National Association of Charitable Estate Counselors
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NACEC NEWS

THE BIG $HOT

By Dr. JT "Dock" Houk, JD, PhD, CPhD

My goodness, the things I learn from you. This is exciting – perhaps one of the most exciting new markets we have come up with:

1. **An individual donor purchases $1 million or more in a life insurance policy** owned by the Donor's Charitable Foundation at National Heritage Foundation, Inc.
2. From donations made to the NHF foundation **the premiums are paid until the payment program is completed.** Other deferred and current gifts may be made.
3. **When the policy matures, the face amount (plus any additional current or deferred gifts) will be transferred** to an INDEPENDENT PUBLIC CHARITABLE CORPORATION set up and administered by Charity Admin Inc (CAI) directed by his nominees – the kids, grandkids or whoever!**The legacy can now begin and last forever!**

Background:

Most of you are aware that the National Heritage Family is a BIG booster of the product LIFE INSURANCE. "Pennies buy dollars for future delivery" is a great sales line. We love it for many reasons, not the least of which being my dad's influence on me. Dad served on the Board of Directors of a major insurance company for 25 years.

1. **A Large Gift**: When your client purchases the policy, in his or her mind THEY FEEL THEY HAVE MADE THE LARGE GIFT OF THE FACE AMOUNT. That's powerful – pennies indeed buy DOLLARS.
2. **Immortality** – He or she can see the Foundation lasting forever. No one wants to "die as though they never lived."
3. **Influencing Tomorrow's World** – He or she can imagine that their ideas will make a difference in the future. And their reputation will be remembered
4. **The Kids and Grandkids** – The impact on the family will be indelible – they of course can participate in the implementation of the charitable ideas, at a reasonable salary, when the new charity is established.
5. **The Impact on Taxes**. We often say "it's not too late to cut one relative out of your will – Uncle Sam." Charities which do things that the government might otherwise do are "sharing the burdens of government"
6. **Creating an Independent Public Charity**. Our ability to create and administer an independent PUBLIC (NOT PRIVATE) CHARITY really makes this project sing. There are significant tax advantages and other blessings.

It will take a large gift to justify an Independent Public Charity.

The first thing you are going to ask is "Why the MILLION MINIMUM" And the answer is "The Insurance Policy could be less, but the total of the assets in the foundation at NHF, at the end of the donor's life, (including the addition of charitable trusts, gift annuities, land, other will bequests) should add up to at least $1 million." And the MILLION MINIMUM presumes that CAI will run the charity FOR THEM under their leadership.

Why the MILLION MINIMUM? It just does not make economic sense to begin an Independent Public Corporation for less than a MILLION. And that is presuming CAI administers the foundation. A MILLION will kick out about $60,000 a year which can be theoretically spent on the conduct of a charitable program. Our CAI contract would be about $3,000, and with an audit and perhaps a salary to one of the kids as President, it might total $25,000, which would leave $35,000 for the charitable program designed for the foundation.

Why do you say an Independent PUBLIC Charity, not a Private Charity?

It is by far preferable to have a PUBLIC, not a private foundation

Differences Between Public vs Private Foundation

The National Heritage Family has two public foundations; NHF and CDP. At first, most people don't see a difference between private and public foundations. But there are three crucial elements that distinguish public foundations, such as NHF and CDP, from their private counterparts.

1. Reporting Requirements

Not only are private foundation reports more extensive, they are less protected by privacy laws. Private foundations must provide copies of their annual reports to a state's attorney general and to the IRS. Once this type of information falls into a state's domain, it is accessible by both the media and the general public.

A private foundation must also post a newspaper notice of the availability of its annual tax return and send a copy of that notice to the IRS. If there is any question of asset control the IRS scrutinizes the operating history of the private foundation.

2. Limited Deductibility of Gifts

With the exception of a few publicly traded stocks, the deductibility of gifts to a private foundation is limited to the cost basis. Think of the difference in a gift of land - cost basis for Private Foundations vs. market value for Public Foundations. Furthermore, a gift of cash is limited to 30% of adjusted gross income unless the organization qualifies as an operating foundation or it distributes all its gifts within 75 days of the end of a tax year. Gifts of appreciated property can be deducted only up to 20% of their adjusted gross income.

3. Rigid and Risky Rules of Operation

Private foundations face at least five limitations not encountered by public organizations such as NHF:

A private foundation must distribute at least 5% of the fair market value of its assets annually. Failure to do so results in a 15% tax on undistributed income.

Private foundation regulations identify a "disqualified person" and restrict his or her ability to own stock in a corporation whose stock is also owned by the private foundation. This is called the "excess business holding" rule and its violation incurs penalties.

Private foundations may not have any financial or business transaction with a "disqualified person." Violators face possible taxes and penalties.

A private foundation faces taxes and penalties on any investment that jeopardizes its charitable purpose, including any bad business decision.

A private foundation pays from 1% to 2% tax on its annual income.

Advantages of Choosing A Public Charity

On the other hand, there are a number of compelling economic reasons to choose a public charity like NHF.

- ❖ Gifts of cash are deductible up to 50% of adjusted gross income.
- ❖ Gifts of appreciated property are deductible up to 30% of adjusted gross income.
- ❖ There is no requirement to distribute annually a certain percentage of the assets.
- ❖ There is no "excess business holdings" rule.
- ❖ The director of a public charity would not be a "disqualified person."
- ❖ There is no investment tax-penalty risk.
- ❖ There is no income tax on your donation annually.
- ❖ There are no cumbersome reporting requirements.

Because of the NHFamily's willingness to encourage the donor/applicant's active participation, you gain the advantages of independence without the disadvantages associated with a private foundation.

How Will You Make This A PUBLIC Foundation?

At this juncture, you are saying – "Hey, it sure would be great if this could be a PUBLIC foundation and not a Private one, but the Donor will be the only Contributor. How in the world are you going to make this a PUBLIC foundation?" Easy. Here are the kinds of PUBLIC Foundations:

a. Churches
b. Schools
c. Hospitals
d. Government Feeder Organizations and
e. A PUBLICLY SUPPORTED CHARITY.

A PUBLICLY SUPPORTED CHARITY – our target – is a charitable organization that receives at least 1/3 of its income from the public (non disqualified contributors). And a Charity that says in it's application to IRS (Form 1023) "We intend to be a publicly supported charity" receives PROVISIONAL DESIGNATION as a Public Charity – and after 4 years – it must have raised qualifying Public Support. Then it receives a FINAL DETERMINATION LETTER AS A PUBLIC CHARITY.

How would we "take a charity public?" Easy – Let's say that $1,000,000 started it off – and the earnings are $60,000 per year. We would have to raise a bit over $29,000 from the public to "pass the public support test" (divide 3 into total support of $60,000 plus $29,000)

So how would we raise $29,000 – There are lots of ways, but the easiest by far, and the most fun is to allocate, for example, $50,000 to an escrow account to guarantee the appearance of , say, Tony Bennett, or Earth Wind and Fire (depending on our target audience), to put a date on their calendar six months hence to appear at a "theater near you". Now if we are able to sell tickets, get sponsors, for more just $29,000 **we pass the public support test** (Each ticket sale, each sponsor gift, is public support). If we sell tickets and sponsors to the tune of $50,000 we break even. If we do better than that, we make a profit for our charity.

CHARITY ADMIN, INC, (CAI) our new management company will assist you in this process. With some help from you in getting sponsors for the event and selling tickets or tables, we can do it easily.

Here are a couple of examples:

When a top football NFL QB came to Kansas City from San Francisco, we sent $25,000 to set a date for a dinner. $100 a plate, $1,000 a table, $5,000 for a pre-dinner schmooz cocktail party. We grossed $250,000.

When a top Masters Champion golfer agreed to "play eighteen holes" with 4 people each hole who had contributed $5,000 to play that single hole with the Champion (photo opp and evening dinner included), we rented a Helicopter for $10,000 the day, (and a pilot), paid the Masters Champion Golfer $50,000, we got 4 golfers per hole at $5,000 apiece from 7 Golf Clubs in the area, taking the Champion from course to course, and spent on dinner for 150 (golfer and spouse) $70 a plate about $14,000, we grossed $360,000 from the golfers' contributions and NETTED for the foundation nearly $280,000.

The Beauty of It:

The beauty of raising funds is (a) not only do you pass the public support test with flying colors, (b) but also you raise funds from the public that will pay the expenses of the event and provide you with additional funds to expand your charitable program and pay its administrative costs.

I am so excited that I am going to beg for your help. Here is boxed a letter that I have sent to all 500 INSURANCE COMPANIES DOING BUSINESS IN THE UNITED STATES. I want to work for your favorite life insurance company, and I won't charge them a thing for my time. And they will sell much more insurance.

Dear Insurance Company,

I WANT TO WORK FOR FREE FOR YOU AND YOUR COMPANY

My time will cost you zero. That's right - not a penny.

I want to train all the life insurance agents within your scope HOW TO SELL LIFE INSURANCE FOR THE DEVELOPMENT OF CHARITABLE FOUNDATIONS and get them energized. Why am I doing this? Because I want to see philanthropy powered by life insurance. The possibilities for "doing well by doing good" are boundless.

This is a huge marketing opportunity that is overlooked — and it is only going to get "huger" as the Boomers hit their sixties. They are just beginning to do so. The time is right. The time is now.

There are **lots** of powerful motives that encourage people to set up Charitable Foundations funded with life insurance policies.

a. **Ego** – Pennies buy dollars of insurance. Insurance proceeds can endow a foundation and make them SOMEBODY in the community. Ego is a powerful charitable motive.
b. **Immortality** – A charitable foundation is not a "footprint in the sand." It can keep on doing good for many generations, telling the donor's life story with each gift. This is a living memorial.
c. **Tax Planning** – A gift of life insurance is a "Tax Wise Gift" that can reduce or even eliminate income and estate taxes.
d. **Purely Charitable** – There are many people who are deeply committed to charitable causes both here and abroad. Life insurance can be the perfect expression of their commitment.
e. **Kids and Grandkids** – If the gift is large enough we can set up a PUBLIC INDEPENDENT CHARITY that can provide *bona fide* employment for the kids and grandkids to carry out the foundation's charitable purpose.

Ten Excellent Reasons Why You Should Call Me:

1. **It will not cost you a penny.**
2. **I am an excellent teacher and motivator.**
3. **It is a $15 Trillion Dollar market** over the next generation. Sales will be "large ticket" and persistent. You will sell more life insurance.
4. **Your agents are leaving money on the table** by ignoring the charitable market.
5. **Tremendous networking opportunities** that will generate great PR value for your firm — the kind of image building that money cannot buy.
6. **We love life insurance.** PLEASE SEE THE NEWSLETTER "Life Insurance A MIRACLE PRODUCT" attached.
7. **We have been doing this for 40 years**. PLEASE SEE THE NHF 2007 ANNUAL REPORT, attached. We received a 1.4 million dollar death benefit and now we have a Heart Focused Hospital in Western Kentucky!
8. **Insurance agents love what we do.** PLEASE SEE THE LAST FEW PAGES OF THE FINANCIAL SERVICES ADVISOR COVER STORY, where 23 Life Underwriters give you their candid opinions of us. (p.s., we get an A+ report card)
9. **Nearly half of our 10,000 current foundations have a deferred gift attached** (life insurance, will bequests and charitable trusts), totaling an estimated $2 Billion dollars.
10. **We can help you begin YOUR OWN Donor Advised Fund.** Our management company can provide the experienced administration support you will need. No need to reinvent the wheel. Hit the ground running. (Or rolling, I should say).

Life insurance is the best way for ordinary folks to create a legacy that will keep on giving, making this old Earth a better planet.

Call my private line 561 301 3891 anytime to set an appointment for talking on the phone or meeting in person. I am at your service.

Please send this Newsletter, or a copy thereof, to someone up the line – perhaps even the President – and indicate that I will come to talk with him, her or a designee any time anywhere 24/7, if they are interested in letting me help their agents tap the charitable market.

Nearly half of our foundations in NHF have life insurance policies or some other convenient deferred gift (will bequests and charitable trusts) attached – with an estimated 2.5 BILLION DOLLAR TOTAL. I have encouraged this for the last 40 years WITHOUT HELP. It is time for us to ALL put our shoulders to the wheel.

The world WE leave to our friends and heirs will determine their quality of life. Let's together make this small planet a better place to live. Please call me at (561) 301-3891 with your ideas!

The New Look of NACEC

NACEC
NATIONAL ASSOCIATION OF CHARITABLE ESTATE COUNSELORS

Join one of the leading organizations which support charitable giving as an integral part of estate planning. Gain insight and inspiration from hundreds of other members nationwide who share the common goal of increasing charitable giving among all people.

The National Association of Charitable Estate Counselors also offers incentives to you as a Philanthropic Development Officer in all of the National Heritage Family's programs and services. Renew today at the special reduced rate of $185.00 per year. Your member benefits include *NACEC News* published quarterly, discounts on books and publications, opportunities to conference in-person or online and top-notch marketing materials to present to your client base.

Email us at foundations@nhf.org and we'll send you an application right away or look online at www.nhf.org for an online version. Start today in building a lasting legacy of charitable giving.