Professor Russell James
Texas Tech University

Putting Research to Work in Your Planned Giving Program

When slides don’t look the same in Zoom

Thanks to Simon Williams at The Nature Conservancy for sharing this photo with me from a presentation for Planned Giving Round Table of Northern Nevada

We’ve got numbers

- We’ve got new data!
- We’ve got new results!
- We’ve got new longitudinal, empirical, regression analyses!
- Woohoo!

But, let’s get practical

The numbers can be interesting, but to put research to work it must help you

- Sell your work to your organization
- Get more dollars in the door

Selling to the CFO

Statistics and stories to get leadership support for planned gift fundraising

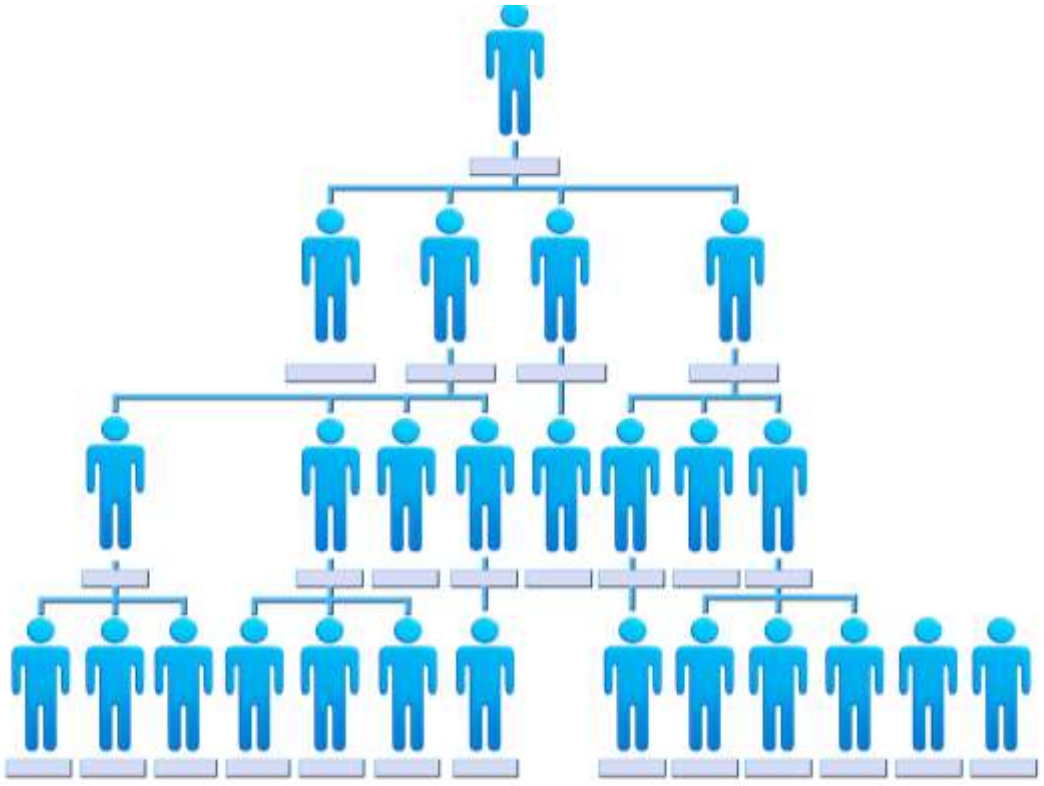
Planned giving conferences are great!

- Then we go back to the office
- And budgets get cut
- And other responsibilities get added

Before we sell planned giving to donors, we've got to sell it to our organization

Decision-makers might be development director, executive director, board members or others

But let's focus on the toughest customer, the CFO



The target

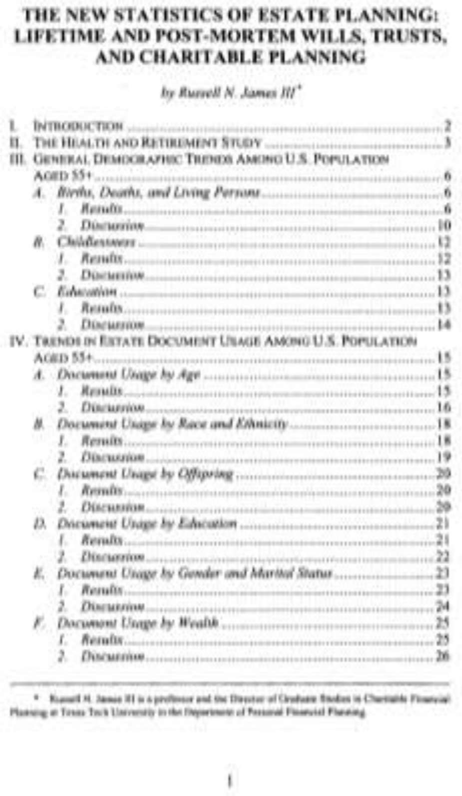
The risk-averse, herd animal known as the nonprofit CFO

This guy is not a fan of planned gift fundraising

- We'll get to that someday but right now, we've got pressing, urgent needs
- Legacy giving "metrics" are just fundraiser fantasy-land happy-talk
- Donor restrictions are the devil. Blended gifts and complex instruments are just a deeper level of hell. Donor's should just write the check and go away.

Selling near term results

We need statistics AND we need story


THE NEW STATISTICS OF ESTATE PLANNING: LIFETIME AND POST-MORTEM WILLS, TRUSTS, AND CHARITABLE PLANNING

by Russell N. James III*

TEXAS TECH ESTATE PLANNING & COMMUNITY PROPERTY LAW JOURNAL

EPJ

These results are all published (or forthcoming) in academic journals


AMERICAN CHARITABLE BEQUEST TRANSFERS ACROSS THE CENTURIES: EMPIRICAL FINDINGS AND IMPLICATIONS FOR POLICY AND PRACTICE


The Emerging Potential of Longitudinal Empirical Research in Estate Planning: Examples from Charitable Bequests

UC DAVIS LAW REVIEW

Please connect with me on LinkedIn or send an email for a copy of these (and other) articles

The story: Gifts of assets not income

- The single most powerful donor transformation is to shift donations from disposable income (cash) to wealth (assets)
- Changes size of reference points
- Makes wealth donation-relevant (mental accounting)
- The first gift from wealth (not income) changes the future mindset

The statistics: Gifts of assets not income

A study of one million nonprofit tax returns over six years shows that shifting to gifts of noncash assets drives total fundraising growth in every nonprofit sector, at every fundraising size, in every time period (same year, 3 years later, and 5 years later)

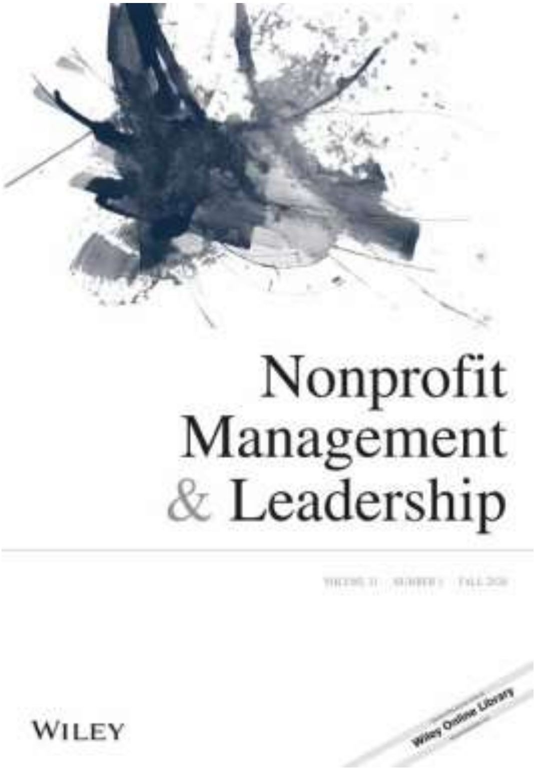

Cash is not king for fund-raising: Gifts of noncash assets predict current and future contributions growth

Russell N. James III

Both fund-raising practitioner advice and theoretical concepts from behavioral economics suggest that encouraging gifts of noncash assets may increase charitable giving. This paper analyzes data from 1,055,917 nonprofit tax returns (IRS form 990) filed electronically for the tax years 2010-2016 to explore the association between various types of noncash gifts and intraorganizational contributions growth. Compared with organizations starting at the same general contributions level in 2010 that reported only cash contributions in 2010, (a) those reporting any noncash contributions in 2010 received 41% more general contributions 5 years later, and (b) those reporting any intangible personal property contributions (mostly securities) in 2010 received 106% more general contributions 5 years later. A fixed effects regression incorporating all years of data demonstrates that decreasing the share of contributions coming from cash (i.e., increasing the share from noncash assets) was strongly associated with contemporaneous contributions growth. The largest growth accompanied increases in the share of contributions from nonpublicly-traded securities and real estate. Relatively smaller or insignificant changes were observed when increasing the share of contributions from household goods, clothing, food, books, and collectibles. Shifting contributions from cash to noncash assets, particularly asset types representing substantial wealth, was strongly associated with contributions growth.

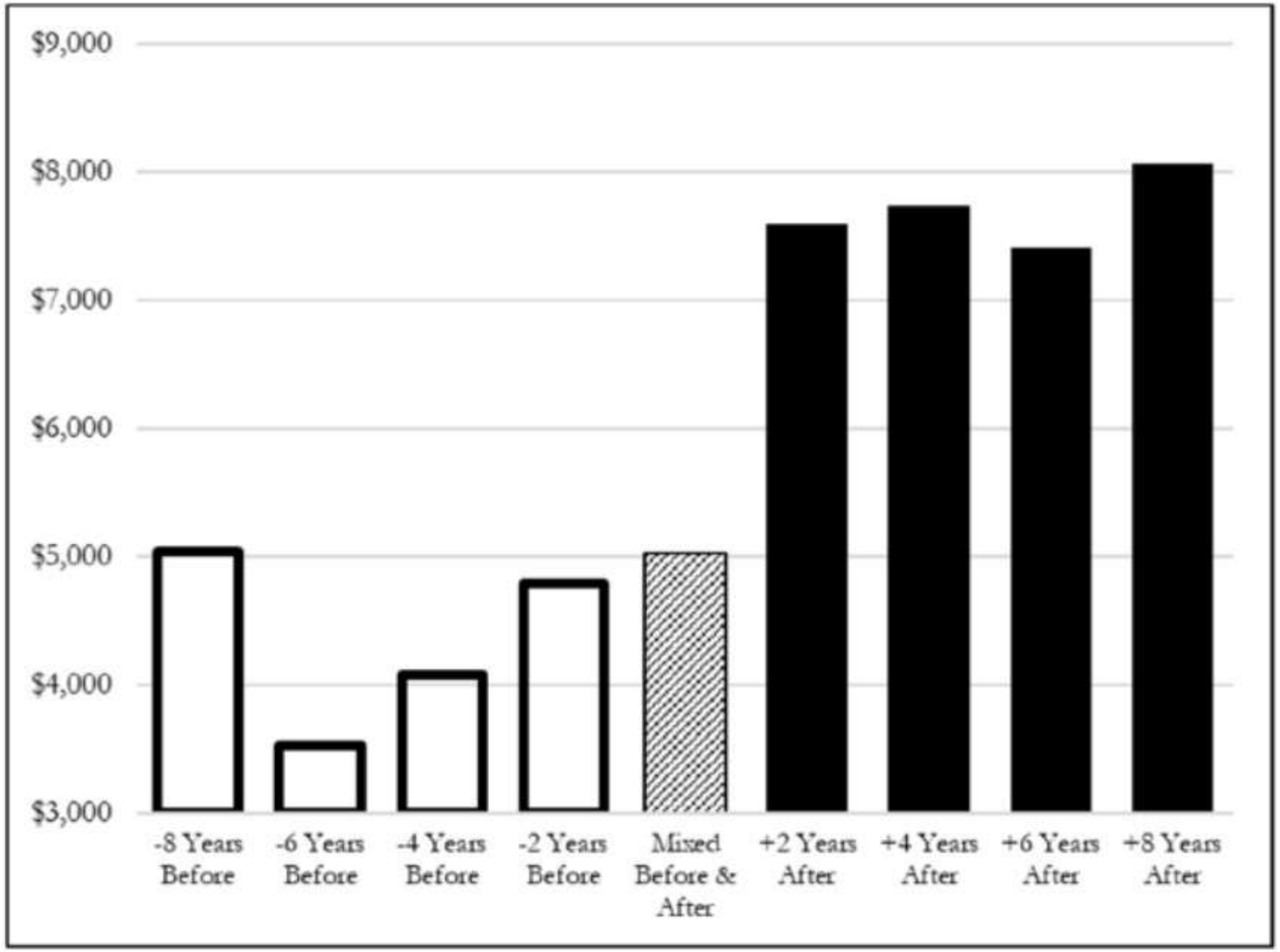
KEYWORDS

charitable giving, fund-raising, IRS Form 990, philanthropy, planned giving



The statistics: Gifts of assets not income

Figure 1. Average Annual Charitable Donations Before and After Adding Charity to an Estate Plan



UC DAVIS LAW REVIEW

The Emerging Potential of Longitudinal Empirical Research in Estate Planning: Examples from Charitable Bequests

*Russell N. James III**

Traditionally, empirical analysis of estate planning has been limited to data from probate or estate tax records along with occasional one-time surveys of current plans or opinions. Additionally, the internet now allows easy access to online convenience samples of survey-takers. However, each of these sources has problematic features. Estate tax returns include only the wealthiest estates, and individual-level data is confidential. Probate data is time-consuming to access and includes information only for one specific location. Popular internet panels, although potentially useful for experiments, are not nationally representative.

Today, an important additional source of data, The Health and Retirement Study ("HRS") is available. It provides high-quality, nationally representative, longitudinal information on participants' estate planning. It not only tracks changes throughout the participants' lives but also includes details of subsequent post-mortem transfers. Critically, this study, originating in 1992, has now accumulated a sufficient number of deceased participants (over 14,000) to permit sophisticated analyses of post-mortem wealth transfers. This Article reviews the advantages of HRS data for empirical research in estate planning and demonstrates the new types of analyses that are now possible. It does so by comprehensively outlining current knowledge regarding charitable bequests gleaned from both new and previous analyses of this data. By illustrating how much this data can illuminate one particular estate planning decision (charitable bequests), this Article is intended to spur those interested in the empirical analysis of estate planning to make further use of it.

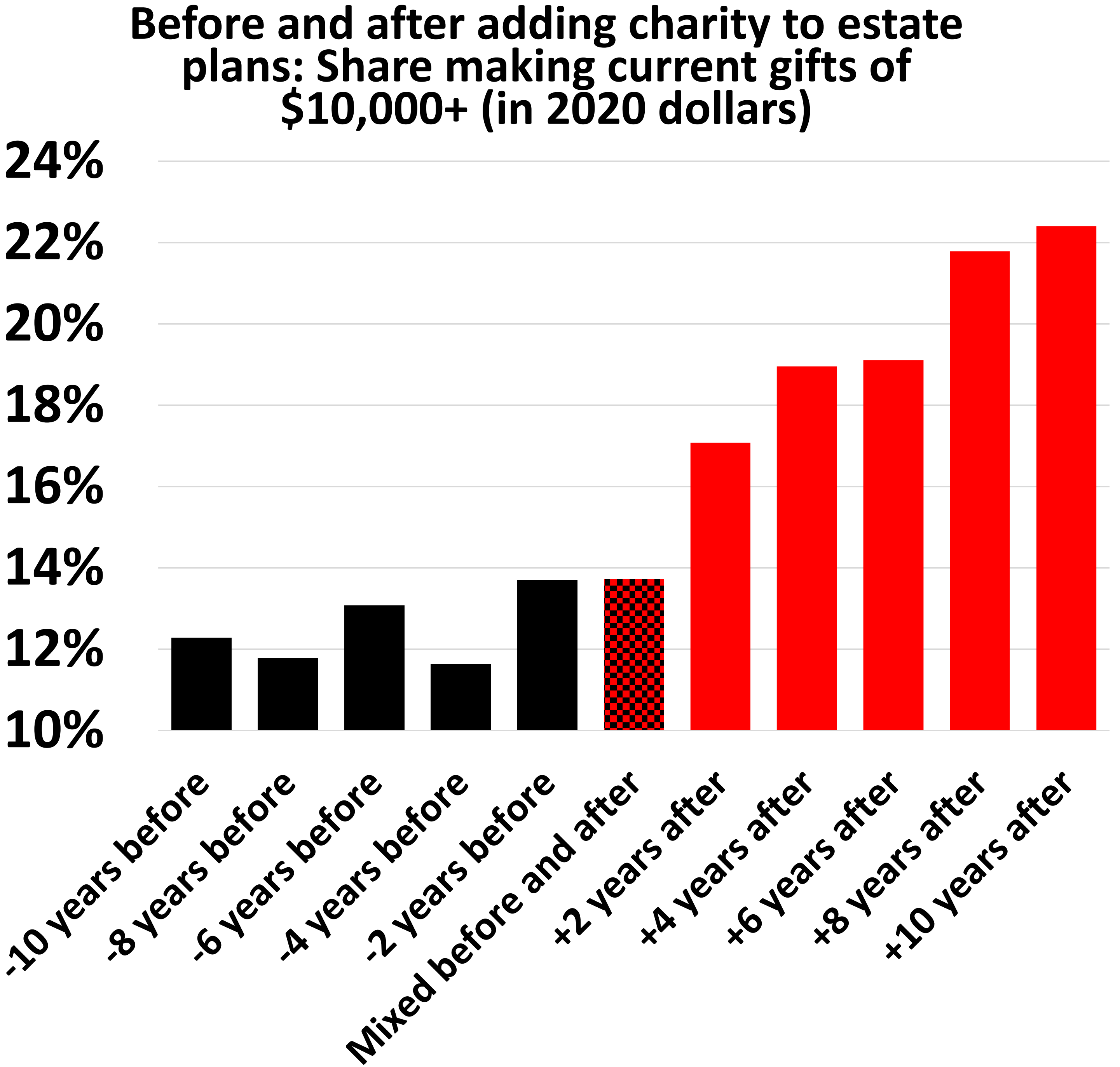
 Professor and CH Foundation Chair in Personal Financial Planning, Texas Tech University; B.A., Economics, Ph.D., Consumer Economics, University of Missouri-Columbia; J.D., University of Missouri School of Law.

Current giving propensity increases after planning

The propensity to make inflation-adjusted gifts of $1,000 or more rose from 51.5% in the years before the charitable component was added to the estate plan to 61.8% in the years after the charitable component was added to the estate plan.

Normally the propensity to donate begins to decline at around age 65 to 75, but the median age for those measured here was about age 75.

Major giving propensity increases after including charity in the estate plan



Data from 1992-2016 Health and Retirement Study

The story: Gifts of assets not income

- Stop selling leadership on "planned giving"
- Start selling them on "major gifts of assets"
- It's big. It's now (and later). It's not "death talk."

The magic message: You’re losing!

- Remember these are risk-averse herd animals
- Show them someone who is doing it better
- The day they let a tenured professor talk to the foundation board at Texas Tech…

	2017 Texas Tech Foundation	2017 Iowa State Foundation
Cash contributions	$63,495,539	$73,406,700
Noncash contributions	**$7,475,636**	**$109,538,183**
Total contributions	$70,971,175	$182,944,883
Noncash share	10%	60%
Publicly traded securities	X	X
Closely held securities	-	X
Partnerships, LLC, trust interests	-	X
Miscellaneous securities	-	X
Residential real estate	-	X
Commercial real estate	-	X
Art	-	X
Historical Art	-	X
Books	-	X
Collectibles	-	X
Historical Artifacts	-	X
Other-Grain, Gold, Life Insurance	**1 gift**	**102 gifts**

In estate giving: We’re going blind

- Estate tax numbers are disappearing (exemption amounts)
- Probate data is disappearing (TODs/Trusts)
- Estimations are more just guesses

Charity Name	Rank	Fundraised income	A/c Year	*Legacies	*Donations
Cancer Research UK	1	368.171	Mar-09	156.708	133.862
Oxfam	2	189.800	Apr-09	10.500	61.800
British Heart Foundation	3	175.462	Mar-09	50.322	30.583
Royal National Lifeboat Institution	4	146.900	Dec-08	94.500	0
NSPCC	5	126.788	Mar-09	20.654	98.468
Macmillan Cancer Support	6	119.727	Dec-08	45.434	26.045

Why is legacy fundraising investment so much stronger in the UK?

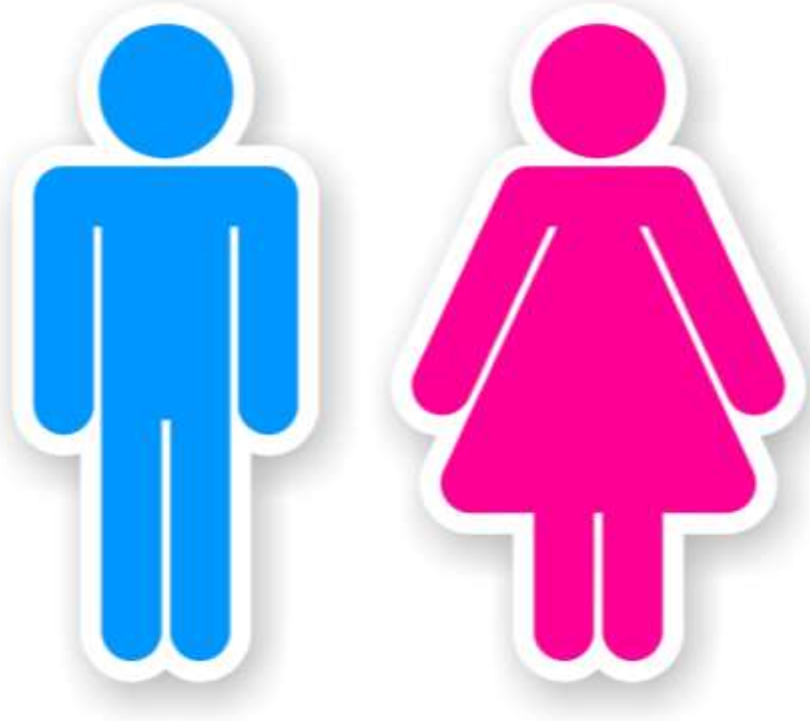
- They know who is winning
- They know who is losing
- They know who to copy
- “Best practices” aren’t just “practices”

The magical solution

- IRS Form 990 already has separate reporting for contributions from fundraising events, federated campaigns, related organizations, and 26 different types of noncash gifts
- A simple addition to Part VIII 1d: "Bequests or other death transfers"

We can’t see it precisely, but you have competition

Among charitable decedents in 1998, females, on average, supported 4.0 charitable organizations, while males supported 3.0 organizations.



You have competition

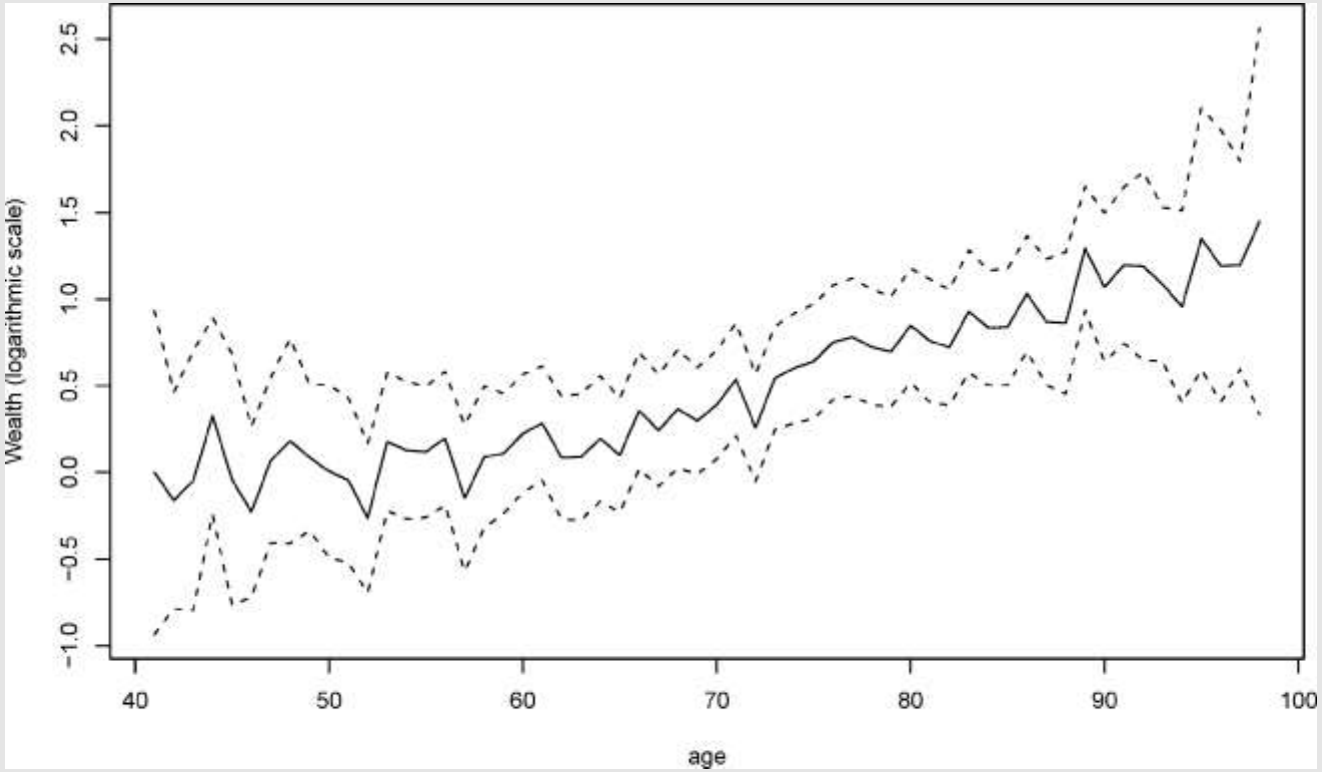
Among charitable estate tax returns filed in 2003, 38% gave to only one charitable organization, 30% gave to two, 32% gave to three or more, and only 5% gave to 10 or more, for an overall average of 3.5 organizations.

Selling LONG TERM results

Statistics AND we need story

It’s how rich people give

Wealthy people like to hold wealth!



Wojciech Kopczuk, *Bequest and Tax Planning: Evidence from Estate Tax Returns*, 122 THE Q.J. ECON. 1801 (2007)

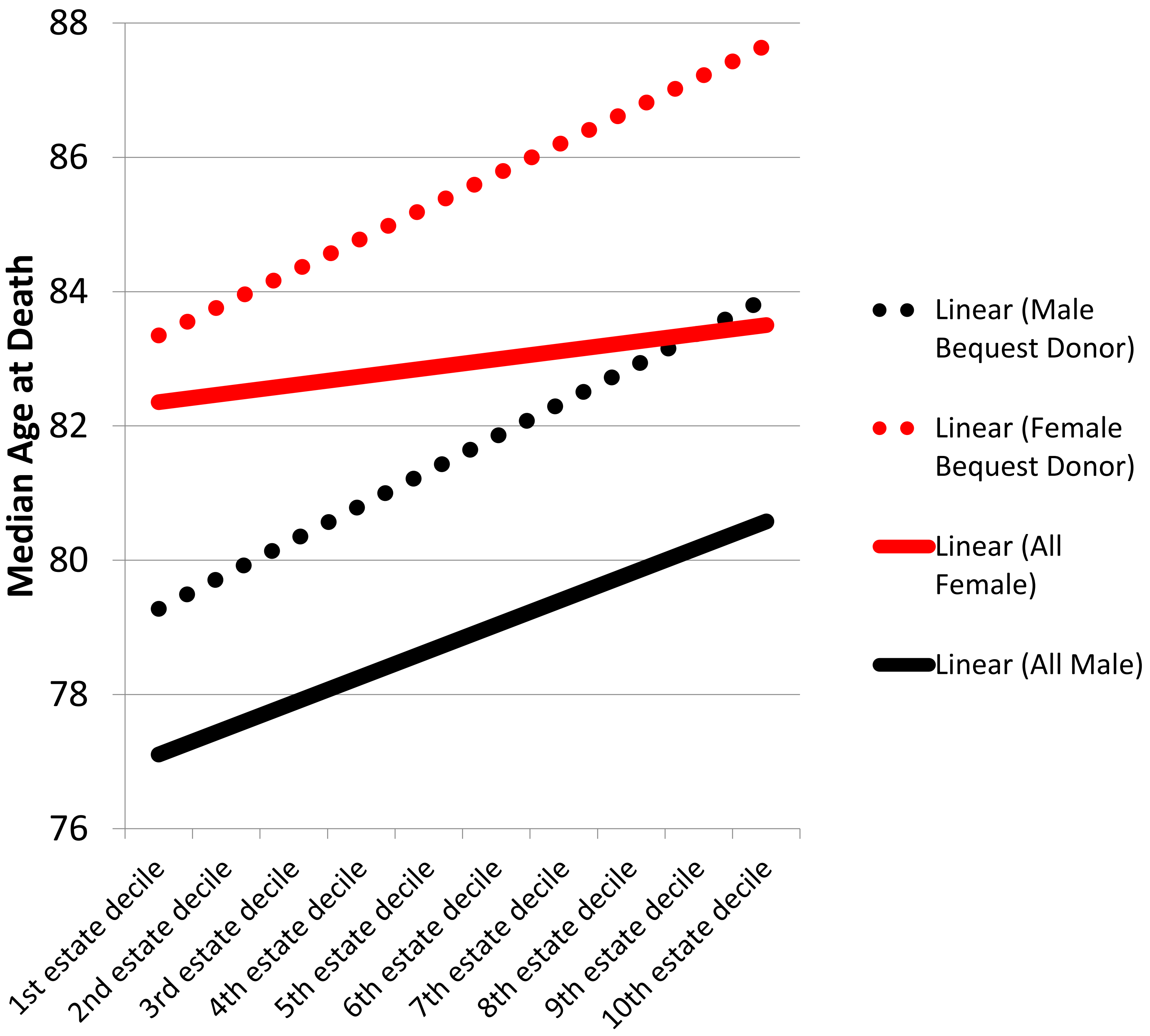
Among the top 6% of wealth holders, wealth increases with every year of age, even up to age 98

The eternally forthcoming charitable wealth transfer

When was this supposed to happen?

Crying "wolf" too soon

- The charitable "wealth transfer" publicity was premature (or just wrong)
- Wealthy people die old
- Wealthy donors die even older



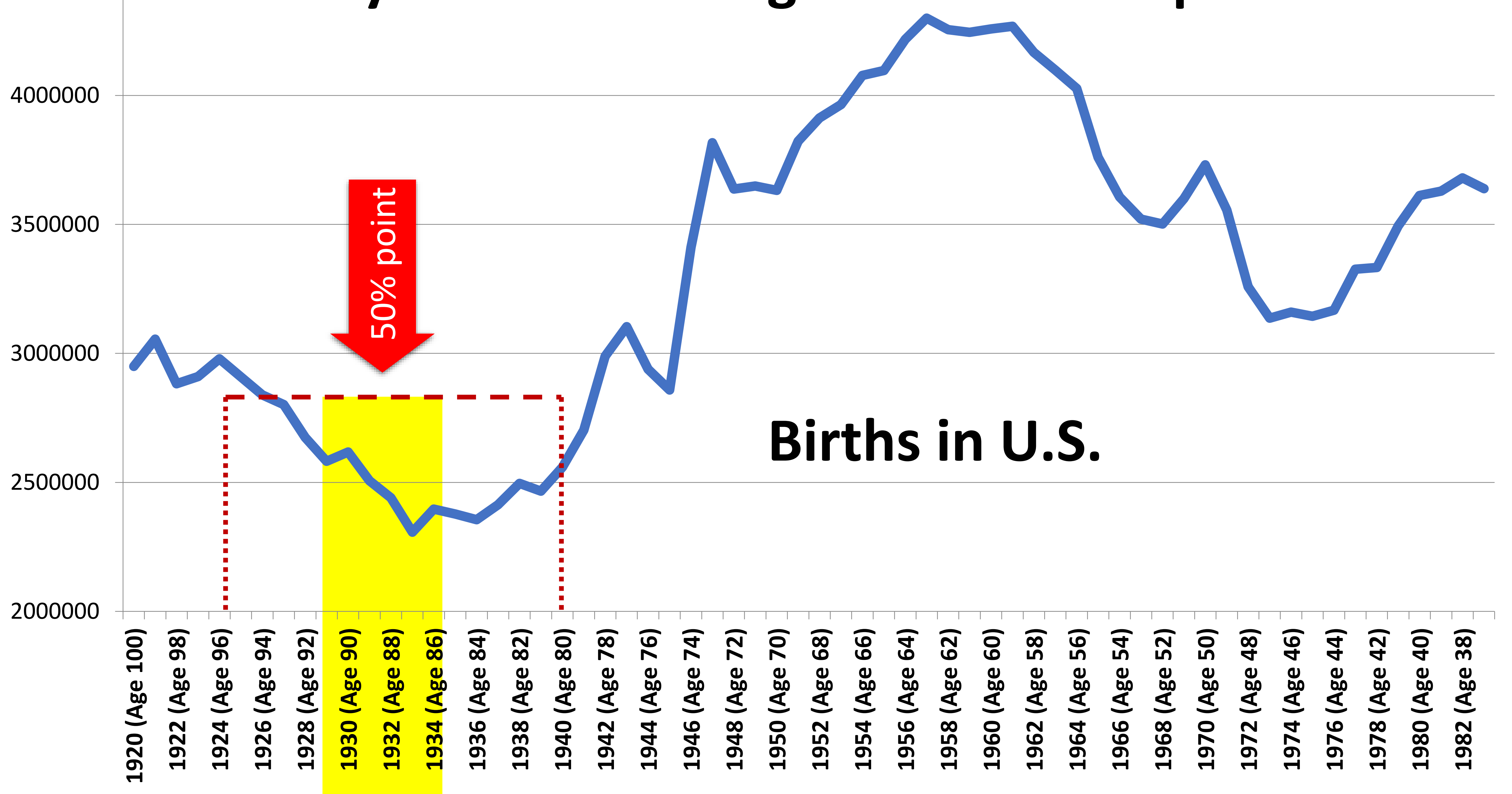
It’s about the oldest old

Decedents age 86+ transferred 55% of charitable estate dollars with decedents under age 65 contributing only 4% (2003 U.S. tax data)

Decedents age 90+ transferred half of charitable estate dollars (2010-12 Australian data)

This dollar midpoint age is increasing over time

The "baby bust" is driving charitable bequest dollars



Getting dollars in the door

Warning: Some results are NSFW!

Getting in the plan early is GREAT!

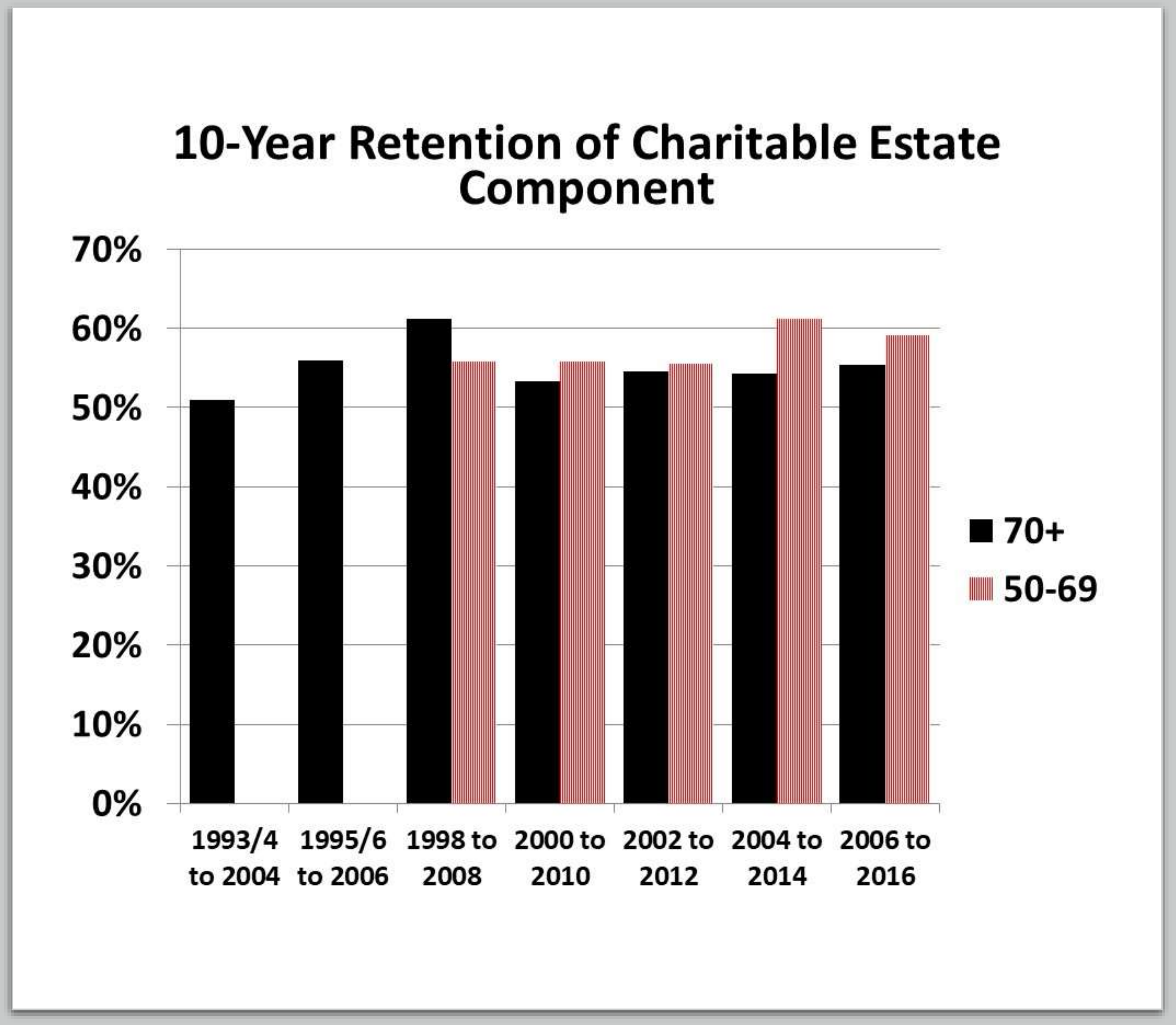
- Increases current giving
- Increases estate giving (those who had charitable plans in place longer gave larger estate gifts)
- Leads to conversations about switching to irrevocable estate gifts (CRT, RLE, CGA)

But “count it and forget it” doesn’t work!

These plans are highly fluid, especially in the last 2-5 years of life

These plans are fluid

Among older living adults, only about 55% of charitable estate components remain in the estate plan for at least ten years



People often don’t realize they are “dropping” the charity

- Estate planning lawyers rarely charge clients to read through, interpret, and understand the plan in the previous will that’s about to be revoked anyway
- Instead, the process starts with client assets, family, and goals
- The charity need not be consciously “dropped”

New results: Legacy societies

- Should we expect this fluidity among those who report to our organization that we are in their plans?
- Do legacy societies work?

The study

- Ten large Australian charities provided data from those dying in 2014-2017
- Among 700 known decedents who had confirmed the presence of a planned bequest gift to the charity during life, 65% generated an estate gift at death
- Because all estate gifts are known but not all deaths are known, these retention rates are estimated maximums

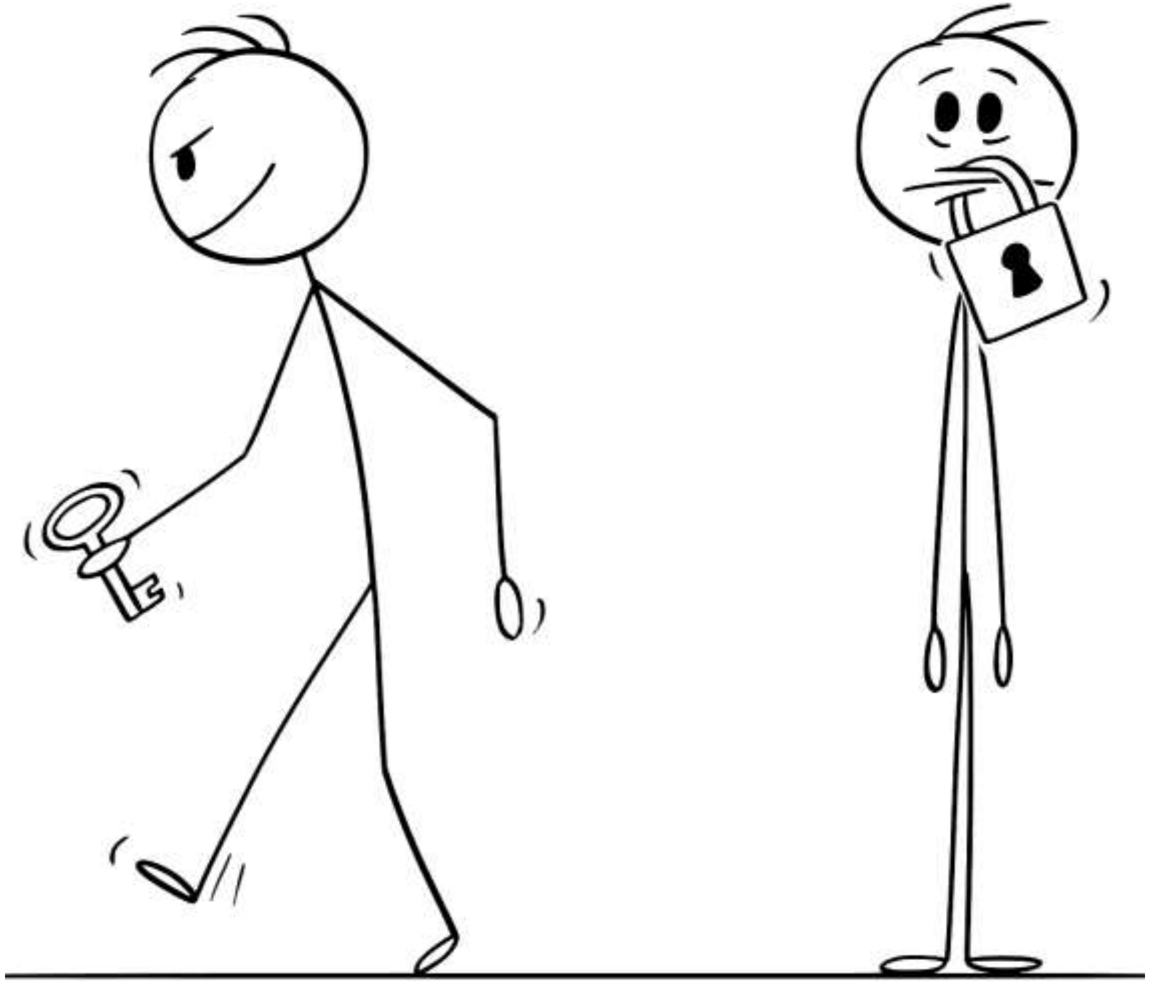
Wishart, R., & James, R. N. III. The Final Outcome of Charitable Bequest Gift Intentions: Findings and Implications for Legacy Fundraising. *International Journal of Nonprofit and Voluntary Sector Marketing* [under review following request for minor revisions]

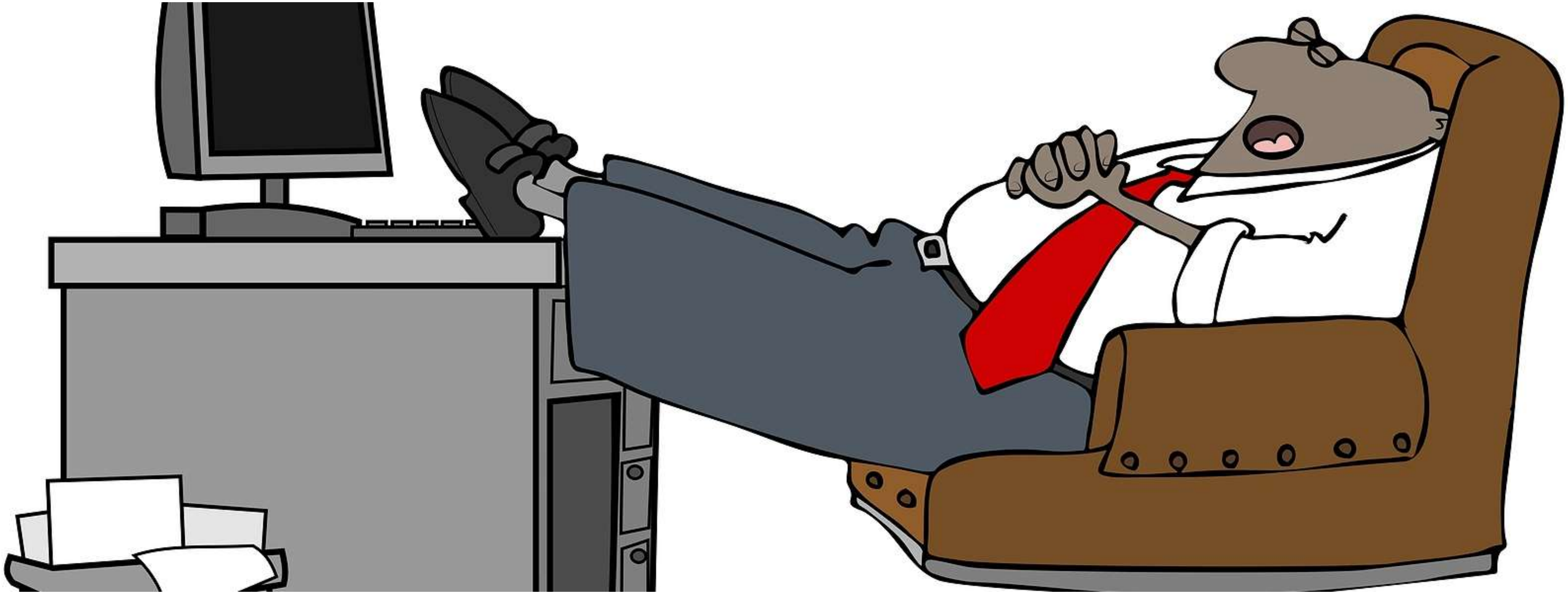
Some organizations did dramatically better than others

- The overall lost gift rate was 35%
- Different organizations' lost gift rates varied from 17% to 60%

Don’t go “radio silent”

- The average loss rate was 24% when the charity had at least one communication with the decedent within two years of death, and 48% otherwise
- This gap is likely much larger, because deaths among those with no communications who generate no gifts are less likely to be known by the charity





Legacy societies don’t work unless you do

Over 30% of those who had confirmed the presence of a bequest gift to the charity did not receive a single communication of any type from the charity during their final two years of life

They won't get there without us

- Among 264 people reporting to the charity that they were "intending" or "considering" an estate gift but not confirming it, 89% left no gift at death
- Among 507 people only requesting information from the charity about making a bequest gift, 95% left no gift at death

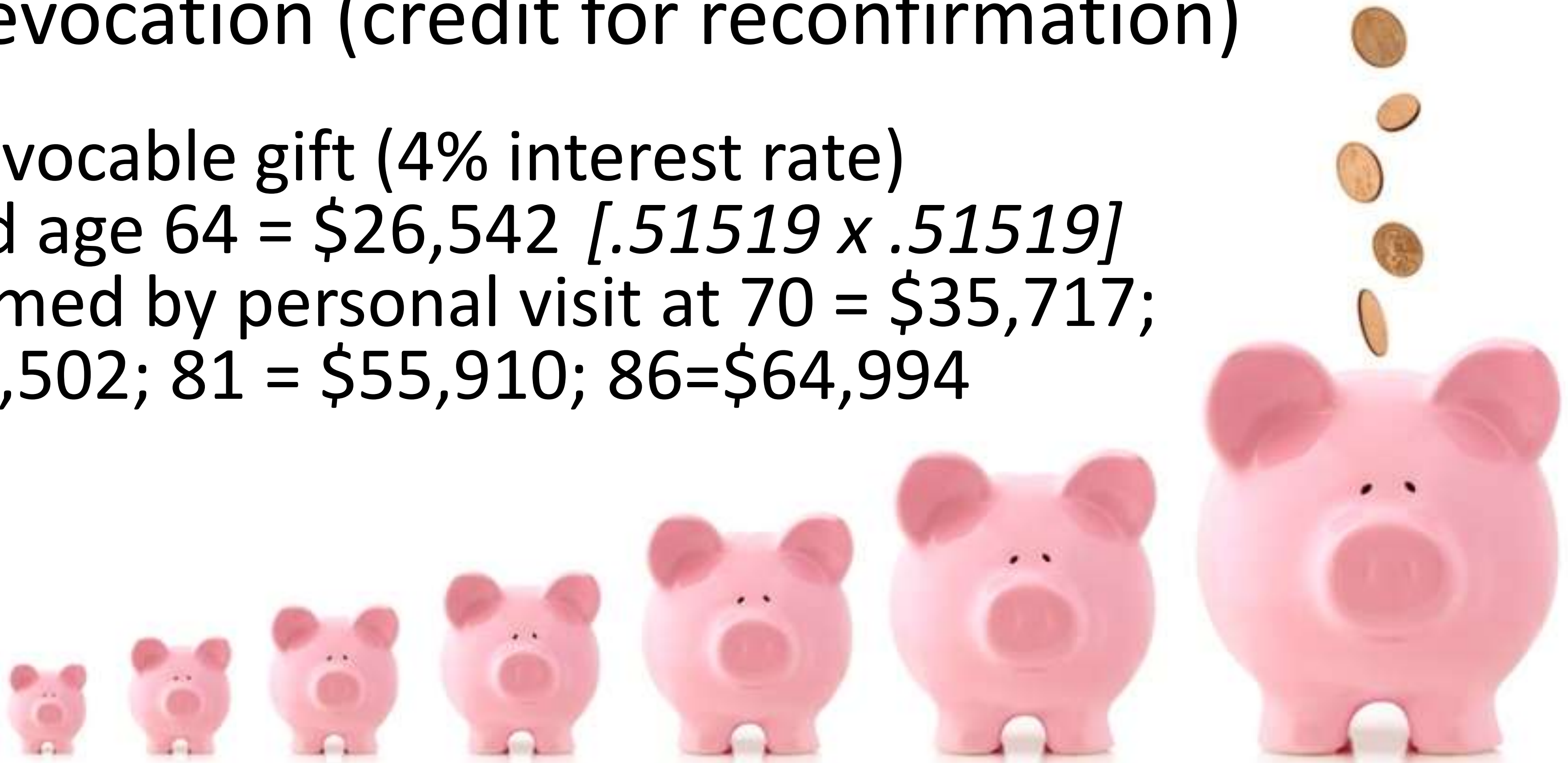
Beyond "Count it and forget it"

- Getting in the will is great!
- But we need to stay in touch
- The score doesn't count until the clock runs out!

Double discounting*

1. Multiply estimated gift amount by the IRS remainder value factor for irrevocable gift to adjust for age
2. Multiply by the same factor again to incorporate risk of revocation (credit for reconfirmation)

$100k revocable gift (4% interest rate)
Reported age 64 = $26,542 *[.51519 x .51519]*
Reconfirmed by personal visit at 70 = $35,717;
76 = $46,502; 81 = $55,910; 86=$64,994



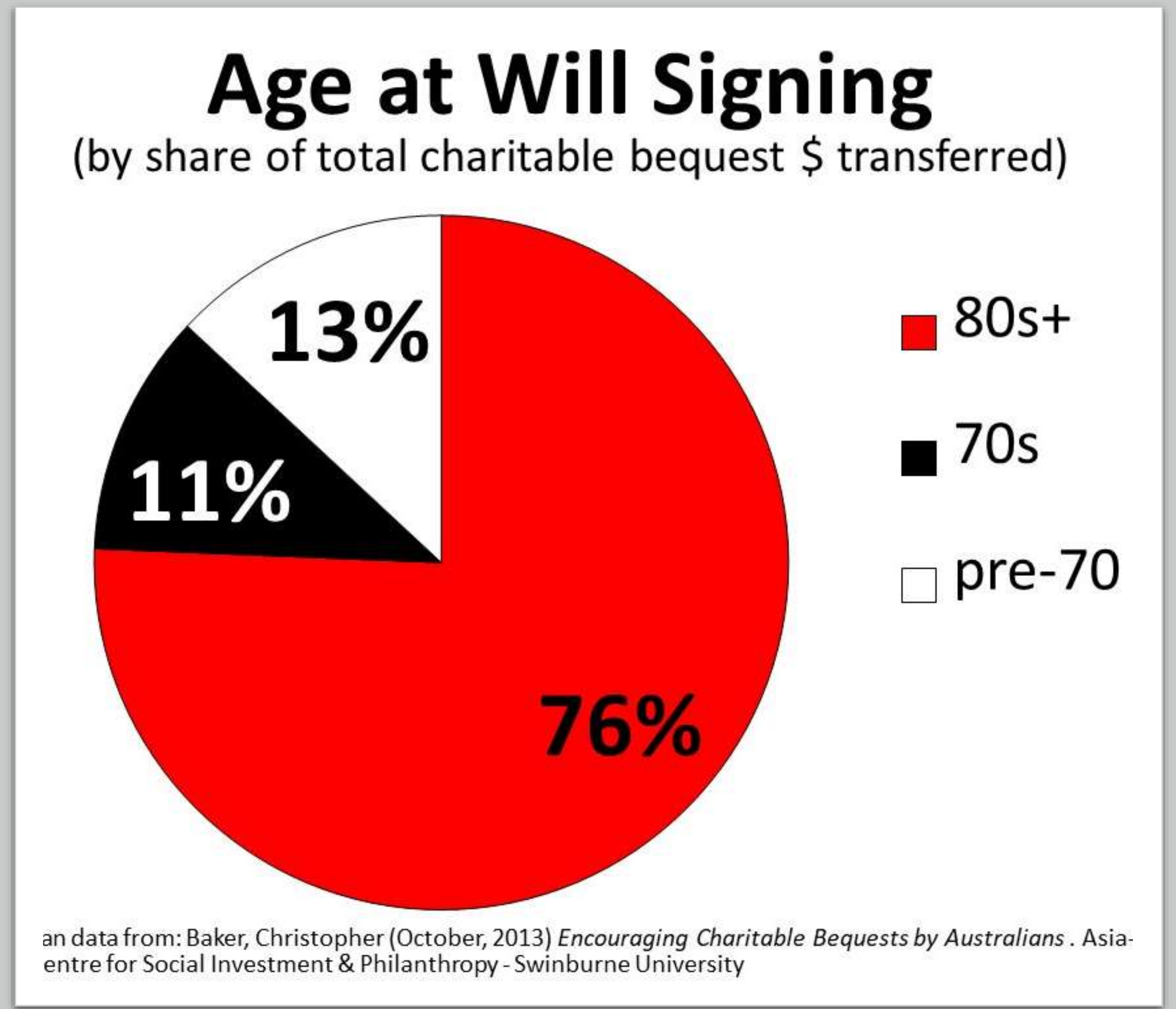
* This concept was invented by Mick Koster at Carnegie Mellon University

Use metrics that “work”

- If fantasy works, sell fantasy
- If reality works, sell reality
- But just because it “works” internally doesn’t mean it will get estate dollars to the organization

It's about decisions made near the end of life

A national sample of Australian wills found that 76% of charitable bequest dollars were controlled by will documents signed at age 80 or older



It’s about decisions made near the end of life

In the U.S., 61% of charitable decedents indicated having no charitable estate component at some point within the last five years of their lives

Communicating based on recency of donation is precisely the wrong approach

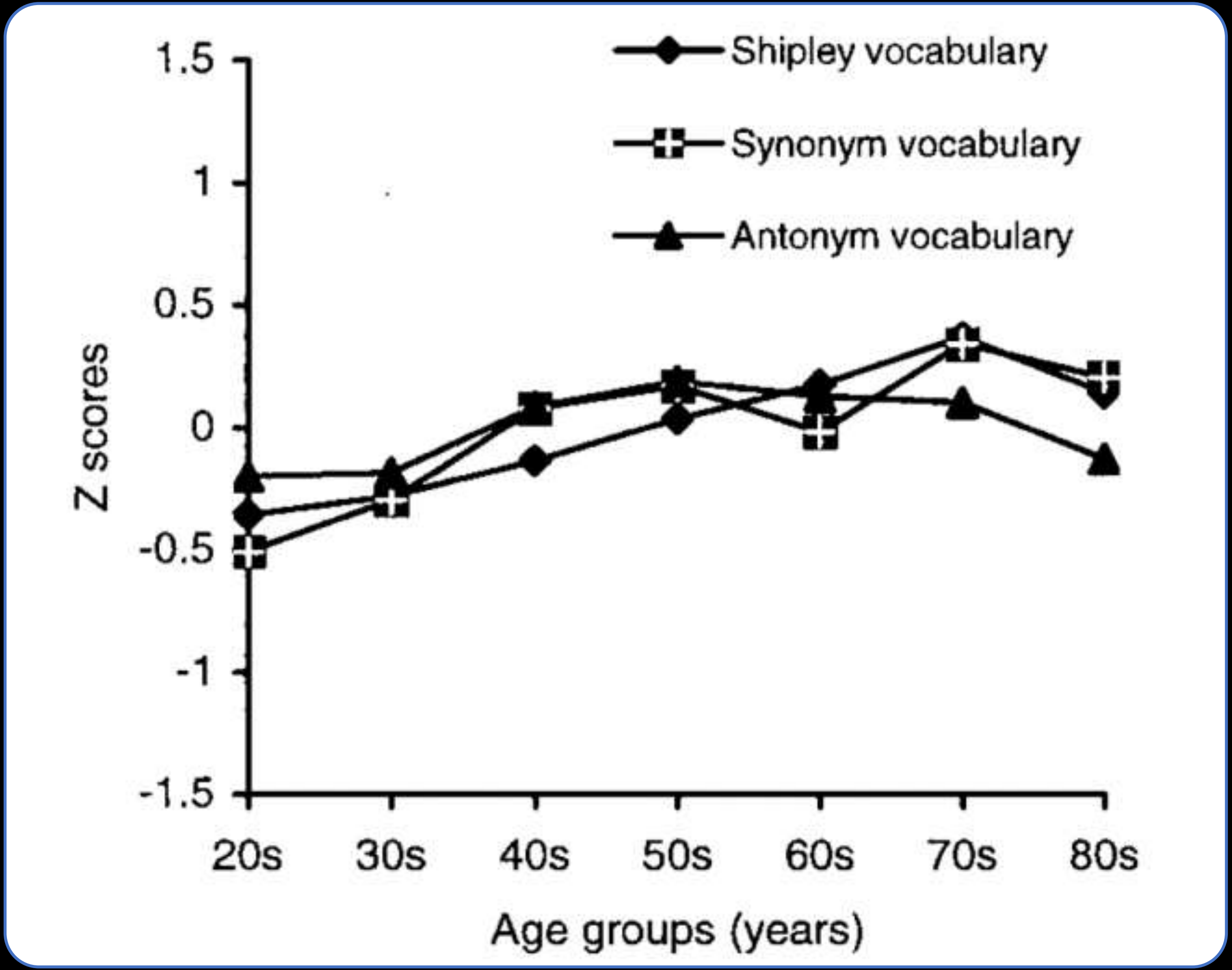
Lifetime giving among decedents who actually transferred dollars to charity at death		
Years before death	Share donating ($500+)	Share volunteering (2+ hours/week)
17-18	57%	37%
15-16	54%	32%
13-14	53%	21%
11-12	53%	26%
9-1	53%	26%
7-8	50%	26%
5-6	44%	16%
3-4	40%	15%
0-2	39%	11%

The typical system is designed to fail

- Communicating based on recency of donation is precisely the wrong approach
- Commit SEPARATE resources to age-stratified communication
- ROI arrives much faster

Keep it simple.
Keep it story.

Although numerical ability declines strongly with age, verbal knowledge is retained more strongly

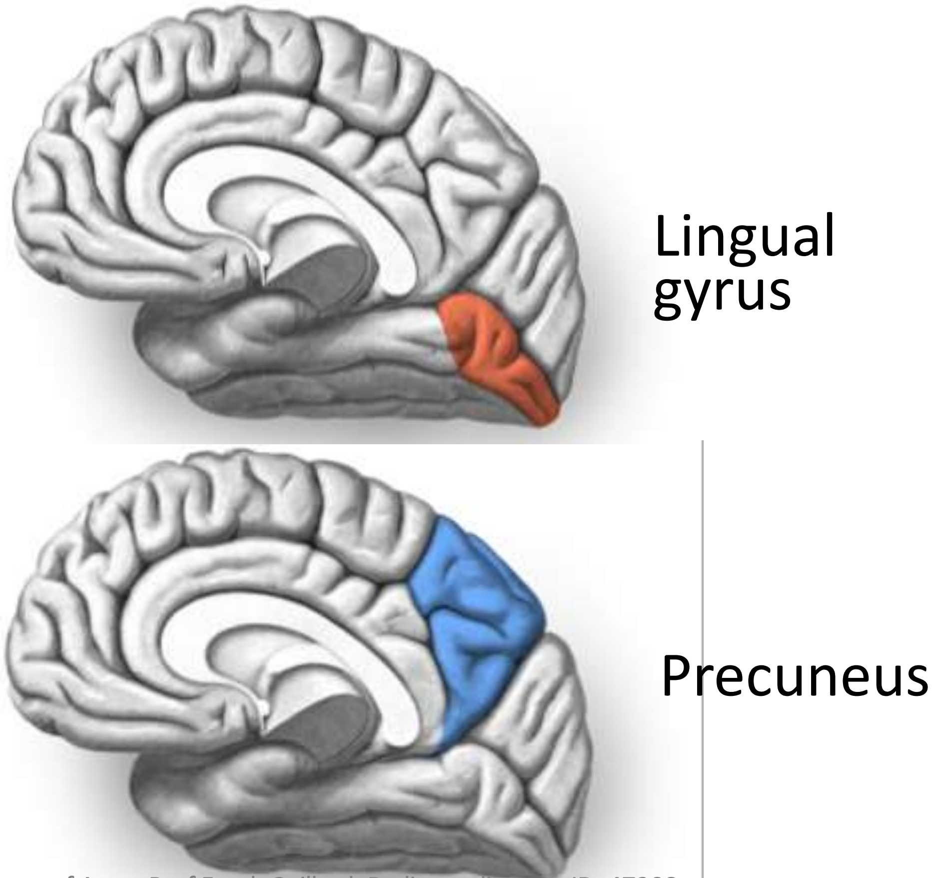


Park, et al (2002) *Psychology and Aging, 17(2), 299-320*

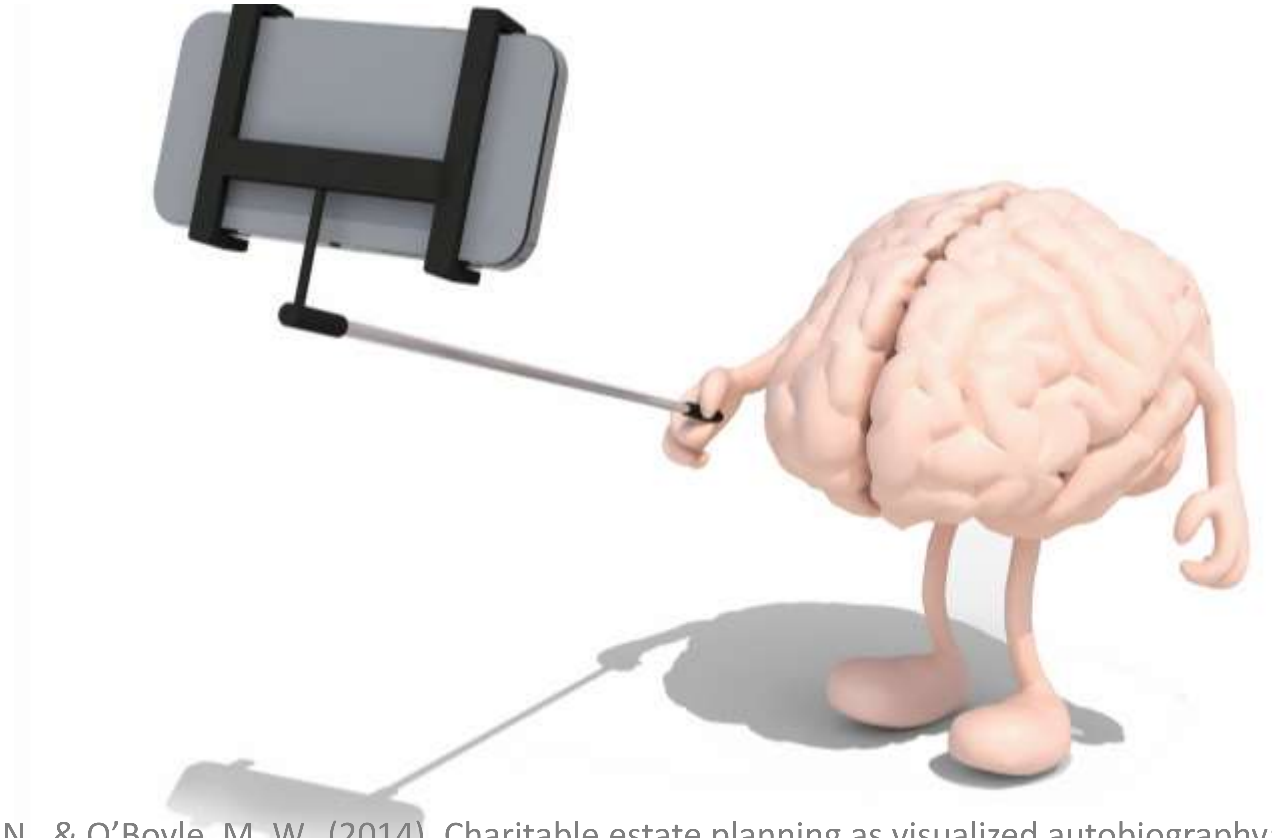
Not only visual story, but also the donor's story

Charitable bequest decisions activate visual imagery of ***autobiographical*** memories

- Lingula gyrus (internal visualization)
- Precuneus (used to take an outside perspective on ourselves)



Case courtesy of Assoc Prof Frank Gaillard, Radiopaedia.org, rID: 47208



James III, R. N., & O'Boyle, M. W. (2014). Charitable estate planning as visualized autobiography: An fMRI study of its neural correlates. *Nonprofit and Voluntary Sector Quarterly, 43*(2), 355-373.

Selling donor "instructions"

Large gifts come with lots of instructions

- Instructions make the gift compelling
- They reflect the donor's values, life story, and identity

James III, R. N. (2020). American Charitable Bequest Transfers across the Centuries: Empirical Findings and Implications for Policy and Practice. *Estate Planning & Community Property Law Journal, 12*, 235-285.

Large gifts HAVE ALWAYS come with lots of instructions

In two studies of wills from the 1800s, charitable bequests were restricted in

- 14% of small cash gifts
- 58% of real estate or large cash gifts
- 70% of gifts of a share of the entire estate

Gift restrictions <u>make</u> <u>gifts</u> <u>larger</u> in experiments

The instructions make the gift compelling

Helms, S. E., Scott, B. L., & Thornton, J. P. (2012). Choosing to give more: Experimental evidence on restricted gifts and charitable behaviour. *Applied Economics Letters, 19*(8), 745-748

Include instructions reflecting the donor's identity

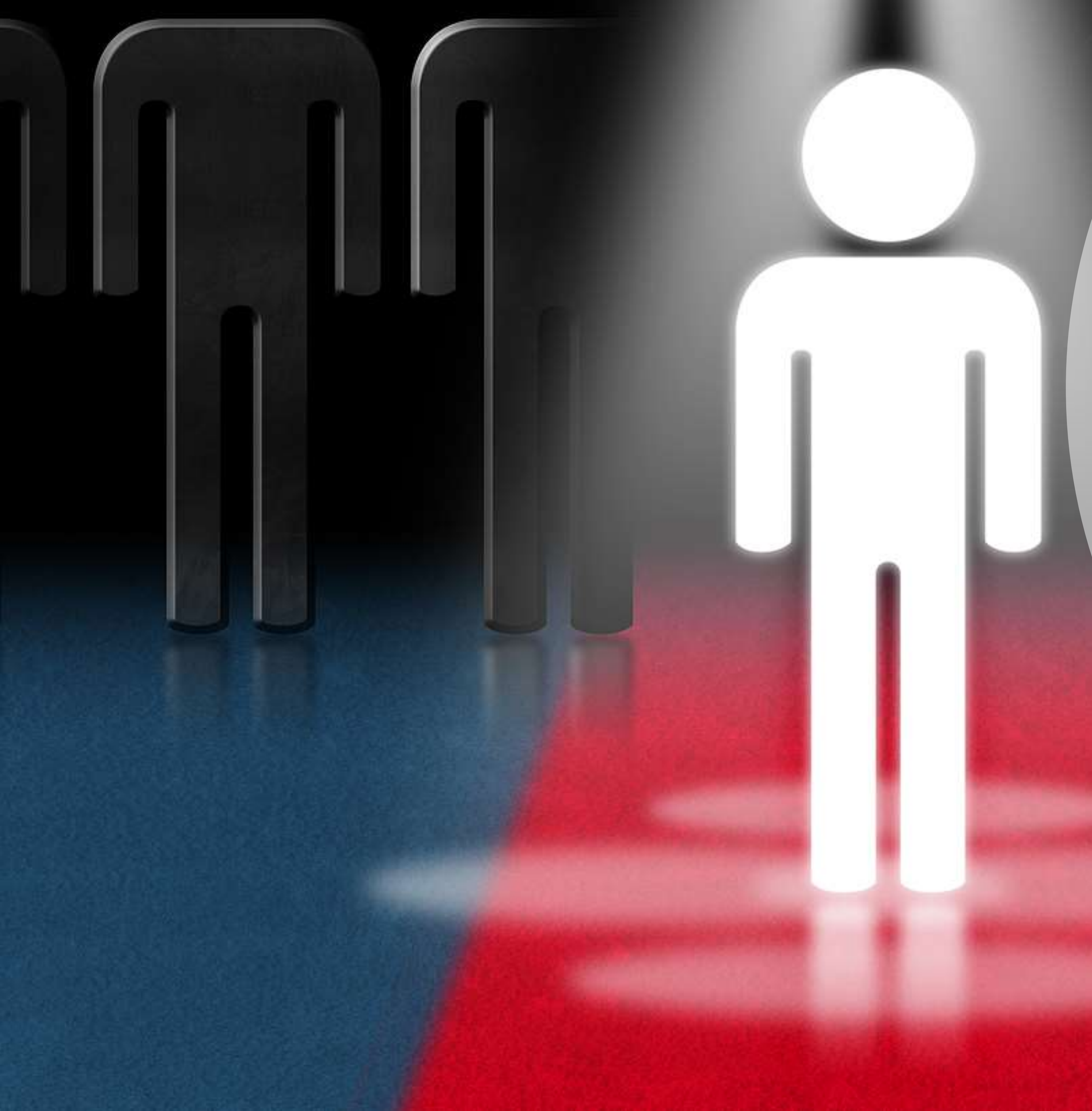
- The most extreme version of gift instructions: Foundations, funds, and trusts.
- Pages of detailed instructions controlling the gift for decades or even generations

We have competition for instructions: The private family foundation

Among decedents in 2004 and 2007 with estates of more than $5 million, the share of charitable dollars going to private foundations was 70% and 78%, respectively

The magic follow-up question for escalating estate gifts

- "Have you ever thought about how you would like your gift to be used?"
- Share stories about planned gifts from another donor of a specific size (e.g., endowing a particular item)
- Permanence goals work well in estate experiments

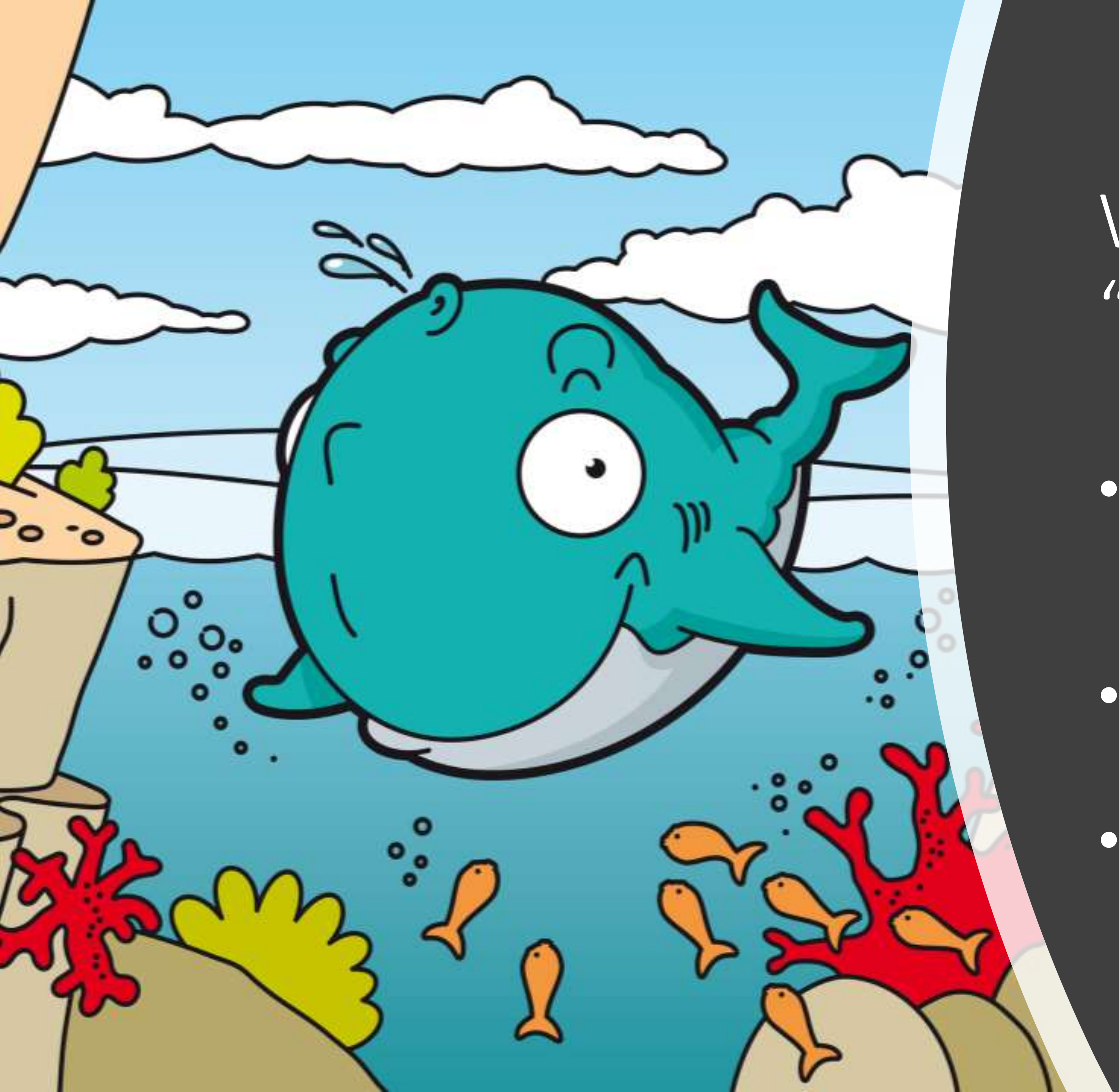


Should I give a few people the “red carpet” or treat everyone the same?

- **Is your goal to get more estate donors or more estate dollars?**
- **These aren’t the same.**

Welcome to the weird world of "Extremistan"

- There are no normal distributions here
- Only the outliers matter
- Typical bequest donors are financially irrelevant



Welcome to "Extremistan"

- Imagine fishing in an ocean with only whales and sardines.
- There is one whale for every 100 sardines.
- Sardines are typical. And they don't matter.

Typical bequest donors are financially irrelevant

Among charitable decedents, the typical behavior is to leave less than 10% of the estate to charity

Over 60% of charitable estate tax returns reported these typical donations for decedents dying in 2001 when the exemption amount was only $675,000

However, these typical charitable decedents were also financially irrelevant, transferring only 3.8% of all charitable bequest dollars

Charitable bequests are from "Extremistan"

Among both 2001 and 2014 decedents filing tax returns, those who left at least 90% of their wealth to charity gave more than 55% of total charitable bequest dollars, even though they constituted only about 10% of all donors

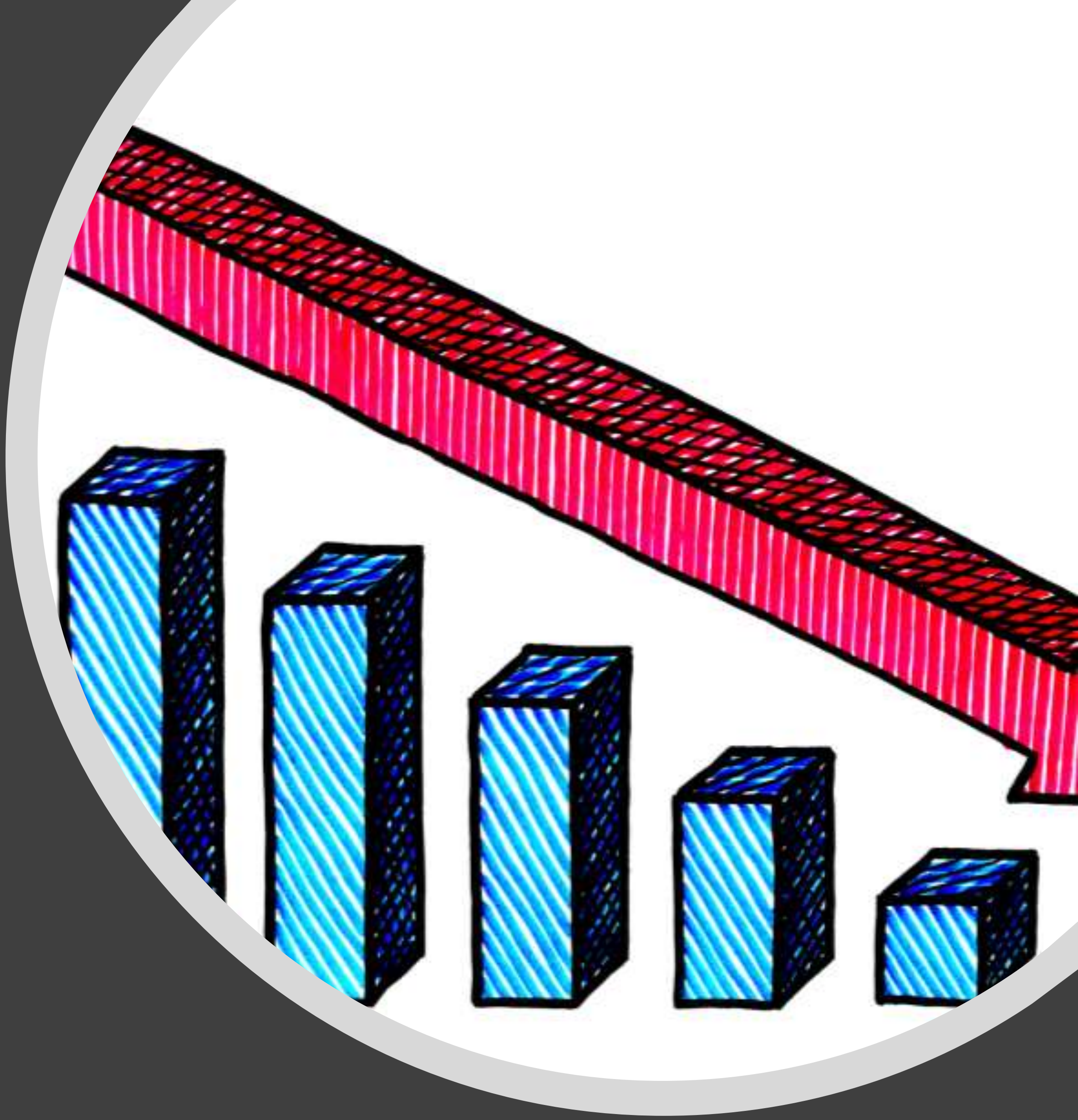
Typical bequest donors are financially irrelevant

In 2003 estate tax returns ($1MM estate tax exemption), the typical charitable decedent, representing about half of charitable estate tax returns, transferred less than $100,000 to charity

These typical charitable decedents were financially irrelevant, transferring only 1.1% of total charitable bequest dollars

Extremistan is getting more extreme

- A smaller share of decedents are transferring the same overall share of total wealth to charity
- From 1982 to 2014 the share of estate wealth going to charity among decedents with wealth over $10 million (2014$) went up
- But the share making any gifts dropped from 41.9% and 44.8% in 1982 and 1983, respectively to 32.6% and 32.7% in 2012 and 2013



Who drives charitable bequest dollars?

- Wealthy
- Old
- Childless

It’s about the wealthy

The gross estate category of more than $50 million was first reported separately for returns filed in 2013.

In every year from 2013–2017, charitable decedents from this category, about 186 decedents annually, gave the majority of all charitable dollars reported on estate tax returns in the U.S.

It's ALWAYS BEEN about the wealthy

In 1916-1921, Over 30% of all charitable estate dollars came from the 35 wealthy decedents.

In 1922 over 55% came from 16 decedents.

It's INCREASINGLY about the old

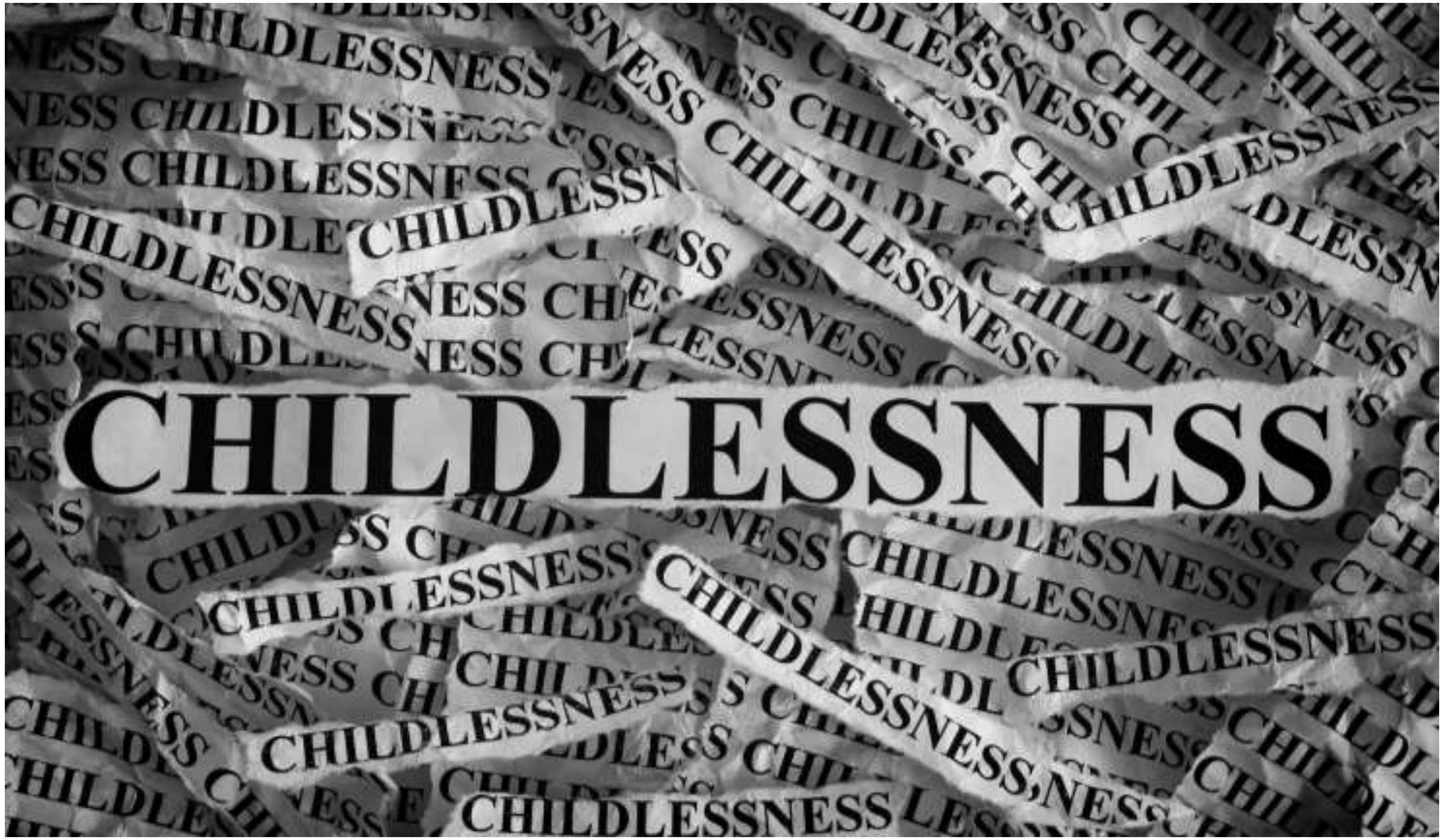
Among returns filed in 1963, 1970, 1973, 1977, 1983, 1987, 1990, those aged 75 and older made up 65%, 70%, 72%, 71%, 77%, 81%, and 83% of all charitable bequest donors, respectively.

Those under 65 constituted 13%, 9%, 8%, 10%, 7%, and 5%, of all donors, respectively.

It’s increasingly about the old

Decedents aged 80 and older contributed 68%, 70%, and 77% of all charitable dollars in 1986, 1992, and 1995.

Decedents under age 50 contributed only 0.9% and 0.4% of all charitable dollars in 1992 in 1995, respectively



It's about the childless

In 2016, among living adults age 55+, the childless represented 8.8% of testate people and 25.7% of charitable testate people.

In decedents from the 1995-2006 HRS, only 9.8% (581 of 5,957) were childless, but they accounted for 51.9% of all charitable dollars transferred ($26,057,269 of $50,244,418).

Story and Statistics

Story:

- Gifts from wealth, not disposable income
- Major gifts of assets not planned giving
- The competition is winning

Statistics:

- Gifts of assets, including planned gifts in wills, drive near term fundraising growth
- Large planned gifts come with detailed instructions
- Dollars are from the old, wealthy, and childless

Professor Russell James
Texas Tech University

Putting Research to Work in Your Planned Giving Program