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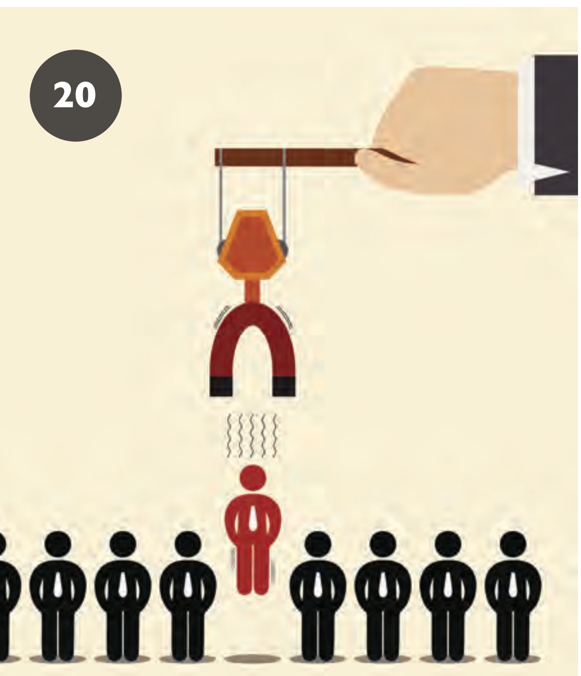

FEATURES

DEPARTMENTS

healthcare philanthropy

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The Association for Healthcare Philanthropy (AHP) is the leading authority for standards, knowledge and leadership in health care philanthropy. As the world's largest association for health care fundraising professionals, AHP represents 5,000 members who raise more than $9 billion each year for community health services. AHP supports its members and serves the public through high performance standards, expert knowledge development and executive leadership that advance the practice and performance of health care philanthropy at both the local and national level.

***Healthcare Philanthropy* mission:**
Healthcare Philanthropy will be an authoritative resource for health care development professionals by providing a timely, informative and insightful collection of literature that will raise the standard of individual and organizational performance. Serving as the premier forum for health care philanthropy literature, *Healthcare Philanthropy* will educate, empower and inspire development professionals and, thereby, help strengthen the case for philanthropic support and the mission of AHP.

ASSOCIATION FOR HEALTHCARE PHILANTHROPY℠

Connecting People • Enriching Lives

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Connecting People • Enriching Lives

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ADVERTISERS INDEX

By William S. Littlejohn | Chair, AHP Board of Directors

FROM THE CHAIR

Our story: Transforming health care through philanthropy

This will be one of the most transformational years in U.S. health care in the last five decades as major elements of the Affordable Care Act (ACA) go into effect. The federal and state health insurance exchanges are active. Medicare cuts and sequestration, Medicaid funding issues, declining inpatient volumes and the rise of high-deductible health plans are heightening threats to hospital profitability. Consolidation of health care institutions continues to move forward. And all three of the major rating agencies believe nonprofit hospitals and health systems face a negative operating environment in 2014.

Globally, much is being written and presented about the major trends that are impacting health care delivery—including the power of the consumer, the digital economy (including Big Data, wireless technology and predictive modeling), aging demographics and the rise of the Millennial generation. We are seeing organizations today with four generations of workers.

Driven by the growth of new technologies, estimates show that over the next decade as much as 50 percent of health care will move from hospitals and clinics to homes and communities. New tools such as smartphones, social media and sensors are giving consumers more information and control over their health care decisions—and giving

> We must embrace change and reshape our philanthropy programs—not built on the concept of need, but on inspiring the future.

physicians more options for where and how they treat their patients.

With these dramatic changes and uncertainty, it is more essential than ever to align our philanthropy programs with our institutions. The philanthropy program—through its leaders, allies and donors—is often the best vehicle to deliver the message of the value of investing in health care delivery and its benefit to the community.

Health care is being transformed like never before. And philanthropy is and can be a driver of transformation. So we must embrace change and reshape our philanthropy programs—not built on the concept of need, but on inspiring the future.

We know that a powerful dynamic of philanthropy is the concept of legacy. But all too often legacy becomes "we've always done it this way"—from campaigns to events, board meetings and communications. It's time to create a new legacy for health care philanthropy.

It's an opportunity to do what we often do best: Tell stories. Stories of hospitals adapting to change and empowering their workforce. Stories that demonstrate the miracles of modern medical technology. Stories that share how we help families navigate an unfamiliar world. And above all, stories of inspired giving—giving that transforms lives, institutions and communities.

This means we need to be at the forefront of writing our own story: The case for the transformation of health care through philanthropy. We also need to share our story through a myriad of platforms (some of which didn't even exist just a few years ago), with a variety of groups and stakeholders and across generations.

Campaigns are successful because they do two things well: They ask enough people capable of giving and they do it in the most effective way. They tell the story of the power of philanthropy to transform.

Let's create our stories, tell our stories and share our stories. Together we can help transform health care through philanthropy and lead the way in creating our own future. AHP

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By William C. McGinly, Ph.D., CAE | AHP President, Chief Executive Officer

AS I SEE IT

I believe…

From time to time over my 31-year tenure with AHP, people have asked: "How are you able to stick with it all these years? How can you stay enthused and devoted for so long?"

For me, it is as if I went to bed last evening, got up this morning and 31 years had passed. Working with this group creates meaning in my life, both personally and professionally. I always have found my time at AHP to be challenging and engaging.

As I head toward my final days as president and chief executive officer, I am moved by the dedication of so many members, volunteer leaders and AHP associates who have joined me over the years. There is so much I could say about the professionalism of our member executives, the strong relationships built, the wealth of data generated and the hard-earned growth of the association, the profession and our significance in the health care industry. I also am proud of the professionalism nurtured and built by the AHP associates who have worked daily for our members from our international office. Their hard work leading and coordinating volunteer efforts has provided the continuity and planning necessary for AHP's long-term success.

For me, it is appropriate to be concluding my service at a time when strong leadership is once again essential—both for the changes happening in the health care industry and for the major shifts AHP is making in its governance and operations to heighten the association's effectiveness.

Effectiveness always has been my vision for AHP's success. Over the last year or so, we have implemented a more efficient and effective operational model for the association through four primary avenues:

- **A new governance structure:** The basic AHP structure developed in 1967—a national organization divided into regions—was no longer sufficient to serve our complex membership of 5,000 individuals in 2,000 enormously diverse institutions. As rapidly changing technology has made our global world "local" and members can now network and connect in a variety of ways, AHP recognized the limitations of a governing body based on geography. Last summer, AHP members approved a new governance structure and our aim is to recruit board members based on their talents—building a smaller, focused group that addresses the needs of the membership and the profession.
- **A nimble, skills-based board:** The new AHP president and CEO will now have a board of carefully nominated and elected leaders from the profession, each with governance experience and one or more competencies strategically matched with

Working with this group creates meaning in my life, both personally and professionally. I always have found my time at AHP to be challenging and engaging.

the association's priorities and direction. This is a significant step forward and ensures that AHP has adequate resources to address the best interests and needs of its members.

- **New member-focused services and activities:** Like all associations, AHP cannot afford to spread its resources too thinly. We must carefully focus our efforts on our key constituencies. AHP has long gathered data on member needs for programs and services, as well as preferences for delivery methods. Now we are establishing priorities for where to place our most significant resources. Our planning in this area will assure that we build real value for members. Value is essential for our effectiveness and longevity in representing the profession.
- **A framework for the future:** The most common association model is built on members coming to the association—coming to conferences, seminars, committee and task force meetings, trade shows and more. The technology-based association is changing to bring the association to the members. In addition to our face-to-face meetings, we have added virtual options like webinars, e-learning courses and peer group communities.

The changes AHP is making are well supported by case studies and 40 years of combined experience from more than 1,000 associations. Our leadership and governance committee of member volunteers carefully studied the data, debated the options and recommended opportunities for future success. The AHP Board of Directors and members voted to approve these concepts and principles. Now we must live them at every level and expand meaningful member participation.

Change is the life blood of any organization's sustainability and relevance. This current effort is part of the ongoing reinvention of AHP—and only one of four other reinventions I have experienced and had a hand in leading over the past 31 years. After working with 5,000 members (up from 700 when I started), 31 boards and more than 200 AHP associates, I have come to recognize that each and every one is part of the fabric of AHP—and all of us are standing on the shoulders of those who served and contributed before us. My hope is that we continue to make it possible for those that follow to stand on an ever-firm foundation.

As for me, I believe:

…in you, all of our members. I have from day one.

…in what you provide to your local communities.

…in your dedication and professionalism.

…in your competencies and devotion to helping those you serve.

…in your values and beliefs.

I am reminded of an old quote: "Of a good leader, when all is said and done, they will say… we did it ourselves!" I hope you think of me as that "good leader," because a good leader never does it alone. Thank you for the wonderful ride.

 By Kathy Renzetti, CAE, with contributions from William C. McGinly, Ph.D., CAE

Four critical success factors

Analysis shows that high performers spend more and invest wisely in staff

After analyzing 29 years' worth of data from AHP's annual *Report on Giving* and various benchmarking studies, we discovered that the most powerful predictor of fundraising success is a foundation's total fundraising expense budget. In other words, the more you spend, the more you make.

Of course it's not quite that simple—you have to spend your budget wisely, including hiring the right people. But altogether, our investigation revealed that the most influential success factors are as follows:

- Total fundraising expense budget.
- Staff size.
- Staff compensation.
- Major gift emphasis.

Surprising? Maybe—especially in light of the questioning fundraisers are subjected to year after year from board members, reporters and even executives from their own institutions about their cost to raise funds, the efficiency of their operations and the necessity of their staffs. Fundraisers must withstand this scrutiny and see their resources cut, while at the same time being asked to raise more and more in philanthropic support.

In many health care institutions, an overlooked fact is that foundations and development offices often provide a higher return on investment (ROI) than any other department.

But the public's common misconception that a good way to evaluate a charity's worthiness is determining what percentage of its expenses is allocated to overhead has made it difficult for fundraising departments to grow. In most health care organizations, the foundation or development office is not well understood at all. People don't know how it functions, the

expertise its staff members must have to be successful or the effort and expense involved in bringing in donations.

The misconceptions and gaps in understanding must change. Fundraisers must aggressively educate executives, donors and the media about what they do and the factors that are critical for their success.

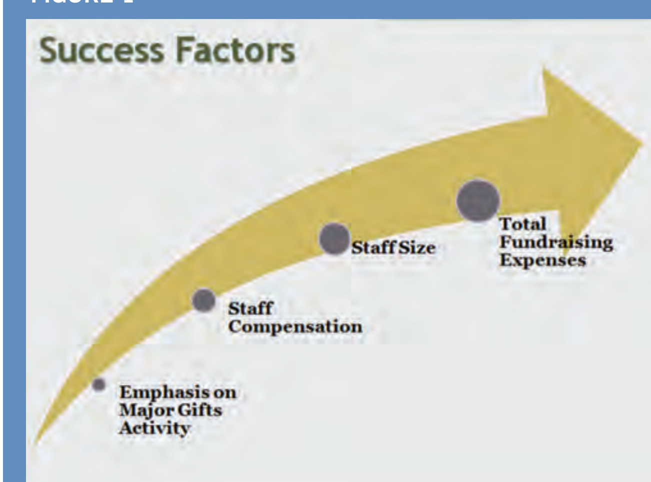
Our statistics show that investing wisely in talent and compensating fundraisers fairly for their hard work and experience makes all the difference in determining total net fundraising revenue and fundraising efficiency. In addition, organizations that emphasize major gifts, planned giving, government grants and public support are the ones that show high net returns.

This article explains the factors that organizations should focus on, shown in Figure 1, to maximize their fundraising success. It also serves as a reminder to make a priority of collecting and analyzing statistics in a standardized way to measure results.

Key definitions and concepts

Dealing with statistics can be intimidating, even for the most "math-minded" among us. To fully understand the four critical success factors, it helps to be familiar with

FIGURE 1



Based on 29 years' worth of data, AHP found these four factors are critical for highly successful fundraising.

the terminology and concepts in AHP's performance reporting standards for organizations, which are published in the *AHP Standards Manual for Reporting and Communicating Effectiveness in Health Care Philanthropy.*[1] Development professionals have been using these standards, definitions and metrics since they were created in 2003 to give them a consistent basis for calculating and comparing results.

The *AHP Standards Manual* explains how to do the following:

- Provide a thorough accounting of all revenue resulting from direct fundraising activity.
- Calculate and attribute expenses to direct fundraising activity.
- Examine both projected and secured revenues to form a complete fundraising performance picture.

The *AHP Standards Manual* recommends focusing on three organizational performance metrics, which, when you look at all three together, provide the clearest picture of an organization's performance:

Return on investment (ROI): A key measure that represents the financial return on each dollar spent raising funds during the reporting year. It also is the inverse of the cost to raise a dollar metric (see below). ROI is an indicator of fundraising *effectiveness*, illustrating the amount applied toward the bottom line in relation to the cost. *ROI is calculated by dividing gross funds raised by total fundraising expenses.*

Cost to raise a dollar (CTRD): A measure of fundraising *efficiency*, providing an abbreviated look at the total amount spent to raise each dollar in support of the organization's mission. *CTRD is calculated by dividing fundraising expenses by the gross funds raised during the reporting year.*

FIGURE 2

Key Metrics

$$\text{CTRD} = \frac{\text{Fundraising Expenses}}{\text{Gross Funds Raised}}$$

$$\text{ROI} = \frac{\text{Gross Funds Raised}}{\text{Fundraising Expenses}}$$

$$\text{Net FR Revenue} = \text{Gross Funds Raised Production} - \text{Fundraising Expenses}$$

These formulas show how to calculate the three most important organizational performance metrics.

Net fundraising revenue: An important metric that reflects *bottom line fundraising revenues* for the organization or system. It is commonly described as the "what" that accompanies the "how" provided by CTRD and ROI. *Net fundraising revenue is calculated by subtracting fundraising expenses from the gross fundraising revenues that come from production.*

"Production" is one of two separate categories in which the *AHP Standards Manual* places fundraising revenues. The other category is "cash." When reporting fundraising returns, it is important to understand these measures and their definitions.

Cash and production are not mutually exclusive and cannot be added together to create a single calculation of fundraising returns. Instead, they are meant to be examined as two separate metrics.

- **Cash** includes the current market value of outright gifts (made in any form) plus current-year payments from the previous year's pledges, planned gift maturities, bequests and marketable securities. Adding these amounts together provides a picture of "cash on hand," including the amount available for immediate use by the organization.
- **Production** represents all outright gifts of cash (excluding payments on pledges from previous years) and new gift commitments made in the reporting year. New gift commitments are a combination of all new pledges and letters of intent (including revocable gift commitments) and the current market value of irrevocable planned gifts. Production provides a more thorough measurement of fundraising performance than does cash and reflects the activities of the development staff.

Important formulas to calculate the measures discussed above are shown in Figure 2.

Avoid the "cost to raise a dollar" trap

Too many people, including professionals in the fundraising industry, fail to consider all three organizational metrics. They fall victim to the "cost to raise a dollar" trap—believing it to be the most important measure.

But a singular focus on one metric leads to poor performance. Many factors contribute to an organization's expenses and different fundraising activities have different CTRDs. For example, organizations with a strong focus on major gifts tend to have a lower CTRD than organizations with a primary focus on the annual fund or special events.

Because such a wide range in costs and multiple variables need to be considered, it is impossible to provide one benchmark CTRD to apply across the board to all fundraising activities. Depending on the fundraising activity, an organization may spend anywhere from 12 cents to more than $1 to raise a dollar. Instead of focusing on CTRD, it is more important to consider the ROI of each activity—and to do so over a three- to five-year time frame to determine trends.

An organization's net fundraising returns are just as important as CTRD and ROI—and, as stated above, must be considered along with those two measures for a well-rounded picture of performance. For example, you could spend $20,000 to raise $100,000 or you could spend $30,000 to raise $125,000. In the second scenario, the ROI is lower, but the net fundraising return is higher.

Many charity watchdog organizations now recognize the importance of multiple metrics and variables to measure success, and they are placing less emphasis on CTRD, as recently demonstrated in an open letter to the public from GuideStar, Charity Navigator and the BBB Wise Giving Alliance. The letter, entitled "The Overhead Myth,"[2] denounces the "overhead ratio" as a valid indicator of nonprofit performance when viewed by itself. The letter urges donors to "pay attention to other factors of nonprofit performance: transparency, governance, leadership and results" and points out that many charities should spend more on overhead (such as training, planning, evaluation, internal systems and fundraising efforts). The "overhead myth" is discussed in more detail in the article on page 26.

Fundraising expenses as a predictor of success

AHP's findings suggest that spending too little may be an indicator of poor performance. If you focus too much on keeping expenses down, your fundraising organization cannot grow.

In the *FY 2012 AHP Report on Giving,*[3] which is based on statistics reported by U.S. and Canadian members, direct human resource expenses account for the largest share of total fundraising expenses, followed by operational (overhead) and indirect human resources. Total fundraising expenses increase with

FIGURE 3 - Fundraising Expense Budget

Total Fundraising Expenses*		Net FR Revenue	ROI	CTRD
$54k - $503k (n=13)	Median/Range	$350k $47k - $4.9M	$2.84 $1.19 - $6.60	$0.35 $0.15 - $0.43
$504k - $1M (n=14)	Median / Range	$1.1M $116k - $6.9M	$3.07 $1.24 - $10.51	$0.32 $0.09 - $0.80
$1.1M - $2.3M (n=14)	Median/Range	$4.8M $1.1M - $14.9M	$5.96 $2.16 - $16.08	$0.16 $0.06 - $0.46
$2.4M or more (n=14)	Median/Range	$8.7M $2.8M - $17.8M	$4.09 $2.38 - $7.21	$0.24 $0.13 - $0.41

Note: *Total Fundraising Expenses, Net Fundraising Revenue, ROI and CTRD, Fiscal Year 2011. Note: Outliers removed for analysis. Fundraising expenses include costs related to direct fundraising activity, including human resources and operations expenses.

Numerical evidence of the payoff that comes from a strong investment in fundraising.

the size of the institution—whether the size is determined by net patient service revenue (U.S.), gross operating revenue (Canada) or direct fundraising full-time employees.

Over the years, benchmarking results continue to demonstrate a clear link between an organization's investment in philanthropy—that is, its fundraising expenses—and its net fundraising revenue. The data show that fundraising revenue increases dramatically as expenses increase. What's more, fundraising efficiency (CTRD) and effectiveness (ROI) also improve.

Figure 3 illustrates the payoff of a strong investment in fundraising by comparing net fundraising revenue, ROI and CTRD based on fundraising expenses. The numbers used in this comparison come from the AHP Performance Benchmarking Service in FY 2011.

Organizations spending between $54,000 and $503,000 over the course of the year raised $350,000 at the median level and up to $4.9 million at the top of the range. Organizations spending $2.4 million or more raised $8.7 million at the median level (nearly four times more) and almost $18 million at the top range (nearly 25 times more). Also, as you can see in Figure 3, the ROI and CTRD for those spending $1 million or more was better when organizations spent more.

The relationship between staff and performance

The largest share of fundraising expenses is attributed to full-time employees (FTEs). Thus, it's not surprising to see the same correlation between the number of direct FTEs and fundraising revenue that we see between fundraising expenses and fundraising revenue.

As Figure 4 shows, when you look at median net fundraising revenue as the leading indicator, it increases as staff size increases—hitting a high point of $22.3 million when 10 or more people are on staff. With staff sizes of seven to nine people, organizations raised up to $15.5 million. When revenue is measured by ROI and CTRD, it also improves when staffs are larger, as shown in the two right-hand columns in Figure 4.

But the relationship is not a simplistic "spend more, make more" type of dynamic. AHP's analysis shows that fundraising performance is linked to the following:

- Carefully and consistently investing in the right people.
- Maintaining the right mix of fundraising programs (annual giving, major gifts, planned giving, government grants, etc.).

As shown in Figure 5, which uses data compiled from the AHP Performance Benchmarking Service to compare high performers (the top 25 percent in production) with everyone else, high performers allocate staff members to each key fundraising activity—including annual giving, major/corporate/foundation giving, planned giving, public support and special events. At the median level (the number at the top of each row, without parentheses), the high performers have at least one FTE for each program—with the most FTEs in major/corporate/foundation giving. All others, however, have programs with no professional staff at all—as you can see by looking at both the median level and the range (shown in parentheses). Figure 5 clearly indicates that allocating adequate professional staff is associated with better performance.

Distinct characteristics of high performers

In its annual *Report on Giving,* AHP analyzes characteristics of institutions with the highest levels of production returns to determine the factors that affect or lead to higher performance. High performers represent 25 percent of all organizations reporting data for use in the *Report on Giving*. In examining the organizations that reported data for FY 2012, some distinctive characteristics emerge.[3]

Based on the statistics from U.S. organizations, we noted the following key points:

- The median amount of production funds raised by high performers was nearly six times the median amount of production funds raised for all responding institutions: $19.1 million versus $3.2 million, respectively.
- The majority of the high performers (81.5 percent) had more than $2 million in total fundraising expenses in FY 2012. And median total fundraising expenses were about five times more for the

FIGURE 4 - Relationship Between Staff and Performance

Direct FTE Staff Size		Net FR Revenue	ROI	CTRD
.5 - 3 direct staff (n=18)	Median / Range	$568k $47k - $2M	$2.98 $1.19 - $4.58	$0.33 $0.21 - $0.83
4 - 6 direct staff (n=14)	Median / Range	$3.9M $568k - $14.9M	$3.62 $1.85 - $16.08	$0.27 $0.06 - $0.53
7 - 9 direct staff (n=18)	Median / Range	$5.8M $1.2M - $15.5M	$4.21 $2.16 – $12.76	$0.23 $0.07 - $0.46
10 or more direct staff (n=15)	Median / Range	$9.4M $4.4M - $22.3M	$5.63 $3.11 - $15.15	$0.17 $0.06 - $0.32

Larger staffs bring in more revenue—whether measured by net fundraising revenue, return on investment or cost to raise a dollar.

FIGURE 5

High Performers - Direct Staff Comparison

The top number in each row represents the median number of full-time employees allocated to each fundraising activity; the bottom numbers (in parentheses) represent the range of full-time employees in each category, as reported to the AHP Performance Benchmarking Service in FY 2011.

high performers than for all the organizations together: $4,689,000 versus $856,097.

- Looking at overall fundraising activities (see Figure 6), high performers depended more on major gifts (31.8 percent) and less on annual gifts (8.4 percent) as major fundraising sources than did typical organizations (22.2 percent for major gifts and 19.5 percent for annual gifts).
- More than eight in 10 high performers (82.4 percent) employed seven or more full-time direct fundraising staff.
- Fundraising employees in the organizations that employed seven or more direct fundraising FTEs were almost twice as productive in terms of median fundraising dollars per direct FTE, compared to the overall performance of all responding institutions: $1,369,653 median fundraising dollars versus $778,739, respectively.

When looking at the organizations reporting statistics from Canada, we detected the following:

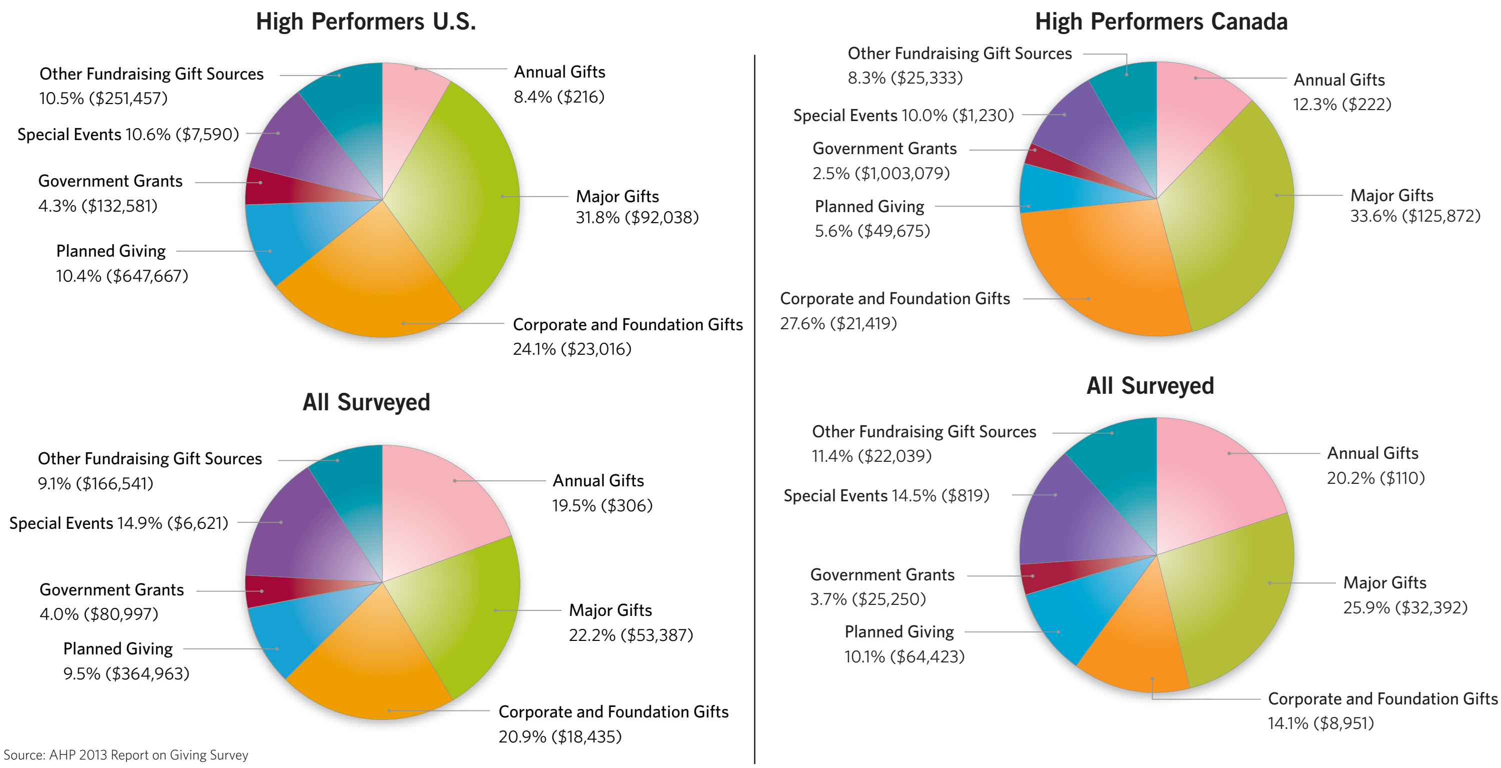
- The median amount of production funds raised by high performers was nearly five times the median amount of funds raised for all responding institutions: $21.1 million versus $4.2 million, respectively.
- The majority of the high performers (84.6 percent) had more than $2 million in total fundraising expenses in FY 2012. And median total fundraising expenses were about five times higher for the high performers than for all the organizations together: $5,233,050 versus $941,633.
- Looking at overall fundraising activities (see Figure 6), high performers depended more on corporate and foundation gifts (27.6 percent) and less on annual gifts (12.3 percent) as major fundraising sources than did typical organizations (14.1 percent for corporate and foundation gifts and 20.2 percent for annual gifts).
- More than eight in 10 high performers (84.6 percent) employed seven or more full-time direct fundraising staff.
- Fundraising employees in the organizations that employed seven or more direct fundraising FTEs were nearly twice as productive in terms of median fundraising dollars per direct FTE, compared to the overall performance of all responding institutions: $1,780,569 versus $963,062 respectively.

Donor pool must be considered, too

An important factor that cannot be overlooked when discussing any of the performance measures defined in this article is the size of your donor pool. Wealth screening is specific to each organization; it is not something AHP can quantify as an overall generic metric.

Your organization needs to determine its own realistic fundraising goal based on the size and depth of your donor pool as well as your location, urban versus rural setting, type of institution and other characteristics. Using these factors as a backdrop, you can develop your own formula, applying metrics to determine costs and to calculate your fundraising goal. Performance metrics help answer the question of whether a cost will bring a big enough return to make it worth the investment.

FIGURE 6 - PRODUCTION RETURNS BY FUNDRAISING ACTIVITY IN FY 2012



Source: AHP 2013 Report on Giving Survey

The dollar amount in parenthesis is the average gift amount.

AHP's statistics show that high performers have more employees and depend more on major gifts and corporate and foundation gifts than on annual gifts.

Lessons learned

We continue to see the same four key characteristics rise to the top for high performance, which leads us to this advice:

- Make an adequate investment in fundraising so you can develop an effective fundraising expense budget.
- Invest wisely in staff and allocate them across a mix of fundraising programs.
- Ensure that your staff is highly trained and appropriately compensated.
- Emphasize major gifts, which have been shown to bring better returns than annual gifts.
- Systematically collect and analyze the metrics described in this article and present the data to your organization's executives in a way that's meaningful and easy to digest. Help them understand the role that performance metrics play in planning for success.

Performance metrics potentially allow organizations to increase philanthropy budgets by providing empirical data to show that the investment will yield positive results. But the onus is on you to educate boards and leadership teams about what good philanthropy is and what resources you need for high performance.

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1. Association for Healthcare Philanthropy. *AHP Standards Manual for Reporting and Communicating Effectiveness in Health Care Philanthropy*, 2012.
2. Guidestar, Charity Navigator, and BBB Wise Giving Alliance, "It's Time to Move Beyond Overhead," news release, June 17, 2013, http://overheadmyth.com.
3. Association for Healthcare Philanthropy. *FY 2012 AHP Report on Giving*, 2013.

Kathy Renzetti, CAE, AHP's chief strategic officer, has more than 25 years of marketing and communications experience and 14 years of experience with nonprofits.

She oversees the development, launch and implementation of various strategic initiatives for AHP, including government and public relations campaigns, member services and the use of industry performance metrics.

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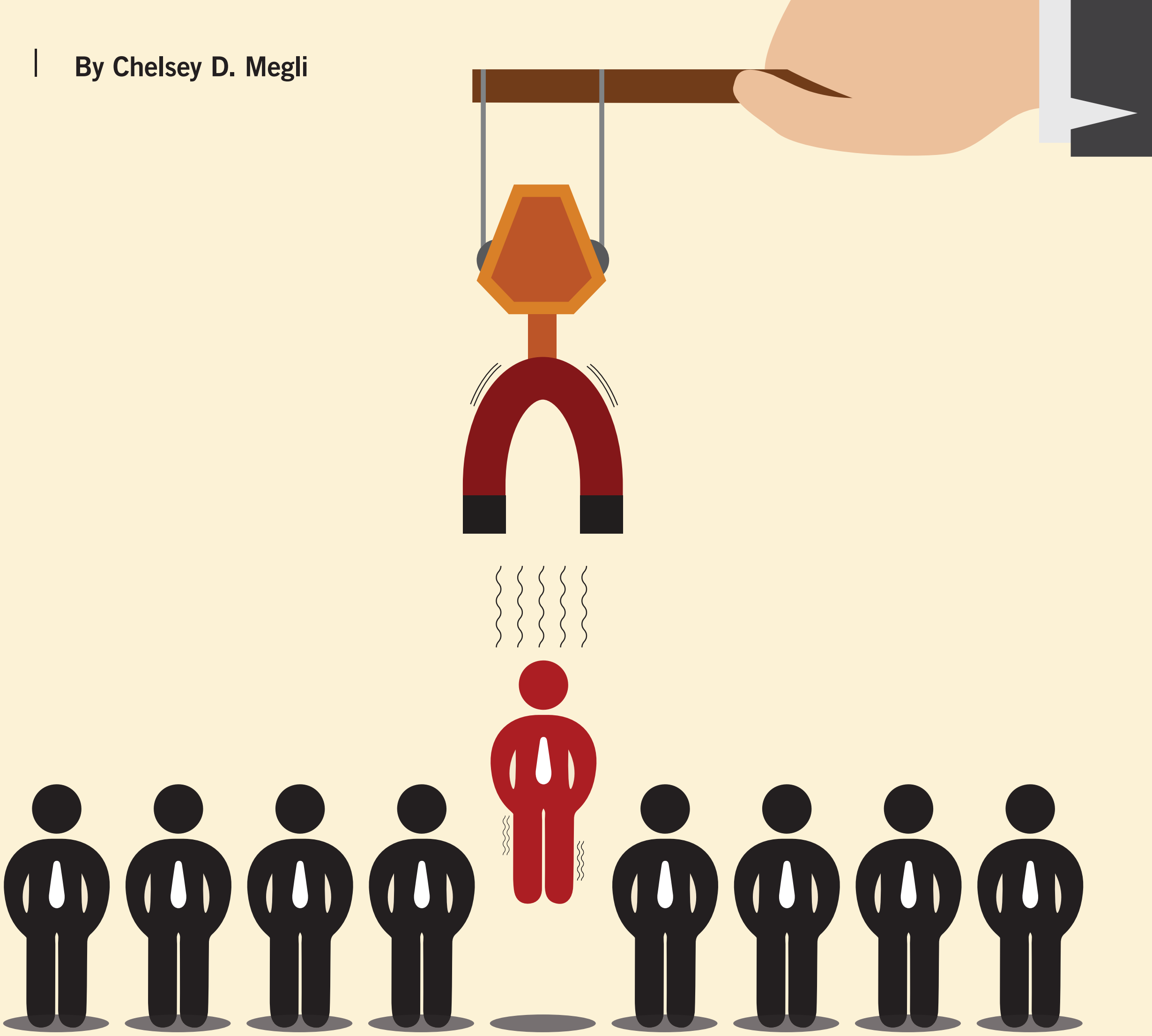
By Chelsey D. Megli



Finding and keeping good staff

The fundraiser talent shortage in health care philanthropy and what you can do about it

In an environment of evolving legislation and economic uncertainty, health care institutions are becoming ever more reliant on fundraising—to expand facilities, support new research and technology, increase medical services and reduce costs to patients and families. Many hospital and health system CEOs have elevated development as an institutional priority, setting ambitious goals for gift income and fundraising campaigns.

To meet these goals, many health care development shops are actively seeking to hire additional fundraisers. But it's becoming more difficult to fill these positions with experienced development professionals because demand for talent has increased much more quickly than supply. Kristine Laping, senior vice president of development at Beth Israel Deaconess Medical Center in Boston, said in a recent interview, "There's just not enough high-quality talent to fill all the positions that are open at any time."

To complicate the situation, institutions are struggling to retain their top people, because established fundraisers with proven solicitation success frequently have opportunities to switch positions. Laping continued, "There are a lot of nonprofit hospitals and academic medical centers [and they] are under increasing financial pressures and relying on philanthropy…. Everyone will have the same idea and be looking for terrific people."

For foundations and development shops looking to quickly expand their teams, the current climate is challenging. But fortunately they have a key resource at hand to help them meet their goals: their current employees, many of whom are eager to grow and develop into vital contributors and fundraising leaders. This article briefly examines the current talent shortage in health care philanthropy and shares a few ideas development shops can use to recruit and retain high-quality staff. It then focuses on strategies and best practices to help the people already on your team grow and mature into proficient, effective fundraisers.

The current talent environment

Our firm recently conducted a benchmarking study of seven university-related, urban medical center development offices. It's a microcosm of the industry, but the trends we observed seem to be widely applicable. Virtually all respondents were conducting major campaigns (in both quiet and public phases), with 43 percent actively hiring and looking to significantly grow their programs. Only 25 percent of frontline fundraisers had been at their institution for more than five years, and 57 percent of the institutions had launched a new leadership retention strategy in the past 18 months.

From our experience working in the development field, we've also observed other factors contributing to the current shortage. As the baby boomer generation reaches retirement age, many expert fundraisers are exiting the field. Health care shops looking to hire are competing with other nonprofits for talented people. And recruiting and hiring can be a complicated, time-consuming process. Often shops must navigate complex internal bureaucracies and conduct extensive search processes

Virtually every development shop has people with untapped talents. To keep team members engaged and enthusiastic, they need to regularly provide opportunities for growth.

with recruitment firms, which might include vetting more than one round of candidates. And even after a successful hire, it takes time to acclimate a new person to the institution and team. Development is a relationship-based process; even an experienced new staff member may require 12 to 20 months to build his/her portfolio and bring in consistent gift income.

Top talent driving gift income

In addition, many organizations aren't just searching for experienced development staff; they are competing for a limited number of fundraising superstars. In general, we tend to assume that performance falls on a bell curve. That is, we expect a few people to excel, a few to fail and most to perform in the middle "acceptable" range. But for top frontline fundraisers, the data tell a different story. In another in-house study we conducted of nine institutions, including children's hospitals, community hospitals and academic medical centers, our results show that 60 percent of gift income is generated by the top 25 percent of fundraisers—with more than half, on average, coming from the top two individuals. In each case, there was a big drop in portfolio performance between the top fundraisers and the next tier, regardless of portfolio size and capacity. According to a senior vice president at one of the benchmarked organizations, "We are focusing on [finding and] rewarding the top performers, [who] aren't necessarily those who have been here the longest or have the most experience."

Ideas for recruitment

In our experience, titles, core responsibilities and salaries remain relatively consistent for fundraising positions. So what makes some institutions particularly appealing? Factors such as size and location can be important, and shops sometimes offer incentives that include moving costs, services to help people adjust to a new area (including information about neighborhoods, schools and other local resources) and even financial bonuses for relocation.

But many people considering new positions are interested in less tangible things. They want to know, for instance, whether a shop has the reputation of being a good place to work. Health systems and universities sometimes release staff evaluations to the public, and high job satisfaction ratings may make institutions stand out. Benefits such as flexible work schedules; supportive systems for maternity, paternity and family crisis leaves; and excellent health care are other elements that can make jobs attractive.

In addition, potential hires may ask whether team members feel they are making a valuable contribution to the larger organization's mission, or they may want to have input on job processes and culture. We will discuss specific ways to help employees feel valued in the next section on retention.

Beyond making a position appealing to applicants, the most effective development shops are proactive about searching for talent. One strategy is to network and build relationships with local and regional development leaders. Identifying candidates you might like to add to your team and planning how to approach them means that when the time comes to post a job, your shop will be better prepared. If you've identified and thought about how to appeal to the top performers in your area, you are more likely to know where to look for talent, you have identified some fundraising "stars" and you are prepared to put together the most attractive recruitment package. Being proactive also makes it less likely you will need to repeat a candidate search or hire someone who is not a good fit.

How to increase retention

Development shops are always searching for good ways to reward and retain talented individuals. Offering financial bonuses is one common strategy; in our benchmark survey, 67 percent of institutions provided incentive pay for employees who met either team or individual goals. Because turnover during a big fundraising initiative can be especially detrimental, one academic medical center launched a creative campaign retention program: Fundraisers were able to earn performance-based bonuses during the campaign, but were not able to collect them until the campaign concluded.

Other organizations focus more on professional development and career opportunities. This might include providing training and education, sending people to conferences and networking events and giving them new supervisory responsibility or higher-level positions within an organization. "It is a very competitive market and I think it's going to get more competitive," says Arthur J. Ochoa, Esq., senior vice president and chief development officer of Los Angeles' Cedars Sinai Medical Center. "The organizations that have the resources to pay, train and provide a career ladder are going to be competing with one another in a more pronounced way than [ever before]."

Giving team members ownership and the means to contribute within the shop is another way to build loyalty. People often have good ideas, but become discouraged because there are no clear pathways to propose or implement them. Leadership might offer a regular slot for team members to make suggestions during staff meetings, for instance, or give them an opportunity to pilot a plan to improve program inefficiencies. It's important, however, to make sure these efforts are perceived as valuable. For example, deciding to sponsor six peer-led workshops per year may look good on paper, but it can be counterproductive if people are not preparing well and taking them seriously. Make sure team members are giving feedback about how things are working, adjust curriculum accordingly and always provide ongoing evaluation and follow-up.

Sometimes great talent will leave an institution not because of a title, pay issue or professional opportunity, but because the work environment is not seen as positive. It can be difficult to identify issues that are causing dissatisfaction because they can be different for each individual. But in our work, we find that staff dissatisfaction with office culture seems to fall in three categories: There is a perception that development work is not valued by the institution, team dynamics or management are seen as toxic or there is insufficient access to and support by management. To address and prevent these issues, it can be helpful to have regular team and individual evaluations and strategy sessions where people can express concerns to leadership or to a neutral facilitator.

Often, issues arise because a department's leaders are not communicating effectively. Those in supervisory roles are usually promoted based on their fundraising performance, and someone who is an excellent fundraiser may not necessarily be trained in the "soft skills" he or she needs to manage and grow a team. Leaders need to be proactive about their own training so they can affirm and support staff members and provide helpful feedback.

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Developing talent from within

Virtually every development shop has people with untapped talents. Kristine Laping is committed to "growing her own" whenever possible. "Several of my strongest fundraisers started in roles that weren't frontline fundraising," she says. "But [they] demonstrated amazing initiative and skills with donors and medical staff."

To keep team members engaged and enthusiastic, shops need to regularly provide opportunities for growth. "Talented people need and want a pathway," says Ochoa. Organizations such as AHP offer venues for public speaking, trend and data reporting and professional networking, as well as workshops and other training and development opportunities. Making resources like these available to staff demonstrates that the organization is invested in them and gives team members a chance to learn and collaborate.

For Laping, Ochoa and many others, mentoring programs are perhaps the best tools for training new fundraisers. "You can't teach fundraising from a book—it needs to be learned on the job," says Laping. Mentors are usually experienced staff members or external leaders in the field who counsel less-experienced colleagues, gradually helping them build relationships and confidence with donors and develop leadership and strategic thinking skills.

Some shops offer structured resources, such as workshops, training and orientation, for less-experienced employees and new hires. These can be very valuable, but "learning by doing" may be even more so. Shadowing experienced fundraisers during meetings with prospects or sharing one-on-one strategy planning and recaps can be invaluable to young talent. Mentors and other experts might help developing staff practice communication techniques, formulate plans to evaluate competencies and performance, conduct mock sessions with donors or work on other skills to help them get to the next level.

Mentors also can provide a safe space for novice staff to discuss concerns and questions. A mentee may feel uncomfortable revealing insecurities in the larger office, and it can be reassuring to have a trusted person with whom he or she does not have to be concerned about looking professionally weak. These relationships allow staff to feel supported as they take on greater responsibility and develop into more confident fundraisers.

Another idea to develop talent and build your team is to foster an atmosphere of ongoing skills building across the office. Low discovery results? Set up training for fundraisers to practice and build cold call skills. Database difficulties? Take the opportunity to regularly teach and reinforce new shortcuts or ways of reporting. Learning is one of the most powerful sources of employee and team engagement, and it greatly contributes to job satisfaction for all team members.

In addition, leaders need to help less-experienced staff learn to measure their own performance. Almost all shops have team and individual goals in place, and the most effective shops clearly communicate those goals (and the metrics behind them, such as number of visits, gift income secured, contacts/collaborations with physicians, etc.) and provide benefits and rewards to top performers. These rewards may be financial bonuses, as well as increased independence and flexible work, ownership of a project, some sort of recognition or award, a team celebration, etc. Metrics can help team members track their own successes and become more aware of how they are contributing to shop and organizational goals; they also can be used to encourage changes in behavior that improve performance.

In conclusion

How well development shops manage and grow their fundraisers will continue to be vital to their overall philanthropic success. Although high demand for new hires and staff turnover pose significant challenges, they can be mitigated through strategic recruitment, creating a supportive office culture and focusing on your own staff's untapped talents. If staff members are given opportunities to develop and build skills and confidence, they are more likely to feel engaged and proud to be doing good work. And that means you may see not only boosts in satisfaction and effectiveness, but also many more successful donor stories. AHP

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Getting over the overhead myth

Nonprofits must get to a place where they are comfortable with organizational overhead, and where donors and the public see it as just one part of the philanthropy equation

Forward Thinking
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Running a successful business without qualified employees and adequate supplies sounds absurd in the corporate world. But many people who donate to nonprofits have the notion that charities should do just that—operate with very little overhead expense. Equally frustrating is the fact that nonprofits often are judged solely by the dollars that they spend on administrative costs. It's what nonprofit leaders refer to as the "overhead myth" and it's been plaguing charitable organizations for years.

Creating and dispelling the myth

The reason this misperception exists in the first place is multifaceted. Jacob Harold, president and CEO of GuideStar, the largest database of information about U.S. nonprofits, says there is plenty of blame to go around when deciding who's at fault for creating the idea that overhead is the most important metric to consider. Donors and nonprofits both are part of the equation.

"People have used many ways of evaluating nonprofits to make philanthropic decisions—personal inquiries, expert analysis or programmatic data," explains Harold. "But often people have tried to find something simple, a proxy that can be a shortcut. And unfortunately, many have looked to the overhead ratio as a proxy for performance, which it really isn't."

Ironically, some experts say that the very entities who are negatively affected by the overhead myth are partially to blame for the problem. The idea that low overhead is a must for nonprofit groups has been somewhat perpetuated by the underreporting of financial overhead information by charitable organizations. A study by the Bridgespan Group showed that almost 13 percent of operating public charities reported that they spent nothing for management and general expenses.[1]

Charities who do accurately report, however, have reinforced the importance of the overhead ratio by constantly referencing it, adds Harold. "One billion pieces of direct mail a year have the overhead ratio prominently displayed, so of course donors think that it's a valid metric. I don't want to say that these numbers aren't relevant. They are one of many metrics, but they don't say anything about effectiveness. They may say something about efficiency, but they don't tell us about results. And ultimately, sometimes nonprofits have to invest in themselves in order to achieve those results."

In an attempt to refute the public's idea that the best way to evaluate a charitable organization is by considering the amount it spends on overhead, the Overhead Myth campaign was created. Harold and GuideStar have teamed up with the leaders of the BBB Wise Giving Alliance and Charity Navigator on the initiative and have written an open letter to donors. The message urges people to look at factors beyond overhead when choosing to support a nonprofit, and asks donors to consider transparency, governance, leadership and results when judging the performance of an organization. Additionally, the campaign expresses the necessity of a charity's overhead. As a way to simplify the explanation for donors, it compares sustainability expenses to a family's electric bill and the cost of improvements to college tuition.

Investment is necessary for success

The fact is, adequate investment in overhead is necessary for growth and imperative for any successful business—including health care development organizations. Investing in a strong infrastructure is an obvious necessity and an essential tool for maintaining sustainability and success as a nonprofit organization. A less-than-solid infrastructure can lead to such problems as poor financial management, high employee turnover and inadequate computer systems—all concerns that can ultimately affect a nonprofit's ability

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>
> —Jacob Harold, president and CEO, GuideStar

to carry out its mission.

As emphasized in "The Nonprofit Starvation Cycle," an article published in the *Stanford Social Innovation Review*, "organizations that build a robust infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes and other essential overhead—are more likely to succeed than those that do not." The article goes on to explain that "both board members and managers should focus on how investments in infrastructure will benefit the organization's beneficiaries, rather than reduce costs. Even within the confines of a 'cost conversation,' they should emphasize how infrastructure investments may actually reduce costs of serving beneficiaries over time."[2]

This is certainly evident in AHP's evaluation of high performing health care development organizations. Every year, AHP analyzes data submitted by organizations participating in its Performance Benchmarking Service and defines high performers as those in the top 75th percentile for net production. In its FY 2011 benchmarking report on fundraising performance, AHP notes that on average, high performers compensated their direct staff members at higher levels than all other benchmarking participants. The high performers also dedicated more professional staff to high-return programs such as major gifts, planned giving and public support. Additionally, AHP high performers provided adequate FTE professional coverage for each of their fundraising programs—major giving, planned giving, annual giving, special events and public support.

These types of investments resulted in a substantially higher median net fundraising revenue: the AHP FY 2011 benchmarking data shows that those organizations that spent the most on total fundraising expenses ($2 million-$4.8 million) had a median net fundraising revenue of $9 million—substantially higher than the median net fundraising revenue of $561,000 for those that spent the least on total fundraising expenses ($59,000-$428,000).[3]

"In high performing health care foundations, the extent of the investment in fundraising is much higher, with better investment in people that leads to more balanced programs," says Bill McGinly, president and CEO of AHP. "The tendency is to try to cut costs, but our data shows this approach is misguided. If you focus just on cost,

When looking at the best ways to measure and report on the effectiveness of programs, nonprofits should strive to do so in ways that are meaningful to donors. For nonprofit health care organizations, this means not just reporting on data, but also talking about the successes behind it.

you lose sight of your responsibilities. When people tell me they can't afford to make an investment, my response to them is that they can't afford not to."

Striking a balance

The old adage "it takes money to make money" might seem applicable here, yet our sources urge both nonprofits and donors to find balance when it comes to overhead and other measures of success.

"If you get too caught up in looking at overhead alone, you can actually get a very false picture," cautions Ken Berger, president and CEO of Charity Navigator, a company known for its now multi-layered approach to evaluating charities. "For example, just because a charity has a large share of its money going into programs and little money going toward overhead, doesn't mean it's a successful charity with good programs. It doesn't mean you have quality."

Paul Brest, of Stanford Law School and former president of the William and Flora Hewlett Foundation, agrees that low overhead costs could be misleading and problematic. "A very low overhead rate should be reason for scrutiny because it could mean one of two things: The organization is being untruthful about their overhead rate, which can happen a great deal when they try to please donors; or it could mean the organization is underinvesting in infrastructure, which will come back to haunt them in the long run."

On the other end of the spectrum, Berger is concerned by proponents of the notion that it doesn't matter what you spend on overhead as long as you have great results. "We're trying to get to a place that's a reasonable middle ground," he says.

Berger and his colleagues at Charity Navigator recommend that donors look at what he calls the "three pillars" when considering where to give: 1) financial management; 2) accountability and transparency and 3) results. He stresses the significance of results, commonly referred to as "outcome" or "impact."

"Results are really at the heart of things," Berger says. "This is the most important of the three pillars, because if you can't show evidence that you are having meaningful results, then what are you there for? So the other two pillars—the governance and the finance—are support beams, because you have to have them. If you don't have good finances, then today's good results could mean nothing tomorrow. And if you don't have good governance, you could have ethical lapses. So, they're the supports and the key pillar is results."

Demonstrating impact

Showing results, or impact, is essential but not always cut and dry according to our experts. Harold says the diversity of nonprofits, even those within the same category, makes it difficult to point to any one metric to show results.

"Institutions that are serious about creating impact are tracking their performance, which doesn't necessarily mean that they have perfect metrics," he says. "Even within the context of one organization, we aren't looking for just one number that tells the full story. The work of social change and creation of social good is simply too complicated. But we do know that it's possible to have multiple metrics that make sense for a particular organization and that are aligned with the organization's strategy. I believe that there are many examples of nonprofits that are incredibly thoughtful about what they measure."

For nonprofit health care organizations, the time to show impact is now. In the wake of increased U.S. government scrutiny on the tax-exempt status of nonprofit hospitals, the need to demonstrate the positive effect a hospital has on its patients and community is more important than ever.

Bruce Bartoo, CFRE, senior vice president and chief philanthropy officer of MedStar Health in Columbia, Md., says "it's very hard for the average person to identify a difference [between for-profits and nonprofits] when they walk into a hospital or access care within a health care organization. It's very difficult to tell the difference of whether that institution exists to earn value for shareholders or exists as a service to the community as a nonprofit."

AHP asserts that few Americans are even aware of the differences between nonprofit and for-profit health systems, and fewer still understand that only about one-third of hospitals in the U.S. have a positive bottom line. If current or potential donors don't fully understand the huge role that philanthropy plays in their local health systems and community, then it's certainly time to relay the message.

Communicating this message can be a challenge not only for health care organizations in the U.S., but also for organizations within the Canadian health system. Maeve O'Byrne, president of Nanaimo and District Hospital Foundation in British Columbia, says that many people in her area might not understand the need to invest in their local health system. "People sometimes assume that is the government's job—that is what their tax dollars are used for," she says.

Bartoo's perspective is that, although it is very important to communicate with donors, people who make significant donations to health care philanthropy aren't always as concerned about an organization's needs as much as they are about investing in the community impacted by that organization. "Our best opportunity is to help facilitate the strong feelings people have about improving the health of their own families and their neighbors within their communities," he says. "And then facilitate for those people an ability to invest through our health care organizations to improve the health of the community."

"The hope is that nonprofit hospitals will really work harder to show evidence—meaningful results—on how they are different and how they are providing public good that distinguishes them significantly from for-profit hospitals," says Berger

Focusing on what's important

The knowledge of effectively demonstrating impact doesn't always come easy though. Brest confirms that there can be challenges associated with relaying impact. "There's sometimes a sort of vicious cycle in which organizations tell donors what's going to attract the donors, rather than focusing on what their deepest needs are," he says. "And sometimes, though not as often with hospitals, it's just really hard to show impact."

Harold agrees that a nonprofit's outcome reports shouldn't just be about donors. "It should be a situation in which every organization is trying to figure out what to track for its own effectiveness," he says. "So that's something that should go all the way up to the CEO, the chief medical officer or board of directors. The organization needs to consider how it should judge its own success and hold itself accountable for excellence—and that is the right number to share with donors."

For health care philanthropy groups, the temptation might be strong to focus on the cost to raise a dollar—a number that shows efficiency, but does not adequately measure effectiveness. As AHP highlights in its *Standards Manual*, an increased emphasis should be placed on net fundraising revenue, return on investment and actual achieved results. When looking at the best ways to measure and report on the effectiveness of programs, nonprofits should strive to do so in ways that are meaningful to donors. For nonprofit health care organizations, this means not just reporting on data, but also talking about the successes behind it.

Pamela Puleo, FAHP, CFRE, executive director of Concord Hospital Trust in Concord, N.H., emphasizes that point: "In terms of outcomes, we do report our efficiency in terms of cost to raise a dollar and return on investment to our donors—we let them know that we work very hard at being efficient. But more of the outcomes that we report to our donors are outcomes relative to what the philanthropic dollar has provided to the community—more programmatic outcomes. In Penelope Burk's book *Donor Centered Fundraising*, and from research that was reinforced by our own donor surveys on what our donors want from us, there are two things that are important: 1) knowing that the gift was used for its intended purpose; and 2) knowing the impact that their gift made."

"I like to refer to the two laws of nonprofit communications, which are no stories without numbers and no numbers without stories," advises Harold. "I think that when fundraising professionals at any type of nonprofit think about telling a story to donors, they have an obligation to have both stories about the impact they've created and quantitative metrics."

Sharing your stories

How to best tell those stories varies depending on the size and culture of an organization, as well as the needs of the community. "Knowing your community is really important in sharing your stories and knowing whether a story is going to resonate well with your donors," advises Puleo.

Although community benefit reports and newsletters are important platforms for delivering data and stories, many AHP members offer donors and staff up-close glimpses of the impact of their dollars with such things as open houses, donor luncheons with physicians and patient/donor videos broadcast around their facilities.

"We are all about stories because we have so very many examples of grateful patients and families who have partnered with us through a philanthropic investment," says Bartoo. "We capture those stories and we share those constantly throughout the organization. And we work hard to facilitate some sort of correlation between what some other person previously has done as the result of a great care experience they've had."

Beyond just talking to donors, listening also is vital, says O'Byrne. Her foundation began benchmarking about five years ago, and it also initiated a drastic overhaul of things based on that data along with feedback from its donors. "We did focus groups with donors about everything from our brand to what they would like to see more of. This was all done with the plan to raise $4 million at a time when the world was crashing around us," she says. Her system was successful in opening a new Emergency Department as a result of its investment in that campaign.

The hope within nonprofits is that they may reach a comfortable place with organizational overhead, and that it will be seen by donors as just one part of the equation when it comes to philanthropy.

Puleo sums it up well: "I do think there are some misaligned expectations relative to organizational costs and overhead costs," she says. "My experience has been that when it comes right down to it, the donor does want you to be efficient, but more importantly, what they want to know is that the gift they made was used well and that it made a meaningful difference." AHP

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Simpler is usually better

Comparing the impact of two planned giving vehicles on donors' estates, heirs and charities

Cultural trends impact every area of our lives. The cell phone or tablet you carry, the clothing you wear and the books you read are likely influenced by current trends. There are trends in the field of philanthropy as well—one example is how mobile technology and social media have transformed the methods nonprofit organizations use to interact with prospects and donors.

In our legacy and charitable estate planning work, we also see trends in planned giving. Recently, we have observed an emerging trend of consultants recommending that donors fund testamentary Charitable Remainder Unitrusts (CRUTs) with retirement assets to satisfy legacy gifts to health care institutions. Testamentary CRUTs are charitable trusts that provide income to heirs for a term of years. At the end of a trust's term, the remaining funds are given to a favorite charity or multiple charities. This emerging trend deserves some scrutiny.

In some circumstances, testamentary CRUTs funded with retirement assets are an appropriate choice for donors. But in most cases, donors can accomplish their goals of taking care of their families and supporting causes that are important to them with a simple bequest from a retirement asset, such as an Individual Retirement Account (IRA). In this article, we will compare two types of planned giving vehicles: the testamentary CRUT funded with an Income In Respect of Decedent (IRD) asset such as an IRA, and an outright bequest funded from a retirement account.

To illustrate the differences between the two planned giving vehicles, we've provided several examples of donors' estates. Two examples feature physicians. Although the giving options we discuss may be appropriate choices for many of your planned giving prospects, it is our experience that physicians often have up to 50 percent of their net worth in retirement plans (business owners, in contrast, typically have the majority of their net worth tied up in their companies).

Assessing the pros and cons of establishing a trust requires some expertise in tax law and a good understanding of a donor's intergenerational and philanthropic goals. But after reading this article, development officers should come away with enough knowledge to start a legacy conversation

SIDEBAR:

Comparing Two Planned Giving Vehicles

Bequest of IRA

ADVANTAGES

- Keeps estate plan simple.
- Tax-efficient vehicle to give to charity.
- No legal fees for donors to add charity as a beneficiary of a retirement asset.
- Donors can manage their philanthropic legacy (this portion) through a beneficiary designation change form.
- Charity receives its gift at death of donor(s) rather than 20 years after death.
- Significantly reduces estate and income tax liability.
- The amount of a donor's retirement asset going to heirs can be protected from spendthrift heirs in a testamentary trust to provide long-term income for them.

DISADVANTAGES

- Unless put in trust(s), heirs have access to retirement assets.
- Heirs may receive a small percentage less of inheritance.

Testamentary 20-Year CRUT

ADVANTAGES

- Protects IRD assets from spendthrift heirs.
- Provides long-term income to heirs.
- Heirs may get a small percentage more of inheritance over time.
- CRUT is a tax-exempt trust with tax-free growth.
- CRUT pays inflation-adjusted income.
- Modestly reduces estate tax liability.

DISADVANTAGES

- Charity waits 20 years after donor's death to receive gift; i.e., if donor is age 65 and lives 20 more years, then the hospital may wait 40 years for its gift.
- Does not reduce income tax liability.
- Much less impact on estate tax liability given the present value of the gift to charity.
- Reduced impact to charity due to present value of gift to charity.
- Legal fees to prepare CRUT document.
- Administrative costs of CRUT.

with donors and provide some ideas for them to consider.

Conversations with prospective planned giving donors

Before comparing the two vehicles, let's explore some areas that donors should consider before making a decision about planned gifts. A vital first step is to help your donors clarify their values and goals with regard to their family and philanthropic legacies. Planned giving vehicles can provide income and serve as family wealth management strategies, among other things, so it is important to understand exactly what donors want to accomplish.

A conversation might begin something like this: "Dr. Browne, we understand that you want to provide for your family first, and then make a meaningful gift to charity. We have some ideas that will help you accomplish both objectives."

An initial question to ask might be: "How much inheritance is enough for heirs?" Donors with small-to-medium sized estates (valued at up to $5 million) usually want to provide an amount that will make their heirs' lives more comfortable, help educate grandchildren, pay off a mortgage, etc. For wealthier donors, with estates valued at $5 million and above, it may be a more difficult question: "How much inheritance is too much?" In a recent study conducted by U.S. Trust, *2013 Insights on Wealth and Worth*, 67 percent of wealthy clients who responded said they do not believe their heirs have the financial maturity to manage wealth.[1] These individuals and couples, along with 61 percent of donors with whom we've worked, are concerned that too much wealth may be harmful rather than helpful. The prospect of giving a multiple seven-figure inheritance outright may create tension, and even fear, in the donor.

Another consideration is, how much inheritance should heirs receive outright versus in trust(s)? Once donors determine the amount or estate percentage they want to bequeath to their heirs, they need to make decisions about the timing of gifts, which assets to give and what estate planning vehicles should be used to transfer assets. Donors who fear their heirs will not manage an inheritance well often consider noncharitable and charitable trusts.

Finally, what are the assets and vehicles through which donors can satisfy their philanthropic legacies, and what should be the timing of the gift(s) to nonprofit institutions? Most donors want their impact on their favorite charity to be as significant and timely as possible. Therefore, donors usually prefer a legacy strategy that provides for the nonprofit organization at their death.

Sample scenarios for planned giving

Let's compare a few actual planning scenarios and the impact each vehicle would have on donors' estates, heirs and charities.

Mr. and Dr. Browne have a $6.4 million estate, of which $1.8 million is in her IRA. The Brownes have consistently given to the hospital where she practices and they want to leave a legacy in support of a specific program. They decide to bequeath her IRA outright to charity, and their heirs receive the balance of the estate free of income and estate tax based on current tax law. Under this arrangement, their heirs still receive a consequential inheritance of $4.6 million and the foundation receives a bequest of $1.8 million. The income tax liability from the IRA is eliminated since the Brownes are giving the asset to charity at the death of the surviving spouse. They can satisfy their philanthropic legacy through her IRA by simply completing a beneficiary designation change form (many retirement plan administrators, such as financial institutions, have an online option). The strategy is simple and meets the donors' family and financial legacy objectives.

Dr. and Mrs. Powell's estate is a bit more complex and is valued at

$14.8 million, of which $8.8 million are in his retirement assets. They too have consistently given to the hospital where Dr. Powell practices and have decided on a testamentary gift of $3.7 million. The Powells' trust documents direct their executor to fund a testamentary 20-year CRUT with $3.7 million from his retirement accounts; the documents also name the heirs as the income beneficiaries and the hospital foundation as the remainder beneficiary. Heirs will receive a large inheritance outright at their parents' deaths and a stream of income from the CRUT for a 20-year period of time.

However, the Powell's tax liability under this scenario is significantly higher than if they had chosen a simple bequest, since the remainder value of the CRUT that passes to charity is significantly less than the value of the outright bequest. This is because the charitable deduction for estate tax purposes is based on the present value of the remainder interest in the trust, which will be distributed to the charity at the end of 20 years. Therefore, the gift to charity has minimal impact on the Powell's estate tax liability. Equally as important, the hospital foundation will not receive its gift for 20 years after the Powells are deceased.

In our third scenario, the Johnsons have a net worth of $3.4 million. Mrs. Johnson is a grateful patient; she was successfully treated for breast cancer at her region's leading medical center and the couple wants to make a $400,000 gift to express their appreciation and support. They choose to bequeath assets from IRAs to the medical center, which is the simpler (and better) option for them.

The sidebar below provides a comparison of the two planned giving options in current dollars and percentages and present values and percentages. When donors consider the option of a bequest to charity from an IRA versus a testamentary CRUT funded with the same asset, most choose the bequest even though heirs might receive a little less inheritance over time. Many donors recognize that over a 20-year period of time, a modest amount of additional income from the CRUT will not have a significant impact on their heirs' financial situations. And importantly, most donors do not want an institution to receive its gift two decades after their death.

SIDEBAR:

Two Planned Giving Vehicles: Impact on Estates

BROWNES' ESTATE

	Bequest of IRA	Testamentary 20-Year CRUT
Taxable estate	$6,400,000	$6,400,000
Beneficiaries' share	4,600,000 *72% of taxable estate*	5,300,000 *83% of taxable estate*
Income tax liability	000 *0% of taxable estate*	450,000 *7% of taxable estate*
Charity's share (present value)	1,800,000 *28% of taxable estate*	660,000 *10% of taxable estate*

POWELLS' ESTATE

	Bequest of IRA	Testamentary 20-Year CRUT
Taxable estate	$14,800,000	$14,800,000
Beneficiaries' share	8,900,000 *60% of taxable estate*	9,400,000 *63% of taxable estate*
Estate & Income tax liability	2,200,000 *15% of taxable estate*	3,100,000 *27% of taxable estate*
Charity's share (present value)	3,700,000 *25% of taxable estate*	1,400,000 *9% of taxable estate*

JOHNSONS' ESTATE

	Bequest of IRA	Testamentary 20-Year CRUT
Taxable estate	$3,400,000	$3,400,000
Beneficiaries' share	3,200,000 *88% of taxable estate*	3,100,000 *93% of taxable estate*
Income tax liability	000 *0% of taxable estate*	100,000 *3% of taxable estate*
Charity's share (present value)	400,000 *12% of taxable estate*	150,000 *4% of taxable estate*

(Calculations based on donors' current net worth. Assumes an estate tax rate of 40 percent and ordinary income tax rate of 39.6 percent. All numbers were rounded up or down to simplify the chart.)

When should a testamentary CRUT funded with retirement assets be considered the better choice? The testamentary CRUT could be a viable option for donors who do not want heirs to receive any part of their inheritance in a lump sum. However, these donors are the exception rather than the rule; our firm has recommended this vehicle only twice in the last five years. In the vast majority of cases, this type of testamentary CRUT adds an extra layer of complexity to a donor's estate with no significant benefit.

The sidebar on page 33 lists the advantages and disadvantages of each planned giving option.

In conclusion

Bequests remain a popular option for donors, in part due to their simplicity. A bequest of retirement assets can provide a meaningful inheritance for heirs, meet all or part of donors' philanthropic legacy goals and assure that nonprofit institutions receive their gifts at the death of the donor rather than decades later. Although a testamentary CRUT funded with retirement assets may be useful in a small percentage of giving scenarios, in most cases, a simple bequest of those assets remains a more straightforward choice for donors.

Reference

1. U.S. Trust, Bank of America Private Wealth Management. *2013 Insights on Wealth and Worth.*

Wm. David Smith, founder and president of Heaton Smith Group, LLC, provides legacy and charitable estate planning services to nonprofits. Smith's work helps donors fulfill their legacies and nonprofit clients achieve their missions. He has more than 20 years of experience in the nonprofit sector that includes health care, arts and culture, religion and education.

More than Bricks and Mortar, a Community-Funded Cancer Center

Providing Hope and Healing, Close to Home

Upper Chesapeake Health Foundation — Bel Air, MD

CCS is proud to have partnered with The Upper Chesapeake Health Foundation to design and implement *Hope and Healing Close to Home: The Campaign for the Cancer Center at Upper Chesapeake Health*. The comprehensive campaign raised more than $19 million on an initial $15 million goal in two years, and focused on the establishment of the Patricia D. and M. Scot Kaufman Cancer Center at University of Maryland Upper Chesapeake Health Medical Center, the enhancement of oncology services, and the establishment of an endowment fund to further community outreach of the Cancer LifeNet supportive programs. More than a campaign name, *Hope and Healing Close to Home* has truly allowed the medical and supportive services team at Upper Chesapeake Health to provide world-class cancer care to every member of the local community.

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