



Planned Giving in a Volatile Economy

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U.S. equity markets were volatile in 2018, with abrupt and substantial fluctuations both up and down. There are conflicting data that investors must reconcile. On the one hand, unemployment is at historic lows and economic growth and corporate earnings support investor confidence. On the other hand, increases in interest rates suggest the possibility of resurgent inflation, while continued uncertainty around trade policy and strained relations with some of America's closest allies raise concerns for all investors. The Dow plunged 1,883 points in the six days before December 24 and the S&P 500 was off 20% from its high in September. Equities then rallied at the end of December and the beginning of 2019. There are indications that markets have now calmed, at least for the moment.

Economic uncertainty and concerns about market volatility are on the minds of planned giving donors. To be successful in this economic climate, there are certain things planned giving specialists need to know.

Flexibility - Bequests and Beneficiary Designations

Bequests

For the typical charity, bequests and other revocable gifts, such as beneficiary designations and provisions in living trusts, constitute over 80 percent of planned gifts. In fact, at many charities, the planned giving program is essentially a bequest program. Estate gifts appeal to many because they are exceedingly flexible and can fulfill multiple priorities.

Individuals may be reluctant to make large outright gifts or even life income gifts because:

- they need the income and access to the principal from their investments for living expenses
- they need liquid assets for operating their business ventures
- they want to retain control of assets during lifetime in case of unforeseen expenses, as fears of catastrophic medical expenses often loom large in the minds of elderly donors

To address these concerns, a donor might be willing to arrange a future gift if they can retain possession of their assets and reduce or revoke the gift should family circumstances change. The most common way to do this is through a bequest, understanding that term to include a provision in a living trust as well as a provision in a will.

There are obstacles to motivating a prospect to visit an estate planner to create or modify an existing will or living trust to include charity. Creating an estate plan (regardless of whether charity is included) is inherently a death reminder. Academic research confirms what one might suspect: most people have a significant aversion to death reminders. Considering the orderly disposition of one's assets also requires addressing family and relationship issues that may be difficult to confront. Finally, working with an estate planning attorney costs money and can be quite expensive.

Beneficiary Designations

A less complicated and no-cost alternative to adding charity to a will is to name a charity as a beneficiary of a retirement account (IRA, 401(k), 403(b), etc.), life insurance policy, or other financial account.

An end-of-life gift from a retirement account is probably the most tax-advantaged of all gifts a person can make. The reason is that retirement plan assets given to charity are not subject to income or estate tax. If individuals are named as beneficiaries of these funds, they will be subject to income tax on the funds they receive, and if one's estate is over the then current estate tax exemption and anyone other than a spouse is named as beneficiary, the retirement funds will be subject to federal estate tax as well (and possibly to state estate tax depending on where the person resides).

The procedure for making a beneficiary designation gift is quite simple. The donor requests a change-of-beneficiary form from the plan administrator, life insurance company, or financial service provider and indicates on it the percentage of the account to be distributed to each charity named.

Gifts of Appreciated Assets

Although equity markets experienced volatility at the end of 2018, planned giving donors have been invested in the market for many years. In order to lock in gains and make the most tax-efficient gift, securities still present a unique opportunity in times of market volatility.

Gifts of publicly traded appreciated securities that have been held at least one year can be the least costly outright gift a donor can make. The sale of securities that have appreciated in value triggers capital gain income to the seller that can be taxed at a rate as high as 23.8%. A gift of those securities to charity avoids all of the capital gain income that would be triggered if the securities were sold.

Let's look at an example. A donor purchased 100 shares of Microsoft stock on 9/29/2017 for \$74.49 per share. Just one year later, Microsoft closed on 10/1/2018 at \$115.21 a share. If the donor were to sell those 100 shares on 10/1/18 it would trigger \$4,072 of capital gain

income. The capital gain tax on the sale of that stock would be \$969 if taxable at the 23.8% rate.

Now let's look at a gift of those 100 shares of Microsoft to charity on 10/1/18. The gift would not trigger any capital gain income, nor would there be any capital gain tax due. In addition, the donor would be entitled to an income tax charitable deduction for the fair market value of the stock. That value is computed based on the average of the high and low selling prices on the date of the gift. On 10/1/18 that average was \$115.21 per share. Therefore, the donor would be entitled to an income tax deduction of \$11,521.

Assuming a federal income tax rate of 40.8% and assuming the donor itemizes income tax charitable deductions, the federal income tax savings would be \$4,701. After subtracting the income tax savings and capital gains tax savings from the \$11,521 value of the Microsoft stock, the donor's out-of-pocket cost to make the gift is only \$5,851. The donor would enjoy even higher tax benefits if subject to state capital gains taxes and state income taxes. (To illustrate how the market has rebounded, Microsoft closed at \$94.13 on December 24, 2018 and closed at \$ 103.60 on January 10, 2019, an increase of 10.1%.)

Why Charity Should Encourage Gifts of Securities and Non-Cash Assets

There are other reasons charities should encourage gifts of securities and other non-cash assets. In his study entitled *Cash Is Not King for Fundraising: Gifts of Noncash Assets Predict Contributions Growth*, Dr. Russell James, Professor & Director of Graduate Studies in Charitable Financial Planning at Texas Tech University, concluded that charities that receive gifts of securities and non-cash assets raise more money. He looked at the 5-year average growth in total fundraising based a review of one million Form 990s. He found that among charities receiving only cash gifts there was an 11% increase in giving over the 5-year period. Among charities receiving any non-cash gifts there was a 50% increase in giving over the 5-year period. Finally, among charities receiving securities and non-cash gifts there was a 66% increase in giving over the 5-year period.

Dr. James found that shifting to gifts of non-cash assets drives total fundraising growth across every nonprofit sector and charities large and small experienced the same growth. As Dr. James aptly concluded, if you are asking for cash, you are asking small.

Conclusion

Bequests and beneficiary designations continue to be the main source of all planned giving revenue. The flexibility of these arrangements makes them appealing to donors even in times of economic uncertainty. You can show your respect for the financial concerns of older donor by continuing to market and talk about estate giving through good times and bad.

Donors looking to get off the merry-go-round of the market may want to lock in their gains with a gift of appreciated securities. The tax benefits of these gifts are compelling for many donors. Appreciated property gifts have the added benefit of being a potential source of substantial increased total giving to your charity.