Legacies FOR Libraries

A Practical Guide to Planned Giving

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In honor of

Allie and Weesie

and in memory of

Arne Nixon,

whose greatest gift, planned or otherwise,

was his friendship and trust.

Amy Sherman Smith

This book is dedicated to:

my wife, Mimi, and
my children, Dara and Gabriel.

Thank you for your unconditional love.

And to

Marvin Schotland and Carol Karsch,

planned giving professionals and fine teachers.

They helped me to learn the art of planned giving

that I now wish to teach to others.

Matthew D. Lehrer

CONTENTS

FOREWORD

Approximately three years ago, while I was teaching a two-day module in charitable remainder trusts at the American Institute for Philanthropic Studies, a certificate course sponsored through Cal State Long Beach in Long Beach, California, Amy Smith was one of my students. We quickly became colleagues and friends. It was apparent that she was a "star"; that she would bring great intelligence and insight to the planned giving and development profession—and she has done so.

A few years before that, I met Matt Lehrer while he was working in planned giving and endowment development at the Jewish Community Foundation of Los Angeles. We had a chance to work together. Thus, I got a close-up appreciation of his skills, both technical and personal.

Now they have joined together to write this fine treatise on planned giving, *Legacies for Libraries*, and together have made a wonderful contribution to the literature of planned giving—but with special emphasis on libraries—a part of the educational and philanthropic community that has not previously been served well in this area.

As an attorney working as special counsel to a host of educational, religious, medical, and other charitable institutions and organizations nationally since 1967, I have seen the explosion of the planned giving profession and learned firsthand how important it is to the present and future economic well-being of charitable organizations.

Now those who work for the library community have this valuable resource. Bravo to Amy and Matt.

PHILIP T. TEMPLE

PREFACE

What is planned giving, and why should librarians feel compelled to learn, once again, something new and beyond the discipline of librarianship? Publicly funded institutions must look beyond inadequate state funding. Years of declining public funding have caused libraries to consider outside fund-raising to identify new revenue streams and ensure institutional growth and adequate services. This is not new, but it is challenging.

Victoria Steele and Stephen D. Elder have written the best general book by far on fund-raising for libraries. *Becoming a Fundraiser* is the primer for developing an understanding and appreciation of the profession of fund-raising for libraries. *Legacies for Libraries* springs from the basics of fund-raising discussed by Steele and Elder to address the highly specialized area of fund-raising called planned giving.

Planned giving is a specialized method of raising needed funds. It is a strategy of charitable giving that provides maximum benefit to the donor and the nonprofit organization—in this case, the library. By using financial, tax, and estate planning in formulating charitable gifts, donors can often make larger gifts than they thought possible.

The range of planned giving strategies is vast, from simple bequests to complicated trust arrangements. The motivation of planned giving, however, is philanthropic intent. Donors must want to support the library, and it is up to the development professional—whether a librarian wearing the development hat or a library development director—to recognize that intent from the start or be doomed to frustrating failure.

Our experience includes work as a library development director in an academic library and legal counsel in estate planning and planned giving. Our goal in writing *Legacies for Libraries: A Practical Guide to Planned Giving* is to introduce the principles of planned giving to librarians from all types of libraries so that they can expand their repertoire of fund-raising opportunities. Planned giving is especially helpful in raising long-term funds to ensure the future of our libraries. We hope that librarians will find this book useful and profitable.

About the Legal and Tax Aspects of This Book

This book does not provide a comprehensive treatment of any of the topics covered. Rather, it is intended as a convenient reference on estate and income tax planning and charitable giving.

The book is designed to provide accurate and authoritative information regarding the subject matter covered. It is provided with the understanding that the publisher and authors are not engaged in rendering legal, accounting, or other professional services. Therefore, the contents should not be applied as legal or financial advice.

State laws regarding charitable gifts have not been addressed, although they often conform to federal law. This book also does not take into account the impact of state income taxation and has ignored the various floors and phaseouts connected with changes in annual gross income. The examples use the applicable federal rate for August 1998 (6.8 percent).

Although corporations make substantial charitable contributions and are generally subject to the same rules as individuals, this book focuses on individual charitable giving and does not deal with the specific limitations and rules that apply to C corporations. Because of the pass-through nature of S corporations, partnerships, and limited liability companies, the rules discussed in this book are applicable to charitable contributions made by such entities.

ACKNOWLEDGMENTS

For his support, encouragement, and vision, my most profound thanks go to Michael Gorman, Dean of Library Services, Madden Library, California State University, Fresno. I am also grateful to Phil Temple, my teacher, mentor, and friend. Other friends and colleagues who have supported me, guided me, taught me, and advised me include Diane Miller, Director of Planned Giving, University of California, Riverside; Peter Smits; Linda Frank; all the members of the San Joaquin Valley Planned Gifts Council; and all my colleagues in ALADN and on LIBDEV. Special thanks to my colleagues at Bowling Green State University Library, the University of Louisville Library, and the University of Florida Libraries, who so generously provided excellent examples for this book. For their friendship and support and for making library development so much fun, I thank Irene Hoffman and Leslie Dibona.

—Amy Sherman Smith

For lending their expertise and time to review this manuscript, I would like to thank the following individuals: D. Stephen Boner, a San Diego estate planning expert and my first employer; my long-standing and best friend of some seventeen years, David Gould, an economist with the Federal Reserve Bank in Dallas, who was actually able to explain to me in understandable terms why bond prices generally move in the opposite direction of prevailing market interest rates. I, in turn, will share this wisdom with you, the reader. I would also like to thank my parents, Cy and Sheila Lehrer, for their assistance in editing this manuscript.

—Matthew Lehrer

1

Planned Giving for Libraries

One universal fact of life for libraries, regardless of type, is inadequate funding. Librarians well know the financial conundrum of library economics: increasing costs of materials, increasing costs of new technology, and decreasing funds to pay for them. For some, costs for new technology have usurped funds for books. Like Alice, it takes all the running we can do to stay in the same place. The only solution is to seek funds beyond the limitations of state funding.

Libraries—and librarians—are forced to raise funds. Private academic libraries have led the charge. Most private institutions have a tradition of fund-raising, and, in some cases, that has spilled over to the libraries as well. Academic libraries in public universities have joined the fray, and more and more public libraries are coming on board with fund-raising efforts.

The first organization formed specifically for academic library fund-raising was Development Officers of Research Academic Libraries (DORAL) in 1987. Academic Library Advancement and Development Network (ALADN) was formed in 1995 and has grown enormously. Unlike DORAL, ALADN has an open membership and includes many development directors from public universities. ALADN is comprised of both fund-raising professionals working in academic libraries and librarians wearing the fund-raising development hat.

The American Library Association has begun to recognize fund-raising as a pertinent area of librarianship. The Library Administration and Management Association now includes fund-raising development. Many regional library organizations, such as the California Library

Association, have added fund-raising development to their convention programs.

In a recent national survey of academic library development, colleagues Irene Hoffman at Cal Poly San Luis Obispo, Leslie DiBona at San Diego State University, and Amy Sherman Smith found that most academic library development programs are less than five years old. The programs that have been around the longest are primarily from private universities and colleges.

Libraries are competing with a multitude of other institutions and charities at a time when the face of charitable giving is changing. In the 1994 issue of *Fund Raising Management*, Jerold Panas wrote of the future of fund-raising: "Foundation giving may increase slightly, corporate gifts will decline, and government funding will cease. But the most important will be the generation of large gifts from individuals."[1]

The greatest change in fund-raising will be over the next twenty years when the largest transgenerational transfer of wealth in history will occur. Estimates are that many trillions of dollars will move from one generation to the next, with a significant portion potentially lost to transfer taxes.

Fund-raisers enthusiastically applaud the very public pledge of $1 billion by philanthropist Ted Turner and his public exhortation to his fellow billionaires to become generous philanthropists.

Another very public pledge by Microsoft's Bill Gates benefits public libraries. Hailed as the new Carnegie, Gates is donating equipment and software to public libraries so that impoverished areas can have access to the Internet (and to Microsoft). While the donation is greatly appreciated, it does not do much to help with the materials and service concerns of most libraries now or in the future.

Libraries and librarians must begin to think creatively about the future of our libraries. Planned giving presents many options for future funding and complements annual giving and major gifts fund-raising efforts.

Basic Fund-Raising

In an effort to demystify fund-raising as completely as possible, it might be helpful to cover some fundamental fund-raising concepts.

Case Statement

The first step in developing a fund-raising strategy is to articulate the mission of your library and your needs and to develop a case statement. The mission statement is what you do and whom you serve. It is the statement that articulates your uniqueness as an institution. The case statement is your statement of needs—why you are involved in a fund-raising effort.

The case statement represents the core of the fund-raising purpose, and it will become your raison d'être when you are wearing your fund-raising hat. The document will also be useful as literature to leave with a donor considering a proposal.

Library development, like all fund-raising development, is about values and relationships. This is the core. Donors give because they value your institution and because they have a relationship with you as the facilitator of their philanthropic vision. Remember that donors usually have more than one philanthropic interest, but also keep in mind that you are not competing. Your library is part of the donor's value system, and your relationship, built on trust and shared values, is what will facilitate the coming together of your institution's vision with your donor's vision.

Prospects

Identifying prospects is another foundation platform of your development program. This process is described in greater detail later in this book, but essentially it is finding who your potential donors are. Apparent ability to give is only part of the equation, so identifying potential donors is more than just "She's rich! Ergo, she'll give to my library!"

Cultivating prospects is the process leading up to the presentation of a proposal. The cultivation process is the building of the relationship with the donor over time to build trust and to establish a congruence of values. Important information is gleaned during the cultivation period: ability to give; desire to give; family responsibilities; reasons for giving, which are helpful when presenting recognition opportunities; and other pertinent information that will help you decide to solicit a gift.

Before prospects are qualified, they are suspects. An ideal scenario is that a suspect—maybe a member of your Friends group—becomes a prospect when, for example, in conversation you learn that this person is a wealthy widow with no heirs, and she tells you how much she values your library. When this same prospect tells you she would like to do something to enhance your business collection as a memorial to her deceased husband, then you have a donor.

Proposals

In this last scenario, the prospect presented her desire to help the library. But in some cases, you will need to make the solicitation—that is, you will ask the prospect to become a donor by making a proposal. Remember that this step comes after you have established that the prospect has the interest and the means to make a donation and after you have cultivated a relationship. At this point, you may find it surprisingly easy to say, "Mabel, would you consider supporting the library by making a gift to enhance our business collection? Perhaps this could be a memorial gift in honor of your late husband."

Always have a written proposal to leave behind—one that is simple and short (one page). You might make the heading in the name of the gift, for example, "The George Jones Endowment for Business," which brings the concept alive.

Ways of Giving

Donors give in different ways. They can give cash, property, stock, tangible personal property, and, of course, collections of books. The ramifications of these ways of giving are explained in greater detail later in this book, as different kinds of gifts incur different tax considerations.

Donors give at different levels. Donations can be classified as annual gifts, major gifts, and planned gifts. Annual gifts are generated perhaps in response to your annual giving program. Usually, these gifts are small and spontaneous, in that donors just write a check and send it off without consulting financial or tax planners.

Annual Gifts

Annual gifts usually go for unrestricted purposes, although some sophisticated donors may indicate that they want their annual donation to go for a specific purpose.

Major Gifts

Major gifts are altogether different from annual gifts. Major gifts usually represent a larger financial commitment and a longer consideration process. They are usually restricted to some specific purpose and can be in the form of a planned gift. In the true sense, a major gift is always a planned gift. Another name for a major gift is a "stop-and-think gift."

Planned Gifts

A planned gift is the method for making a major gift. Some major gifts are outright: either cash or assets. Planned gifts are those that come in forms other than outright cash or assets and instead are in trust form or bequests. Gifts of real estate, life insurance, and pension plans are considered planned gifts and are, as well, major gifts. Perhaps it is fair to say that planned gifts are the more complicated major gifts.

Endowments

The term *planned gift* is often mistakenly used interchangeably with *endowment gift*. To clear up the confusion, endowments are funds established with a specific purpose from which only the interest from the corpus is used. This ensures the gift will continue in perpetuity, unlike a donation that is used up over time.

The Madden Library at the California University, Fresno, received a donation from the university basketball coach and his wife to establish the Jerry and Lois Tarkanian Book Fund. It was not established as an endowment, and when the Library has spent all the money in the fund, the gift is finished. If the couple had established an endowment to purchase books, then the interest from the endowment fund would be used to purchase books and the fund would continue, generating funds from which to buy books in perpetuity.

In this case, the Tarkanians saw an opportunity to partner the university basketball program with the library in a fund-raising program called Baskets for Books, in which a corporate or business sponsor pledges a dollar for every point the basketball team scores during the season. At the end of the season, that amount is donated to the Jerry and Lois Tarkanian Book Fund. As long as the basketball team scores points and as long as there are sponsors, the Tarkanian Book Fund should have funds.

Many institutions require minimum amounts to establish an endowment. Remember, there has to be enough to generate interest with which the library can purchase materials. In some cases, institutions offer quasi-endowment opportunities. These quasi endowments work on the same principle as regular endowments, but they are established with less money than ordinarily required for an endowment. These quasi-endowments benefit from added donations that grow them into regular endowments.

At the library of the University of California, Riverside, $10,000 is the minimum required to establish an endowment. At 4 percent, the interest generated annually is $400. Also, keep in mind that depending on where you house the endowment, there will probably be fees associated with the management of the endowment fund. Also, different institutions have different investment policies that will affect the amount paid in interest. Even in a bull market where earning may be as high as 10 percent annually, some institutions take a very conservative approach and only pay out 4 percent. The rest of the earnings are put back into the corpus of the endowment fund, and the following year, the 4 percent payout is from the initial amount plus the 6 percent realized but not paid out from the previous year. This is called *total return.*

Endowments provide wonderful naming opportunities for your donors. As in the example above, Mabel Jones can memorialize her husband by naming the endowment for him. Capital campaign fundraising also provides many naming opportunities. The library at Pasadena City College is a wonderful example of a collage of naming opportunities—the library itself is named and many rooms inside the library are named for generous donors.

Capital Campaigns

Capital campaigns are fund-raising campaigns restricted to a specific period of time and usually for specific purposes as well. For example, a capital campaign can be for a building project, but such campaigns often include more than one purpose and can include components for endowments and programs. In academic libraries, campaigns are often part of a university-wide campaign and the library identifies its needs as a component of the larger campaign. Capital campaigns generate much enthusiasm and support, and university libraries should make sure they are included in a university-wide campaign.

Library Prospects

Who are your library's prospects? We would include previous donors, trustees, volunteer leaders, Friends, retired board volunteers, retired and current faculty and staff, program and special event attendees, and members of your advisory board.

Previous Donors

If your library has kept records of past donations, consider the list your prospect pool. Note especially those donors who have given regularly over time, as well as those who have given large donations. If you are new to the library and are not familiar with the names on the list, consult with staff and faculty who may be helpful in identifying the donors and filling you in on important historical information.

Trustees and Volunteers

Trustees and volunteer board members have already identified themselves as supporters of your library. Often trustees and board members are in the preferred planned-giving prospect range, due to their age and involvement in your library. They may also meet the financial criteria (ability to give) for planned-giving prospects.

Friends of the Library

Of course, your Friends group is an excellent pool of planned-giving prospects. Friends are self-identified as interested in your library. If your Friends group is part of an annual giving program, they are already donors to your library. There is some controversy in the profession, especially in academic libraries, about whether Friends groups are worth the effort. For planned giving purposes, Friends groups are an excellent source of self-identified and usually age-appropriate supporters of your library. Friends groups are most effective as part of an annual giving program rather than as a membership organization, the latter meaning that a member would pay a fee to join and receive in return certain privileges, including invitations to events, borrowing privileges (relevant for academic libraries, not public libraries), and other premiums. As part of an annual giving program, anyone who gives to the library is a Friend. If you wish to begin a Friends group, I would strongly suggest you implement it as an annual giving program. If you already have a membership Friends program, you should think about making a transition to an annual giving program.

Staff and Faculty

Retired and current staff and faculty should also be considered strong planned-giving prospects. They have a relationship with the library, and if they are unmarried with no children, they may well consider the library in their estate plans.

Program Attendees

Guests who have attended programs and special events hosted by your library have therefore shown an interest and should be considered prospects. Depending on their age and circumstance, they may well be strong planned-giving prospects. It is helpful when planning events to have attendees RSVP so that you have a list of those who attended. For events and programs that are not by invitation, it is helpful to have a sign-in sheet (with addresses) so that you capture that information. As a librarian wearing the development hat, it is imperative that you attend library events and programs and circulate among the guests.

Identifying Prospects

What are some of the characteristics of a good planned-giving prospect? The ideal and stereotypical planned-giving prospect is a wealthy widow, over seventy, with no direct heirs. Maybe you have some Friends members and volunteers who match this description. However, there are other planned-giving profiles you should recognize in your prospect pool.

Age should be considered in identifying planned-giving prospects. Planned-giving experts generally agree that donors fifty-five years old and older are the best planned-giving prospects. There are many reasons for this demarcation, although this does not rule out younger prospects in some cases.

Donors fifty-five to sixty-five years old, while still in the wealth-accumulation stage of their financial life, are also thinking more about estate planning and the disposition of their financial assets. These prospects are interested in information about wills, trusts, probate,