WINTER 2009–2010 ADDRESSING IMPORTANT ISSUES IN THE NOT-FOR-PROFIT SECTOR

NFP

Assess the Health of Your Organization with a SWOT Analysis

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403(b) Plan Changes: Is It Time to Switch Retirement Plans?

Traditionally, most nonprofit organizations that offer a defined contribution retirement plan to employees have sponsored 403(b) plans. However, new regulations for 403(b) plans have led many nonprofits to consider converting to a 401(k) plan, the defined contribution plan most widely used by for-profit businesses.

Established under the corresponding section of the Internal Revenue Code, 403(b) plans are retirement savings plans for employees of tax-exempt organizations, as well as for certain public school employees and select ministers and church employees. There are several advantages to 403(b) plans for not-for-profit employers. They are not subject to nondiscrimination testing or audit requirements, and plan sponsors have the ability to avoid Employee Retirement Income Security Act (ERISA) regulations, which set certain standards for private industry retirement plans.

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Assess the Health of Your Organization with a SWOT Analysis

Economic conditions have made it more important than ever for nonprofits to operate at maximum efficiency and with a keen awareness of the potential impact of changes in their environment. Using a SWOT analysis to take a closer look at your organization's internal operations, as well as its position in the community and the marketplace, may help you avoid costly mistakes, improve your management practices, and develop and refine your long-term strategic goals.

The acronym SWOT stands for strengths, weaknesses, opportunities, and threats. As the name suggests, a SWOT analysis is a strategic planning tool designed to assist an organization in identifying the internal and external factors likely to affect its ability to achieve its objectives, and to help management formulate ways to enhance processes and prepare for potential challenges. While some organizations regularly conduct these assessments, a SWOT analysis can be especially helpful prior to making a major strategic decision.

To conduct a SWOT analysis, start by evaluating where your organization currently stands in each of the categories. Under the heading "strengths," list the areas where your organization currently performs exceptionally well or possesses certain competitive advantages. Your group might, for example, have experienced and committed staff and volunteers, a long history in the community, and programs that have been shown to be effective. Under the heading "weaknesses," make a list of areas where your organization performs poorly or is in an inferior position relative to similar groups. These weaknesses may include, for example, cash flow problems, high levels of debt, a key employee who is about to retire, or inefficient and aging IT systems.

If you have trouble developing an objective assessment of your organization's strengths and weaknesses, imagine that you are viewing your organization from a variety of perspectives, such as that of a donor, a client, a public official, a vendor, or a staff member or volunteer. The comments you have received from others about the performance of your organization can help you to determine more accurately the areas in which your group excels, as well as those in which improvement is needed.

Next, take stock of the external environment by evaluating potential opportunities and threats to the organization. When compiling a list of "opportunities," think about the possibilities, both large and small, for expanding your activities or creating new funding streams. These may include, for example, partnering with another charity, adding new programs, or intensifying fundraising efforts. Under the heading "threats," list all the outside influences that could prove detrimental to your organization, such as the economy, sudden shifts in client needs, the loss of key donors, changes in the legal or political landscape, or natural disasters.

After compiling your own SWOT list, convene a meeting of members of your management team, board members, outside consultants or professional advisors, and, if possible, a representative group of donors and volunteers. When discussing strengths and weaknesses, focus especially on where your organization stands in each of these areas relative to similar groups, the organization's capacity to grow and take on new challenges, and how your organization's strengths and weaknesses make it more vulnerable—or more resilient—in the face of outside threats.

Once you and your team have compiled a thorough SWOT list, this information can be used by the organization to streamline practices and formulate new strategies. A SWOT analysis can help your organization build upon its current strengths, make plans to improve areas of weakness, and prepare to avert or cope with potential problems.

Besides helping you hone your strategy and strengthen your position in the community, a SWOT analysis can be useful when approaching donors and in improving your relations with board members, employees, volunteers, and other stakeholders. A thoughtfully prepared inventory of your organization's assets and liabilities, coupled with a strategic plan to act on those findings, can serve as tangible evidence of your management skills and willingness to take the action necessary to ensure that your organization continues to meet or exceed its goals, even during challenging times. ✧

403(B) PLAN CHANGES: IS IT TIME TO SWITCH RETIREMENT PLANS?

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New 403(b) Plan Rules

In response to concerns that participants in 403(b) plans might be receiving less guidance and administrative support from plan sponsors than participants in other employer-sponsored retirement plans, the U.S. Treasury Department and the IRS initiated a comprehensive overhaul of the rules for 403(b) plans, rendering them similar to 401(k) plans. These rules went into effect for most 403(b) plans as of January 1, 2009, although under certain conditions organizations have until the end of 2009 to fully comply with the regulations.

Under the new rules, all 403(b) sponsors must have a written document that outlines the plan's key features, including the benefits provided, eligibility requirements, contribution limits, investment options, and distributions. The document must clarify the plan's policies regarding loans, hardship withdrawals, and rollovers. Also under the new rules, 403(b) plan sponsors are required to communicate with service providers regularly, providing them with all relevant participant information. These new requirements may significantly increase the administrative responsibilities of plan sponsors.

In addition, the new rules include stricter criteria for 403(b) plans that choose to avoid ERISA regulations. In order to avoid ERISA under the new rules, a 403(b) plan can have no employer contributions, must be completely voluntary, and must have minimal involvement by the plan administrator. This means that the plan sponsor will have little influence over many features of the plan, which will instead be determined by a third-party service provider.

Is It Time to Switch?

These new rules may increase the paperwork, cost of administration, and potential liability of sponsoring a 403(b) plan. Therefore, many nonprofits are considering the switch to a 401(k) plan. If a nonprofit prefers to avoid ERISA regulations, this can be accomplished only through a 403(b) plan, under the tighter regulations. However, if an organization considers its retirement plan as a vital piece of its recruitment and retention strategy and prefers to provide an employer contribution, a comparison of the 403(b) and 401(k) plan may reveal fewer advantages to maintaining a 403(b) plan.

For example, a 403(b) plan may be more expensive to administer, as each participant has an individual account. If a 403(b) plan sponsor changes service providers, account holders must be permitted to continue to use the previous provider. Therefore, under the new regulations, the plan sponsor must continue to communicate regularly with both past and current service providers. By contrast, a 401(k) plan sponsor can transfer all of the plan's assets to the new provider, thus ending the previous relationship. Additionally, all ERISA-compliant 403(b) plans with 100 or more participants must file audited financial statements with their Form 5500.

Another important consideration is plan offerings. A 403(b) plan is permitted to offer participants a limited range of annuity and mutual funds as investment options. However, a 401(k) plan can provide participants with a much wider array of investment options in addition to mutual funds and annuities, including stocks, bonds, and certificates of deposit.

Finally, fewer service providers support 403(b) plans. As fewer providers compete in the 403(b) market, the demand for 401(k) plans is growing. Due to the size of the 401(k) market, vendors may offer services that can help to ease administrative burdens, such as prototype plans pre-approved by the IRS, software and IT support, and educational materials.

In light of the new 403(b) plan regulations, choosing to continue to sponsor a 403(b) plan or switch to a 401(k) plan can be complex. Not-for-profit organizations considering their options are advised to consult with their financial advisors. ✧

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Motivations for Giving Differ by Education and Income

Income and education are the main factors that influence donors' motivations for charitable giving, according to a study by the Center on Philanthropy at Indiana University.

The findings of the report, "Understanding Donor Motivations for Giving," are based on the results of a national survey of around 10,000 households, which asked respondents to report their charitable gifts for 2006, and to choose from a number of statements regarding their motivation for donating. When looking at regional variations in motivations, researchers found differences in the choice of motivation. However, after controlling for demographic factors, they concluded that income and education were the only statistically significant predictors of the likelihood of selecting a particular motivation.

Among all the donors polled, providing the poor with "basic needs," such as food and shelter, was the motivation most frequently chosen, followed by "making the world a better place to live," "making the community better," helping the "poor help themselves," and "for equity."

However, the survey also found that higher-income donors, or those with annual incomes greater than $100,000, were significantly less likely to cite meeting "basic needs" or helping the "poor help themselves" as motivations for giving, while lower income donors, or those with incomes below $50,000, were more likely to select these motivations. Similarly, donors with at least some college education were significantly more likely to choose these two motivations. By contrast, respondents with higher incomes and higher levels of education were far more likely than those with lower incomes and lower levels of education to select "making the world a better place to live," "making the community better," and "for equity" as motivations for giving. ✧