oversight Committee did not hold the responsibilities outlined previously in the report, other individuals took charge. The results are summarized below.

Set planned giving policies: it was the responsibility of the Planned Giving Committee or Director at ten institutions, of the Director of Development at five, a combination of the two at five, and belonged to other individuals at three institutions.

Approve new planned giving vehicles: it was the responsibility of a wide variety of individuals. There were no significant trends, but the mix included Planned Giving Committee, Development Committee, Treasurer, Board of Trustees, VP of Finance, CEO and/or CFO.

Approve gift criteria: this responsibility belonged to many individuals including the Planned Giving Director, Development Committee, Planned Giving Committee, VP of Finance, and the Alumni Affairs Committee.

Approve exceptions from gift acceptance criteria: generally, this was the responsibility of the Finance Committee, the VP of Finance, or a combination of Finance and Development Committees.

Approve asset allocation and review investment performance: this task often fell to the Investment Committee or to the CFO/Finance Director.

Review estimated NPVs of expected remainder interests: this responsibility was undertaken by Development or the Planned Giving staff directors at ten of the 31 responding institutions and by the CFO/Finance Committee at six of the 31 responding institutions.

Approve and select external service providers: generally this task was the responsibility of the Director of Planned Giving or the Director of Development.

Conduct a review of program costs: this responsibility belonged to a variety of staff members including the VP of Finance, CFO or Treasurer, Planned Giving Director, or Director of Development.

Approve cost allocation among beneficiaries: this was a responsibility held by the Controller, VP of Planned Giving, Director of Development, or the Business Office.

APPENDIX B**ASSUMPTIONS USED TO GENERATE ACGA RATES****Effective July 1, 1999**

The residuum amount remaining for the charity when the beneficiary(ies) has (have) died will be 50% of the original contribution. (Per a recent survey, the mean amount of the contribution actually remaining for charities when the annuities terminate is over 90%, and the median amount is approximately 80%. The projected 50% residuum was exceeded because the total returns actually achieved by charities exceeded the assumed returns.)

Life expectancies are from the Annuity 2000 Tables. Conservatism is achieved by using female life expectancies, setting the ages back one year, and factoring in projections for increased life expectancies.

Annual expenses for administering gift annuities are assumed to be 0.75% per year.

Total annual returns (net of expenses) are assumed to be 6.0% for immediate annuities and 5.75% for deferred annuities with the following adjustments:

- (1) Rates for ages below 61 are based on a lower rate of return. For example, the assumed net return from a 50 year-old annuitant is approximately 5.5% for an immediate annuity.
- (2) Rates for annuitants above age 80 are lower than would follow from the above assumptions, and annuity rates are capped at 12% beginning at age 90.
- (3) Deferred gift annuity rates in New York and New Jersey are lower, at certain deferral periods, than rates in other states because of required interest assumptions by those states.

The 6.0 net return on immediate annuities is based on a portfolio of:

- 20% equities (using the 70-year average return on large-cap stocks)
- 70% bonds (using the current return on long-term government bonds), and
- 10% cash (using current returns).

Charities operating in non-regulated states tend to invest 40% to 50% of reserves in equities. Charities operating in New York are more limited in equity investments. No more than 10% of required reserved in the segregated account can be in stocks, though surplus reserves held by the charity can be invested however the charity wishes. The ACGA believes that the above portfolio is possible for charities operating in all states.

It should be noted that, per a recent survey, charities operating in states like New York with investment restrictions had lower total returns than charities operating in states without such restrictions. Thus, the investment restrictions mean that less will be available for charitable purposes.

Source: PG Calc.

GLOSSARY

American Council on Gift Annuities: A volunteer organization founded in 1927 that was previously known as the Committee on Gift Annuities. Its Board of Directors meets annually to review suggested maximum annuity rates (unisex rates for one- and two-life annuities and for deferred payment annuities) for use by its subscribing nonprofit organizations. Although rates are reviewed annually, the last change was in 1999. The intent of the rate structure is to provide a residuum at the end of the annuitant's life equal to 50% of the value of the gift in nominal terms.

Charitable Lead Trust: A charitable lead trust is a legal entity established between a donor and a trustee according to statutory and regulatory requirements. The donor irrevocably contributes cash or other assets to the trust and the trust agrees to pay the charitable organization a certain amount. The principal reverts to the donor or one or more persons designated by the donor at the end of a period of years or the life or lives of an individual or individuals. The payments to the charity may be in the form of an annuity (charitable lead annuity trust) or may be a fixed percentage of the trust's assets as valued annually (charitable lead unitrust).

Charitable Remainder Trust: A charitable remainder trust is a legal entity established between a donor and a trustee (typically, the donor, the institution, or a bank) according to statutory and regulatory requirements. The donor irrevocably contributes cash or other assets to the trust and the trust agrees to pay the income beneficiary a certain amount. The payment may be fluctuating or fixed, depending on the type of trust and its terms and may be payable monthly, quarterly, semiannually, or annually. Upon the death of the income beneficiary, the remainder interest goes to the institution as remainderman. The term of the trust may also be measured by a number of years not to exceed 20, by a combination of the life of the income beneficiary and a term of years, or by some other means. No liability for payment extends beyond the trust assets. There are two types of charitable remainder trusts:

Charitable Remainder Annuity Trust: The trust agrees to pay the income beneficiary a fixed annual payment equal to at least 5% of the initial fair market value of the trust assets. This amount remains unchanged throughout the life of the trust, regardless of the investment performance of the trust's assets. Additional contributions to the trust are not permitted.

Charitable Remainder Unitrust: The trust agrees to pay the income beneficiary(ies) a variable annual payment equal to at least 5% of the fair market value of the trust as valued annually. This amount fluctuates with the market value of the trust. Additional contributions to the trust are permitted. There are three types of unitrusts: (1) straight, where the trustee must invade principal, if necessary, to meet the payout percentage; (2) net income without make-up provision, where principal cannot be invaded to meet the payout; and (3) net income with make-up provision, where, if the income earned is less than the required payout, only income is distributed, and the deficiency is made up in future years when income exceeds the payout amount.

GLOSSARY (continued)

Deferred or Planned Gift: A charitable situation in which the donor makes an irrevocable gift to a nonprofit organization but retains an interest in the property until his/her death. At that time, the assets become the property of the nonprofit organization as remainderman. The donor receives a charitable income tax deduction at the time of the gift, although it is a smaller deduction than if the gift had been outright. Planned gifts include charitable remainder unitrusts, annuity trusts, pooled income funds, and charitable gift annuities. Revocable trusts, bequests, and gifts of life insurance may or may not be included in this category.

Gift Annuity: A contract between a charitable institution and a donor whereby the donor contributes cash or other assets to the institution in return for a fixed annual payment (an "annuity") guaranteed for life. The annuity is typically paid quarterly or semiannually. A gift annuity may also be deferred, whereby the payments to the donor do not begin until at least one year after the annuity has been purchased. Gift annuities are not written for more than two lives. Most nonprofit organizations use the gift annuity rates suggested by the American Council on Gift Annuities (see definition above). Gift annuity payments are legal obligations of the charitable organization; the payments must be made regardless of the market value of the donated assets. In some states, gift annuities are regulated as insurance products.

Income Beneficiary: One who receives income from a trust. The income beneficiary of a charitable remainder trust, for example, is typically the donor and his/her spouse although the donor and the income beneficiary need not be the same person.

Payout Rate: The percentage of the trust paid out annually. The payout may be distributed monthly, quarterly, semiannually, or annually and may be variable (e.g., unitrust payout) or fixed (e.g., annuity trust payout). The minimum payout rate for charitable remainder unitrusts and annuity trusts is 5.0%. The payout rate is determined at the time the trust is established.

Pooled Income Fund: A trust established and maintained by a nonprofit organization in which all gifts are "pooled" or commingled for investment purposes (similar to a mutual fund) with income shared proportionately among all participants based on their pro rata share of the pool. The amount of annual income paid to the beneficiary(ies) fluctuates with the performance of the fund. The fund must pay out all income and may not distribute any capital gains. The fund pays taxes on short-term capital gains. Upon the death of the income beneficiary, the value of his/her shares is transferred to the nonprofit organization.

Remainder Interest: The rights one holds in the remainder of a trust.

Remainderman: The individual(s) and/or institution(s) entitled to receive the principal upon termination of a trust. If there is more than one, each is referred to as a co-remainderman.

Participating Institutions

Academy of the New Church
Amherst College
Archdiocese of Boston
Bowdoin College
Bryant College
Christian Theological Seminary
Colby College
DePauw University
Earlham College
Franklin and Marshall College
Furman University
George School
Haverford College
College of the Holy Cross
Huntington Memorial Hospital
Inova Health System
Johns Hopkins University
Kapi'olani Health Foundation
Lesley College
Lincoln Center for the Performing Arts
Maine Medical Center
Miss Porter's School
Monterey Bay Aquarium
Mount Holyoke College
The New York Public Library
Northeastern University
University of Notre Dame
Philadelphia Museum of Art
Phillips Exeter
The Principia Corporation
Punahou School
University of Redlands
Rensselaer Polytechnic Institute
College of Saint Benedict
Smith College
Stanford University
Swarthmore College
The Trust for Public Land
Vassar College
University of Washington
The Williston Northampton School
Woodberry Forest School