COUNTING DEFERRED GIFTS: TRUTH AND CONSEQUENCES

Western Regional Planned Giving Conference
Presenters: Cynthia Wilson Krause, Baylor Healthcare Foundation
Chris Yates, Stanford University
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....

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

*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
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
Possible Best Practices:

- NCPG Valuation Standards
- IRS deduction
- Maturity schedule using current value
- Others?
Brief History

- Prior CASE Campaign Reporting Standards
- NCPG Guidelines for Counting and Reporting Charitable Gifts (2005)
- New CASE Campaign Reporting Standards (2008)
NCPG Guidelines for Counting and Reporting Charitable Gifts (2005)

Calls for separate reporting at **face value:**

- Outright gifts and pledges
- Irrevocable gifts
- Revocable gifts
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
“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%
Revocable gifts:

- Face value: 29%
- Face value subject to limitations: 21%
- Net present value (IRS deduction): 7%
- Do not count: 43%
“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%
Revocable gifts:

Face value: 58%
Face value subject to limitations: 10%
Do not credit: 32%
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
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).
Individual performance goals for PGOs:
- YES: 80%
- NO: 20%

Monetary goals (for those answering yes above)
- YES: 30%
- NO: 70%
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%
“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