The Carter Center Presents:

Inflation and Philanthropy

Hosted By: Barry Nickelsberg, CAP, Chief Development Officer for Estate & Gift Planning
&
Mark N. Williams, Esq., CAP, Senior Associate Director
Thank You

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Inflation and Philanthropy

Overview

- What is Inflation?
- How Does Inflation Impact Us?
- How Does Inflation Impact Philanthropy
What is Inflation?

- “A broad rise in prices that produces a decrease in the purchasing power of money” – Wall Street Journal

- Inflation measures the rate of the rising price of goods and services

- The more prices increase on a larger set of goods/services, the weaker our spending power becomes
What Causes Inflation?

• Price increases because materials and/or wage costs increase

• Demand for certain goods or services increases

• Note that both of these have been impacted by the pandemic and supply chain disruptions
The annual inflation rate in the U.S. has averaged 3.25% from 1914 until 2022.

The highest inflation reading was 23.7% in 1920, and the lowest was -15.8% in 1921.

The Federal Reserve and Federal Open Market Committee are responsible for ensuring price stability (managing inflation) and employment stability (managing unemployment).

The Federal Reserve and Inflation

• The Federal Reserve states that, inflation of 2% ... is most consistent with their mandate for ... price stability

• “When people and businesses can reasonably expect inflation to remain low and stable, they are able to make sound financial decisions, and this contributes to a well functioning economy”

Source: FOMC Statement: 2020-08-27
The Federal Reserve and Inflation

• The Federal Reserve seeks to achieve inflation at 2% over the long term. By raising interest rates and reducing its balance sheet, the Fed expects to reach this target.

• This statement was followed by raising the federal interest rate by .25%

  Source: FOMC Statement: 2022-03-16
Inflation is currently running at a rate of 8.5%, a level not seen since December of 1981.

Prior to 2022, the Federal Reserve described inflation as “transitory” and said the increases were due to “base effects.”

Base effect refers to the skewing of inflation measures due to pandemic disruptions and economic volatility.
How Does Inflation Impact Us?

- **Obvious costs:**
  - Food – up 8.8% (10% for at home); Energy/fuel – up 48%
  - New cars – up 12.5%; Used cars – up 35.3%
  - **Shelter:** Own – up 18.8%; Rent – up 17.6%

## Annual price changes in March

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel oil</td>
<td>+70.1%</td>
</tr>
<tr>
<td>Gasoline (all types)</td>
<td>+48.0%</td>
</tr>
<tr>
<td>Used cars and trucks</td>
<td>+35.3%</td>
</tr>
<tr>
<td>Airline fares</td>
<td>+23.6%</td>
</tr>
<tr>
<td>Piped utility gas service</td>
<td>+21.6%</td>
</tr>
<tr>
<td>Meats, poultry, fish and eggs</td>
<td>+13.7%</td>
</tr>
<tr>
<td>New vehicles</td>
<td>+12.5%</td>
</tr>
<tr>
<td>Electricity</td>
<td>+11.1%</td>
</tr>
<tr>
<td><strong>All items</strong></td>
<td>+8.5%</td>
</tr>
<tr>
<td>Fruits and vegetables</td>
<td>+8.5%</td>
</tr>
<tr>
<td>Dairy products</td>
<td>+7.0%</td>
</tr>
<tr>
<td>Food away from home</td>
<td>+6.9%</td>
</tr>
<tr>
<td>Apparel</td>
<td>+6.8%</td>
</tr>
<tr>
<td>Motor vehicle maintenance, repair</td>
<td>+4.9%</td>
</tr>
<tr>
<td>Rent of primary residence</td>
<td>+4.4%</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Hospital services</td>
<td>+3.3%</td>
</tr>
</tbody>
</table>

Inflation Measures and Substitution

• The government measures inflation without regard to energy costs or food costs, missing two major factors in the inflation picture.

• The government also assumes that we make choices about our consumption, and that we will substitute goods that cost less when prices increase too much.
Taxes make us poorer; Inflation makes us poorer

President Biden: “Inflation is robbing [people] of [economic] gains they ... would be able to feel” – State of the Union, 2022

According to Bloomberg Economics, US households will pay $5,200 more this year ($433/mo.) for the same basket of goods vs. 2021

Excess savings, built up over the pandemic, and increasing wages offset some inflation, but the depletion of savings will lead to consumers spending less, and increase the urgency for the Fed to address cost pressure.

As consumers feel the loss of savings and increasing costs, they are more likely to ask for raises.

The Wage-Price Spiral

- When prices increase, workers demand more money to pay for the increased cost of living

- To make up for the increased wages, costs are increased again

- The more this compounds, the more embedded it becomes and the more inflation rages

See also: https://www.barrons.com/amp/articles/inflation-consumer-prices-sentiment-51649268928
Rate Hikes, Savers and Borrowers

- As the Federal Reserve hikes rates and inflation continues, everyone will feel the impact.

- Savers can begin to expect higher interest rates for their cash savings, but still not enough to overcome inflation.

- Borrowers are already paying more for credit card balances, car loans and mortgages.
Inflation vs. Retirement and Savings Accounts

• As discussed, inflation acts like a tax against cash savings, especially any cash that is not earning a return (e.g. Certificate of Deposit)

• Because of inflation, Social Security income will buy less

• Retirement savings are hit twice; not only does inflation impact the real value of investment returns (or magnify losses), if you are retired and withdrawing money, it also buys less
Inflation and Housing

- As discussed, inflation increases housing costs in serious ways

- Homeowners with fixed rate mortgages benefit:
  - Interest rate lower than inflation is a plus
  - Locking in now could insulate you from additional interest rate increases
  - May lead to fewer current homeowners selling, worsening housing inflation
How Does Inflation Impact Philanthropy?

- Inflation impacts what we can donate

- Organizations like The Carter Center realize that rising prices and interest rates are having a daily impact on our bottom lines

- We know this leads to more resources committed to groceries, fuel, rent and car payments, but there is more
How Does Inflation Impact Philanthropy?

• Not-for-profits must immediately react to cost pressures as good stewards, funneling as much as possible to program activities.

• In addition, current and ongoing costs are rising; specifically, travel, supplies, personnel and overhead.
Projected Inflation Impacts on Philanthropy

• Inflation has continued to accelerate and appears to be here to stay, for now

• Inflation took 8.5% of the value of the donations to charities from 2021-2022

• The decreasing purchasing power of donations has a profound impact on not-for-profits’ ability to budget, plan and execute their missions

• Many fundraisers and administrators of not-for-profits pretend that inflation is not all around them. There are two reasons for this...which may be true: They live in a fantasy world or organization’s spending is not staff-heavy and, whatever it is that they spend money on is not rising in price like most things. (Museums, online education, many foundations that support not-for-profits, churches, synagogues, and mosques, etc).
While many in need of philanthropy are crying out, “The sky is falling...this time, for real,” I respond with just one word: Ukraine. Americans...people everywhere...have reached into their pockets and found a way to support those who are providing safety for the 44 million Ukrainians who are suffering needlessly.
Then, prognosticators go further and say, “Yes, but that’s different and the donations to groups supporting Ukrainians are taking that money from the mouths of colleges, cultural organizations, hospitals, research institutions and so much more.”
People Who Give, Give

People who give, give. People who don’t, don’t. It really is that simple. Yes, there will be those who say, “I gave at the office,” meaning that they gave away all their discretionary dollars and cannot give you what they don’t have...but I argue that those are people looking for any excuse not to be philanthropic. “Times are tough” is a popular refrain. That said, the overwhelming majority of donors will continue to give at their “normal” levels because they need something that feels “normal.”
People of HNW continue to buy and donate at “normal” levels yet some need to be gently reminded that their gifts don’t as far and ask (nicely) if they can up their gift by 8%.
Bath & Body Works
Thank You!

Questions?