

Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Some gifts really are too good to be true

Barry VanderKelen

The saying goes: when something seems too good to be true, it probably is.

Take the case of a recent wave of college and university athletic departments seeking to buy life insurance policies on their boosters as a way to generate large gifts to the departments. This wave was started by Oklahoma State University that recently purchased \$280 million worth of policies on 28 boosters, all of whom are between the ages of 65 and 85. The OSU Athletics Department borrowed \$20 million to fund the policies.

Generating a 14-times return on an investment, as OSU is trying, all for the benefit of student-athletes, seems like a good and noble thing to do. Why shouldn't more nonprofit organizations buy life insurance policies on their leading donors and board members?

Unless the circumstances are ideal, it may not be a wise use of your money.

A single premium policy on a healthy 65-year-old that costs \$100,000 might generate a \$278,000 gift in 20 years. Over that

same span, a \$100,000 endowment might generate \$130,000 in spendable income and grow to more than \$175,000 in value.

Which is better for your organization?

There are four things a nonprofit group must include in its consideration of creating major gifts through an insurance program.

1. The organization must be sure it will be in existence in 20 years. Some nonprofit groups will fulfill their purposes and cease to exist; some will merge; and some will close.
2. The organization must have adequate income to meet community needs for the next 20 years. The cost of missed opportunities to meet needs will be high. Additionally, the cost of the policies is high. In the case of OSU, it borrowed \$20 million in order to fund its policies.
3. The organization must be willing to respond to criticism that it is counting on the death of its donors. This is exacerbated if the nonprofit group needs access to the life insurance policy proceeds sooner and sells the policy at a discount

before maturation on the secondary market. This may trigger donor relations problems in addition to the public relations problem.

4. Finally, every year the value of a dollar declines due to inflation. For instance, something that costs \$1 million today would have cost \$553,692 in 1986. The longer the term of the program, the less impact the ultimate gift will have.

These types of insurance programs work best if a person who would not have otherwise supported an organization offers to fund an insurance policy on the life of a consistent—and willing—donor. No resources will be redirected from current needs. And the organization is willing to wait to realize the ultimate gift. Insurance can play an important role in someone's financial planning. Gifts of excess insurance are a wonderful source of major gifts. But these gifts are from the owner of the policy rather than an organization buying a policy on a donor's life. Careful consideration is necessary. Insurance agents and brokers can be helpful in understanding the use of insurance programs to raise major gifts.

Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-

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