DONORS FOR LIFE

Establishing a life-insurance-based endowment program can help raise money, as well as expand donor bases.

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Americans contribute more than $150 billion to nonprofit institutions each year. Emphasis traditionally has been on cash campaigns to cover overhead, short-term institutional growth and ongoing programming. However, emphasis on cash generation now is shifting to a more balanced concentration on fundraising with long-term endowment campaigns.

This is prompted by such factors as recent economic swings, the real need to protect long-term institutional viability through endowment, and the soaring cost of supporting quality programs. As a corollary, nonprofit institutions are seeking ways to expand their donor bases—some are using life-insurance-based programs to fund their endowments.

HOW IT WORKS

Life-insurance-based endowment funding assists education institutions in a number of ways, such as by tapping pools of potential donors through an organized fundraising campaign. This method results in a completed program that immediately establishes an ultimate endowment fund, and creates an immediate financial asset that has the flexibility to provide funds for current and long-term needs.

At Asbury College, Wilmore, Ky., officials wanted to increase endowment, yet maintain the basis of current giving support.

"We began our life-insurance-based endowment program at Asbury College with a $3 million goal in mind," says David Lalka, former vice president for institutional advancement. "We explored several avenues to achieve that goal, but found that the life-insurance-based package had the excitement to entice our donors to achieve the challenge of the $3 million goal."

A life-insurance-based endowment program at Central Michigan University, Mount Pleasant, has helped secure donation commitments from 30- to 50-year-old prospects.

Donors also benefit from this type of funding. They can create a significant endowment gift with relative modest charitable contributions, and deduct contributions paid directly to nonprofit organizations from their taxes. They also can create an endowment gift with a single payment or through five yearly contributions, and receive major recognition for their ultimate endowment gift.

Colleges and universities now are using life-insurance-based endowment funding to tap one of their natural constituencies—alumni who are mid-range donors and who generally contribute $500 to $2,500 to their alma maters.

This appeals to trustees at a growing number of schools be-

cause life-insurance-based endowment programs can increase bequest commitments to institutions substantially by enabling alumni to bequest larger amounts than with other approaches. For example, an alumnus can make a $50,000 bequest with an investment of just $11,000. This helps to build an endowment base by attracting more donations from alumni who generally contribute smaller amounts to their schools.

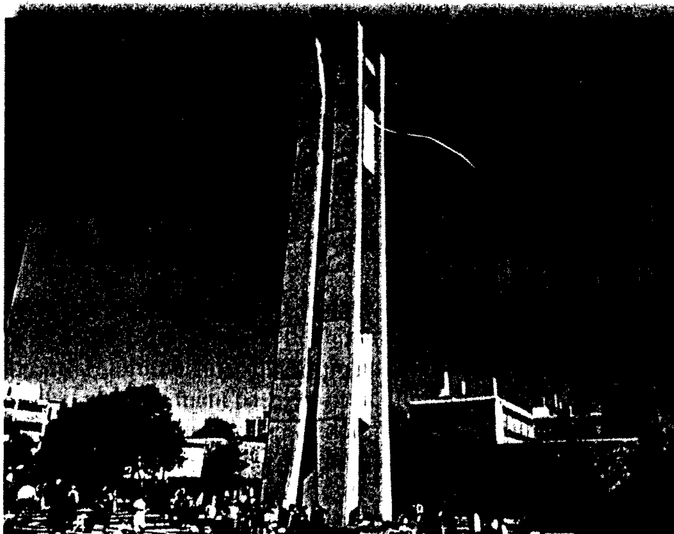
"Prior to that [life-insurance-based endowment] campaign, most of them [donors] were only giving $200 to $300 a year," says David Hoag, former director of advancement/manager for Asbury's Second Century Campaign. "But this program was able to enhance their stewardship. Ninety-seven percent of the participants in the program gave their largest commitment to Asbury during the campaign."

Surveys show that life-insurance-based endowment programs help attract new donors who make larger contributions.

Attracting donations

Donors who participate buy no insurance; instead, they make tax-deductible charitable contributions to their colleges and universities. The institutions then use these contributions to purchase life insurance on the donors. The institutions own the policies and are the beneficiaries.

A life-insurance-based endowment program attracts funds because this method has all the qualities of an effective fundraising program. There are specific objectives and prospects, a defined constituency, standards of giving, and a campaign plan with a timetable and deadline. The effort also includes a campaign organization, effective leadership and specific recognition of donors for their endowment commitments.



A structured funding effort was one factor that led Temple University, Philadelphia, to explore a life-insurance-based endowment program.

Central Michigan University, Mount Pleasant, has coordinated three successful campaigns to date. In the past, they had difficulty securing major commitments from 30- to 50-year-old prospects.

"Our life-insurance-based endowment program helped us tap into this segment quite effectively. The fact that these donors were able to contribute from their current income was the key," says Ron Heath, formerly with the office of development. "Very few people in this age range have accumulated significant wealth, but many can create a meaningful endowment gift as a result of five modest annual contributions."

Education institutions that use a life-insurance-based approach to endowment funding find that it is simple to put in place. Issuance of the policy is guaranteed without a physical examination, and involves a standard pledge. The maximum pledge period is five years. After that, a life-insurance-based endowment program becomes self-funding and does not interfere or conflict with other fundraising efforts.

Also, a life-insurance-based endowment program centers around volunteer-to-prospect or staff-to-prospect relationships. Insurance agents play no role in the process.

Funding phases

The life-insurance-based endowment program unfolds in two phases. First, a college or university encourages a group of donors to make fully tax-deductible contributions to their institutions over a 1- to 5-year period. Next, the institution obtains insurance policies on the lives of each donor with the institution as the owner and beneficiary of the policy. Contributions stop after the fifth year, and the plan becomes self-funding.

Furthermore, the bequest cannot be changed for any reason once it is made because the college or university is the owner and beneficiary of the policy.

As a hypothetical case, consider a life-insurance-based endowment program involving 100 donors. Assuming the average age of these donors is 40 and that each wishes to establish an endowment of $50,000, then with a life-insurance endowment plan, each donor would make five annual contributions of $2,395 for a total of about $12,000. Assuming a 39 percent income tax bracket, this would be an annual after-tax cost of $1,455 and a total net after-tax cost of $7,320.

In the first year, a $5 million ultimate endowment would be established after the payment of the first premium.

Perhaps best of all, surveys show that life-insurance-based endowment programs help attract new donors who make larger contributions. Of those donors who contribute to life-insurance-based endowment programs, 20 percent are making their first gifts to institutions. And of these, 60 percent are making their largest gifts.

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