

## Charitable Gift Annuities: The Market Penetration Gap

**By Ken Ramsay**

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Everyone loves Charitable Gift Annuities (CGA's). Donors love them because they can make a gift and receive tax-advantageous income at the same time. Not-for-profit accountants love them because they can go on a balance sheet as a net positive asset. Executive Directors love them because their accountants love them. Planned Giving fund raisers love them because their Executive Directors love them. We all love them.

If we can suspend our amorous feelings for CGA's for just an instant and take a long, hard view of the CGA market, we may gain some fresh insight and maybe even love them all the more.

Market research on CGA's is scarce. In July 2003, *The NonProfit Times* published very relevant research on American households that was done in co-operation with The Social Research Institute at Boston College. It is important to note that this research was officially pulled by the publishers because of some anomalies with the results vis-à-vis IRS return totals concerning Charitable Remainder Trusts. Nevertheless, with full appreciation of this fact and with the deepest apologies to the researchers/publisher, I want to cite some numbers for CGA's because the research was brilliant and the numbers don't exist anywhere else. They found that 3.6% of households were using

CGA's and another 12.9% were considering them for a total of 16.5% using or considering.

The only other research I have seen on CGA market size were two studies that I contracted as the Planned Giving Officer for the United Church of Canada in 1994 and 1995. The United Church is the largest Protestant denomination in Canada with, at that time, 750,000 members coast-to-coast. The studies came up with a CGA propensity of 15% to 16%. The caveat here is that the United Church population is quite older than average. If, however, we accept 15% in North America as the latent CGA propensity and existing penetration as 4% or less, there exists a very large Market Penetration Gap. The Gap is 11% of approximately 65 million households. If we do the math, the latent potential is more than \$200 billion (assuming \$30,000 as average CGA size).

With over \$200 billion in stated propensity it really behooves us to start testing new marketing initiatives to enhance response rates. Legacy Leaders has built a business on successfully exploiting the even larger Market Penetration Gap for bequest commitments on behalf of hundreds of not-for-profits in North America. A large gap calls for proactive marketing initiatives.

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Legacy Leaders set up two tests with large hospitals. The first was a baseline test using standard marketing techniques. Hospital one distributed a brochure specially designed by Legacy Leaders to elicit strong CGA enquiries. Thirty thousand brochures were distributed in the foundation newsletter, mailed to donors and included in a public newspaper to the community. The foundation received 98 responses or a 0.3% response rate for enquiries requesting quotations. This rate is excellent and undoubtedly greater than the norm. The foundation did the follow-up to these enquiries and has converted approximately 26 or 27%, averaging about \$35,000. This conversion was mostly done by phone by a planned giving officer. In person follow up usually converts at a rate of 40 to 45%. The net rate of conversion is 0.09% (0.3% x 26%). This is how marketing CGA's usually rolls out.

The second test uses the proprietary mail/phone system that Legacy Leaders employs to obtain bequest commitments. A similar brochure was created for a second hospital foundation and mailed to 5,000 current and lapsed donors over the age of 60 along with a letter from a prominent physician endorsing the promotion and advising the prospects that they would receive a phone call. Phone representatives then called

those who had received the package. The calls lasted an average of 9 minutes and the specially trained representatives were soliciting a written CGA quotation. Quotations were done on the phone after the reps got the respective birthdate(s) and if there was an interest, a written quotation was sent out. Initial conversion to written quotation was an amazing 10.8%!

The follow-up to these written quotations was done by the same phone representatives and is going on now. Conversion seems to be around 20% for an overall conversion rate of 2.2% (10.8 x 20%). Keep in mind that the audience solicited was over the age of 60 so this up-front targeting greatly enhances results. Nevertheless, the test does show that proactive engagement of targeted prospects can yield strong results when a large Market Penetration Gap exists.

There is much work to be done. A strategic look at the CGA business shows much potential. New marketing approaches must be developed to exploit this potential. We all love Charitable Gift Annuities for all sorts of reasons. By applying new marketing techniques to fully develop the Marketing Penetration Gap we will love them even more.

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Ken Ramsay, one of the most experienced planned giving professionals in North America, joined Legacy Leaders in 1996 as President and CEO. Prior to Legacy, Ken spent seven years as the Special Gifts Officer of the United Church of Canada, responsible for the Planned Giving and Direct Mail programs. That program doubled in size to average \$20 million in planned gifts annually.

Ken was long-time Chair of the Canadian Association on Charitable Gifts (formerly the Canadian Association on Charitable Gift Annuities). He was the founding Chair of the Canadian Association of Gift Planners and has lectured and taught extensively on Gift Planning in Canada and the United States. An original faculty member, Ken co-founded with Frank Minton, the course on Planned Giving at the Banff School for Management and has taught many of the planned giving professionals in Canada today. He has chaired the North American Conference on Christian Philanthropy, created the first Planned Giving Track for the Association of Fundraising Professionals Congress and acted as Dean of the Pre-Congress/Executive Development Track. Ken has spoken frequently at AFP, NCPG, AHP, and CAGP events throughout North America.