

Protecting Against the Risk of Donor Loss

Successful fundraising and development are key to a non-profit organization's future. The successful organization must acquire new donors while maintaining its current donor base. So how can an organization deal with aging major donors and the prospect of their loss?

Well, there is always the hope of a testamentary gift to support the organization after the donor's death. Depending upon the size of the gift, it may extend the donor's involvement for a considerable period of time, but it may well be insufficient to replace the donor's lifetime support.

The organization must acquire new donors to replace older donors. As each generation ages, a younger generation becomes the "sweet spot" for major and planned gifts to charitable organizations. For some organizations, however, this may be more difficult because their key donors' interests may differ from those that attract today's new donors. At certain organizations, the donor attrition rate may be greater than the donor acquisition rate.

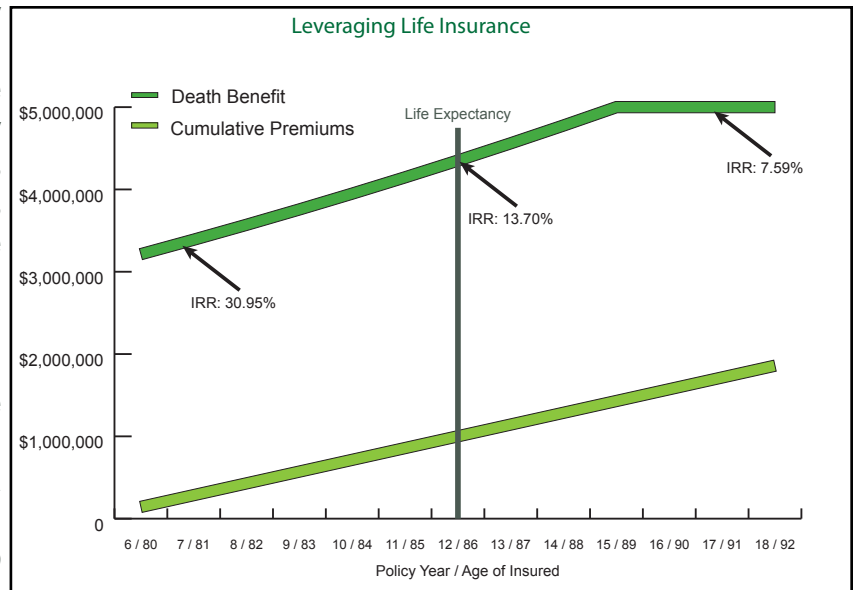
Are there any other options to prevent this loss?

Yes. Fixed life insurance can secure, and perpetuate, an individual donor's value to the organization in much the same way that life insurance replaces a wage earner's value to a family or a key employee's value to a company.

Non-profit organizations have a clear and valid insurable interest in the contributions of its donors, board members, volunteers and key employees. Such interests can be defined and quantified to demonstrate their value to the organization. Organizations not only have the ability to insure such contributors but may also need to insure them. The loss of such key supporters could impair the organization's ability to further its mission.

Why use life insurance?

Life insurance, specifically non-variable and guaranteed¹ life insurance, is an advantageous means to facilitate a planned gift or to invest for the long term. It is an asset class that is uncorrelated to market fluctuations. Rates of return are predictable and determined at the inception of the policy – there are no "surprises" for the policyowner.



Life insurance death benefits provide substantial leverage, especially during the early years of the policy. The value of the death benefit can exceed the growth of cumulative premiums assuming that they had been invested in debt instruments. While the advantage may decrease over time as the non-insurance assets increase in value, the initial death benefit is calculated based on a person's projected value and their replacement cost to the organization. Thus, the organization is assured that it will receive the stated amount from policy inception - without concern for future investment performance.

¹ Guarantees, ratings, and benefits provided by life insurance products are subject to the claims-paying ability of the issuing insurance company.

Life insurance transfers the risk of loss from the organization to the insurance carrier, which must pay the full amount of the death benefit, regardless of the timing of death. Market events do not affect the ultimate value of a guaranteed insurance policy's death benefit.

Because the person to be insured does not have to be the source of the premiums, the non-profit organization can look to a much larger group of key members. The insured person, however, must be a valuable member of the organization's Board, volunteer or donor base. The organization's insurable interest is based on the relationship between the insured individual and the organization at the time the policy is issued. Therefore, if a historic major donor were to cease to make annual gifts due to changed financial circumstances, the life insurance policy would continue to be valid based upon the donor's historic value; the full insurance amount would be payable upon the insured's death.

How do non-profit organizations employ life insurance as a means to replace key members?

Non-profit organizations can integrate life insurance into their development efforts through several means:

- Solicit major donors to participate in acquiring life insurance on their own lives or to fund policies on the lives of other key members.
- Non-profit organizations can use their own resources to acquire fixed life insurance policies on their most important members, usually those older than age 75.
- Encourage donor-advised funds and charitable remainder trusts to consider life insurance as an investment option.

Our organization is going to insure key members - now what?

- National Madison can help design presentations and proposals to fit your organization's specific needs and to reflect your organization's style. National Madison can also train Planned Giving Officers to understand and to discuss fixed life insurance with potential donors.
- National Madison will work with the potential insureds to oversee the underwriting and policy acquisition process.
- Once the policy(ies) are in force, National Madison will provide the non-profit organization with annual policy audits and reviews so that the organization can manage its life insurance portfolio.



340 Madison Avenue / 21st Floor / New York, NY 10173
T 212.687.2800 | F 212.687.2990 | www.nationalmadison.com

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