SIMPLE GIFTS AND PLANNED GIFTS

Finding the right cause and writing a check is just the beginning. Planned Giving 2.0 takes a long-term holistic approach

By Randy Fox and Steven Zeiger

Key Takeaways

- With people living longer, particularly the affluent, the calculus of planned giving has been turned on its head.
- Savvy advisors will consider trust payout rates, investment returns, tax brackets, economic conditions and sometime institutional “mission drift” when design planned gifts.
- Creating a gift as a stand-alone, tactical solution can be more dangerous than it appears. You need to see the client’s complete, financial picture.

Every charitable gift begins with donative intent. The simplest gifts are transactional in nature. A check is written, marketable securities are transferred and the transaction is completed. Donative intent is fulfilled. Planned gifts, however, encompass more than simple intent and a one-time transaction. Generally, planned gifts are larger than simple gifts. The asset(s) may be more complex and an intervening legal structure is frequently required. A planned gift, while created for tax purposes, may span one or more lifetimes before it truly completes. Since the lifespan of a planned gift can be quite long, thorough and thoughtful attention must be paid to a number of factors that may impact the eventual result of the gift’s original charitable intent.

PLANNED GIVING 2.O: A NEW VARIABLE IN THE GIFT EQUATION

Conscientious and experienced planners know that they must consider trust payout rates, investment returns, tax brackets, economic conditions and even possible institutional changes (mission drift) when helping a family design and complete a planned gift. If that’s not enough, one should also consider the gift within the context of the donor’s health and life expectancy. There is a true dichotomy in the manner and method by which advisors must approach this tricky issue.

> The Internal Revenue Service (IRS) publishes actuarial tables and calculation factors in **Publications 1457-1459** that provide the general substance and guidance for computing the various charitable factors for any planned gift: charitable income tax deduction; remainder interest; value of life estates, etc. Applying the properly published factor (or relying on commercial software as most do), is a simple matter. However, what many fail to contemplate is two variables that may cause an unanticipated failure of an otherwise properly reasoned gift. First is the continued use of outdated mortality tables by the IRS. The publications above are still based on the 2000CM tables. It’s important to remember that in the standard 2000CM tables, “mortality” refers to an age at which

50 percent of the people in any age group are assumed to have died --and 50 percent are still alive. Second is the fact that overall life expectancy for HNW individuals is increasing even faster than it is for the general population (more on that in a minute).

DRAMATIC CHANGES IN LIFE EXPECTANCY

Yet, according to the Center for Disease Control's (CDC's) **National Vital Statistics Report**, life expectancy has been climbing steadily upward since 2000. With improving medical interventions especially in the "high cause of death" diseases, there is good reason to believe that life expectancies will continue to improve. This means gift planners are simply not able to change their calculations on a whim.

WHAT FACTORS ARE DRIVING IMPROVED LIFE EXCPECTANCY?

As an example, the two leading killers, according to the CDC, are cancer and heart attacks. Both diseases have experienced dramatic declines in mortality.

Every year, the medical field makes steady gains in the fight against cancer. Last April, the National Cancer Institute (NCI) published new findings about the incidence of cancer and related death rates. The bottom line is that both incidence and death rates of cancer fell. The mortality rate fell 1.5 percent per year on average from all cancers from 2002 to 2011. Over the same period, new cancer cases dropped 0.5 percent annually. The NCI study showed that improvements were consistent for men, women, and children, across all types of cancer, especially the deadliest types: lung, breast, and colon.

According to the American Heart Association, death rates from heart disease fell 38 percent from 2003 to 2013. And according to the U.S. National Heart, Lung, Blood Institute, the decline was accelerated by new drugs that control cholesterol and blood pressure, reduced smoking rates, and faster care for people in the midst of a heart attack.

As advisors, we must follow IRS guidance. However, we can change the way we think about and design long term gift structures for our clients and integrate knowledge of longer life expectancies into our reasoning.

COMPOUNDING THE PROBLEM

While overall life expectancy is improving for the general population, it's increasing even faster among high net worth individuals.

There are a number of reasons for this. Primarily it's because the affluent have better access to health care then the general population does. By "health care," we're referring to everything from access to the best physicians and personal trainers to experimental procedures and concierge medical services. As advisors know, ultra high net worth individuals are more likely to make larger planned gifts. Therefore, as you examine the confluence of circumstances, it's clear that the current IRS mortality assumptions are even more dangerous when planning for a high net worth donor.

IS UHNW LIFE EXPECTANCY A SMALL FACTOR COMPARED TO THE GENERAL POPULATION?

According to the Society of Actuaries Report 2010 and data from M Financial Group, the UHNW risk pool has experienced 21 percent fewer claims over the past 10 years compared to the industry aggregate.

HOW HAVE INSURERS RESPONDED TO THE INCREASE IN LIFE EXPECTANCY?

Six of the nation's leading insurers now offer over 20 life insurance and annuity products that reflect the superior mortality of ultra high net worth clients. Some advisors have learned that there is another set of mortality tables, which are based on 80 percent mortality assumptions. Additionally, it is possible, even advisable, to calculate life expectancies for individual clients. This is often done in the life insurance settlement industry. However we still must account for the extended life expectancies of the affluent in our gift planning efforts.

CONCLUSION

The single best solution for planned giving in today's era of extended longevity is to take a comprehensive approach. Designing a gift as a stand-alone, tactical solution can be more dangerous than it appears. Knowing the entirety of a potential donor's financial situation, understanding cash flows, asset growth potential and estate planning considerations will allow the practitioner to make more reasonable assumptions and forecasts. While no one wants to diminish a gift, it may well be the best thing to do for the donor. Other avenues include, exploring lower payout rates, making certain to look "past" the IRS mortality tables to ensure that the gift works will work for 10 or even 20 more years. Monte Carlo simulations and other stochastic modeling tools can help you create more balanced and diversified investment portfolios for this purpose.

This is a lot to ask of the gift planners out there. It certainly begs for teams of professionals to work together on behalf of donors to protect them and to protect their future gifts as well.

About the Authors

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