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WEALTH MANAGEMENT

May 2020

Staying the Course: Planned Giving in Uncertain Times

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As COVID-19 continues to impact every facet of our lives, financial markets are responding with historic levels of volatility. One of the underlying factors impacting the financial markets is uncertainty, and that uncertainty can lead to impulsive actions that have unfortunate outcomes.

The same holds true for planned giving both in terms of cultivating planned gifts and investing planned gift assets. Planned gifts are designed to have a future charitable benefit and, generally speaking, have a long time horizon. Making decisions in times of uncertainty without considering the long-term implications can not only have negative financial consequences, but can also result in donors' loss of faith in your organization's ability to support its mission.

To help mitigate these risks, it is important for organizations to monitor and maintain focus on the long-term goals for planned gifts. The following steps can help to ensure sound fiduciary practices and perhaps turn uncertainty into opportunities:

Review risk tolerance, but maintain a long-term perspective

After significant market events like we have just experienced, it is natural for investors to reassess their appetite for and ability to accept risk. When doing this, it is important to remember that the most successful investors maintain discipline and look for opportunities when faced with challenging conditions. History has shown that financial markets recover more quickly than the "real" economy and that missing just a few days during these recovery periods can have a long-lasting impact on investor returns. Now more than ever, it is critical for investors to realistically assess their risk tolerance and rebalance to the appropriate level of market exposure in their portfolios.

Analyze gift projections and monitor recent gifts

Gift timing is a huge factor in the success of a charitable gift annuity (CGA) or charitable remainder annuity trust (CRAT) due to the fixed payout amount. New gifts funded within the past few months may have a hurdle to overcome from the decline in value so soon after funding. However, older and deferred CGAs and CRATs that had the benefit of significant market appreciation in recent years may not be as problematic. Monitor the values of these newer gifts more closely and remember the context when measuring the success of your overall program.

Review required CGA state reserves to ensure adequacy

During periods of market volatility, it is important to review and monitor the adequacy of state reserves more frequently to ensure reserves are sufficient to meet state requirements. Currently, there may be a need to reprioritize cash flows to cover unforeseen expenses related to COVID-19. Diverting funds from those priorities to cover a shortage in CGA reserves could be burdensome.

Monitor income for net income trusts and pooled income funds

Due to declining interest rates and a significant reduction in corporate dividends, we estimate that income investors will experience a decline in income yield of -25%. As a result, net income trust and pooled income fund beneficiaries will likely experience a significant decline in their 2020 income distribution payments. Trustees and administrators should review the estimated income for these beneficiaries, adjust any estimated payments accordingly and proactively communicate the impact to beneficiaries.

Assess charitable unitrust distributions for potential impact

Most charitable unitrust distributions for 2020 were determined based on year-end 2019 market values. Returns in 2019 were some of the best experienced over the last 10 years, and unitrust payments will reflect this. In the face of very difficult economic conditions, most unitrust beneficiaries will see their payments increase year-over-year. The impact from COVID-19 will be felt next year when the trusts are revalued. Assuming that there is an economic recovery in the second half of 2020, the impact to beneficiary distributions will not be as significant as it seems now.

Focus on long-term gift planning growth strategies while adjusting tactically for the short-term

An ability to stay focused on long-term strategies and goals in growing planned gifts will serve your organization, donors and mission in the long run. React and adjust to the changes in the current environment (e.g., finding new ways to steward donors from a distance), but avoid overreaction that will impact your mission in the future. For example, although it may seem counterintuitive, it is important to continue cultivating new CGAs now to ensure a diverse pool of annuitants to mitigate risk, and to provide a healthy asset base that can help to support the pool during challenging financial times.

Provide options for donors to support your mission

Market volatility and economic uncertainty may make donors hesitant to give now; however, donors may be more willing to consider an opportunity to fund a planned gift for future benefit. Testamentary charitable remainder trusts (CRTs) and flexible/deferred CGAs are valuable tools for locking in a gift now for future benefit to the charity and beneficiaries.

In this unprecedented time, it is more important than ever to stay focused on the long-term goals for planned gifts. These steps offer ideas for how organizations can identify and address financial risks and fundraising opportunities.

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