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Donor Wealth Drying Up Only On Paper

By Mark Hrywna

It seems like ancient history since the Dow Jones Industrial Average even sniffed 12,000, but it only was Labor Day. Yes, 2008. During the month of October, the market swung between 8,000 and 9,500 so violently, it's put a scare into portfolios of all kinds, whether personal, professional or endowment.

In the early days of the volatility, the head of the Congressional Budget Office estimated Americans' retirement plans and 401(k)s lost as much as \$2 trillion in value since the middle of last year.

John Havens, associate director of the Center on Wealth and Philanthropy at Boston College, is still optimistic about an economic rebound. The \$41-trillion transfer of wealth predicted by the center some 10 years ago assumed no deep or prolonged recession or depression. "We have to see how this market downturn is going to affect wealth in the longer run," Havens said. After the dot-com bubble burst earlier this year decade, wealth dropped about 15 percent in real terms, he said, before it returned to a better than 3-percent growth by 2005-06.

The transfer of wealth prediction assumed 2-percent growth, Havens said, so if it's up to 3 percent as it has been in the long-term for many decades, the wealth transfer would continue on track. A prolonged and deep recession --not recessionary growth periods but declines that are measured by are a percent or two for several quarters at least -- or something like it would have to occur to put any serious dent in the transfer of wealth. If people die during this current down period, that would have some impact when closing an estate, Havens said, but it could be a relatively short-term phenomenon of the market being down.

"We don't think this is working through the estates, as we had assumed so there's less in charitable bequests, as people are giving in light of their death or estate planning," Havens said. "More is being done during their lifetime, as part of that planning through assorted vehicles," he said, such as family foundations, planned giving and life insurance.

Havens expects giving to continue on track a little longer in the aggregate because of people who give large gifts (\$1 million or more). "Those gifts take time to put together, usually with teams involved in getting them organized, and they've made and make payments on them. The process has started and almost has a momentum of its own for several months," he said.

"Those gifts are what carries giving upward the year after a downturn in wealth," Havens said, adding that most wealthy donors don't cancel gifts because their portfolio lost value. Some may spread out the terms of large gifts but those adjustments are more likely to take place after six months or a year, he said.

“Everybody right now is probably seeing a reduction in commitments to give because of the fact that there is somewhat almost shock at what’s happening. People I think are feeling insecure in the face of this, there are so many unknowns,” Havens said.

“The big worry, for me looking at the economy, is whether or not the central banks of world can win the race with time so they’re not going to turn it into really deep and serious worldwide recession or even depression,” Havens said. “If that happens, and it lasts for years, then we’re going to see the transfer of wealth enormously affected,” he said.

“The real question is not so much what’s happening in the market, which is important, but what’s happening with credit in the real economy,” Havens said. Two components that affect giving, which are equally important, he said, are income and Gross Domestic Product (GDP).

Since the Foundation Center began collecting data on all grant-making private and community foundations in 1975, there have been four recessions: 1980, 1981-82, 1990-91, and 2001. U.S. foundation giving in inflation-adjusted dollars did not decline but increased slightly.

Foundation assets grew faster than inflation between 2003 and 2007, which enabled grant-makers to replenish endowments after the downturn of the early 2000s. Foundation assets in 2007 were estimated to be almost \$670 billion compared to \$330 billion 10 years earlier, according to the Foundation Center. For foundations that determine their annual grants budgets based on rolling average of their asset values, this growth should help to mediate the impact of possible asset losses in 2008 on their giving in 2009.

Should the market recover some of its losses by the end of this year, these various factors may help overall foundation giving to remain roughly unchanged next year, as a best-case scenario. If the market fails to rebound from its current low or sinks further, however, an overall decrease in funding may become inevitable.

The impact from the current economic environment will have an impact on charitable giving, some of it this year and some carrying over to 2009, said Andrew Hastings, vice president of external affairs, National Philanthropic Trust. Donor response after the Sept. 11, 2001 terrorist attacks was incredible, but it wasn’t until 2002 and 2003 that giving did not keep pace with inflation. About nine to 10 months of charitable gifts were in the bag this year before the financial collapse but the majority of gifts come in the final six to eight weeks of the year, so “we haven’t seen what full extent will take place this year,” he said.

“Part of our thinking, and what we’re encouraging all nonprofits to do, is really take a very strategic and focused approach to talk to donors,” he said, and to look for ways donors can contribute in some way. Businesses are going to be sold, people are going to retire, die and have estates, he said, all of which have critical impact and provide ways to minimize tax consequences. “One of things we always try do is diversify the portfolio of gifts we’re trying to attract,” he said.

Just because economic conditions are more challenging doesn’t mean charitable giving will stop, Hastings said. “People will just have to take a much more proactive look at it and plan more carefully how they’re going to meet these competing needs,” he said, both short and long-term. “There will be a recovery but no one can predict when that will happen,” he said. Nonprofits will have to help support donors as well as advisors to understand what options are available to them and successfully secure donations they’re comfortable and capable in giving.

For instance, donors concerned with their day-to-day needs may be more open to planned giving options that don’t take money out of their pocket today, yet can have a great impact in the future. “Using those opportunities to educate donors about the ways to give today without impacting your immediate financial circumstances is really important,” Hastings said. Donors often don’t come to this on their own but it needs to be presented by nonprofits or by advisors,” he said. “Each no is one step closer to yes. But until you start asking, you won’t get those yeses.”

The next six months looks like it could be a little bleak, if a recent survey is an indication. Few chief financial officers and senior comptrollers foresee much improvement during that time, according to a survey by Chicago-based Grant Thornton LLP. Some 45 percent of the 40 officers surveyed said they expect the U.S. economy to remain the same while 43 percent expect it to get worse. Only 13 percent foresee improvements. They were a little more optimistic about their specific company's prospects in six months, with 43 percent expecting to remain the same but 30 percent seeing an improvement and 28 percent saying they would worsen.

As many CFOs foresee their headcount increasing (18 percent) in the next months as those who expect it to decrease (20 percent), but the majority (63 percent) see it remaining the same. Overwhelmingly (83 percent), they're most concerned with expenses related to employee benefits, such as health care and pensions, but also about energy (38 percent), insurance (28 percent) and raw materials, such as food and metals (15 percent).

The headcount at the YMCA of Metropolitan Atlanta already is smaller. In anticipation of revenue shortfalls in the 2009 budget, the YMCA cut 4 to 5 percent of its annual \$100-million budget, which included staff reductions, said Kristen Obaranec, communications director. Staff reductions went into effect immediately when cuts were announced in August and September, she added.

The Metro Atlanta YMCA, which includes 29 YMCAs, had approximately 400 full-time staff and a couple of thousand seasonal, part-time staff. The cuts affected both types of staff but it was unclear how many positions specifically were cut. The budget deficit was a result of the declining economy, Obaranec said, with declines anticipated in membership dues and child care revenue. "Membership is discretionary income for people, so when wallets are tight, like any business, we feel the effect," she said. The system served 152,000 members last year.

Despite the drop in some revenues, the Atlanta YMCA still is on pace to meet its 2008 goals for a \$84-million comprehensive capital campaign that started last year and is planned through 2011.

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