



GROWING THE SEEDS OF
*Planned
Giving*

**“Don’t judge each day by the harvest you reap
but by the seeds that *you plant.*”**

– Robert Louis Stevenson

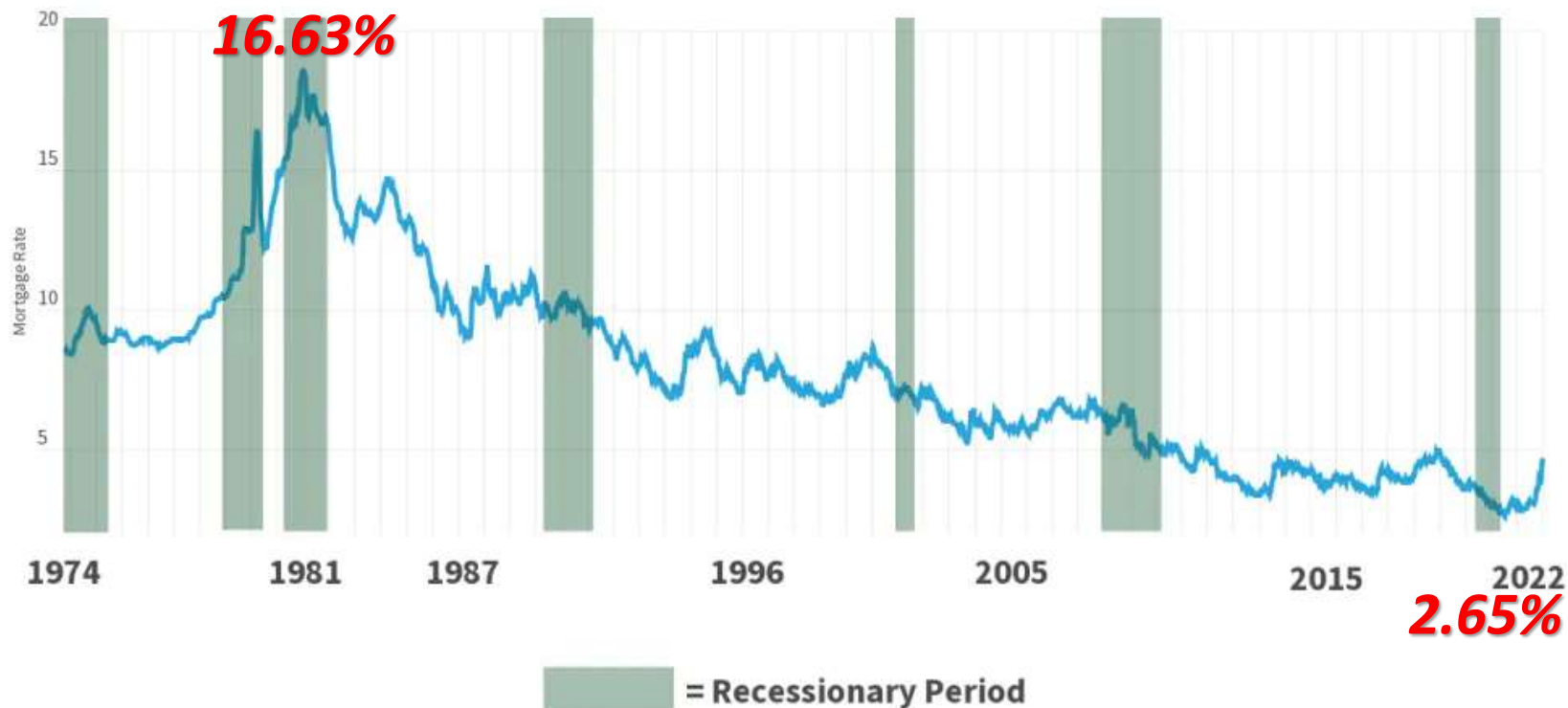
Inflation and Economic Turmoil: Its Impact on Philanthropy and Your Organization

Joe Bull

October 10, 2023



30-Year Fixed Mortgage Rates and Recessions, Historic



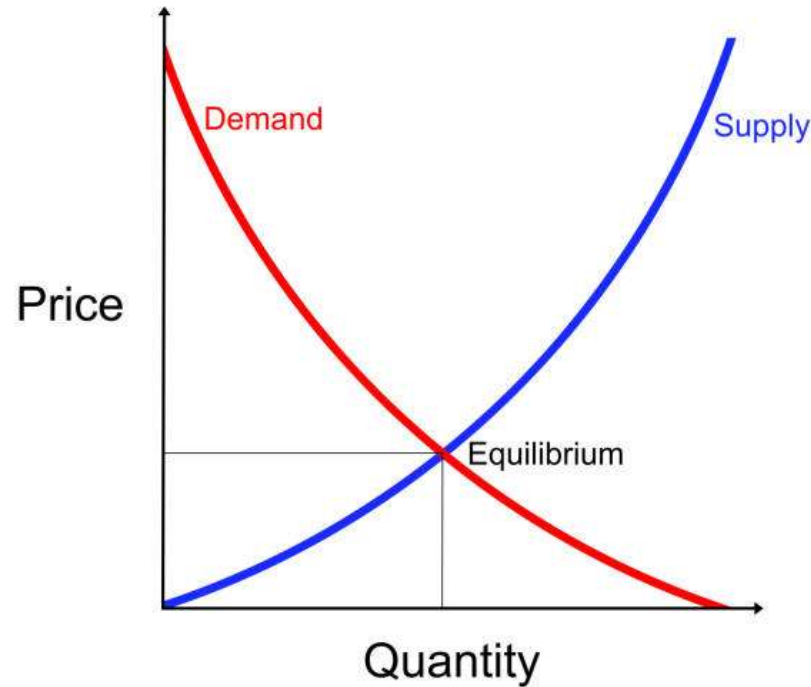
Source: St. Louis Fed

GBR





Let's Go Back to Econ Class



What is Inflation?

In Economist Speak:

the rate of decline in the value of a nation's currency and the resulting rise in the cost of goods and services

In Layperson's Terms:

- *Loss of purchasing power of a dollar over time*
- *Increase in the cost of products over time*

How *Inflation* Has Changed the Price of a Cup of Coffee Over Time



Alphabet Soup of Measurements



CPI: Consumer Price



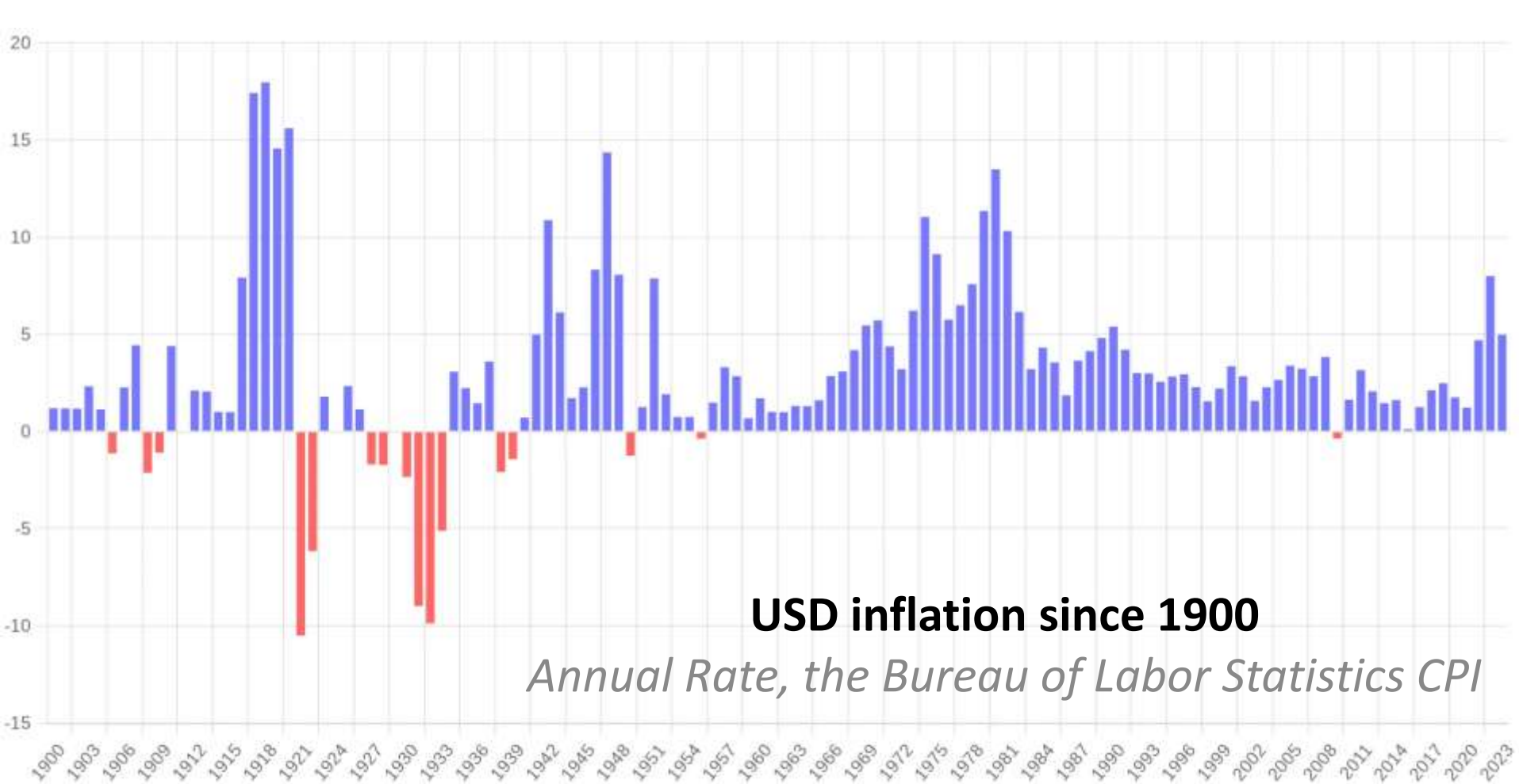
PCEI: Personal Consumption Expenditures Index



WPI: Wholesale Price Index



HEPI: Higher Education Price Index

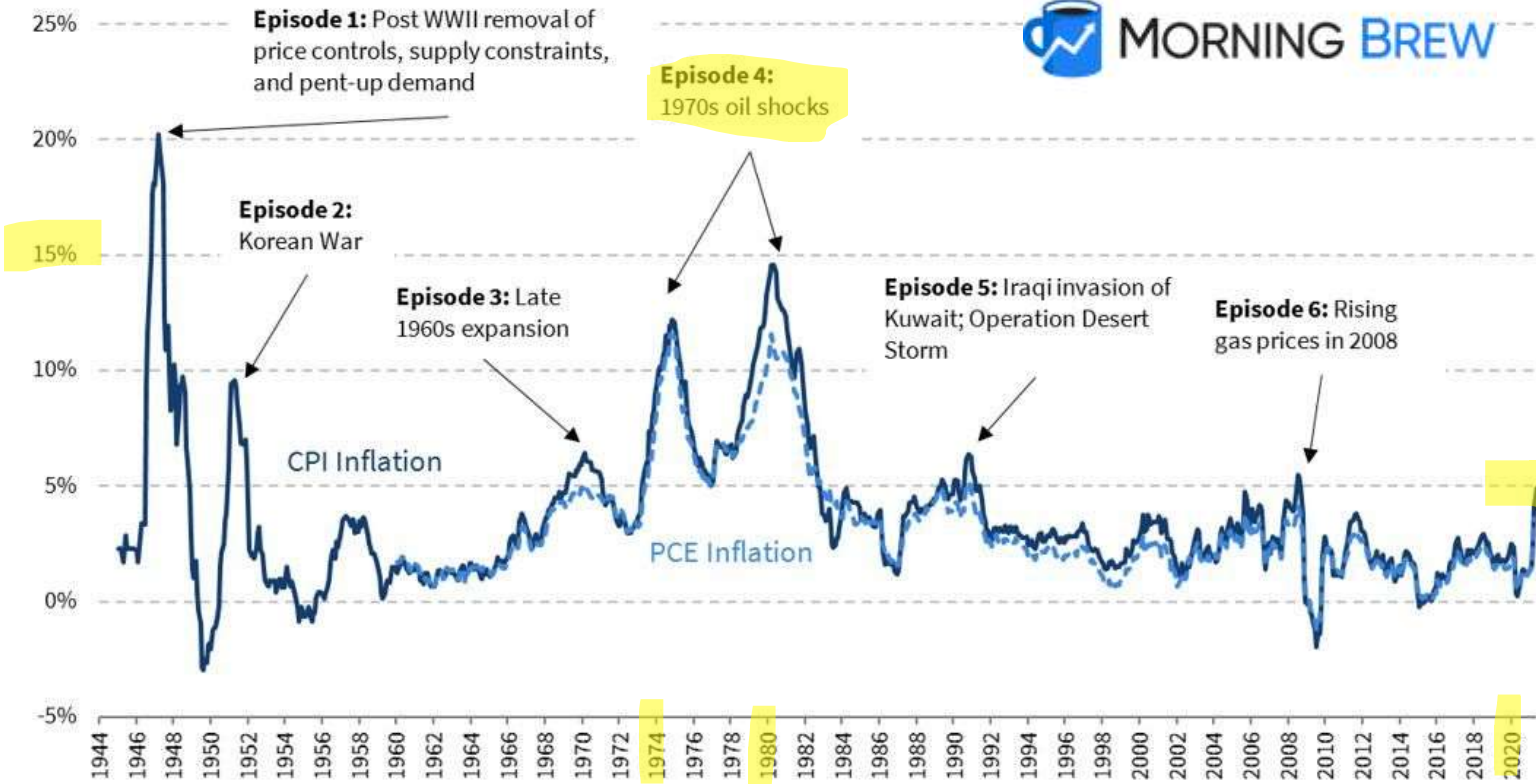


USD inflation since 1900

Annual Rate, the Bureau of Labor Statistics CPI

Figure 1: Six episodes of post-WWII inflation

Percentage change, year-over-year



Source: Federal Reserve Economic Data (FRED), Haver Analytics, CEA Calculations.

How Inflation Manifests Itself

Shadow Inflation

- Producers of goods reduce the size of the portion size but not the cost
- Have you had pancakes lately?





“This product has seen its volume or weight fall and the effective price from the supplier rise.”

Fortune 9/16/23

How Inflation Manifests Itself



Trading Down

- Consumers buy lower cost items when times are tough
- Generic vs. Name Brand purchases

How Inflation Manifests Itself

The Money Illusion

- People think about rising prices
- While the purchasing power of each Dollar is declining
- Inflation actually drops the value of money



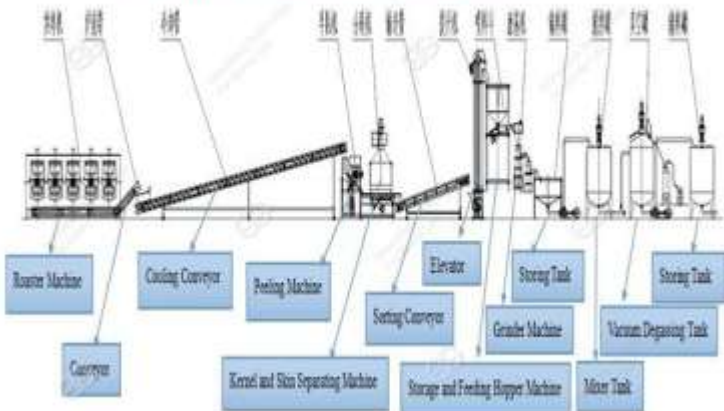
What Causes Inflation?

1. Production Costs
2. Consumer Demand
3. Governmental Monetary Policy

Production Costs



Peanut Butter Production Line



Consumer Demand

- When demand for a good exceeds an industry's ability to produce enough of that good to meet the demand, the price of that good rises.



Governmental Monetary Policy

- Central Banks in each country control the size of a nation's money supply and its rate of growth...
Monetary Policy
- Increases in money supply lead to inflation
- Fed's Monetary Policy Goals
 - Moderate LT interest rates
 - Price stability
 - Maximum employment

Is Inflation Bad?

- A certain, minimal amount of inflation is a requirement for economic growth: *Good*
- Fed's goal is a 2% annual rate of inflation
- Rapid increases in price of goods and services is disruptive both to the economy and business/consumers: *Bad*
- Goldilocks Paradox

Why did Inflation Jump Recently?

- COVID 19 Pandemic
- Review 3 components of Inflation
 1. Productions Costs...factory slowdowns, supply chains, energy costs, etc.
 2. Consumer Demand:
 - COVID: “shelter in place”...Demand for Goods (rise of Peloton)
 - Post COVID: surge in demand for Services (Restaurants, Airlines)
 3. Governmental Monetary Policy...“Quantitative Easing”

Will History Repeat Itself?

- Likely not
- Unique to the 1970's
 - US off gold standard
 - Wage & Price Freezes
 - OPEC embargo
- Unique to the 2020's
 - Pandemic is transitory
 - Aging population
 - Wealth Inequality





**“History does not repeat
itself, but it often rhymes”**

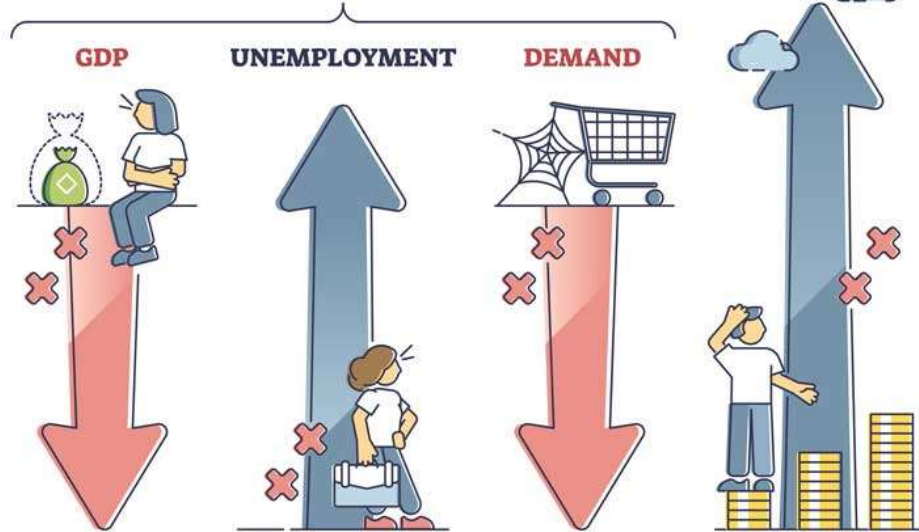
-Mark Twain

Stagflation

© KRISTAL

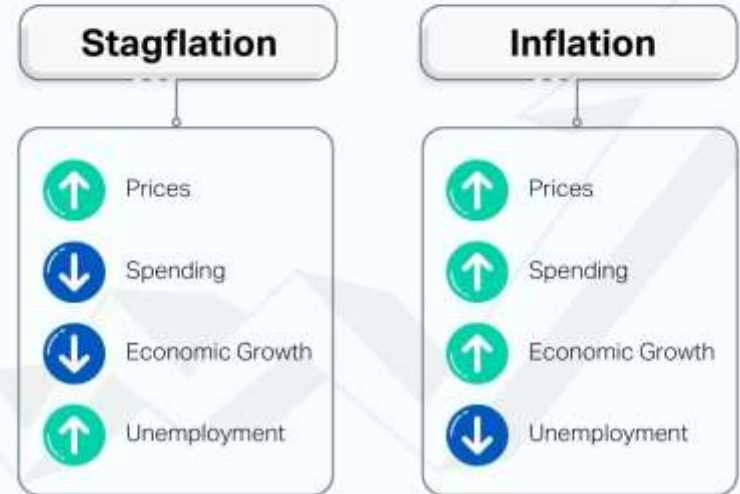
STAGFLATION

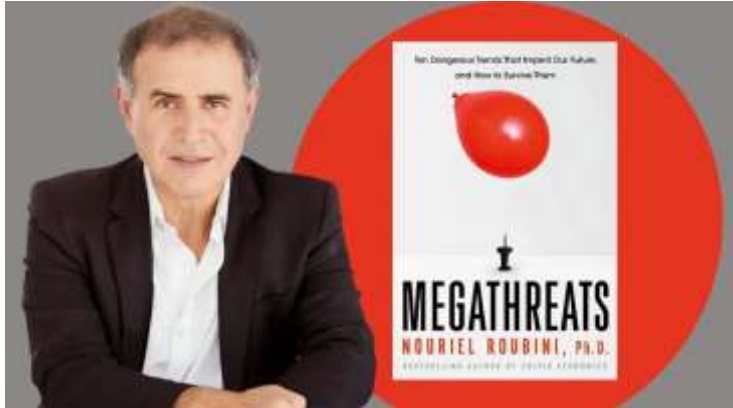
RECESSIONARY



wealthMD

Stagflation VS Inflation



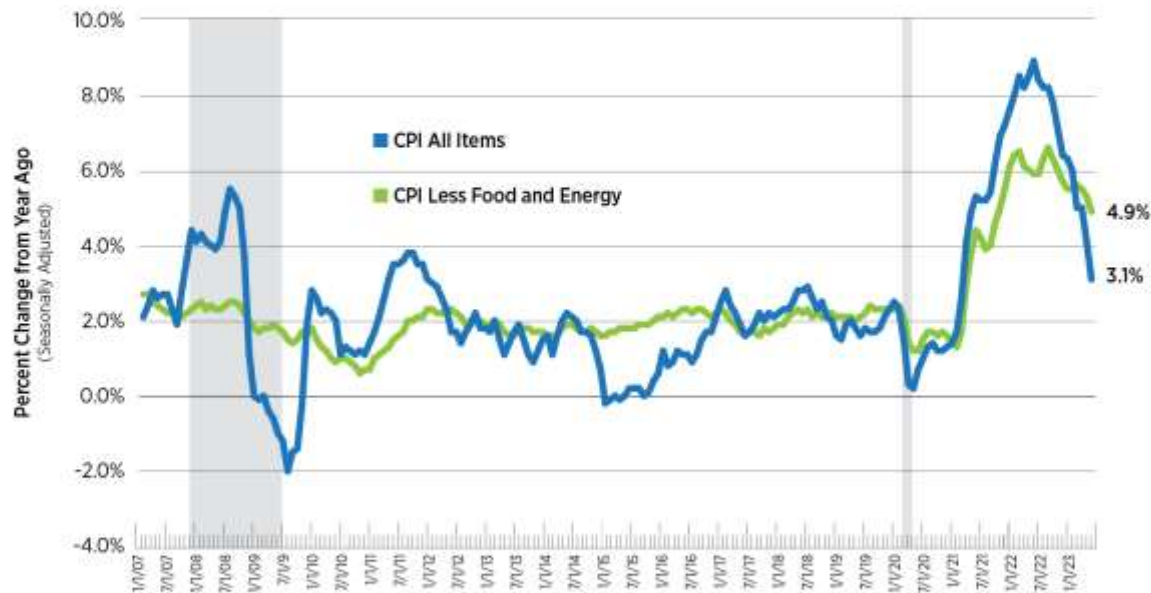


- For the first time in decades, a 60% equity/40% bond portfolio suffered massive losses in 2022
- Heading towards combo of 1970's stagflation and 2008-style debt crisis
- The Roaring 2020's may be a decade of Stagflationary Debt Crisis

Recent Results

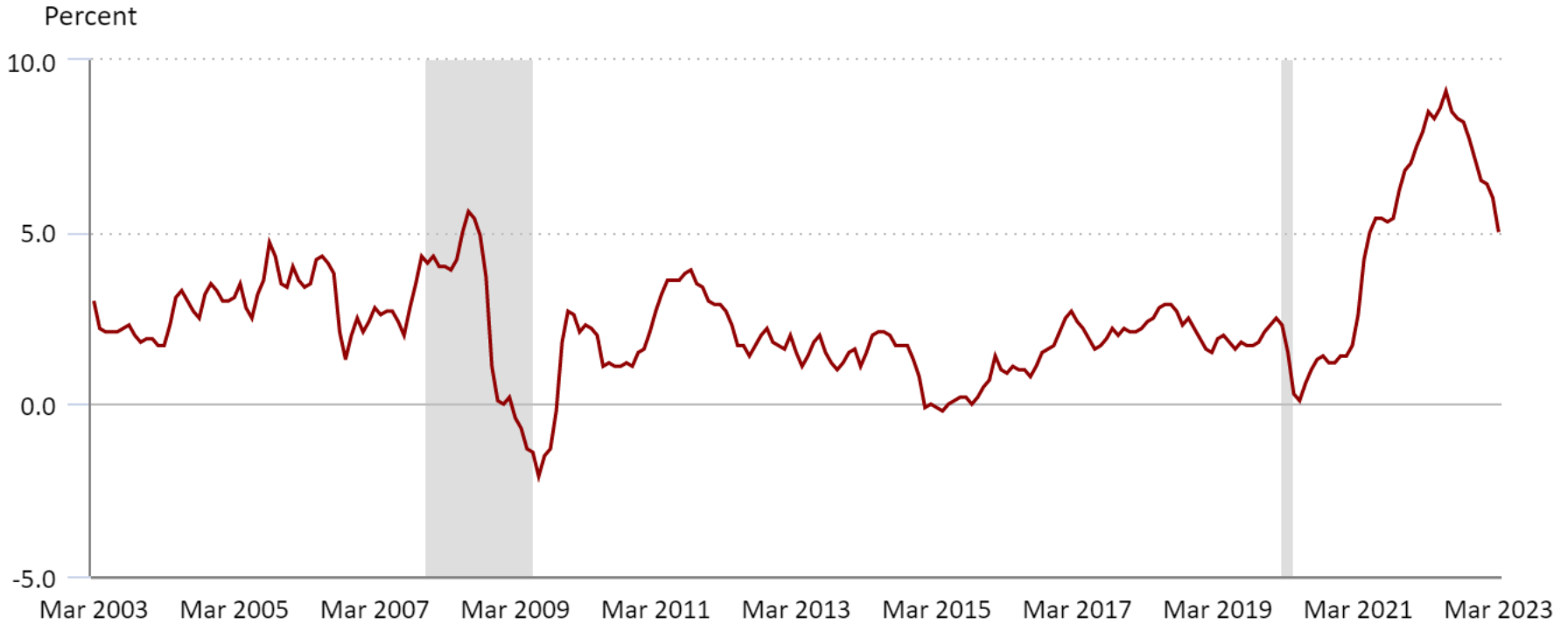
Consumer Price Index

(As of June 2023)



Source: U.S. Bureau of Labor Statistics

12-month percentage change, Consumer Price Index



Source: U.S. Bureau of Labor Statistics.

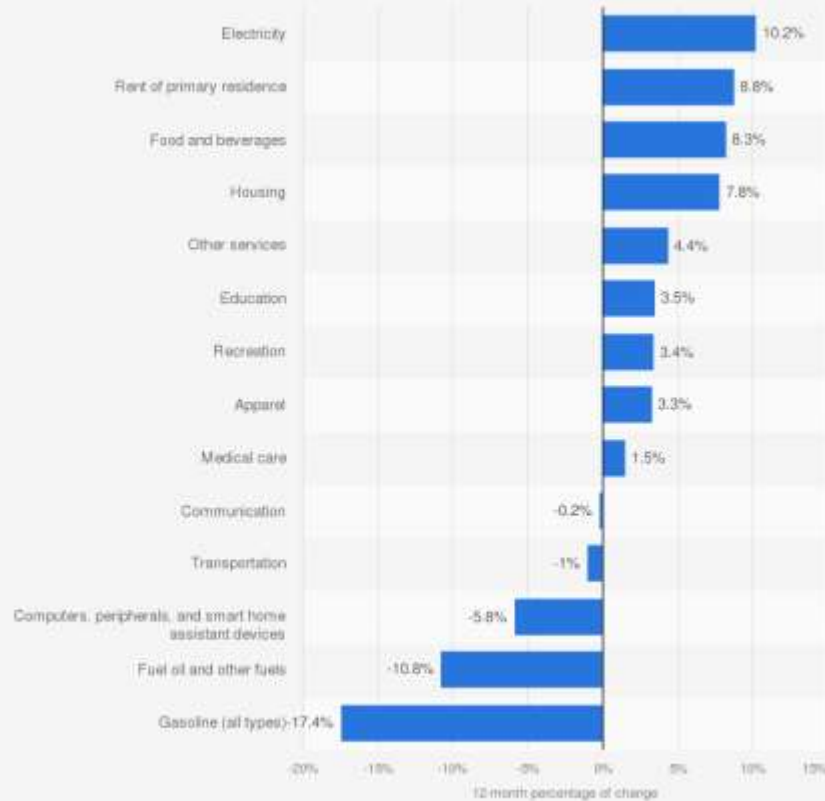
THE WALL STREET JOURNAL.

Fed Holds Rates Steady but Pencils in One More Rate Hike This Year

September 20, 2023

Looking for a “soft landing.”

12-month percentage of change in the United States' Consumer Price Index (CPI-U) in March 2023, by expenditure category



Source:
Bureau of Labor Statistics
© Statista 2023

Additional information:
United States, March 2023

- Airfares + 17.7%
- Food away from home + 8.8%
- All items except food and energy +5.6%
- All items +5%
- Energy -6.4%
- Gasoline -17.4%

Bureau of Labor Statistics Report Analysis

- Consumer demand still too high
- Good signs
 - COVID cash from Uncle Sam drying up
 - Supply chain basically back to normal
 - Gas price shock from Ukraine invasion has eased
- Potentially bad signs
 - Still too much consumer spending
 - OPEC rumblings
 - Inflation becomes ingrained the longer it lasts

The Bourbon Barometer

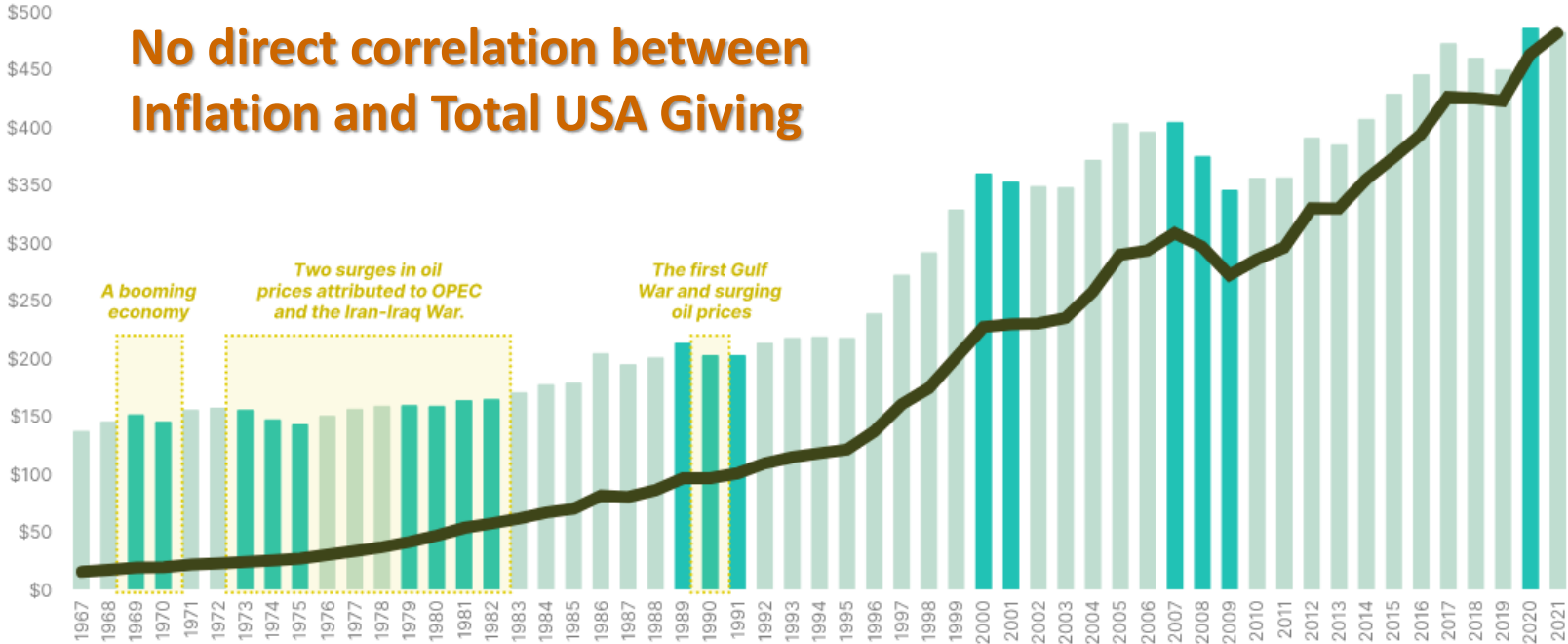
- 75% of adults splurge
- <50% can afford to
- 4x more likely to splurge on food & beverages
- Premium spirits particularly
- Men = \$32...Women = \$10



Inflation's Impact on Macro Philanthropy

No direct correlation between Inflation and Total USA Giving

GIVING AMOUNT

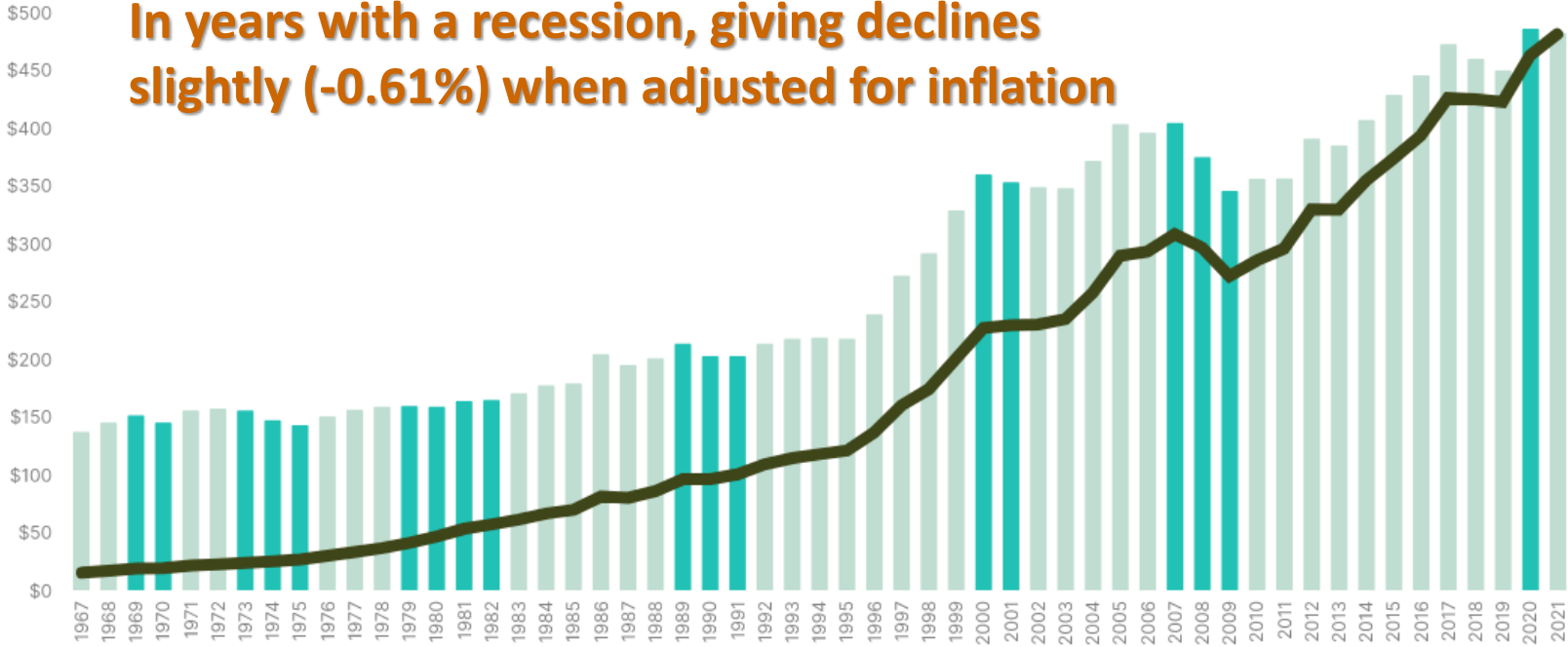


- Total Giving (inflation adjusted)
- Total Giving (current dollars)
- Points of Decline
- Years with a Recession
- S&P 500 Index (inflation adjusted)
- Causes of Inflation
- Years with a Pres. Election
- Rate of Unemployment
- Global Events
- GDP (current dollars)



In years with a recession, giving declines slightly (-0.61%) when adjusted for inflation

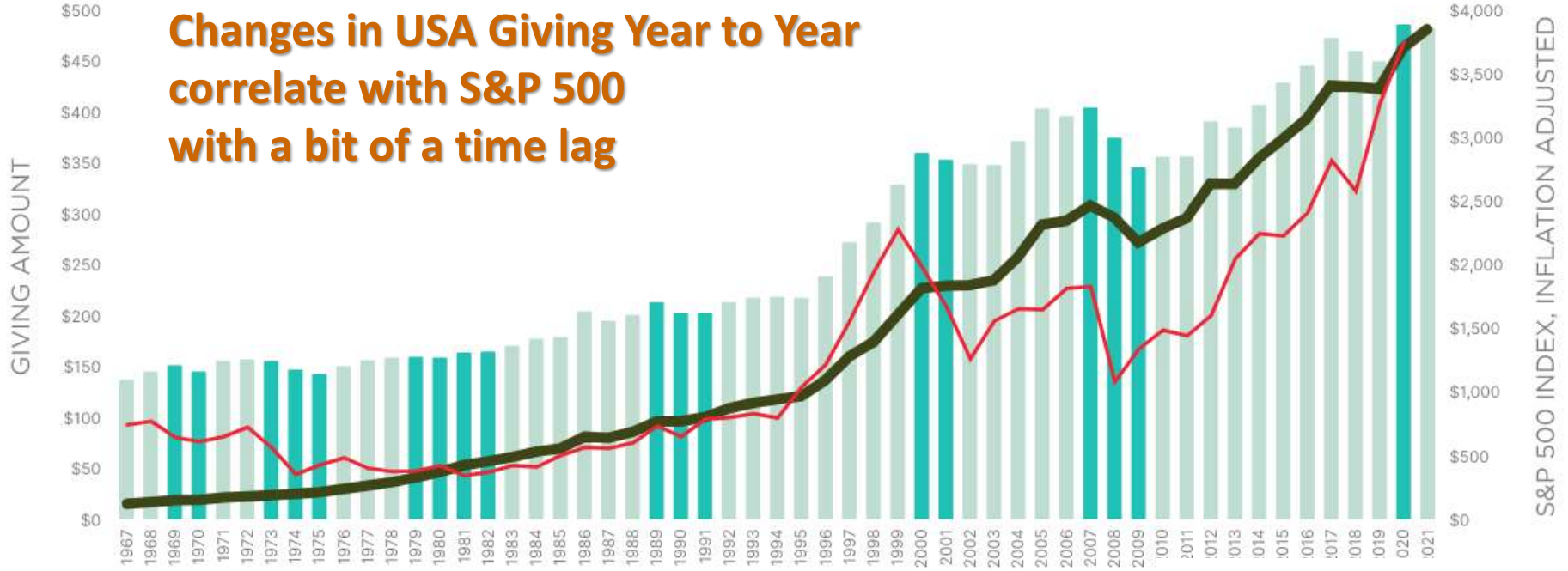
GIVING AMOUNT



- Total Giving (inflation adjusted)
- Years with a Recession
- Years with a Pres. Election
- Total Giving (current dollars)
- S&P 500 Index (inflation adjusted)
- Rate of Unemployment
- GDP (current dollars)
- Points of Decline
- Causes of Inflation
- Global Events



Changes in USA Giving Year to Year correlate with S&P 500 with a bit of a time lag



- Total Giving (inflation adjusted)
- Years with a Recession
- Years with a Pres. Election
- Total Giving (current dollars)
- S&P 500 Index (inflation adjusted)
- Rate of Unemployment
- Points of Decline
- Causes of Inflation
- Global Events



Pressure Points on Charity Revenues

- Donors may be less willing to give cash
- Donors may give less...or not give at all
- Donors who give the same are actually giving less



⇒ FUNDRAISING
EFFECTIVENESS
project

- Number of donors fell by 10% in 2022 (over 2021)
- ≤\$100 donors fell 14.9%
- \$101-500 donors fell 8.4%
- \$50,000+ donors fell only 2.1%
- Donor retention fell 26.4% on top of a 7.2% decline in 2021

Q1 2023 Report (8/9/23)

- Dollars decreased by 0.7%
- Donors decreased by 3.8%
- While overall retention increased by 1.3%, retention in all categories of donors dropped
- New donor acquisition remains a challenge



A large, stylized yellow logo consisting of the letters 'G' and 'I' stacked vertically.

Giving USA™

A public service initiative
of The Giving Institute

- \$499.33B in 2022
- Down 3.4%
- Only 4th drop in 40 years

Endowment Performance for FY 2022 (7/1/21-6/30/23):

- Total Assets ↓ 4%
- Average Return ↓
 - FY 21 = 30.6%
 - FY 22 = -8%
- New gifts ↑ 22%



Pressure Points on Charity Expenses

- Need for higher salaries to keep and recruit staff
- Rising cost of goods and construction
- Loss of volunteers...gas costs...2nd job

Inflation's Impact on Individual Philanthropy

Richard Nixon?



*Tax Reform
Act of 1969*



Inflation's Impact on Split-Interest Gifts

5 Factors in Determining Income Tax Charitable Deduction

1. Type of Instrument: CGA, CRAT, CRUT, etc.
2. % Payout: higher = lower deduction
3. Frequency of Payments: more = lower deduction
4. Length of Trust Term: longer = lower deduction
5. § 7520 Rate: higher = higher deduction

§7520 Rate

- AKA...Applicable Federal Midterm Rate
- IRS mandated assumption of rate of return
- It's actually 120% of the AFMR
 - 3, 5, and 7 year Treasury Bills' rate of return
 - Calculated monthly since 1989
 - Statute set it at 10% prior to 1989

§7520 Rate

Over Time:

- 1998 = 5.4%
- 2003 = 3.0%
- 2012 = 1.0%
- 2020 = 0.4%
(Aug-Nov)

2022:

- January = 1.6%
- April = 2.2%
- July = 3.6%
- October = 4.0%
- December = 5.2%

2023:

- January = 4.6%
- April = 5.0%
- July = 4.6%
- October = 5.4%

CRAT vs. CRUT Deductions

\$100,000 Gift

Age	CRT %	CRT Type	Pmt. Freq.	\$7520 rate	Charitable Deduction
72	5%	CRAT	Qtrly	0.4%	\$39,995*
		CRUT		0.4%	\$55,101
		CRAT		4.0%	\$52,544
		CRUT		4.0%	\$55,759

* Fails 5% Probability Test

CRAT vs. CRUT Deductions

\$100,000 Gift

Age	CRT %	CRT Type	Pmt. Freq.	§7520 rate	Charitable Deduction
72	5%	CRAT	Qtrly	4.0%	\$52,544
	5%	CRUT			\$55,759
	8%	CRAT			\$28,857*
	8%	CRUT			\$41,115

* Fails 5% Probability Test

CRAT vs. CRUT Deductions -\$100,000 Gift

Age	CRT %	CRT Type	Pmt. Freq.	\$7520 rate	Charitable Deduction
72	5%	CRAT	Qtrly	4.0%	\$52,544
72		CRUT			\$55,759
80		CRAT			\$66,390
80		CRUT			\$68,040

72 = 14 years life expectancy ... 80 = 9 years

Charitable Gift Annuities

- Factors to consider:
 - ACGA recommended rates...increased as of July
 - New IRS mortality table...people live longer
 - § 7520 rate increases
- Inflation makes CGA's slightly less valuable
- Recession makes CGA's look solid

Charitable Gift Annuities

- 79-year-old single
- Cash gift in 2022
- 6.2% gift annuity

§7520 Rate: 2022	Charitable Deduction	Annuity Payment
5.2% December	54.9% of gift amount	Ord Inc=45.8% Tax Free=54.2%
1.6% January	49.9% of gift amount	Ord Inc=18.4% Tax Free=81.6%

**As 7520 Rate Rises:
Deduction rises... Tax-free income falls**

Other Split Interest Gifts

- CLAT
 - Higher 7520 rate reduces the charitable deduction
- Retained Life Estate
 - Higher 7520 rate reduces the charitable deduction

Philanthropic Options with Stocks

Donor Psychology

Psychic Bearishness



Myopic Loss Aversion





- \$5,000 in 2012
 - \$40 per share
 - 2023 value = \$92,000
 - \$182 per share
 - 1,740% increase
- Current value = \$145 per share
 - Donor feels that she has “lost” money
 - But she has \$105 per share gain!



Charitable Portfolio Rebalance

- ***DON'T*** write a check for \$10,000
- Give the appreciated stock instead
- Then repurchase the same stock with the \$10,000 you were going to give

Benefits of the Charitable Portfolio Rebalance

- Avoid capital gains tax on the gift
- Donor increases cost basis in a stock she/he wants to keep in his/her portfolio

The Role of Fixed Income Instruments

Older Donors and Fixed Income

CD = Certificate of Deposit
(Not these 🎵)

\$\$\$
CERTIFICATE

HOW IT WORKS

- 1 Put in a lump sum of money
- 2 Wait a specified period of time
- 3 Withdraw your money plus interest!



- Joan, age 76, owns a large amount of CD's and US Savings Bonds
- She receives no current income from them

What Can Joan Do?

- Joan cashes in CD and/or US Savings Bond = \$50,000
- Joan uses that cash to establish a 6.8% CGA
- Joan's \$3,400 annual payments are taxed:
 - Tax-free = \$2,805
 - Taxable = \$1,474
- Joan's annual income goes from \$-0- to \$3,400!
- Joan's security remains high
- Don't forget to pay taxes on the Savings Bond interest

Leveraging the Gift

- Each year:
 - Joan keeps \$2,111, her tax-free income
 - Joan authorizes charity to retain the taxable \$939
- Joan receives a 1099-R for \$939 and a gift receipt for \$939 from charity

Philanthropic Options with Real Estate

“Contribution of a remainder interest in personal residence or farm” - § 170(f)



- ≤ 2 Lives
- Irrevocable
- Give 100% of interest
- Any personal residence



“Farm”

- Ag Products or Livestock
- Wine vs. Weed
- Can use only the *Big House*

R.L.E. Mechanics

- Deed to Charity, Donor retains life estate in the deed
- Don't forget to record the deed!
- Incidents of Ownership to the Life Tenants
 - Do what you want, mostly
 - Fix the roof...replace the furnace...etc.
 - Side Agreement for maintenance and upkeep

CRT + Sale of Partial Interest

- Warren and Florence own \$1.2M home
- \$300,000 cost basis... No mortgage
- Need \$400,000 for retirement community move



CRT + Sale of Partial Interest

- Transfer 60% of home to CRUT
- They keep 40% of the home
- Home sells, real estate fees paid:
 - CRUT funded with \$675,000
 - Warren and Florence receive \$450,000

CRT with Partial Interest: Outcomes

- Warren & Florence have \$\$ to move
- They receive annual \$\$ from CRUT
- They receive income tax charitable deduction
- They make a generous charitable gift !!



The Return of the Pooled Income Fund?

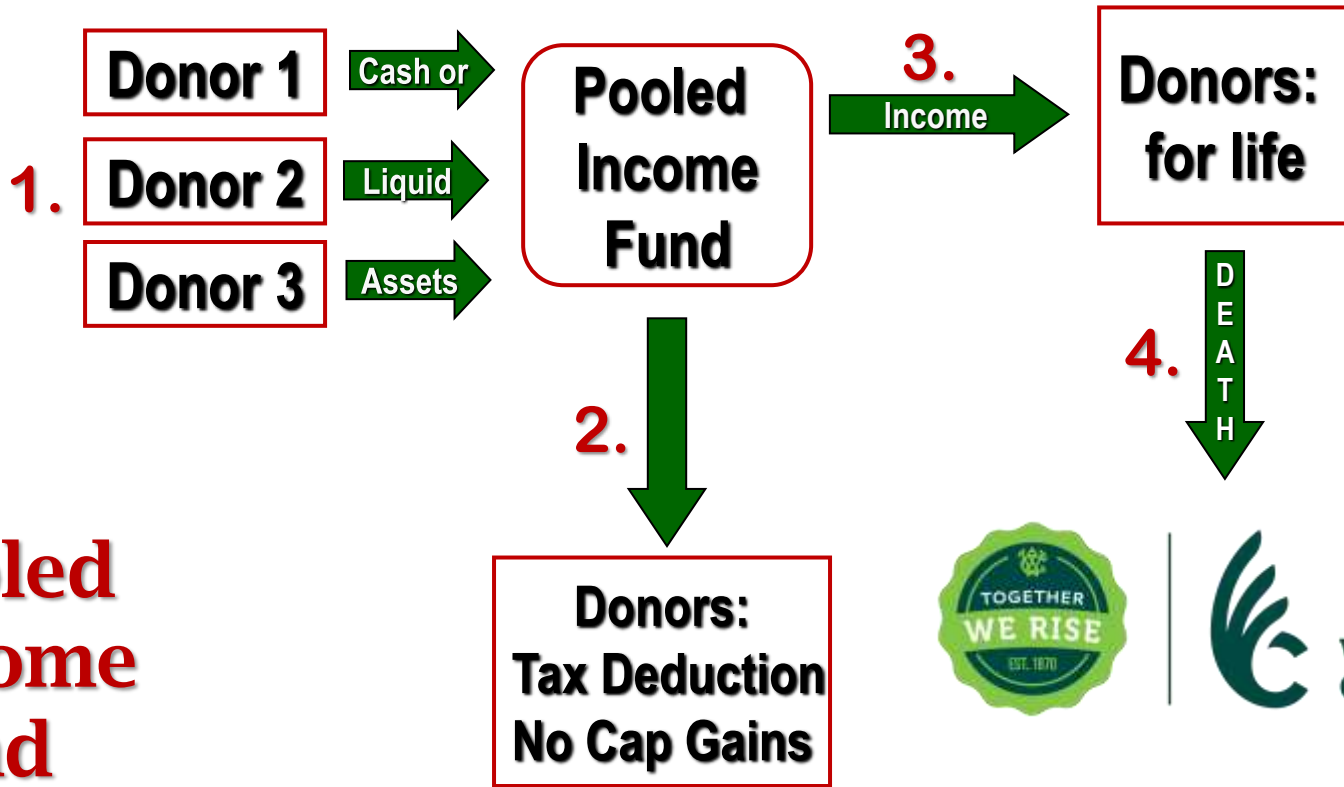
The PIF is Dead...



- Anemic % payments, at best
- Very low charitable deductions
- Why would anyone make a gift to one?

Pooled Income Fund Basics

- §642 of the Internal Revenue Code
- Essentially, a charitable mutual fund
- Gifts of many donors commingled
- Charity MUST manage the PIF...
consider it a wholly-owned subsidiary
- No minimum payout requirement
- Paid for lives only...no term PIF



Pooled Income Fund Mechanics

PIF Income

- PIF pays only the income it earns
- Income defined by State Principal & Income Act
 - Interest & Dividends
 - Produces very low income to donors in recent years
- 2004 Treasury Regulations
 - Income can be defined as total return in PIF document
 - Allows donors to get much higher payouts

New 2023 PIF: The Math

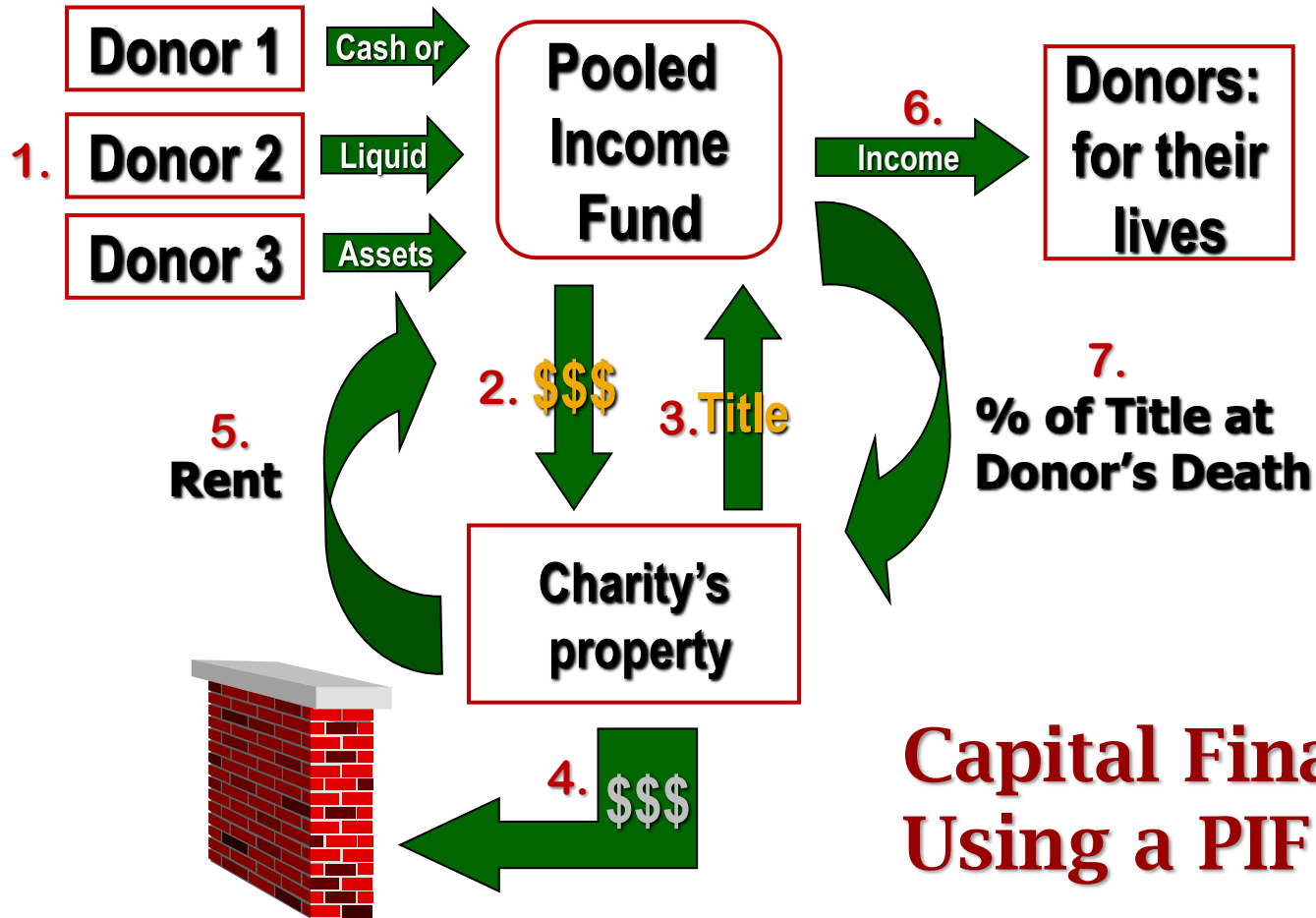
1 Life:	Age	Charitable Deduction	2 Lives: Ages	Charitable Deduction
	50	52%	50/50	45%
	55	57%	55/55	49%
	60	62%	60/60	54%
	65	67%	65/65	60%
	70	73%	70/70	65%
	75	78%	75/75	71%
	80	83%	80/80	77%
	85	87%	85/85	83%
	90	91%	90/90	87%

*2.2% calculation rate

It's Alive...

- IRS definition for new PIF's = Huge charitable deductions!
- Increased interest rates = bigger PIF payouts





Capital Financing Using a PIF



Thank You...

