

Give & Take

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The Impact of Stock Market Volatility on Charitable Gift Planning

by Barlow Mann

When the stock market fluctuates dramatically, what should gift planners do? Read on to find out.

With the roller coaster activity sustained by the stock market in the past several months, one might expect some investors, especially those at or near retirement age, to be reconsidering their level of commitment to a market experiencing this kind of volatility. But news reports indicate that the ups and downs of the market have yet to shake the confidence level of most investors. Apparently both long-term and novice investors recognize that markets will invariably go up and down. In addition, many investors recognize that short-term downward fluctuations may even provide opportunities to buy additional stocks at a discount.

Stocks fuel record giving

According to the *Giving USA* report on charitable giving in America in 1997, gifts of appreciated securities were one of the prime reasons that charitable giving reached an all-time high last year. If the current atmosphere of uncertainty and volatility surrounding equity markets continues this fall, what impact might we expect on charitable giving, and what strategies may be beneficial to planned and major gift prospects in the coming months?

Cashing out of the market

First, those who decide to reduce their exposure in the stock market this fall may well find that they have significant amounts of cash on hand as they take their profits,

and in some cases losses, in the market. Some will reinvest in other securities, but many will place their cash "on the sidelines." For these persons, 1998 may be an excellent time to use some of their gains from the long bull market to complete outstanding pledges and otherwise make larger than usual charitable gifts in 1998.

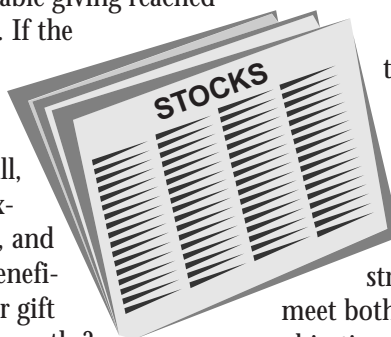
For the higher income donor, selling off a portion of his or her portfolio may also make it possible to give more this year from a tax standpoint. Because percentage limitations (50% for cash and 30% for securities) are based on AGI (adjusted gross income), as securities are sold and more AGI is generated, it becomes possible to deduct larger amounts that might otherwise have needed to be carried over to future years.

There are, however, much more efficient ways to combine charitable giving with the realignment of investment portfolios.

Three alternatives

We start with the fact that there are really only three possible scenarios for the investment markets—they can go up, go down, or trade at current levels. Each of these different scenarios provides planning strategies that can help your donors meet both personal and philanthropic objectives with gifts of appreciated securities.

If a donor believes that the market is headed downward, one strategy would be to make charitable gifts with appreciated securities and to conserve cash. This strategy would allow the donor to fulfill



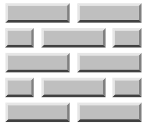
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Phenomenal bequests from frugal, yet savvy, couple

No one imagined that the estates of chemical engineer Dr. Donald Othmer and his wife and former teacher Mildred Othmer would be worth approximately three-quarters of a billion dollars. When she died in April (he passed away in 1995), the Othmers left a fortune to many of their favorite charitable organizations.

The Polytechnic University of Brooklyn, where Dr. Othmer taught and conducted his research beginning in 1932, stands to receive the largest portion of the Othmer's estate, almost \$200 million, an amount that is nearly four times the school's current endowment. Long Island College Hospital, where Dr. Othmer was a trustee, should receive approximately \$160 million. Planned Parenthood of New York City and the Brooklyn Botanic Garden, organizations where Mrs. Othmer regularly volunteered, are in line to receive \$75 million and \$11 million respectively. Other charitable beneficiaries are also named in the Othmer's wills.

What was the source of the Othmer's wealth? While Dr. Othmer was a successful inventor with over 40 patents for Kodak, a consultant, and professor, it was his and his wife's investment with a young family friend—investment guru Warren

Buffett—in the early 1960s that transformed them into an astoundingly rich couple. However, the Othmers lived an unassuming life and rarely discussed their wealth.

Mr. Buffett said the Othmers “just rode along” over the years, first purchasing shares in Berkshire Hathaway, Mr. Buffett's holding company, in 1969. “They were such high-quality, nice people, who had no children and wanted to translate their wealth into something beneficial to society,” Mr. Buffett said.

And, according to Mr. Buffett, there are more people like the Othmers whose investments with him will lead to tremendous charitable bequests. “There are more coming,” he stated. “There are going to be some bigger ones than this.”


Source: *The New York Times*, July 13, 1998

A gift of flight

Northwest Airlines donated 11 million frequent flier miles and \$100,000 to St. Jude Children's Research Hospital and the Juvenile Diabetes Foundation. The hospital will use the miles to fly patients and their families to the Memphis facility for medical treatment.

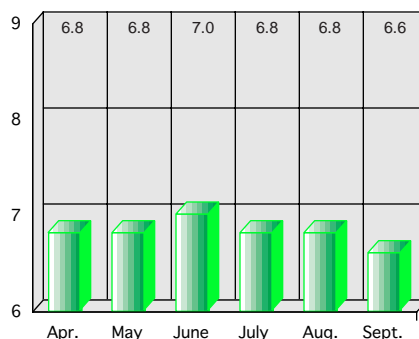
Source: *The Commercial Appeal*, Memphis, TN, July 10, 1998

It may be Greek to give

According to a survey sponsored by the research Initiative of the National Panhellenic Conference and the National Interfraternity Conference, members of the Greek system are inclined to be more generous than their non-Greek counterparts. Twenty-two percent of fraternity and sorority alums said they gave between \$500 and \$1,000 to their alma maters in 1996. Only 4.2% of non-Greeks reported giving at the same level. At higher giving levels, the results were similar, with 11% of Greeks contributing at the \$1,000 to \$5,000 level, compared with 1.4% of non-Greeks. 

Source: *American Demographics*, July 1998

Discount Rates



The trend in adjusted federal mid-term rates (AFMRs), which are used in calculating the benefits of split-interest gifts.

Untangling the Web—Should Charities Be on the Internet?

Educational institutions may have been some of the first organizations to embrace it by virtue of its origins in defense research and communication, but now everyone from grandmothers to grandchildren is using it every day. What is it that has so many people excited? It's the Internet, a communications revolution like few that has been experienced in the history of the world. With this technology sweeping the globe, many charitable organizations and institutions have found themselves asking, "What can the Internet do for us?"

Before you spend your endowment on a flashy Web site, or, conversely, veto going online altogether, you may want to consider the results of a survey conducted by Luntz Research Companies for *Wired* magazine and the Merrill Lynch Forum.

Boomers and young adults vs. 55-plus age group

The Digital Citizen Survey, conducted in September 1997, divided those questioned into different categories depending on their use of computers and online technology. If you send e-mail at least three times a week and use at least three of the following technologies regularly—a cellular phone, a pager, a laptop, and a home computer—you are considered "connected" in this survey. An "unconnected" individual does not use e-mail or any of the listed technologies.

According to the survey results, age is a good indicator of computer and online usage. The survey found that the majority of computer owners and technology advocates are baby boomers and young adults. Of those considered to be "connected," 73% are between the ages of 30 and 54. Forty-eight percent of "connected" individuals are female so there appears to be little or no "gender gap" in connectivity.

Of interest to gift planners, however, is the fact that Americans, age 55 and older, do not yet appear to be "connected" for the

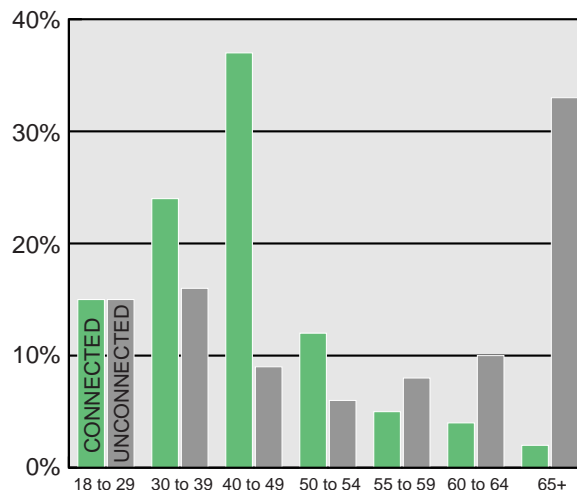
most part. Only 5% of the 55-59 age group are "connected," and that number drops to 2% (one out of fifty) for those 65 and over.

Are "connected" Americans among your constituency?

With the apparent technological generation gap, development professionals who are considering how to best utilize the Web for their charitable organizations may need to take a fresh look at the age of their donors. Organizations and institutions with a high percentage of younger donors and baby boomers may find that an online presence would serve them well as a communications and fund-gathering tool. Many educational institutions are already using their Web sites to keep in touch with alumni who are scattered across the country and sometimes around the world.

On the other hand, charitable entities with donor bases consisting of mainly older individuals may not need a great presence online—at least not yet. According to the survey, the older Americans who make up the current "unconnected" category do not expect to own a computer in the near future. Therefore, trying to communicate with this group online is probably not a good idea and where budget is limited, it might be best spent in communications with this group using print, personal visits, and more traditional media. An exception may be older donors who are extremely affluent and/or those who may have recently retired from employment that required them to be "computer literate." Future research may shed more light on this aspect of the market.

New survey may help nonprofits decide if, and how, they should use new technology.



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Stock Market Volatility . . . *Continued from page 1*

Have your donors considered combining their personal and charitable gift planning?

charitable obligations with “paper profits” that the donor thinks could be eroded by a decrease in the market while, at the same time, preserving cash for other purposes. The donor enjoys a federal, and perhaps state, income tax deduction based on the full value of the donated property, and capital gains tax is bypassed entirely.

If your donor is uncertain as to whether the market will continue to go up or down, you might suggest that, instead of giving cash, he or she consider making outright gifts using appreciated securities. Then the donor can use the cash that might otherwise have been donated to repurchase additional shares of the same stock at today’s value. That way, if investments lose value in a market correction, the donor will have a capital loss to declare for tax purposes. On the other hand, if the markets go up, the donor will enjoy a new, higher cost basis in the stock that “replaced” the donated stock.

If your donor would simply like to reduce his or her position in the market, the donor may want to consider a combination of giving some shares of a stock and selling the remaining shares. This is called a “balanced sale” of the stock.

Take a closer look

Let’s examine how a balanced sale works. Suppose George White owns stock worth \$20,000. He invested just \$5,000 ten years ago. He believes that the stock is unlikely to increase in value in future years and he would like to sell it. He does not, however, wish to pay capital gains tax of as much as \$3,000, leaving him with net sale proceeds of no more than \$17,000.

Mr. White is also interested in making a charitable gift of approximately \$6,000 while enjoying the greatest tax savings in his 36% tax bracket.

Here is how a balanced sale would help him accomplish both of his objectives.

	Step 1 Give \$6,000 in securities	Step 2 Sell \$14,000 in securities
Gift value	\$6,000	-0-
Ordinary income tax savings	\$2,160	-0-
Capital gains tax liability	-0-	\$2,100
Net tax due	-0-	-0-

Let’s examine the chart above.

Note that the \$2,160 in tax savings from the gift more than offsets the \$2,100 in capital gains tax due on the securities he sold. The tax liability on the portion of the securities that are sold is thus “balanced” by the tax benefit for the charitable gift portion.

Mr. White is able to enjoy cash proceeds of \$14,000 and the satisfaction of making a \$6,000 gift, a total of \$20,000 in value to him, while effectively bypassing capital gains tax liability. Had he sold all of the securities, he would have netted just \$17,000 after paying some \$3,000 in taxes. Mr. White has thus been able to make a \$6,000 gift at an after-tax “cost” of just \$3,000.

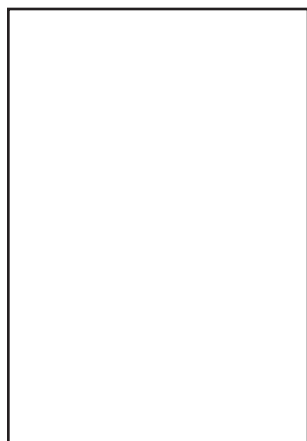
Converting gains to income

In today’s environment, many donors may wish to use securities that have increased in value in recent years to fund gift annuities, pooled income funds, charitable remainder trusts, and gifts that provide additional income for themselves and/or loved ones for life or other period of time. This can be an excellent way to unlock value from appreciated securities while reducing tax liabilities and providing an additional source of income for the future.

Communication is the key

While these strategies may seem obvious to charitable gift planners, it is doubtful that many of your donors have seriously considered the possibility of com-

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Barlow T. Mann is an attorney and chief operating officer of the Sharpe company. He designs planned giving programs for a number of America's nonprofits, presents seminars, and authors many articles on gift planning.

Viatical Settlements—A Matter of Life and Death and Charity

According to the 1997 *Life Insurance Fact Book*, there is \$14 trillion worth of life insurance in force. More than three-quarters of all American households own life insurance at an average of \$170,900 per family.

With the aging of America's baby boomer population, it seems only logical that many Americans are turning to life insurance to provide financial protection for loved ones should the insured die prematurely. However, while many are using life insurance to provide death benefits for their families, a growing number of people are also finding other uses for life insurance.

Viatical settlements—a viable option?

The *Life Insurance Fact Book* reports that more life insurance is paid out each year in life benefits than death benefits. Why? Because owners of life insurance are taking advantage of the many options available to them to tap this financial resource as they grow older and the need for the protection afforded by death benefits diminishes over time.

For example, many people approaching retirement choose to convert life insurance policies into an annuity that provides them with additional cash flow. Others discover they can make the largest charitable gifts of their lifetime by utilizing new policies or those that are no longer needed for their original purpose. And in some cases terminally ill individuals have decided to take

lifetime settlements of death benefits that would otherwise be received by the policy beneficiary(ies) at their death. These funds can then be used to provide for current financial needs such as medical and living expenses. Such an arrangement is called a viatical settlement.

The growth of viatical settlements in recent years has prompted some people who are not terminally ill to examine their life insurance coverage and ask themselves, "Would a viatical settlement be the right option for me?"

Depending on the circumstances, a life insurance company may pay significantly more than the cash surrender value of a policy under a viatical settlement. Therefore, for individuals with large amounts of unneeded life insurance coverage, a viatical settlement may be a good planning option. Tax consequences of the settlement depend on how long the policy has been held, amount paid for the policy, and other factors.

How nonprofits may benefit


In addition to helping people meet their personal planning goals, viatical settlements, in some cases, may also have philanthropic applications. For example, donors who cash in life insurance policies they no longer need under viatical settlements may increase cash flow and liquidity, which increases their ability to make a

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Viatical settlements may no longer be just for the terminally ill anymore.

Stock Market Volatility . . . *Continued from page 4*

binning their personal and philanthropic planning. To help offset the potential negatives of stock market uncertainty and show donors the many positive alternatives that present themselves in today's environment, it is essential to communicate with key donors and prospective donors this fall about

gift strategies that may benefit them. Charitable organizations and institutions that are prepared to assist donors and their advisors with tips about the most effective ways to give securities in today's economic environment, whatever that may be, will reap benefits in the future. 

(Portions of this article are excerpted from the updated booklets "Taking Stock...and Giving It" and "Your Guide to Effective Giving in 1998." A copy of "Your Guide" is enclosed with this issue of *Give & Take*. For more information on these booklets, please call 1-800-238-3253.)

Footnotes for Gift Planners

News and ideas about Robert F. Sharpe and Company's services and publications. For more information, join us on the Web at www.rfSCO.com.



Updated booklet useful for fall planning


Since 1965 when the first version was published, the booklet "Your Guide to Effective Giving" has served as a valuable tool for use in communicating the most effective gift planning methods to donors. Sharpe editors have just completed updating "Your Guide to Effective Giving in 1998" to reflect the changes and planning opportunities brought about by recent tax legislation.

In addition to featuring information on the latest tax law changes, the new version has also been revised to include additional emphasis on gifts of retirement plans, bequests, and other planned giving tools. As the traditionally busy fall giving season gets into full swing, you may want to have updated copies of "Your Guide" on hand to provide to donors who are planning their gifts for this tax year. A copy of "Your Guide" is enclosed with this issue of *Give & Take*.

Note: Remember you may combine quantities of various booklet titles when you order to take advantage of price breaks for larger quantities. For more information or to place your order, please call 1-800-238-3253 or fax your order to (901) 761-4268.

Year-end brochures on the Web

If you would like to see samples of Sharpe year-end giving brochures, please visit our Web site at www.rfSCO.com, and click on the "Donor Communications" icon. You can view the brochure covers in full-color, read the text of the brochures, and even print out copies directly from the Web site. This is an easy and convenient way to review year-end giving materials, especially if you are in a hurry to place an order. Brochure prices are also available on the Web site.

To order, you may e-mail us by following the instructions on the Web site or call 1-800-238-3253. You may also fax your order to (901) 761-4268. 


Viatical Settlements . . . *Continued from page 5*

charitable gift now or in the future. A donor may also be able to use the proceeds from a viatical settlement to fund a life income gift arrangement such as a charitable gift annuity.

Charitable organizations and institutions may also decide to consider viatical settlements for life insurance policies that donors have already given. This would allow nonprofits to "cash out" on some policies before the cash values and/or death benefits vanish and could help salvage charitable life insurance programs that are floundering.

Creative ideas abound

With trillions of dollars in life insurance already in force, gift planners and other advisors may wish to consider the

many ways that this existing pool of insurance can be used to help donors with their giving plans. Viatical settlements are certainly one option to think about. However, keep in mind the other ways donors may give life insurance to benefit your organization, such as gifts of existing policies, gifts via beneficiary designation, donations of life insurance dividends, and wealth replacement gifts. In any event, gift marketing materials should periodically summarize the ways life insurance can be used to make charitable gifts during lifetime or at death that are of a magnitude that may not otherwise be possible. 

Additional information is available in the 1997 *Life Insurance Fact Book* published by The American Council of Life Insurance, 1001 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2599.

Training Update

Major Gift Planning I - Options and Opportunities

In two concentrated, information-packed days, presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., discuss the most important facts gift planners need to know to successfully guide their organizations into the 21st century. By linking their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants through a comprehensive training experience.

Make sure you are prepared to meet your donors' needs in the future by attending this popular seminar. Registration is always limited to allow for more interaction between participants and instructors.


Major Gift Planning II

For the more experienced gift planner there is "Major Gift Planning II," which focuses on applying various planning tools to help donors meet multiple goals while

making significant gifts. A working knowledge of various gift planning vehicles is assumed. Special emphasis is placed on the impact of recent tax legislation.

Instructors Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., pay particular attention to the practical challenges facing today's fund gatherers.

Planned Giving When That's Not All You Do

If you're responsible for more than planned giving, this one-day seminar will help you focus your efforts. "Planned Giving When That's Not All You Do" is designed to broaden the knowledge of gift planning throughout your organization, from your CEO or president to the support staff who may be first on the phone with donors. Your co-workers will become some of your best planned giving advocates once they understand its benefits for your donors and your institution. 

Multiple registration discounts are available. For more information or to register, please contact the Sharpe company. Phone 1-800-238-3253, ext. 360; Fax (901) 761-4268; Web site www.rfsco.com; E-mail seminars@rfsco.com

Seminar Training Dates

Major Gift Planning I

New York
September 14-15

Pasadena
October 12-13

Kansas City
November 9-10

Major Gift Planning II

Washington, D.C.
December 3-4

Planned Giving When That's Not All You Do


Chicago
September 11

Web . . . *Continued from page 3*

But as the current group of "connected" baby boomers replaces the older generation, we will most likely begin to see an even larger number of computer-savvy people aged 50 and older. And that may mean development professionals will have to rethink the way their organizations use the Internet and other technologies to reach these donors.

Online—in your own time

Boomers are already computer enthusiasts, and they are also going to be the beneficiaries of an estimated \$8 trillion to \$11 trillion wealth transfer over the next 40

years. With that in mind, gift planners will increasingly need to be aware of the demographic profile of their donors in order to determine just how "tangled" in the Web their organizations should be. Whether an organization simply decides to add e-mail capability or chooses to maintain an elaborate Web site with extensive planned giving information available to the browsers among their constituency, the decision to offer online services to donors should be determined on a case by case basis with an idea to your donors' preference for communication and information gathering, and how that may be shifting over time. 

(For more information, you may review the results of the Digital Citizen Survey on the *Wired* Web site at www.hotwired.com/special/citizen.)