PLANNED GIVING FOR CLUBS

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PART TWO IN A SERIES ON CLUB PHILANTHROPY

Planned giving in the private club environment has historically not been a major source of revenue for clubs. This is beginning to change as a club realizes that some of its members pass away leaving large estates. The club does not receive a bequest even though it is well known that the club was a very significant part of the member's life. In many cases this typically happens merely because the member was never encouraged to remember the club in their estate plan.

In this second article in *Club Director's* Philanthropy in Clubs series, we will provide an overview of the opportunities that exist for clubs that establish a planned giving program along with some practical ideas about how to get started and how to ensure the success of the program.

Q & A for Planned Giving Programs

PLANNED GIVING FOR CLUBS

What is a planned gift?

A planned gift is any gift that is part of a donor's estate plan, whether it is given during the donor's lifetime or upon the donor's death.

What is a planned giving program?

A planned giving program is an organized effort to encourage club members to include the club or one of its foundations in their estate plans.

Do many clubs currently have a planned giving program?

- Most clubs do not have a formal planned giving program.
- Even foundations associated with clubs may or may not have a formal planned giving program.
- Some clubs have a "phantom" planned giving program, which means that it is not formalized and not promoted assertively, if at all, by either management, the board or the members. The essence of such a program is that there is the *hope* that members will remember the club or one of its foundations in their estate plans. Such a program is typically not very successful.

Do clubs need a planned giving program?

Not necessarily, especially if one or more of the following is true:

- Your club has so much money that there is no need for another source of revenue.
- Your club is already sufficiently insulated from "black swan" phenomena. Such a phenomenon can be defined as "an unexpected, unearned or sudden loss or disadvantage." A good example of a black swan phenomenon is the current shutdown resulting from the COVID-19 pandemic.
- Your club does not want to be bothered with another program to manage, no matter how lucrative and beneficial it could be to the club.

How can a club benefit from a planned giving program?

It can provide an additional revenue source, beyond the typical sources:

- Dues
- Operating revenues
- Initiation fees
- Capital fees
- Assessments

A planned giving program can generate revenue which can be very significant. Such revenue can be viewed as a "windfall," which can be defined as "an unexpected, unearned or sudden gain or advantage,"—the opposite of a black swan phenomenon.

What are the advantages of establishing a foundation as part of the planned giving program?

- Gifts to the foundation during the donor's lifetime are deductible for income tax purposes
- Gifts to the foundation after the donor's death are deductible for estate tax purposes if the donor's estate is in excess of $11.58 million (the current exemption level).
- A foundation is able to offer certain tax-favored opportunities to donors, such as charitable gift annuities
- A foundation has a specified mission and the fundraising can therefore be focused on that mission, providing assurance to donors that their donations will only be used to further that mission

What are the disadvantages of establishing a foundation as part of the planned giving program?

- A clearly defined mission and case statement must be developed and adhered to regarding expenditures
- The activities of the foundation must benefit the public and not merely the club, as the IRS wants to see a broad public interest served
- Private inurement—the club or individuals benefiting from the activities of the foundation—must be avoided
- Professional fees will likely be incurred to set up the corporate entity
- A foundation board must be formed and regular board meetings held with minutes kept
- The IRS must determine that the entity is exempt from federal income tax as a 501(c)(3) public charity and qualified to receive tax-deductible bequests and gifts, possibly requiring professional fees to be incurred
- The foundation must comply with governmental regulations
- The foundation must file annual tax returns
- The foundation should generate public support, which can be from members
- Once a gift is made to the foundation, it must be used in accordance with the IRS-approved mission of the foundation. The gifted assets cannot be returned or transferred to the club. This is true even upon dissolution of the foundation, in which case the assets must be distributed to another 501(c)(3) organization.
- The foundation and the club may be at cross purposes as to what is needed by the club

A club can take steps to set itself up for future windfalls by establishing a planned giving program.

Does a club need to set up a foundation in order to have a planned giving program?

No. If there is no foundation, any planned gifts can be made directly to the club, which would typically be a 501(c)(7) entity.

What is a foundation?

A foundation for purposes of this discussion is a legal entity that has been recognized by the Internal Revenue Service (IRS) as a not-for-profit 501(c)(3) public charity.

How can a club use a planned giving program to establish a traditional endowment or a de facto endowment for the club?

Traditional endowments are segregated funds created by one or more contributions that are intended to be held as a permanent fund and invested. The investment income generated from the corpus is then made available for use by the club for whatever purposes have been designated. Sometimes endowments are initially established by a planned gift or gifts of some magnitude as a beginning corpus on which to build.

In some cases, a donor may make a planned gift and restrict the use of the investment income or the corpus itself to a specified purpose or project. Alternatively, the club board may direct unrestricted gifts from donors to become part of the club's endowment funds and/or designate a donor's unrestricted gift for a specific purpose.

Like an endowment, some clubs have set up special segregated funds as a means of encouraging member contributions and planned gifts for specific projects, particularly capital improvement projects.

Another approach that is sometimes used is when a planned gift is received, a formula pre-approved by the board is applied to the allocation of the gift. For example, 50% of the gift received might be set aside to fund the club's endowment, another 25% might be set aside to fund capital improvements, with the remaining 25% going to fund special projects or operations.

What is a de facto endowment?

With a traditional endowment, the corpus is normally preserved and only the investment income that is generated is spent by the entity, in this case, the club or a club foundation. Typically, a set percentage (e.g., 5%) of the corpus is spent each year. If the endowment funds can be invested to earn more than the spending percentage, the value of the corpus can grow and therefore the annual amount available for spending will also grow.

If a club is able to establish a successful planned giving program in which a relatively large number of club members have named the club or a club foundation in their estate plan, the club can eventually get to the place where it routinely receives several planned gifts every year as members pass away. Obviously, such planned gifts will be of varying amounts but collectively they can total to a significant sum. This sum can be viewed as the amount that might be made available to the club had there been a traditional endowment in place.

For example, if after having its planned giving program in place for several years, a club may get to the point where in an average year $100,000 is received from members who had remembered the club in their estate plans. Assuming a typical spending percentage of 5%, the $100,000 received would be equivalent to having a traditional endowment with a value of $2 million. Thus, the club can be said to have created a de facto endowment as a result of establishing a successful planned giving program.

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What are the key factors that contribute to the success of a planned giving program?

Goodwill—Members must have positive feelings about their club and the benefits it has afforded to them and their family in order for them to consider naming the club or a club foundation in their estate plan. Therefore, anything that can be done to make the members feel happy and appreciative to the club is helpful.

Awareness—It is important to work at raising the awareness among the membership that the club desires and invites its members to remember it in their estate plans. Members should be reminded regularly through various communications that participating in the club's planned giving program can help them leave a legacy at the club they have come to love and enjoy and at the same time ensure that the club will survive long term and continue to thrive.

Appreciation—In various ways members should be made to feel appreciated, especially when they do something for the club, including gifts of one type or another. Thanking members in a timely and creative way can go a long way toward building goodwill and increasing the likelihood of more gifts and inclusion of the club or a club foundation in the member's estate plan. It is not possible to thank members enough for their gifts.

Ask—Members need to be explicitly asked to consider putting the club or a club foundation in their estate plans. Asking can be done in various ways, including periodic mailings, communications in the club's magazine or newsletter and face-to-face meetings.

Attention to the program—The more attention paid to the program by management and the board, the greater the likelihood of success. Someone in the organization needs to be assigned responsibility for managing and working the program. This person can be an employee or a member of the club or perhaps a committee, but the important thing is for the program to always be attended to on a consistent basis.

How can a club use a legacy society to support and enhance a planned giving program?

A Legacy Society is a special "club" for members who have included the club or a club foundation in their estate plan. This program provides a way to honor and recognize these members through special benefits such as:

- Name displayed on a plaque in the clubhouse
- Legacy society pins
- Periodic receptions and dinners
- Invitations to special events
- Annual appreciation letter from the club president

Continued recognition solidifies the member's commitment and typically leads to more and greater gifts.

Numerous planned giving vehicles can be suggested to members including wills and trusts, codicils to amend an existing will, beneficiary designations, payable on death (POD) bank accounts, transfer on death (TOD) deeds, and charitable gift annuities (if there is a foundation).

How can a club create a member-driven Planned Giving Advisory Council to assist members with their estate planning?

A Planned Giving Advisory Council can be a very effective tool in helping members with their estate planning. This council should

Key Concepts about Planned Giving for Clubs

- Virtually every club can benefit from a planned giving program.
- It is not necessary to set up a foundation to have a planned giving program.
- Gifts to a foundation during the donor's lifetime are deductible for income tax purposes.
- Gifts to a foundation after the donor's death are deductible for estate tax purposes.
- Gifts to a foundation must be used by the foundation to pursue its charitable purpose.
- If an unrestricted planned gift is made to the club rather than to a foundation, the board has total discretion over how the gift will be used.
- Once established, a planned giving program can be operated in a very cost-efficient manner.
- In order to be successful, a planned giving program must itself have a plan that is worked by either management or members.
- A planned giving program can be used to establish an endowment for the club or to fund special projects designated by the board.
- A planned giving program typically has a long incubation period; but the steps taken today and over time can pay off significantly in the future.
- It is never too late to begin a planned giving program.
- Where there's a will, there's a way.

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be comprised of club members who are attorneys, CPAs, financial planners, insurance brokers and money managers.

Types of assistance provided by the council:

- Wills and trusts
- Tax planning
- Portfolio management
- Insurance

The goal of the council is to provide a mutually beneficial network for the members, the council members and the club

- Council members are club members who are pre-qualified professionals who can gain new clients from the membership and provide advice to club members in their personal capacity and not as a representative of the club. It is imperative that the club not be seen as giving tax or legal advice.
- Club members are provided access to professionals they can trust
- The club or a club foundation benefits as the council members encourage club members to include the club or a club foundation in their estate plan. CD

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