Inflation's Impact on Giving

Presented by Eddie Thompson, Ed.D., FCEP

with Panelists

Jerry Linzy

Russell James, J.D., Ph.D., CFP®

Susan Doliner

Thompson & Associates℠

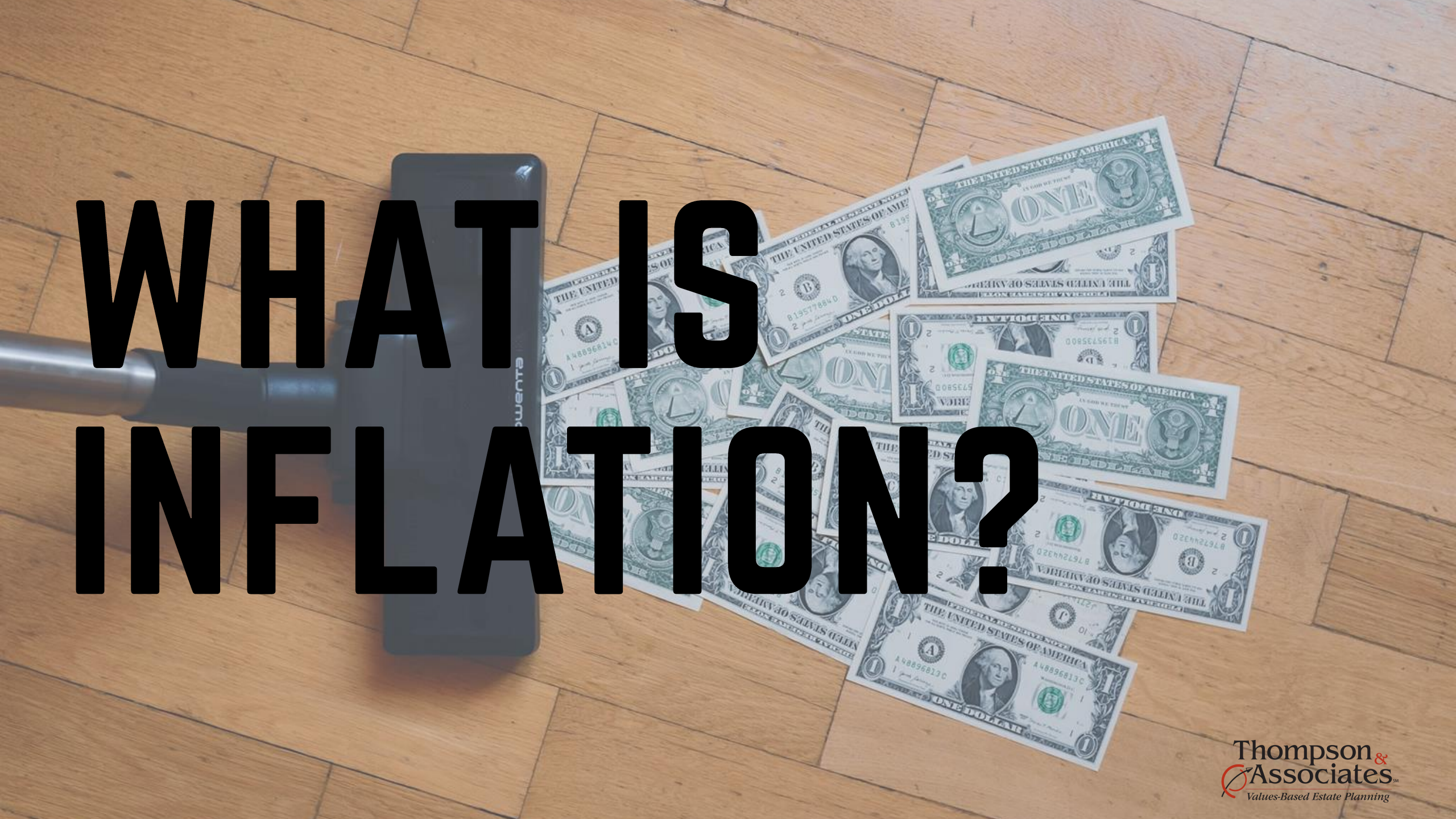
Values-Based Estate Planning

Introduction

- I began my career in 1980
- My career started at a conference of University Presidents
- We remember:
  - Inflation rates over 14%
  - We bought our first house with an interest rate of 19%
  - CDs were paying 16-18%
  - Credit card rates were 32-35%
- Just hearing the word *inflation* makes individuals over 60 hearts skip!

Thompson & Associates℠
Values-Based Estate Planning

WHAT IS INFLATION?



Thompson & Associates
Values-Based Estate Planning

4 Main Types of Inflation

Categorized by their speed

Creeping

Walking

Galloping

Hyperinflation

Thompson & Associates℠
Values-Based Estate Planning

Creeping

- Creeping or mild inflation is when prices rise 3% a year or less
  - According to the Federal Reserve, when prices increase 2% or less, it benefits economic growth
- This kind of mild inflation makes consumers expect that prices will keep going up
  - Which, in turn, boosts demand – consumers buy now to beat future higher prices
  - That's how mild inflation drives economic expansion
  - For that reason, the Fed sets 2% as its target inflation rate
- We want a little inflation

Walking

- This strong, or destructive, inflation is between 3-10% a year
- It’s harmful to the economy because it heats-up economic growth too fast
- People start buying more than they need to avoid tomorrow's much higher prices
- This increased buying drives demand even further so that suppliers can't keep up
- More important, neither can wages. As a result, common goods and services are priced out of reach for most people
- This is what we are experiencing today

Thompson & Associates℠
Values-Based Estate Planning

Galloping

- When inflation rises to 10% or more, it wreaks absolute havoc on the economy
- Money loses value so fast that business and employee income can't keep up with costs and prices
- Foreign investors avoid the country, depriving it of needed capital
- Galloping inflation must be prevented at all costs
- This is what we experienced in the early 1980s

Thompson & Associates℠
Values-Based Estate Planning

Hyperinflation

- When prices skyrocket more than 50% a month – it is very rare
- In fact, most examples of hyperinflation occur when governments print money to pay for wars
- Examples of hyperinflation include Germany in the 1920s, Zimbabwe in the 2000s, and Venezuela in the 2010s
- The last time America experienced hyperinflation was during the Civil War

Thompson & Associates℠
Values-Based Estate Planning

Core Inflation

- The core inflation rate measures rising prices in everything *except* food and energy
  - That's because gas prices tend to escalate every summer
  - Families use more gas to go on vacation
  - Higher gas costs increase the price of food and anything else that has high transportation costs
- The Federal Reserve uses the core inflation rate to guide it in setting monetary policy
  - The Fed doesn't want to adjust interest rates every time gas prices go up

*The concept of core inflation as aggregate price growth excluding food and energy was introduced in a **1975** paper by Robert J. Gordon.*

What is the cause of inflation?

01 Demand-pull

- Occurs when a surge in demand outpaces supply, sending prices higher
- The most common cause of rising prices
- Happens due to increased consumer spending from:
  - A growing economy;
  - A sudden rise in exports; or,
  - More government spending
- Over-expansion of the money supply can also create this type of inflation; when money supply expands, it lowers the value of the dollar
  - Supply can increase through expansionary fiscal or monetary policies, which are enacted by the federal government

02 Cost-push

- Occurs when a supply shortage is combined with enough demand to allow producers to raise prices
- Several contributors to inflation on the supply side:
  - Global supply chain disruptions (like the pandemic caused)
  - Natural disasters create temporary cost-push inflation when production facilities are damaged (Hurricane Katrina)
  - Government regulation and taxation, such as tariffs or subsidies
  - Lowered currency exchange rates affects imports

What is the cause of inflation?

01 **Demand-pull**

02 **Cost-push**

These two inflation causes often go hand-in-hand:

- Instead of tightening the money supply to stop inflation, the government or central bank might continue to print more money
- With too much currency sloshing around, prices skyrocket
- Once consumers realize what is happening, they expect continued inflation:
  - They buy more now to avoid paying a higher price later
  - That excessive demand aggravates inflation
  - It's even worse if consumers stockpile goods and create shortages

Effects of Inflation

- People lose their savings as cash loses its value
  - The elderly are the most vulnerable to inflation
- Unemployment rises as companies struggle
- Government tax revenues fall; has trouble providing basic services to those in need
- The government prints more money to pay its bills, worsening the inflation
- The need for charity grows with inflation
  - But, will the gift numbers and sizes decline?

GIVING IS DRIVEN WHEN DONORS FEEL GOOD ABOUT THEIR FINANCIAL SECURITY

- There is robust recovery
- Labor shortages drive up wages
- But, gains in wage increases are less than the rise in expenses
- AP-NORC poll:
  - 25% have seen a wage increase
  - 67% have seen a greater increase in expenses
  - Overall, 89% of the country confirms they are experiencing some impact from rising prices

Thompson & Associates℠
Values-Based Estate Planning

Inflation Impact on Donors

- Higher living expenses (food, heating & cooling, interest rates, etc.)
- Income can't keep pace with higher living expenses
- Less likely to give to charity or at least to fewer charities

- Fixed expenses and little or no interest
- Their wealth increases

Inflation has the greatest impact on those who are already struggling!

All of the above is true and the need to help those in need goes up while charitable dollars *may* decrease.

Thompson & Associates℠
Values-Based Estate Planning

Inflation Impact on Giving

- **Most** donors will worry if they have enough to live on
- **Some** donors will not be able to give as much as before or not at all
- **Yet**, there will be excellent opportunities:
  - Many wealthy donors will become wealthier
  - Those who want to give will look for ways to give without giving cash because they believe in you, your organization and its mission

4 Questions Donors Are/Will Ask Themselves

Question 01

Do I have enough to live on for now and the rest of my life?

Question 02

Which charities are my friends?

Question 03

Which charities are really making a difference?

Question 04

Which organizational missions align with my values?

Thompson & Associates℠
Values-Based Estate Planning

What have donors done in the past?

In general, Annual Gift Donors will decide:

- How much they can give to charity
- Which charities they feel closest to
- For example, I've seen:
  - Before inflation, a donor give $100 to 7 charities
  - During inflation, they may give $125 to 5 charities

Major Gift Donors:

- Will continue to give to a fewer number of charities, but will more frequently use highly appreciated assets
- Some will give even more than usual knowing charity is under a great deal of pressure

Types of Gifts Donors Will Be Open to Make

- Charitable IRA Rollover
- Charitable Remainder Trust
- Charitable Lead Trust
- Charitable Gift Annuity
- Reserve Life Estate
- Gifts of appreciated assets
- Bequests

Thompson & Associates℠
Values-Based Estate Planning

WHAT SHOULD YOU DO?

- Start planning your strategy to deal with inflation **today**
- Stay in contact with all your donors!
- Keep filling your donor pipeline!
- Maintain or increase your focus on gift planning
- Who will give during inflation:
  - Those who have enough to live on for the rest of their lives
  - People with little or no debt
  - Those whose debt has a low, fixed interest rate
  - Donors who are looking to cash out of an appreciated asset
  - Sophisticated individuals who are looking for unique tax or gift strategies

Thompson & Associates℠
Values-Based Estate Planning

NEVER GIVE UP, *especially* WHEN IT'S HARD!

Thompson & Associates℠
Values-Based Estate Planning

Today's Panelists

Jerry Linzy
Executive Partner Emeritus
Jerold Panas, Linzy & Partners

Russell James, J.D., Ph.D., CFP®
Professor of Charitable Financial Planning
Texas Tech University

Susan Doliner
Vice President of Philanthropy
Maine Medical Center

Thompson & Associates℠
Values-Based Estate Planning

Jerry Linzy
Executive Partner Emeritus
Jerold Panas, Linzy & Partners

INFLATION'S EFFECT ON CAPITAL CAMPAIGNS

Thompson & Associates℠
Values-Based Estate Planning

Russell James, J.D., Ph.D., CFP®
Professor of Charitable Financial Planning
Texas Tech University

INFLATION'S EFFECT ON GIFT PLANNING

Thompson & Associates℠
Values-Based Estate Planning

Susan Doliner
Vice President of Philanthropy
Maine Medical Center

INFLATION'S EFFECT ON ANNUAL & MAJOR GIVING

Thompson & Associates℠
Values-Based Estate Planning

Questions?

Presented by Eddie Thompson, Ed.D., FCEP

with Panelists

Jerry Linzy

Russell James, J.D., Ph.D., CFP®

Susan Doliner

Thompson & Associates℠

Values-Based Estate Planning