Is the Sky Falling? Gift Planning and the Recession

A conversation between Bill Jarrett, M.D. ('58) and Jim Merlihan, Director of Medical Gift Planning, Fund for Johns Hopkins Medicine

Dr. Jarrett: Jim, will you explain the idea behind gift planning?

Jim Merlihan:

It almost sounds too good to be true. Thoughtful gift planning often allows JHU's School of Medicine alumni and friends to beef up their finances and support Hopkins at the same time in spite of the recession. These are gift plans that let you benefit from assets that you've donated to charity. It's like giving away the tree but keeping the apples. A "life income gift" returns income—apples every year—to the donor(s) for life.

Sometimes donors will use a variety of philanthropic tools in combination to best suit their circumstances, including outright gifts, life income gifts, or gifts funded through their estates. This represents tremendous confidence in JHU and it shows: Hopkins has over $100 million in active investments benefiting alumni and friends through gifts that provide income.

Donors seek good information—on types of charitable gifts and the impact these gifts may have on their lives—both from a financial and charitable perspective. Beyond that, medical alumni and friends benefit from the wealth of gift planning information and services available through Johns Hopkins.

In addition, philanthropy used creatively as a problem-solving tool helps with charitable issues related to self and spouse, heirs, taxation, and charity. These are universal areas of concern. And they go to the heart of our common yearnings to have a better life for our families and the institutions we care about.

Isn't this a difficult time to make a planned gift?

The recession took many people by surprise and for a while caused prospective donors to delay or scale down their charitable goals. However, that is changing as the economy stabilizes. Philanthropic investors are discovering that there is a place in their overall objectives for sharply focused gift planning, especially in the realm of gifts that provide lifetime income, backed by the full faith and credit of Johns Hopkins University.

An optimist may see a planned gift as an opportunity to magnify the impact of philanthropic dollars serving both them and Johns Hopkins. A gift annuity returning 6% for a couple in their 70s can look pretty good when measured against conventional investments underperforming in the marketplace. So this environment can be excellent for donors who have access to cash or CDs, IRAs, real estate or other tangible assets, and of course, securities that have bucked the negative trend.

Is there a systematic method governing the gift planning process?

Yes. A key element is deciding to include philanthropy as an integrated strategy complementing a whole mix of personal and estate issues. Then questions of ***what*** the gift is to accomplish, ***which assets*** are to be used, and ***when*** should the gift be made, take center stage. Johns Hopkins can assist by exploring with you likely funding sources for planned or outright gifts, such as cash, appreciated securities, real estate—the summer cottage that has become a liability, for instance—life insurance, tangible property or other possibilities.

What are some of the big concerns that medical alumni feel?

Wealth transfer is a hot topic today. Many physicians desire to transfer wealth to the next generation. They also have a desire to be charitable, but they believe that they can only either give to charity or give to children. The "Aha!" moment comes when they realize that astute gift planning can bestow multiple benefits to heirs and charity.

There is also the question of the federal estate tax exemption, which has increased to its current $1.5 million and is scheduled to reach $3.5 million in 2009. Unless Congress acts to change it, the estate tax will be repealed in 2010 but re-instituted at $1 million in 2011 and thereafter. You can imagine that there's a mountain of confusion and speculation about this. A further complication is that State laws may not follow the Federal estate tax schedule. In Maryland, for example, the 2005 exemption is $1 million, which means that a death tax will be assessed on the $500,000 difference between the Federal and State exemptions.

Finally, competing obligations on time and resources can force people to put planning issues aside. Often I hear, "This is something I want to do someday, but not until my grandchildren are out of college." Or "Philanthropy is for rich people." Or "Right now I need to plan for my retirement." The resulting procrastination is a shame because philanthropy can actually help to achieve personal objectives.

What is a Hopkins gift annuity and what makes it so appealing to donors?

Charitable gift annuities (CGA) are popular arrangements, for good reason.. We currently serve JHU friends and alumni 50 to 102 years of age. A charitable gift annuity is a contract between the donor and Johns Hopkins. In exchange for a gift ($5,000
minimum) Hopkins pays a fixed return for the life/lives of the income recipient(s).

For example, a donor age 72 is guaranteed a payout of 6.7%. For a gift of $50,000 the annuity payment is $3,350 (if cash is given, 60% of the annuity is tax-free) and the charitable deduction is over $19,500. That sure looks nice compared to a money market or CD. A second income beneficiary can also be named with a reduced annuity rate.

How does a charitable gift annuity (CGA) compare with a charitable remainder unitrust (CRUT)?

Both instruments provide income for the life of a donor. Both instruments provide a charitable income tax deduction. The CGA, however, offers a fixed rate of return, guaranteed by Johns Hopkins, whereas a CRUT generates income based on a specified percentage (usually between 5% and 6.5%) of the trust's assets, as re-valued annually.

Over the long haul—say 15 years—gift annuity income experiences the erosive effects of inflation. Five percent inflation over 15 years cuts the purchasing power of your income in half.

Income from a CRUT may increase over ten or twenty years reflecting the growth in the stock/bond portfolio. So your choice is between a high degree of security in the CGA and the potential to counteract the effects of inflation in a CRUT.

What about alternative assets, such as real estate or life insurance?

Philanthropy can turn non-income producing assets into income-producing ones and increase cash flow for the donor(s). Assets currently not producing income may be used to fund a charitable remainder trust. Tax and income benefits can result, along with possible estate advantages.

Real estate given outright is sold and the proceeds used for the purpose you choose. If an outright gift is not possible, a **retained life estate gift of a residence** can be a smart move**.** You continue to live in your home and name Hopkins to receive the property at your death. The advantages include an immediate charitable tax deduction. If at some point you no longer need the property as your primary residence, giving it to JHU to fund a **life-income producing trust** turns a non-income producing asset into a cash-flow asset. Hopkins serves as trustee and generates payments to you through a trust.

A **life insurance** policy can make an excellent gift, especially if the policy has outlived its original purpose.

Are the assets backing life income gifts part of the JHU endowment?

No. The University's endowment is separate from its $110+ million portfolio of charitable trust and annuity assets. JHU's holdings in this area are managed by Kaspick & Company, specialists in planned gifts since 1989. Kaspick currently manages $2.4 billion and is a national leader in planned giving asset management,
trust administration, individual/institutional
consultation and oversight reporting. Kaspick maintains a secure website for clients and donors who may wish to monitor performance of their charitable portfolios from time to time.

How would you characterize Kaspick's performance in the financial markets?

Kaspick's performance continues to be enviably strong. For the four-year period ending June 30, 2004, Kaspick's growth portfolio, a mix of 71% stocks/29% bonds, increased by 7% compared to a benchmark return of 3.7%. Most importantly, Kaspick can provide detailed and sophisticated information to Johns Hopkins donors.

What's the best way to make a bequest to JHU?

First, Hopkins' gift planning advisors can provide sample wording to donors and their advisors. This is important because everyone wants to be certain that the bequest fulfills the intentions and desires of the donor.

Second, the actual bequest may be in the form of cash, securities, real estate, or other property. The Will should direct that JHU receive either a specific amount or a percentage of an estate or a particular asset, or the remainder of an estate after providing for heirs. The Will may also spell out how you wish the proceeds to be used.

Of course, the donor's estate is eligible for a charitable estate-tax deduction, meaning that more of your assets are designated for the purposes you intend.

Jim, how can medical alumni contact you for further information or receive an illustration?

Call the School of Medicine's development/alumni relations office toll-free at 1-888-546-1336 or (410) 516-0776, or the central JHU Gift Planning Office at (410) 516-7954. Our JHU gift planning legal counsel can also assist and sample legal documents for planned gifts can be sent to you and your advisors without a fee.

JIM MERLIHAN, DIRECTOR OF MEDICAL GIFT PLANNING, FUND FOR JOHNS HOPKINS MEDICINE, IS A MEMBER OF JHU'S GIFT PLANNING OFFICE.

DR. WILLIAM JARRETT RECENTLY ARRANGED FOR A GIFT OF LIFE INSURANCE TO JOHNS HOPKINS SCHOOL OF MEDICINE.