Doing Well by Doing Good? The Increasing Practice of Socially Responsible Investing

There are many ways to be well. Most people consider wellness to include physical health and well-being. Some would also consider emotional, financial and spiritual wellness as worthy of their attention, and devote time and resources to addressing issues to promote those types of wellness.

Sarah Ruef-Lindquist, JD, CTFA

For many investors, this approach aligns with their desire to support business that are “doing good” in the world either in terms of what social or environmental issues they are addressing, and perhaps in terms of how they govern themselves and treat the employees within their companies.

In recent years, greater emphasis has been placed on the intersection of financial wellness and emotional or spiritual wellness. The world of investing has begun to focus attention on ways in which capital can be invested to support businesses that are promoting social or environmental welfare, and/or govern themselves in a way that promotes diversity and inclusion of those historically marginalized in corporate leadership, either by virtue of gender, race or other suspect criteria.

What has come to be known as Socially Responsible Investing (SRI) or Environmental Social Governance investing (ESG) involves using criteria like environmental, social, governance and employment practices to choose what investments will be held in a portfolio. According to Commonwealth Financial Network’s website:

Sometimes referred to as environmental, social, and corporate governance (ESG) investing, Socially Responsible (SRI) is a broad-based strategy in which **corporate responsibility** and **societal concerns** are factored into investment decisions. In short, an SRI strategy seeks to **maximize both financial return and social good.**

Companies that deal in tobacco, gambling, fossil fuels, weapons, or involve child labor, employee discrimination, or lack board diversity are the kinds that get attention in SRI/ESG screening. Mutual funds will screen out companies that don't measure up in those areas.

This has broad appeal for many investors, but for some time there have been concerns that one could sacrifice market performance for social benefit. For example, removing fossil fuel stock from a portfolio could exclude some of the top performing companies during certain market periods. That is a difficult choice to make. Over time, the index that measures the performance of mutual funds that screen for SRI companies has shown that the gap has narrowed significantly between the general mutual and exchange-traded fund world and SRI-screened funds.

According to a US News and World Reports June 7, 2018 blog post entitled S*ocially Responsible Investing Delivers*:

Research and performance history imply that socially responsible investors receive superior absolute returns and risk-adjusted performance, while also addressing sustainability concerns. Dollars invested in sustainable and socially responsible strategies provide companies with better ESG metrics easier access to capital, which reduces the cost of equity and supports higher stock prices.

https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/articles/2018-06-07/socially-responsible-investing-delivers-for-investors

So when you're thinking about your own wellness, consider whether a more socially responsible approach to investing makes sense for you. Would knowing that your investments were supporting companies working to improve the environment, or address social causes, or include women and minorities in executive leadership add value to your experience as an investor? As with all investment choices, you should consult with your financial advisors before making any changes to your portfolio or investment strategy.

Socially responsible investing involves the exclusion of certain securities for nonfinancial reasons. This may result in the investor forgoing some market opportunities that may have been available to those not subject to such criteria. There is no guarantee that any investment goal will be met.

Planned Giving Topic of Workshop for Local Non-Profits

Allen Financial of Camden advisors and wealth managers Abraham Dugal and Sarah Ruef-Lindquist, JD, CTFA, were the featured speakers for United Midcoast Charities at Allen's offices in Camden in early February. They spoke about issues surrounding how to grow endowments through planned giving, when donors seek to provide long-term support through gifts that can be more complex than cash or marketable securities.

Participant groups at the presentation included Trekkers, Wayfinder Schools, Watershed School, Waldo CAP, Belfast Soup Kitchen, Speaking Place, Pen Bay YMCA, Ripple Initiative, Rockland District Nursing Association, Ecology Learning Center, Knox County Homeless Coalition, Window Dressers, AIO, Big Brothers Big Sisters, and Coastal Children’s Museum.

Dugal and Ruef-Lindquist spoke about the policy foundations and recognition practices they view as necessary to have fiscally-sound and successful planned giving programs. Their backgrounds – hers as an attorney, financial and philanthropic advisor, trust officer – his as an investment manager – and both as board members contribute to their unique perspectives as advisors and fiduciaries and how they approach potential gifts through clients’ estate and financial planning.

Given the unprecedented intergenerational transfer of wealth taking place in the United States, and the projections for gifts to non-profit organizations during the next 30 to 40 years in the trillions of dollars, organizations are well-served to pay greater attention to this area of resource development to build their long-term financial sustainability.

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Making the Case for a Three- to Six-Month Reserve Fund

The news has been full of stories about the fallout from the federal government furlough while congress and the administration iron out a budget for 2019.

Sarah Ruef-Lindquist, JD, CTFA

Federal employees missing two paychecks as of this writing have reported that are not able to take a planned vacation, close on a house purchase or car, pay rent or mortgage, buy heating fuel or food, attend a loved one’s funeral, and the list goes on and on.

For people living paycheck to paycheck, life can become difficult very quickly with just one missed paycheck. Their plight reminds us all of advice someone may have given us as we were getting our financial lives started: “Always have 3 to 6 months of living expenses set aside, just in case!” but yet how many of us do?

You don’t need to be a federal employee to face this kind of interruption in your income. A lay-off, illness that keeps us from working, illness of a loved-one who needs our care are situations that can all prevent us from getting a pay-check and put our financial lives in jeopardy. If you are injured on the job, even worker’s compensation will usually only pay a percentage of your regular income. How would you make up the difference?

For those who are age 59 ½ or older, there is the option of dipping into retirement funds and paying any resulting income tax without an early withdrawal penalty, although we would always prefer to see those funds left alone that are in "qualified accounts" that are tax deferred. But for the rest of us, it would mean seeking deferral of loan or rent payments, forbearance from creditors, borrowing, and likely a significant curtailing of our lifestyle.

But it's not too late to start saving for that possibility. Make a point of putting at least 5 or 10% of each paycheck into a savings account, and if this can be done by your payroll service automatically, all the better. Once you get into the habit, you will find the account will grow and when you prepare your tax return each year, you can revisit whether those funds should remain in your "reserve" or if some may go into retirement funds and grow tax-free. And of course, paying off your credit cards every month is a good habit, too. An interruption in income will be much less painful if you can cover bills until your income resumes again.

As always, consult your financial and tax advisors before making any decisions concerning your investments or financial plans to be sure they fit within your overall, long-term financial and estate planning goals.

Your New Year's Resolution? Max Out 2019 IRA and Other Retirement Plan Contribution

Limits

By Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-
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The elimination of most pension plans, also known as "defined benefit" plans over the past 40 years has meant most working people must exercise some discipline to save for their own retirement and/or participate in plans like the 401(k), often an employer-sponsored plan, also known as defined contribution plans.
According to the US Department of Labor, between 1975 and 2014, the number of defined benefit (more commonly called pension) plans in the private sector fell by 57% while the number of defined contribution plans increased by 208%. Limitations on what people can contribute annually to those plans has been static for five years. The amount of money people could contribute to their retirement plans with pre-tax dollars as of 2018 has not increased since 2013. However, the IRS has recently announced new limits on retirement plan contributions beginning in 2019.
If you haven't in past years, make 2019 the year you max out your contributions limits, saving more than before, and plan for your retirement future.
We will review the changes by types of plans:

- IRAs: For those under age 50, $6,000 may be contributed to an IRA, and for those 50 and older a $1,000 catch-up amount is also allowed for a total of $7,000.

- ROTH IRA contributions are phased out at higher levels, too. For single and head of household taxpayers, the amount is phased out between $122,000 – $137,000 of Adjusted Gross Income
- (AGI). For married filing jointly the phase-out range is $193,000 to $203,000.
- SIMPLE Plan contribution limits will be $13,000 with an additional $3,000 catch-up for those 50 and older.
- 401(k), 403(b) and most 457 Plans will have contribution limits of $19,000, with an additional $6,000 catch-up for those 50 and older.

2019 Retirement Plan	**Types Amount of 2019 Limit**	**Age 50+ catch-up**
IRA	$ 6,000	$1,000
SIMPLE IRA	$ 13,000	$3,000
401(k), 403(b) and 457 Plans	$ 19,000	$6,000
Defined Benefit Plan 415(b)(1)(A)	$225,000	
Defined Contrib. 415(c)(1)(A)	$ 56,000	
ROTH PHASE-OUT Single ROTH PHASE-OUT Married Filing Jointly	$120,000 – $137,000 $193,000 – $203,000	

The Double Whammy: Rising Interest Rates, and Less Robust Stock Market Performance

By Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA

Over the past weeks, my colleagues and I have been having many conversations with our clients who are investors. Yes, the stock market performance has been recently negative – 2018 could be flat compared to 2017, which was a post-recession 'banner year'. Many are wondering whether they will lose more value in their portfolios, be flat, or just see a slower rate of growth in the coming months and years as compared to the impressive run-up that began almost 10 years ago and lasted through early 2018. Many got accustomed to double-digit returns, even if income was not what it had been before the 2008/2009 Great Recession.

Even more surprised, however, have been the investors whose portfolios are more modestly allocated in the stock market, and have generally between 60 and 80 percent in the 'fixed income' area of mostly bonds and bond funds. What those investors expected is that the majority of their portfolios would be insulated from a market downturn. What they did not expect is that as interest rates rise, the value of their existing bonds and bond funds would go down, at least on paper. When bond rates rise, the value of existing bonds with lower yields goes down.

Of course, holding a bond until maturity, while you collect the income it pays through yield, generally means you will recover your investment, plus the interest paid over time. However, it requires patience to wait for those maturities to occur, and in the meantime, your statement shows a lower value of those bonds, until you are able to redeploy their proceeds into higher yielding, and higher valued, bonds.

What these investors feel is the reduction – at least on paper – of the value of their fixed income assets, as well as the loss in value (or lack of growth) of their smaller allocation of stocks. The combination comes as a bit of a surprise to those who otherwise consider themselves (at least relative to those with higher stock allocations) conservative investors.

What's an investor to do? The best advice might be "as little as possible, for as long as possible." In other words, if you don't need those funds in the short term, wait for those bonds to mature and allow your portfolio to redeploy their proceeds into higher yields and values. Don't overlook that the bonds are producing some yield in the meantime, while you're waiting for them to mature. Eventually, the fixed-income portion of the portfolio should recover its value and while it does, pay yields for income while you wait.

As always, consult your financial and tax advisors before making any decisions concerning your investments or financial plans to be sure they fit within your overall, long-term financial and estate planning goals.

What Will 2018 Charitable Giving Look Like?

By Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA

In June 2018, the Chronicle of Philanthropy, in an article by Megan O’Neil, predicted a $16.3 billion drop in charitable giving due to the tax laws enacted in late 2017. That prediction was echoed throughout the news media, sending chills down the spines of executive and development directors in the non-profit sector.

Nine out of 10 wealthy households gave to charity in 2017, according to the 2018 Study of US High Net Worth Philanthropy conducted in partnership with the Indiana University Lilly Family School of Philanthropy by US Trust/Bank of America Private Wealth Management, released October 24, 2018. (link for reference, new window) The average amount given to charity by these households was slightly more than $29,000, an increase of 15% over 2015.

The biennial report is in its seventh edition since the series began in 2006.

There has been much concern expressed about the impact on philanthropy of the 2017 tax law changes, specifically a predicted negative impact on charitable donations because of the increase in the standard deduction to $12,000 per person and reduced reliance on itemized deductions.

However, as we’ve opined previously about the degree to which tax benefits drive charitable give, the fear among this demographic cohort is likely unfounded. The vast majority of wealthy households expect to maintain (84 percent) or increase (4 percent) the amount they give to charity in 2018 under the new federal tax law passed late in 2017.

Receiving tax benefits is generally not a prime motivation for giving. Just 17% of those surveyed said this was always a motivation, and 51% indicated it sometimes did…which means for 49% it doesn't and for the 51 % who indicated it did sometimes, that would imply that for 51% it doesn't always.

The important take-away here is that for high net worth individuals, those often making the largest charitable gifts, charitable intent motivates their giving more than any tax benefit, which is good news in an era of decreasing tax benefit.

What we've discussed above is charitable support to operating or annual budgets of organizations that would often appear on an itemized income tax return of the donor. These gifts are often given from income, as contrasted with gifts from wealth, which are often deemed "planned gifts" through estates.

Indeed, even the elimination of estate taxes would cause only 5% of HNW individuals to reduce their planned giving according to the US Trust Study of the Philanthropic Conversation, examining the perspective that advisors have compared to their HNW clients on charitable giving. (link for reference, PDF, new window)

This study, released earlier in 2018 done in conjunction with The Philanthropic Initiative, also found that just 42% of high net worth individuals would reduce their charitable giving if income tax benefit was removed.

The sampling for the study was of approximately 1,600 households with net income of over $200,000 and/or assets of $1M or more, not including principal residence.

So perhaps this is some "good news" that organizations from which to gain hope for our society, as philanthropy continues to address some of the critical issues of our time through the work

of the non-profit sector.
As always, consult your financial and tax advisors before making any significant gifts or changes to your financial plans to be sure they fit within your overall, long-term financial and estate planning goals.

Sharing Knowledge with Members of the Maine Planned Giving Council

Allen Insurance and Financial hosted a lunch & learn for the Maine Planned Giving Council on Tuesday, Oct. 23. The topic was "Exploring Key Elementary of Successful Planned Giving Programs," and the presenters were Sarah Ruef-Lindquist, JD, CTFA, of Allen Financial and David Warren of Maine Coast Heritage Trust.

Pictured, from left: David Warren, Emily Peckham, Points North Institute; Michael Rayder, Avesta Housing; Katie Spencer White of Boothbay Region Community Resource Council and Sarah Ruef-Lindquist, Allen Financial.

Sarah Ruef-Lindquist Addresses Maine Planned Giving Council

Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA, a financial planner at Allen Insurance and Financial in Camden, recently spoke on Women and Philanthropy at Maine Planned Giving Council’s conference held in South Portland attended by approximately 150 professionals involved in the gift planning industry.

Attendees included development professionals and executives from non-profit organizations, and professionals who advise donors in estate or financial planning, including attorneys and accountants, from across the state.

Ruef-Lindquist has had a role in planned giving as an attorney, former trust officer and philanthropic advisor and consultant to non-profits across New England. She previously served as vice president for Southern Maine of the Maine Community Foundation and CEO of the Maine Women's Fund.

Ruef-Lindquist highlighted some of the data that indicates the motivations for women's philanthropy, as well as some of the ways in which women tend to demonstrate a higher level of generosity than their male counterparts.

Planned gifts often support building the long-term funds of organizations, including their endowment, and serve as a means of providing financial sustainability for the long term. Because of the projected intergenerational transfer of a vast amount of wealth occurring now in the U.S., the topic is of great interest to organizations and the advisors working with their donors.

When it Comes to Philanthropy, Women Give More

By Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA

Our last installment in June about Giving USA 2017 was a positive reflection on the continued and growing generosity of American philanthropy as reflected in the report of giving shown in 2017 federal tax return data. Is there any difference between American males and females in their giving? Several studies and reports provide the answer: Women give more.

Sources* indicate that 64% of donations are from women, while 36% are from men, and that women-led households give more at all income levels. In fact, for each additional $10,000 of income, women on average give 5% more than lower earners while men give 3% more.

Why might this greater level of generosity be? Women tend to suffer from economic insecurity at higher rates than men, so it would seem they have less to give. However, studies cite women as socialized to be caregivers, having more compassion because they experience motions more strongly, use philanthropy as a means of expressing their morals and beliefs and may use philanthropy as a means of egalitarianism.

Add to that a desire to develop and pass values on to the next generation, a tendency to support organizations where they have volunteered, and a desire to effect change and have meaningful impact and you have a recipe for philanthropic support for women engaged as volunteers, teaching their children about giving back or wanting to have a positive impact on society, even if they have less to give. But do they? Do women have resources to make a meaningful impact? It would seem that they do.

As it happens, 90% of high net-worth women are the sole or co-decision makers on charitable decisions. By 2030, women will control two-thirds of the wealth in the United States. Women 65 and older already control more than half of that wealth; they have earned their wealth, or inherited it from family and/or husbands whom they have outlived. In fact, 45% of millionaires in the U.S. are women, and almost half of all estates of more than $5 million are controlled by women.

One particularly notable Maine woman has had an enormous philanthropic impact on Maine: Elizabeth “Betty” Noyce. Divorced from a founder of Intel, when her estate was administered following her death in the late 90s it put Maine at the top of the 50 states with largest amount of charitable gifts through an estate for that year. Most years before and since, Maine is closer to – if not at – the bottom of the states in charitable gifts through estates.

However, in the 20 years since her death, and even during her later years through her investments in community and establishment of the Libra Foundation, she has likely had a greater impact than any other individual philanthropist in improving the lives of Mainers during that time.

One study recognized that women are moved by how their gift can make a difference, and want to know organizations are efficient in their use of donations. Organizations are well-advised to communicate impact, as well as prudent management, in their appeals to women donors.

Maine and the United States as a whole have much to be proud of in terms of their charitable support, but women lead the way now, and likely into the future.

*Articles cited:

Women Give More

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www.iupui.edu

Record-Breaking U.S. Charitable Giving in 2017 Tops $400 Billion

By Sarah Ruef-Lindquist

Sarah Ruef-Lindquist, JD, CTFA

According to Giving USA 2018, for the first time in history annual US charitable giving exceeded $400 billion, with $410.02 billion in charitable gifts in 2017. The report is available at www.givingusa.org.

Their report, published annually by Giving USA Foundation, The Giving Institute and the Indiana University Lilly Family School of Philanthropy, released June 12, 2018, heralded the unprecedented amount of charitable giving that represents an increase of almost $20 billion over 2016, which saw total giving of $390.05 billion.

Some of the factors cited in the report for the robust nature of philanthropy reflected in the 2017 data include:

- Solid commitment to philanthropy;
- People having more resources available, choosing to use them to make a difference; and
- 2017 increases in the stock market, including 20% growth in the S&P 500.

Included in the report was mention of two gifts of at least $1 billion in 2017, quoting the dean of the Lilly Family School of Philanthropy, Amir Pasic, Ph.D., as saying “This tells us that some of our most fortunate citizens are using their wealth to make some significant contributions to the common good.”

Included in those figures were gifts by bequest of $35.7 billion, an increase of 2.3% over 2016.

As usual, gifts from living individuals made up the largest donor sector, representing 70% of the total. Foundations gave 16%, bequests 9% and corporations 5%. Giving to religion was the largest recipient area, at 31%, education next at 14%, followed by human services at 12%.

There is some speculation that with tax reform at year-end providing less of an incentive for itemization of deductions on tax returns starting in 2018, some may have accelerated giving into 2017, to take advantage of income tax treatment available. Likely we will have no way of seeing whether there has been any negative impact in 2018 of 2017 tax reform until a year from now when the 2018 figures are released.