COUNTING DEFERRED GIFTS: TRUTH AND CONSEQUENCES

Western Regional Planned Giving Conference
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COUNTING DEFERRED GIFTS:
WHY DOES IT MATTER?

- Measure of Organizational Success
- Process for determining relative value and benefit of deferred gifts to organization
- Reflecting charity's assets/liabilities
- Objective evaluation of gift planning officers (GPOs) effectiveness/job performance

LET'S DEFINE OUR TERMS

COUNTING (external reporting, campaigns)

Versus

VALUING (internal assessment of gift value)

Versus

RECOGNITION (donors)

Versus

CREDITING (PGOs)

METHODS OF "COUNTING"

* Full Face value (no discount)
* Net Present Value: charitable tax deduction (IRS calculation)
* Net Present Value: NCPG (now PPP) valuation standards methodology
* Other methods of discounting to present value
* Alternative count: volume/number of gifts

IT MAKES A DIFFERENCE....

METHODOLOGY	VALUATION OF $100,000 CHARITABLE GIFT ANNUITY*	DEFINED BY:
Full face value	$100,000	N/A
Full face value less liability to the institution	$38,420	FASB
Full face value less estimate of donor value	$42,360	IRS
Full face value adjusted for expected future earnings, liabilities & inflation	$41,760	NCPG (now PPP)

*Source: PG Calc article 4/30/2009
"Present Value Depends on Your Point of View"

PERSPECTIVE AND PURPOSE: ACCOUNTING

* Financial reporting for organization
  + Credibility
  + Compliance with established standards
* FASB 116
  + GASB – applies to certain governmental entities and exempts them from application of FASB 116

PERSPECTIVE AND PURPOSE: VALUING

* What is the value today of a gift that will arrive in the future?

* Internally focused and specific to organization

* Possible Impacts:
  + Gift acceptance policies and standards
  + Allocation of development resources
  + Influence of planned giving within development

PERSPECTIVE AND PURPOSE: VALUING

Possible Best Practices:

- NCPG Valuation Standards
  - http://www.pppnet.org/ethics/valuation-standards.html
- IRS deduction
- Maturity schedule using current value
- Others?

PERSPECTIVE AND PURPOSE: COUNTING AND REPORTING

× Brief History

  + Prior CASE Campaign Reporting Standards

  + NCPG Guidelines for Counting and Reporting Charitable Gifts (2005)

  + New CASE Campaign Reporting Standards (2008)

PERSPECTIVE AND PURPOSE: COUNTING AND REPORTING

✖ NCPG Guidelines for Counting and Reporting Charitable Gifts (2005)

Calls for separate reporting at <u>face value</u>:

+ Outright gifts and pledges
+ Irrevocable gifts
+ Revocable gifts

PERSPECTIVE AND PURPOSE: COUNTING AND REPORTING

✖ New CASE Campaign Reporting Standards (2008)

Calls for separate reporting as follows:

- ➕ Outright gifts and pledges at face value
- ➕ Irrevocable gifts at face value
- ➕ Irrevocable gifts at discounted present value
- ➕ Revocable gifts at face value

QUOTABLE

"Just because the IRS says it's a net present value thing is not sufficient. Net present value is purely a mechanical, mathematical computation and was never intended to be used for counting or reporting."

-Laura Hansen Dean, The University of Texas at Austin

RESEARCH RESULTS: COUNTING AND REPORTING

Irrevocable gifts:

Face value: 58%

Face value subject to limitations: 13%

Net present value (IRS deduction): 29%

RESEARCH RESULTS: COUNTING AND REPORTING

Revocable gifts:

Face value: 29%

Face value subject to limitations: 21%

Net present value (IRS deduction): 7%

Do not count: 43%

QUOTABLE

"Counting revocable gifts at face value, or any dollar value, causes me some concern. I think it can be highly speculative, can lead to practices that aren't always in the long-term best interests of an organization, and has the potential to grossly distort the value and impact of a campaign to those who matter most – the direct beneficiaries of that effort."

-- A Wise Old Sage (or perhaps just An Old Sage…)

RESEARCH RESULTS: DONOR RECOGNITION

Irrevocable gifts:

Face value: 81%

Net present value (IRS deduction): 9.5%

Other: 9.5%

RESEARCH RESULTS: DONOR RECOGNITION

Revocable gifts:

Face value: 58%

Face value subject to limitations: 10%

Do not credit: 32%

PERSPECTIVE AND PURPOSE: PGO PERFORMANCE GOALS/CREDITING

- ✖ The Context
  - ✚ Brief history of planned giving and performance goals
- ✖ Pros and Cons of performance goals for PGOs

Pros:

  - ✚ Provides a method of measuring productivity and encouraging accountability
  - ✚ Helps keep one focused and on track
    - ✳ "Goals are dreams with deadlines."
      Diana Scharf Hunt

PERSPECTIVE AND PURPOSE: PGO PERFORMANCE GOALS/CREDITING

Cons:

+ Depending on crediting policy, may introduce unproductive competition between and amongst PGOs and other development officers

+ May overlook long-run development objectives by focusing on short-term returns (may be especially true for gift planning)

RESEARCH RESULTS: PGO PERFORMANCE GOALS/CREDITING

* Individual performance goals for PGOs:

  YES: 80%

  NO: 20%

* Monetary goals (for those answering yes above)

  YES: 30%

  NO: 70%

RESEARCH RESULTS: PGO PERFORMANCE GOALS/CREDITING

- Activity goals for PGOs:
  - YES: 100%

Activities including:

- Number of visits
  - Wide range from 75 to 150 annually
- Number of proposals
- Number of closed planned gifts
- Differentiator: "service centers" = no set of assigned prospects → no visit goal

RESEARCH RESULTS: PGO PERFORMANCE GOALS/CREDITING

* Allocation of credit for planned gifts involving multiple staffing

  Double credit: 84%

  Single credit: 16%

QUOTABLE

"Crediting for gift officer performance goals: same as board reporting. Do you want a full pipeline? If you want big money, then encourage it, incentivize it and recognize it. Don't let actuarial tables discount your philanthropic revenue and your donor's philanthropy. If you want major gift officers to add a zero to their conversations, you'd better recognize that zero."

-Jeff Comfort, Georgetown University

QUESTIONS