



Life Income Gift Administration – Protecting Donors from Fraud

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It seems that every day there is another article about stolen information from credit card providers or fraudulent activity with funds being diverted from the rightful recipient. Elderly individuals are frequently targeted for these scams. Charities with life income gift programs need to be vigilant to protect their donors from such nefarious activities. Whether your organization handles gift administration in-house or contracts with an outside administrator, there should be policies in place to assist in preventing fraudulent activities. Consider addressing these issues with your gift administrator.

Communicating Donor Information

Donors initiating a life income gift need to provide dates of birth and Social Security numbers. Inform your donors that if this information is sent electronically, it needs to be encrypted or communicated through a secure channel. Likely, donors do not have secure email and should be advised of alternative methods of communication – perhaps fax or US mail. This is also true if the donor is sending a voided check to have payments made via direct deposit. If a donor wishes to read to you their Social Security number over the phone, you should be willing to do that, and then be as careful with the paper you write it down on as you would what they send you, and also be sure to read it back to them once or twice to make 100% sure you have the correct digits! Also, and without exception, your charity has to use secure channels to relay sensitive information to your administrator.

Current Address

Income beneficiaries often move to other living arrangements as they age and may forget to notify the charity. Even if the payments are being made by electronic funds transfer, a current address is required for sending tax reporting information. Have a policy to periodically verify the accuracy of addresses on record. There are service providers that can update mailing addresses. These providers can be located by entering *National Change of Address* into a

search engine. What is your organization's policy when someone other than the donor notifies your charity of a changed mailing address? Some organizations send a notification to both the old and new address. If your charity is using a separate database for life income gift administration, when a change of address is received in the donor relations office, is there a procedure to communicate this information to the life income gift administrator? When addresses don't agree on these two systems, which one is relied on?

Back-Up Contact

When the gift is made, have the donor provide a back-up contact should the charity no longer be able to communicate with the donor. The contact will likely be a family member but could be a financial or legal advisor. If you are using a gift application – a best practice – this would be the place to have the donor provide such information. While it doesn't have to be required on these forms or a deal-breaker if blank, you should be able to relay the importance of a back-up contact and perhaps be prepared with a story of how handy it can be.

Payment Options

Most charities offer the donor the option to receive payments by check or electronic funds transfer (EFT). EFT payments greatly reduce the opportunity for fraud. Checks are subject to theft at the mailbox or misplacement in retirement communities where donors may have less control over their mail. Checks sent to an address where the donor no longer lives can take weeks or longer to be returned. An EFT payment to a closed account is returned by the Automated Clearing House bank in days. Most donors are familiar with EFT payments (because that's how the Social Security Administration pays people) and are willing to accept their gift payments electronically.

Death Notification

Securing death information as quickly as possible can alleviate having to request the return of payments made after death – never a pleasant experience. There are death indexes that provide this information – LexisNexis is one such provider. What verification of death will your administrator accept – an email from a family member, an obituary (online or from a newspaper), an actual death certificate, something else? The opportunity for fraud is greatly reduced the more promptly notification of death can be received.

Conclusion

Have a discussion with your administrator to determine where fraud can occur with a life income gift program, and the best practices to limit the potential for fraudulent activity. Likely, this discussion will also involve your IT department as database security is part of this conversation. Life income gifts are made by donors who want to support your mission and who trust in your organization. Work hard to ensure that trust is not violated.