Gifts of Wealth

and The Psychology of the Transformational Donation

Professor Russell James, Texas Tech University

The Secret to Fundraising Math

Gifts of Wealth Not Disposable Income

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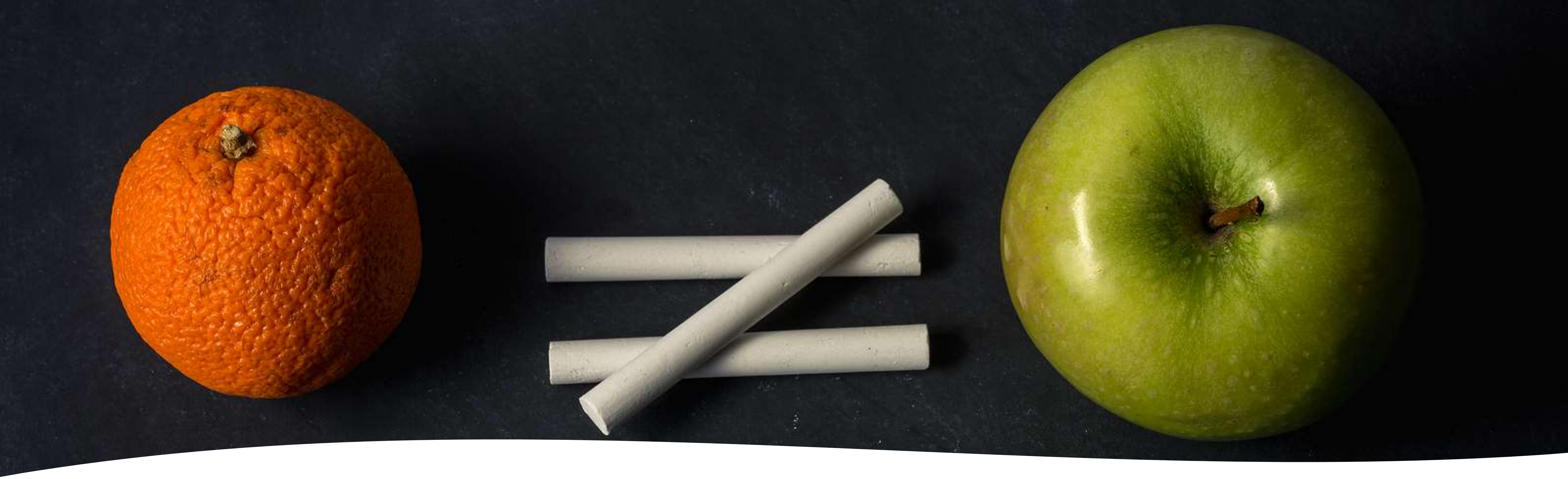
The secret
Major gifts are gifts of wealth, not disposable income



Wealth is not income

- Wealth doesn’t come from a paycheck
- Wealth comes from owning assets that go up in value

Wealth is appreciated assets

Buy assets with inheritance, borrowings, or savings from income

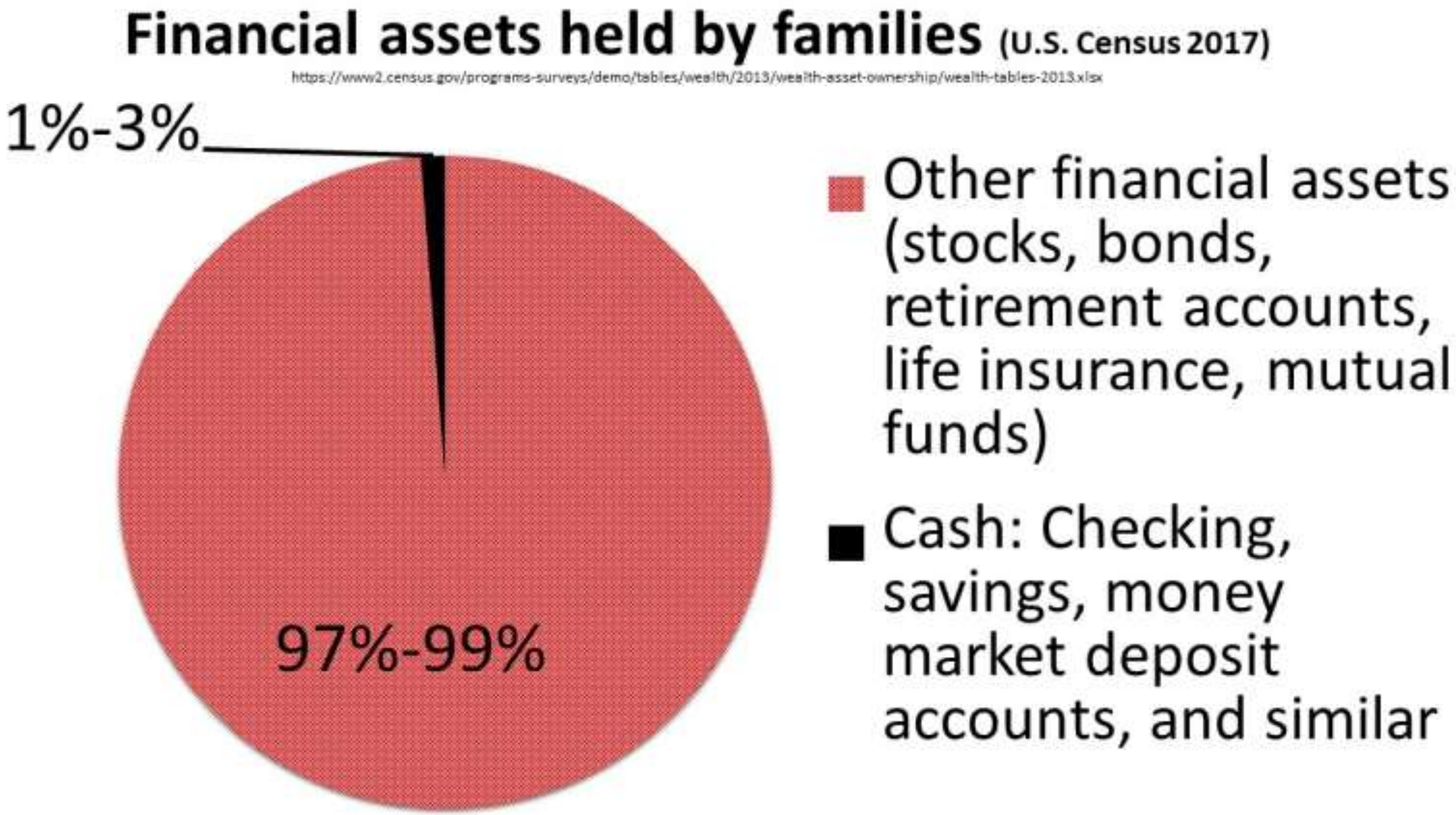
1. Pick the right assets (risk)
2. Use personal effort to increase asset value (work)

Gates, Buffet, and your neighbor

Wealth comes from owning assets that go up in value

- Pick the right assets (risk)
- Use personal effort to increase asset value (work)

Wealth is a different money category



- The story of wealth is the story of appreciated assets
- Less than 3% of household wealth is held in cash or checking accounts

Gift size is relative to the money category

- Asking for cash is asking from the small bucket
- Asking for appreciated assets is asking from the big bucket
- Large gifts are made possible by large reference points

Money categories change behavior

Shoppers entering Broadway Market in Cambridge, MA

Randomly assigned

What's in your wallet/purse? Cash? Credit cards? …

Do you own stocks? Bonds? Certificates of deposit?...

Spent 36% more

Morewedge, C. K., Holtzman, L., & Epley, N. (2007). Unfixed resources: Perceived costs, consumption, and the accessible account effect. *Journal of Consumer Research*, *34*(4), 459-467.

Money categories change current donations

- A small ask from a small category works
- A big ask from a small category <u>does not</u> work
- A big ask from a big category works

Gift description changes money reference points

- A monthly pledge where gift amounts were described as $_ a day or $__ a year
- With daily amount, people compared the gift with “routinely encountered, petty-cash types of expenditures”
- With the annual amount, people compared with “infrequently encountered, major expenditures”

Gourville, J. T. (1998). Pennies-a-day: The effect of temporal reframing on transaction evaluation. *Journal of Consumer Research, 24*(4), 395-408.

Big gifts need big reference points

$1/$4/$7 a day or $350/$1,400/$2,500 a year?

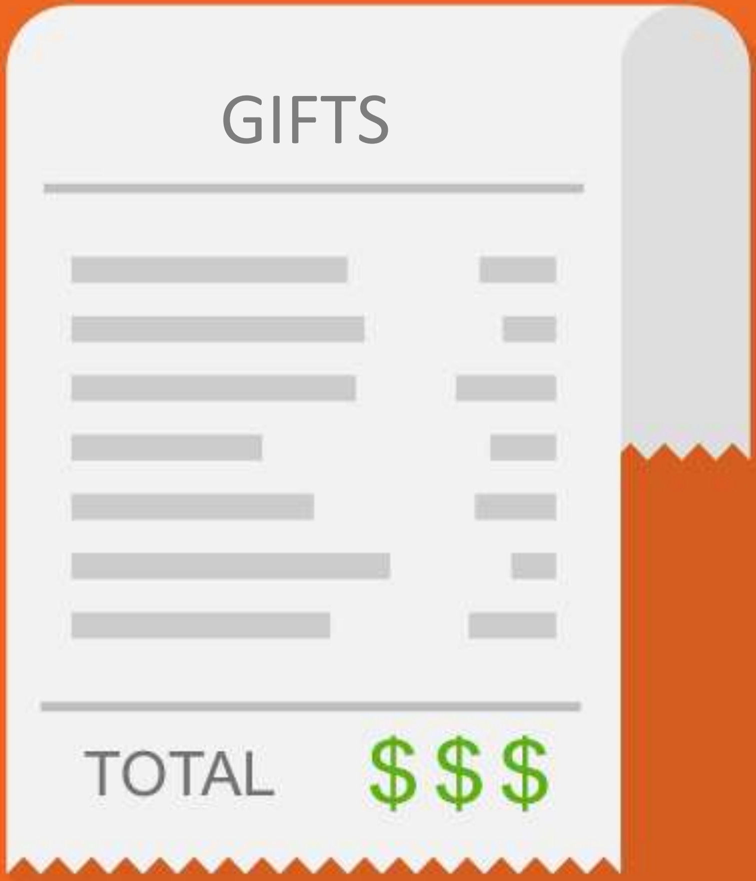
- For the smallest ask, the daily amount worked better
- But for anything over $1,000, the result reversed
- The "pennies a day" story worked, but only for pennies

Gourville, J. T. (1998). Pennies-a-day: The effect of temporal reframing on transaction evaluation. *Journal of Consumer Research, 24*(4), 395-408.

A small reference point makes future gifts small

- People had a gift made on their behalf either as a single lump sum or broken into small daily amounts
- Later, people with prior gifting broken into small amounts gave a third less

Hmurovic, J., & Lamberton, C. (2017). Does repeating prompt retreating? How the structure of initial charitable contributions impacts the magnitude of subsequent support. *North American - Advances in Consumer Research, 45*, 661-662



Reframing the reference point

- People with prior gifts on their behalf broken into small amounts then gave a third less
- Why? The reference point felt smaller
- Solution: Showing the total of prior gifts before making the ask increased donations almost 50%

Hmurovic, J., & Lamberton, C. (2017). Does repeating prompt retreating? How the structure of initial charitable contributions impacts the magnitude of subsequent support. *North American - Advances in Consumer Research, 45*, 661-662

Another experiment: Same result

- When their prior gifts were described in total terms, people gave more
- If described in monthly terms, they gave less

Experiment 1. Hmurovic, J., & Lamberton, C. (2017). Does repeating prompt retreating? How the structure of initial charitable contributions impacts the magnitude of subsequent support. *North American - Advances in Consumer Research, 45*, 661-662

Prior giving story connects to future giving

- Describing past giving as several small gifts is one story
- Describing it as a single large total is a different story
- Changing the story changes the behavior

Best performing headline

[6 mailings, 50,000 people]

"CAMPAIGN DONOR FOR ___ YEARS

Your most generous gift was $___. Thank you."

Emphasizes

- Largest gift
- Long relationship

Khan, H. & Hardy, E. (2019). *Using behavioural insights to encourage charitable donations among repeat donors*. Privy Council Office: Impact Canada.

Which gift is more valuable?

A $10,000 check

$10,000 of stock shares

One gift is more hassle for the nonprofit, but it costs the donor less

A money category question

A $10,000 check

$10,000 of stock shares

If gifting comes from the tiny category, future gifting stays tiny

- A checking account is where disposable income lives
- Appreciated assets is where wealth lives

“Mental accounting”

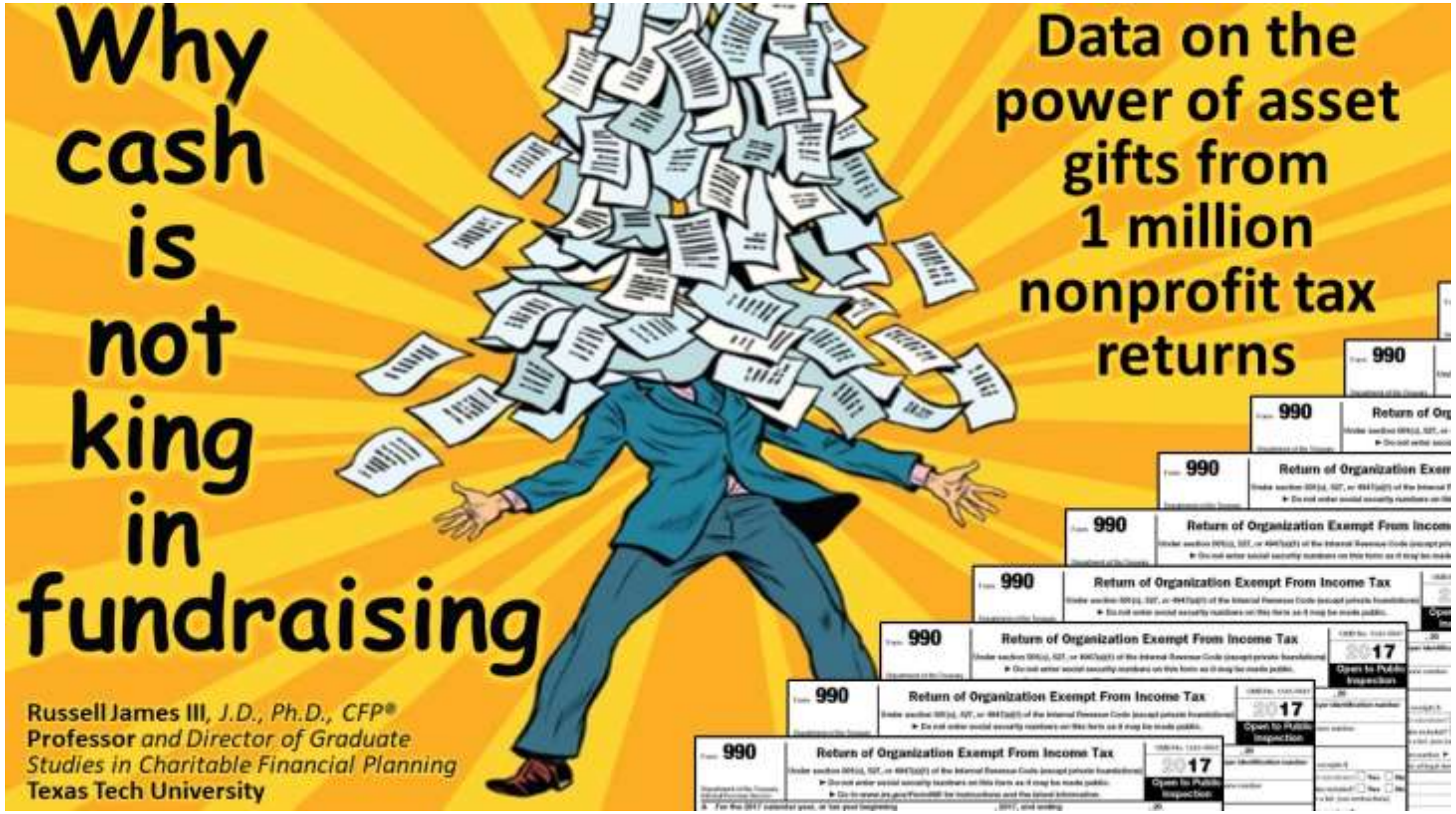
- In math, a dollar is a dollar
- In story, people put labels on money and then treat the dollars differently based on those labels
- When a new category of money becomes donation relevant, giving increases

Thaler, R. (1985). Mental accounting and consumer choice. *Marketing Science, 4*(3), 199–214; LaBarge, M. C., & Stinson, J. L. (2014). The role of mental budgeting in philanthropic decision-making. *Nonprofit and Voluntary Sector Quarterly, 43*(6), 993–1013.

Making the category donation-relevant

After a first gift of furniture or clothes **[or stock]**, the category becomes donation relevant.

Whenever redecorating or moving **[or an asset sale]**, is contemplated, charity comes to mind.



James III, R. N. (2018). Cash is not king for fundraising: Gifts of noncash assets predict current and future contributions growth. *Nonprofit Management & Leadership. 29*(2), 159-179.

Real world: Money categories and fundraising success

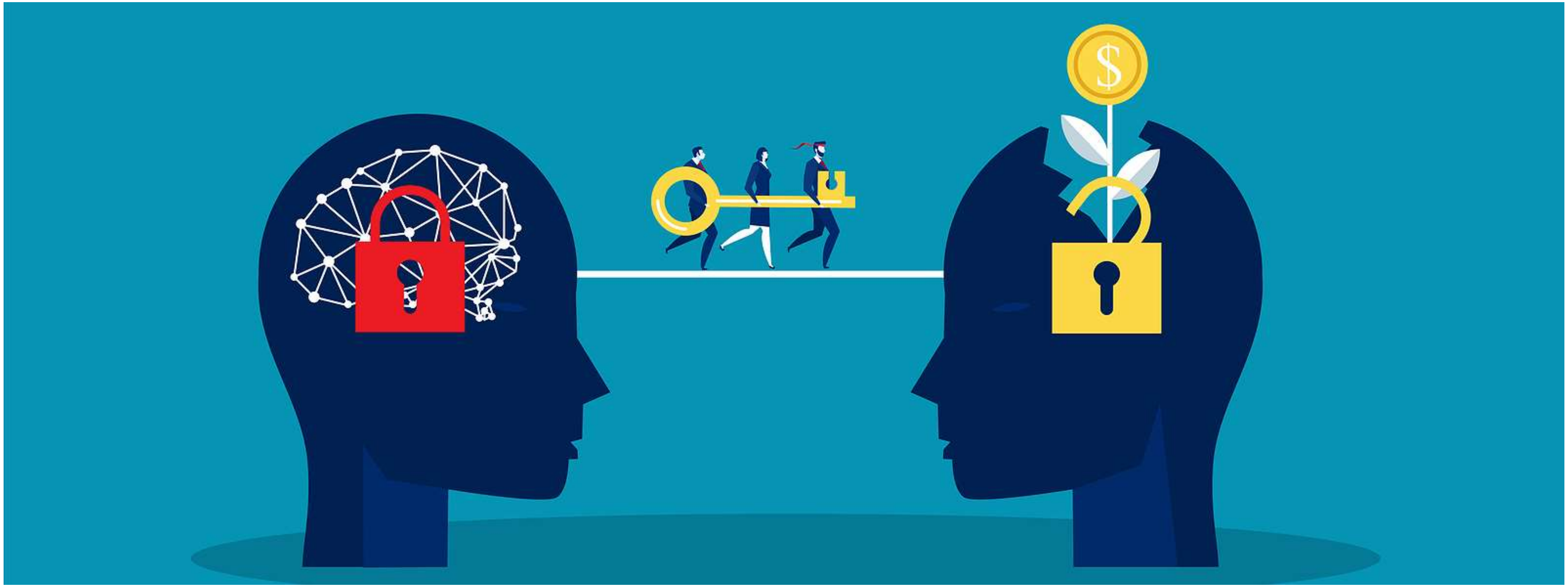
Over a million nonprofit tax returns showed the answer: Raising money from noncash assets predicts current and future fundraising success

Comparison example

- Suppose similar charities raising the same total contributions. One had raised gifts only from cash. The other had raised gifts from both cash and stocks.
- Five years later, on average, contributions will have grown twice as fast at the second organization.

How to start

- Listen: An upcoming sale, retirement, inheritance are all times for charitable planning
- Be a resource: I help our donors give smarter. How? Share a story
- Share stories: Donor stories can include stocks, bonds, real estate, or businesses



Mindset matters

- Gifts from disposable income stay small
- Once a donor begins to think of donations as something that comes from wealth, things change

Legacy gifts can be transformational for the organization

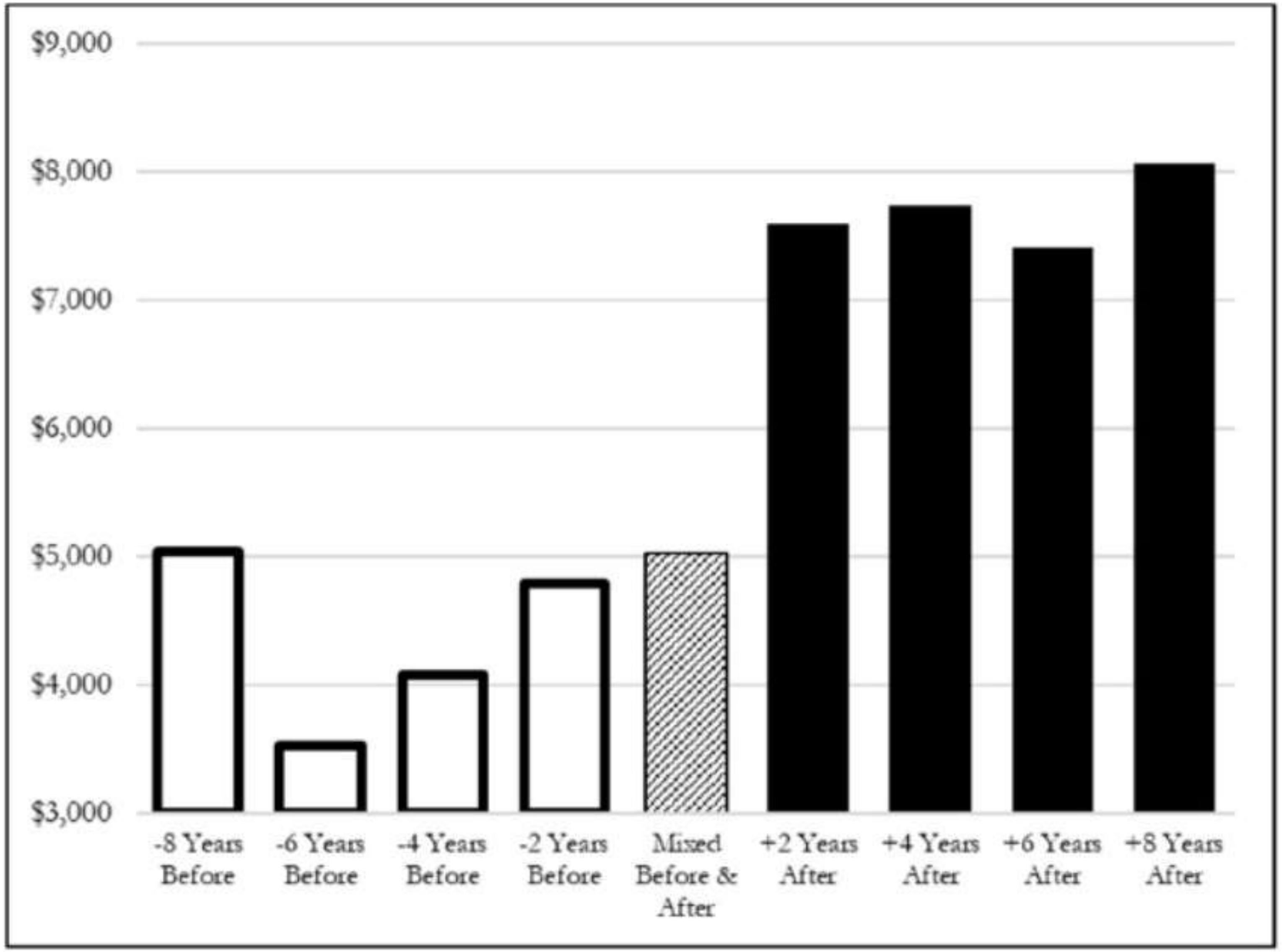
- Estate gifts from the wealthy can be enormous

James, R. N. III. (2020). American charitable bequest transfers across the centuries: Empirical findings and implications for policy and practice. *Estate Planning and Community Property Law Journal, 12*, 235-285, 271.

Legacy gifts can be transformational for the donor

- Current giving increases dramatically after adding charity to an estate plan
- Annual donations are consistently about 75% higher

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



James, R. N. III. (2020). The emerging potential of longitudinal empirical research in estate planning: Examples from charitable bequests. *UC Davis Law Review, 53*, 2397-2431 at p. 2422.

The Secret to Fundraising Math

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The Psychology of the Transformational Donation

Foundations, Funds, Trusts, and Endowments

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Most fundraisers don’t understand the real world of philanthropy

- They don’t understand wealth
- They don’t understand charitable instruments

Because that's where the money is

The largest charity in the U.S.? It's a donor advised fund. So is the third largest. And the sixth. And the eighth, and the ninth, and the tenth.

Because that's where the money is

- Charitable remainder and lead trusts hold over $100 billion
- 50 to 100 times what the American Red Cross or the American Cancer Society has

Rosenmerkel, L. S. (August 2013). Split-Interest Trusts, Filing Year 2012, https://www.irs.gov/pub/irs-soi/14eowinbulsplitinterest12.pdf

Because that's where the money is

Private foundations hold about a trillion dollars

IRS, Statistics of Income Division, Domestic Private Foundations Study, November 2019. Table 3. Domestic Private Foundations: Income Statements and Balance Sheets, by Size of Fair Market Value of Total Assets, Tax Year 2016, https://www.irs.gov/pub/irs-soi/16pf03ta.xls

So what?

Understanding the attraction of these instruments

- Reveals the psychology of giving and wealth
- Shows your real competition

Charitable foundations, funds, and trusts provide big value to donors

- Multiply the feeling of being generous
- Divide the feeling of paying a cost
- Allow giving and holding wealth at the same time
- Include instructions reflecting the donor’s identity
- Give permanence to the donor’s identity

Multiply the feeling of being generous

Step 1: Donor gives to a charitable fund that he controls

Step 2: Donor manages the assets in the charitable fund

Step 3: Donor makes transfers from the fund to a charity

Step 1: Donor gives to a charitable fund that he controls

- The donor is generous
- The government recognizes this philanthropy with a deduction

Step 3: Donor makes transfers from the fund to a charity

- The donor is generous AGAIN
- A charity gets the money and makes an impact

Andreoni, J. & Serra-Garcia, M. (December, 2019). Time-inconsistent charitable giving. NBER Working Paper No. 22824, https://www.nber.org/papers/w22824

Step 2: Donor manages the assets in the charitable fund

- The donor manages his charitable fund
- This regularly reminds him (and others) of his generosity

Divide the feeling of paying a cost

Step 1: The donor gives to his charitable fund

- This cost isn’t as painful as a normal gift
- The donor isn’t giving up as much
- Still controls investments (sometimes can even benefit)
- Still controls which charities will get funds and when

Divide the feeling of paying a cost

Step 3: Donor transfers from the fund to charity

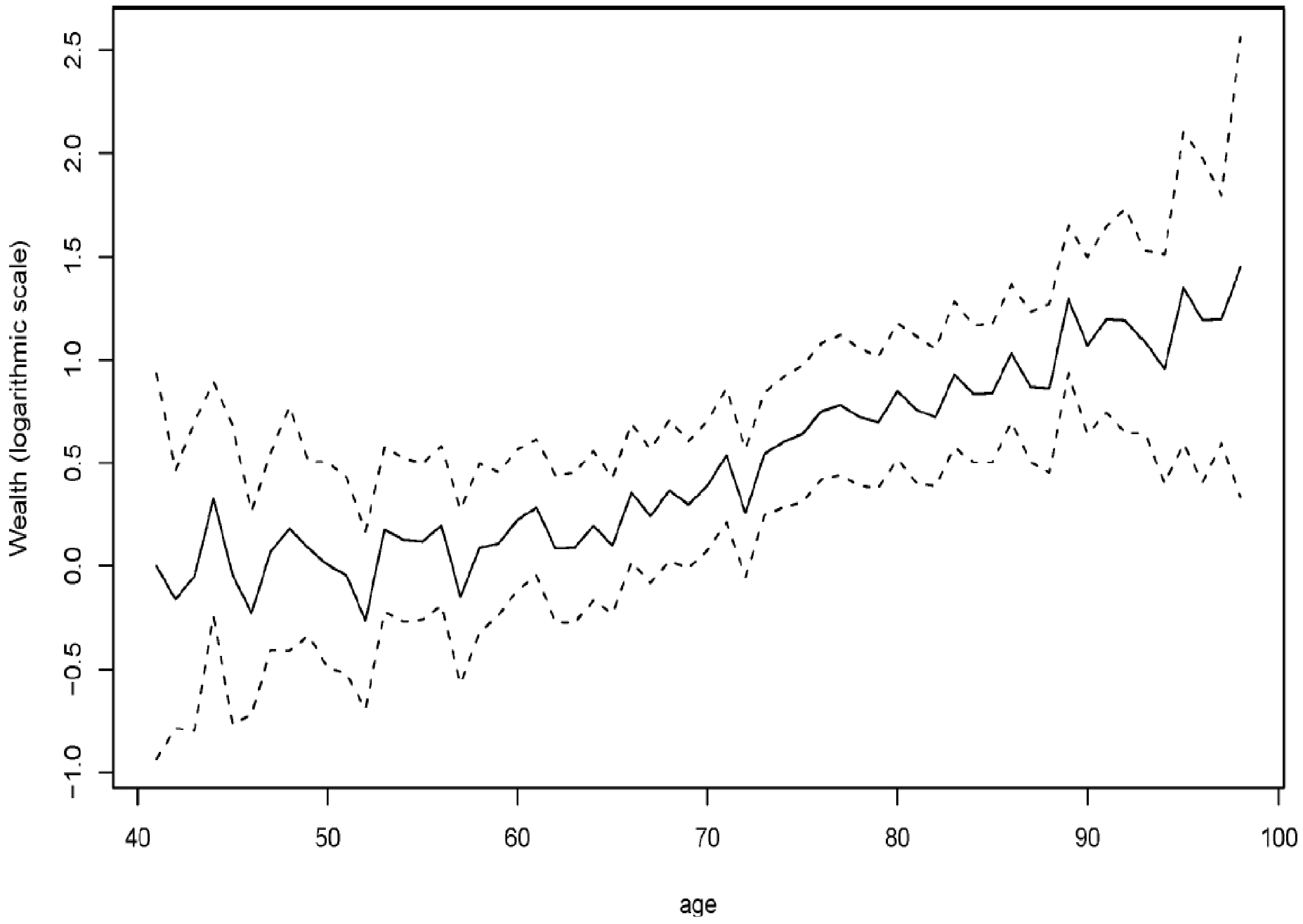
- This cost isn't as painful as a normal gift
- The donor isn't giving up as much
- The gift has already been committed to go to charity at some point
- The decision only affects the timing

Allow giving and holding wealth at the same time

Step 2: The donor has already given (and received a tax deduction), yet the donor still holds the wealth

Wealthy people like to hold wealth

- That's part of the reason why they became or stayed wealthy
- They don't spend it even during retirement
- When the wealthy (top 5%) hit age 65 their rate of wealth accumulation **increases**



Kopczuk, W. (2007). Bequest and tax planning: Evidence from estate tax returns. *The Quarterly Journal of Economics, 122(*4), 1801-1854, Figure I.

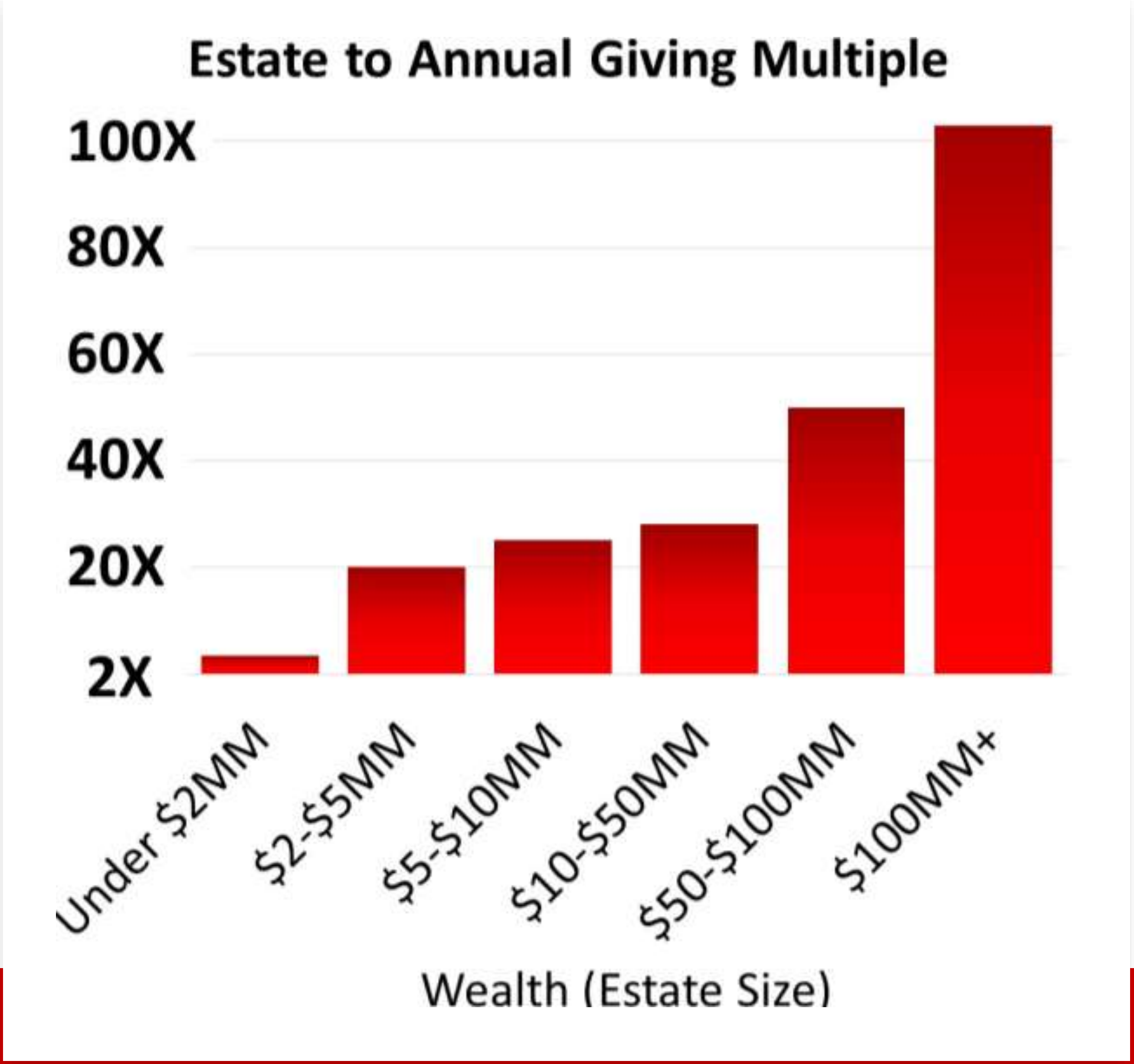
Wealthy people like to hold wealth

They don’t give it away to family members during their life even though this would save enormously on estate taxes

Kopczuk, W., & Slemrod, J. (2003): “Tax Consequences on Wealth Accumulation and Transfers of the Rich,” In A.H. Munnell & A. Sundén (Eds.), *Death and Dollars: The Role of Gifts and Bequests in America* (pp. 213–249). Washington, DC: Brookings Institution Press

Wealthy people like to hold wealth

- Estate giving allows donors to give and hold wealth at the same time
- A donor includes a charity in his estate plan, but he is still holding the wealth
- This is how wealthy people prefer to give



Steuerle, C. E., Bourne, J., Ovalle, J., Raub, B., Newcomb, J., & Steele, E. (2018). *Patterns of Giving by the Wealthy.* Urban Institute. Table 4.

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

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

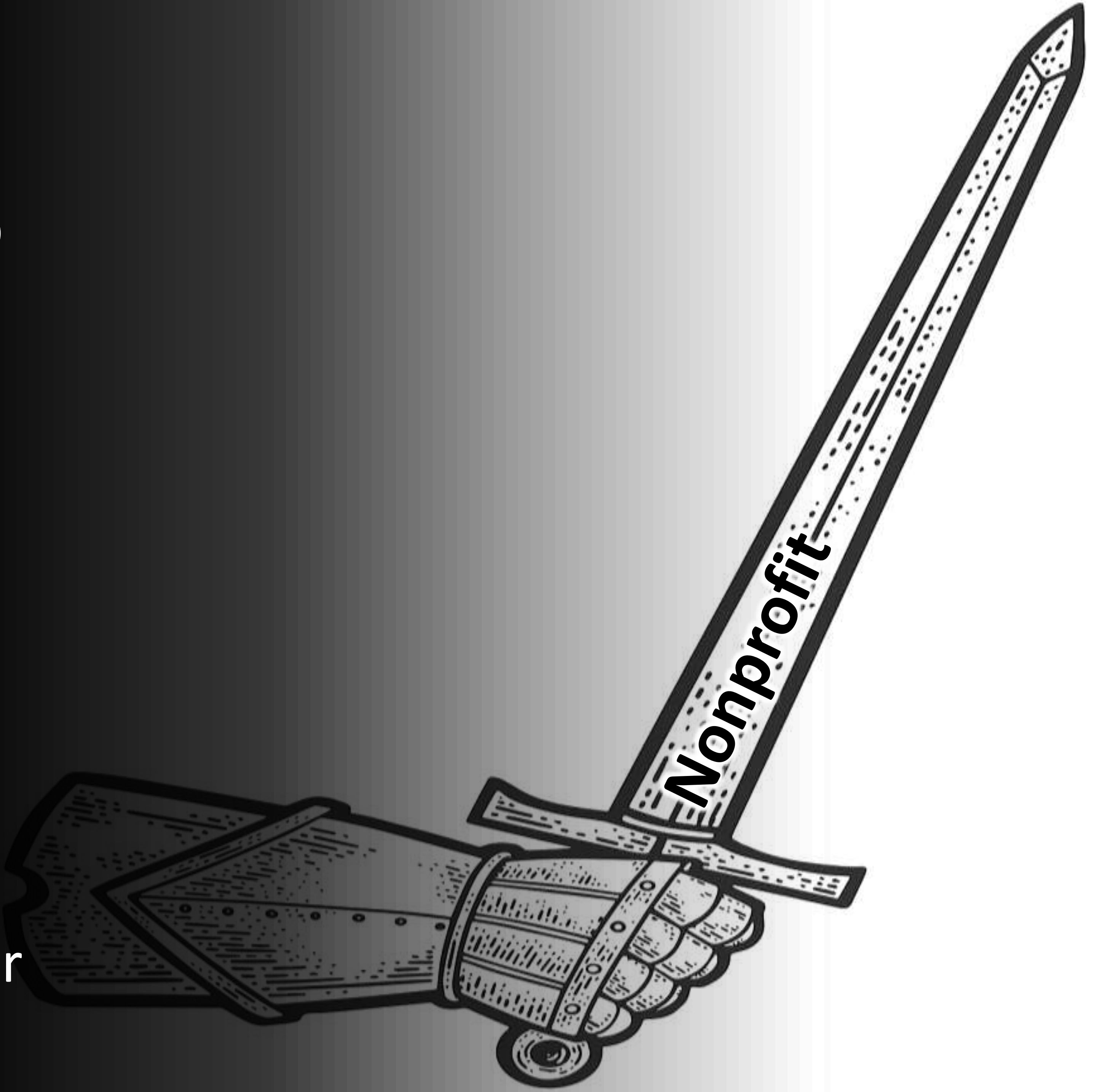
Gift restrictions make the gifts larger

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

Give permanence to the donor’s identity

- A donor can’t provide a college education, but through a nonprofit he can.
- A donor can’t advance cancer research, but through a nonprofit he can.
- A charity can do something else the donor can’t. It can live forever.



Pyszczynski, T., Greenberg, J., & Solomon, S. (1999). A dual process model of defense against conscious and unconscious death-related thoughts: An extension of terror management theory. *Psychological Review, 106*, 835-845.

Death is a problem

The solution: "symbolic immortality" the idea that some part of one's identity – one's values, story, name, family, or community – will live on

The ultimate charitable instrument for symbolic immortality

<u>The private foundation</u>

- Legally bound to advance the donor's values
- Named for and managed by the donor and the donor's family
- Lives forever

Permanence is powerful in estate giving

- 78% of charitable bequest dollars (estates $5MM+) go to private family foundations
- 35 of the wealthiest and oldest schools get over a quarter of estate gifts to education

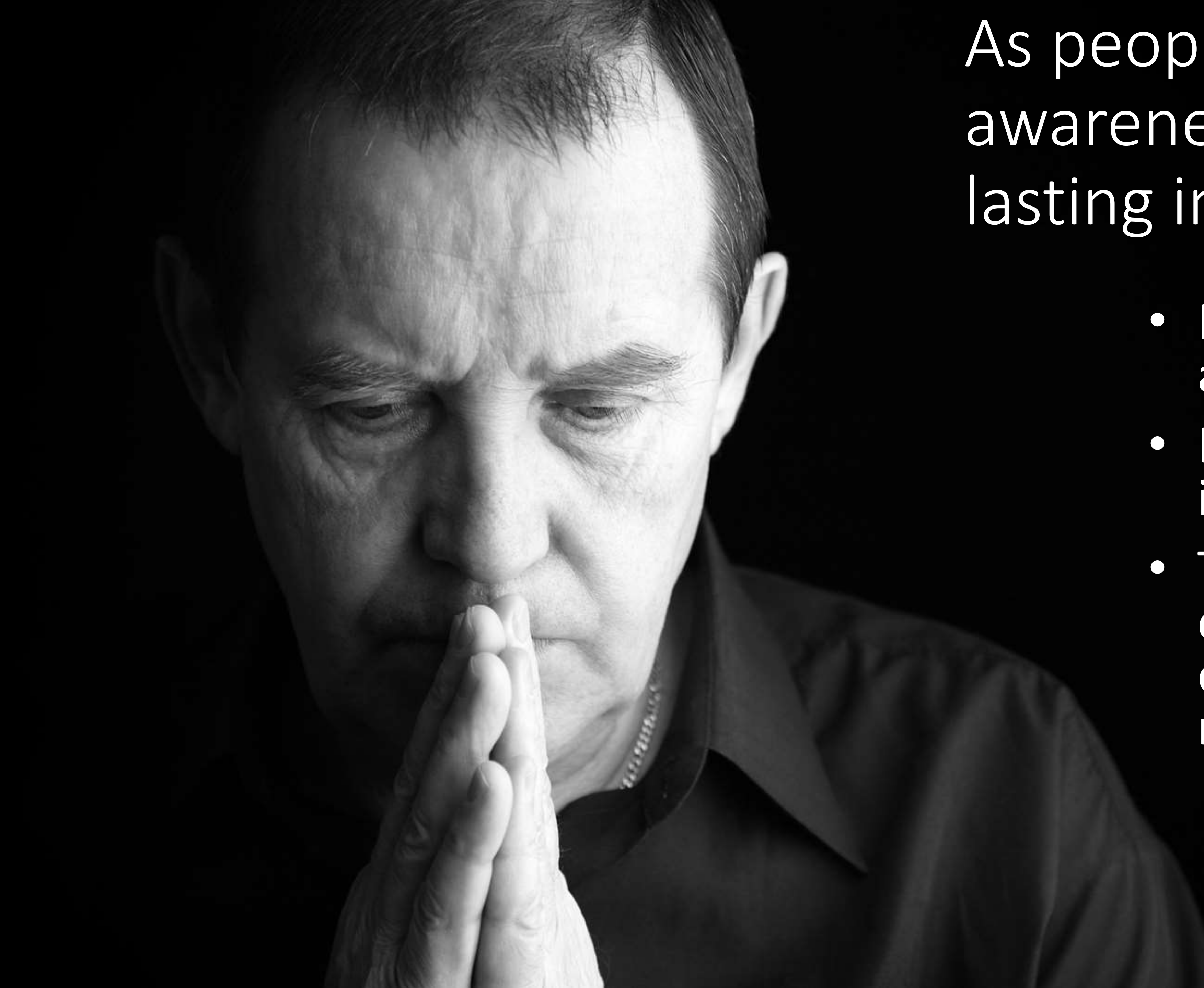
Raub, B. G. & Newcomb, J. (Summer 2011) Federal Estate Tax Returns Filed for 2007 Decedents, *Statistics of Income Bulletin, 31*, 182-213, 191; Fleischer, M. P. (2007). Charitable contributions in an ideal estate tax, *Tax Law Review 60*, 263-321, 303.

Mortality and permanence in experiments

	Average Gift	
Charity Description	Normal Group	**Death Reminded Group**
"creating lasting improvements that would benefit people in the future"	$100.00	**$235.71**
"meeting the immediate needs of people"	$257.77	**$80.97**

- Mortality reminders increased giving if the charity was described as "creating lasting improvements"
- They decreased giving if the charity was described as "meeting the immediate needs of people"
- Adding permanence to a memorial scholarship fund also dramatically increased giving

Wade-Benzoni, K. A., Tost, L. P., Hernandez, M., & Larrick, R. P. (2012). It's only a matter of time: Death, legacies, and intergenerational decisions. *Psychological Science, 23*(7), 704-709.; James, R. N. (2019). Encouraging repeated memorial donations to a scholarship fund: An experimental test of permanence goals and anniversary acknowledgements. *Philanthropy & Education, 2*(2), 1-28.



As people age, mortality awareness and desire for lasting impact increases

- Major gifts often occur at older ages
- Permanence is important for these gifts
- They tend to go to large charities that hold large endowments and offer more permanence

Maxfield, M., et al. (2014). Increases in generative concern among older adults following reminders of mortality. International Journal of Aging and Human Development, 79(1), 1-21.; Coutts and Co. (2015) Coutts Million Pound Donors report

Legal theory recognizes the power of permanence

"Laws enforce perpetual funds for charity because to do otherwise would discourage gifts."

-Professor Evelyn Brody

Brody, E. (1997). Charitable endowments and the democratization of dynasty, Arizona Law Review, 39, 873-948, 942-43.

Do you want to?

- Big donations come from providing big value
- Foundations, funds, and trusts do that
- Charities can too but only <u>if</u> they decide they want to

Delivering value to donors? That’s crazy talk!

- The donor’s job is to deliver value to the charity, right?
- The charity’s job is just to be its wonderful self, right?

This view doesn't work for fundraising

- Delivering value to the donor <u>creates</u> philanthropy
- Donors are free to choose, so if you don't beat the competition (foundations, funds, and trusts), you won't get the money.

Yes, you can!

- Charities can provide value
- They can compete with foundations, funds, and trusts

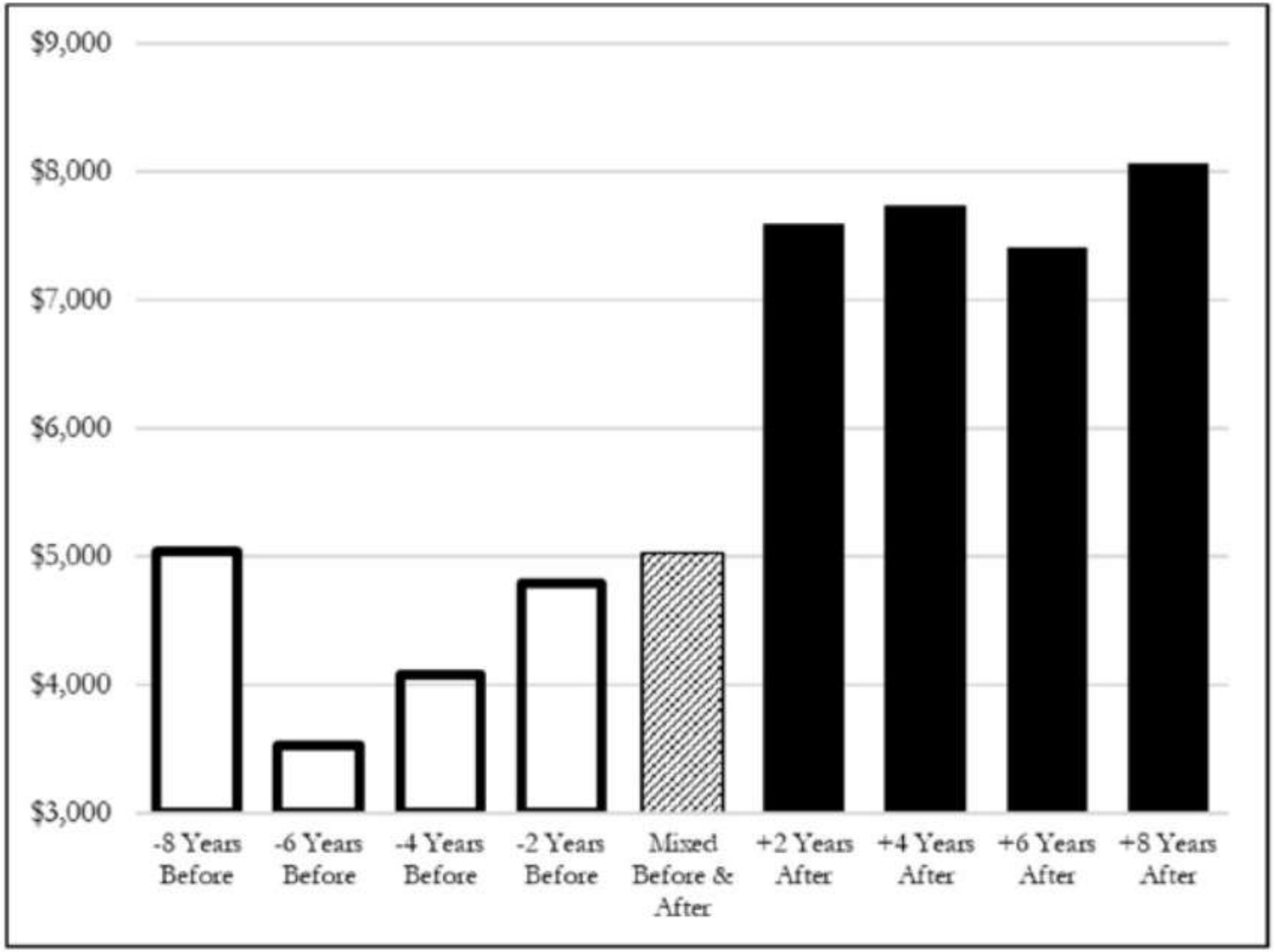
Allow permanent endowments

- Follows the donor's instructions forever
- If the charity is new or unstable it can use an established community foundation to hold the funds

Emphasize estate giving

- Allows donors to give and hold the wealth
- After planning, current giving just changes the timing
- Donors increase annual giving by about 75% after adding charity to an estate plan

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



James, R. N. III. (2020). The emerging potential of longitudinal empirical research in estate planning: Examples from charitable bequests. *UC Davis Law Review, 53*, 2397-2431 at p. 2422.

Promote instruments that combine gifts to the charity with continued control of the wealth

- Charitable remainder trusts
- Charitable lead trusts
- Retained life estates

See http://bit.ly/TexasTechProfessor

Encourage instructions with large gifts

- Instructions increase the value of the gift experience
- Instructions lead to discussions about bigger (or more permanent) impact from bigger gifts

Get creative with blended gifts

- Virtual permanent endowment with annual gifts for payout and some principal plus estate gift backup for any remaining principal
- Discount any “unsold” naming opportunities by counting multi-year pledges, estate gifts, or irrevocable trusts

Big gifts come from delivering big value to donors

- Are you trying to deliver big value?
- Are you trying to compete with foundations, funds, and trusts?
- Doing so transforms the donor's experience and the charity's fundraising

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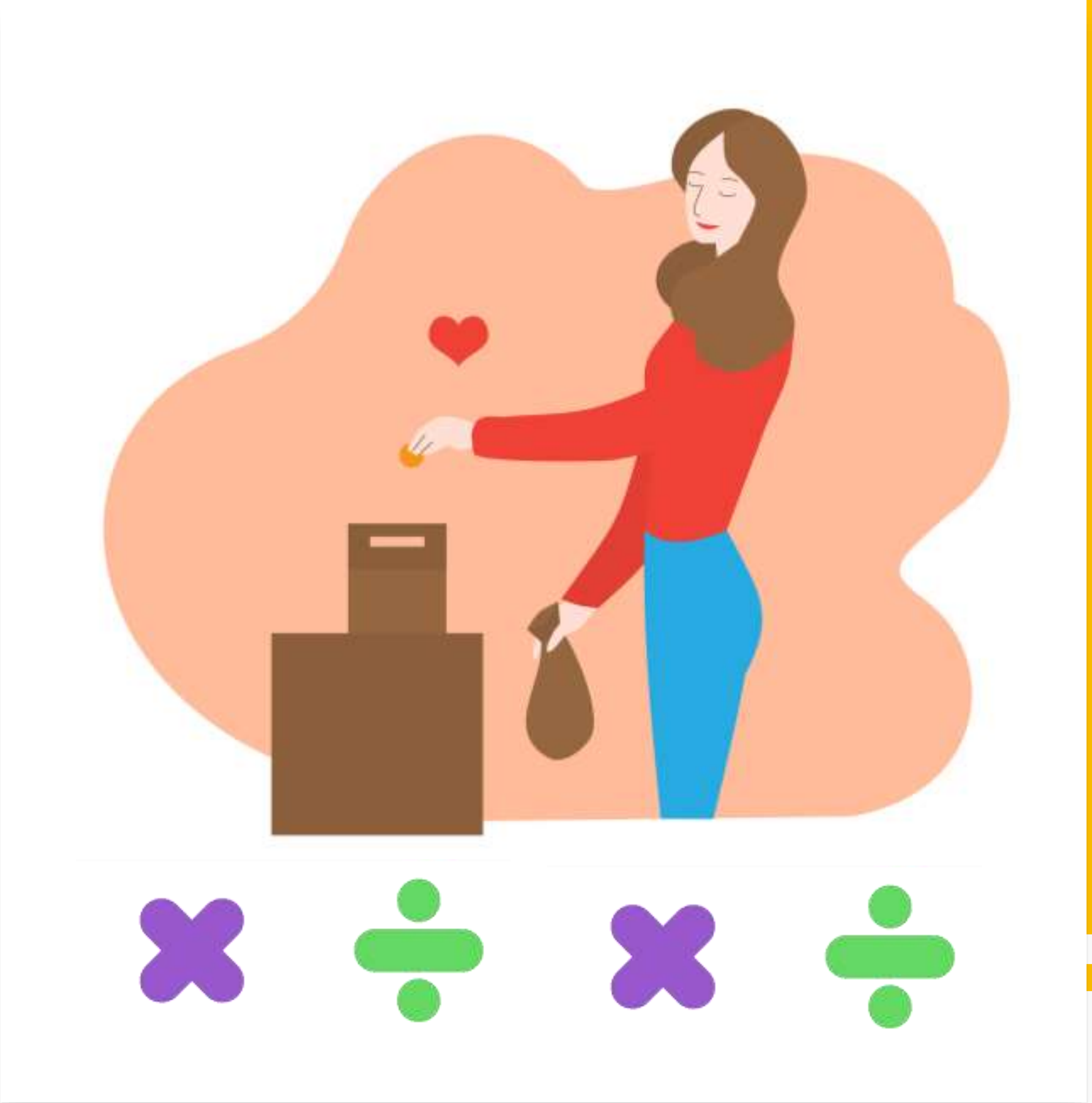
Advanced Fundraising Math

Multiply the Experience

Divide the Cost

Professor Russell James
Texas Tech University



How should a gift be structured?

Administrator perspective

- Write a check
- Write it immediately
- Write it for as much as possible
- (And then go away, so the manager can get on with the work)

Perspective shift

- Donations don’t come because the organization “deserves it”
- Donations come because the donor experience is worth the gift

Simple math - Auctions

One donor gives an object worth $100. Another donor buys it for $200. At the end, the charity gets a check for $200.

- In math, each donor has made a gift of $100
- In story, each donor has given $200 to the charity

Delivering value - Auctions

Generosity, wealth, and identity are on public display in an approved, communal, shared process mediated by personal objects

The concept is the key

- Multiply the experience
- Divide the cost

Multiply the experience - Pledges

Step 1: Donor makes a pledge to give $100 in the future

Step 2: Donor fulfills the pledge and transfers $100

Multiply the experience - Pledges

"The pleasures experienced at the time of the giving decision may be re-experienced later when focus is brought to the giving decision, such as when the gift is transacted. Hence, spreading a single giving decision into two distinct social interactions is like giving a person a larger audience, even if the audience is the same people, and even if the audience is simply themselves (as with self-signaling)."

Andreoni, J. & Serra-Garcia, M. (December 2019). Time-inconsistent charitable giving. NBER Working Paper No. 22824

Divide the cost - Pledges

Step 1

- Not "give now or don't give"
- Instead "give **<u>later</u>** or don't give"

Step 2

- Not "give now or don't give"
- Instead "give now or **<u>break my pledge</u>**"

Pledges are harder to break after a "thank you"

Step 1

- Not "give now or don't give"
- Instead "give **later** or don't give"

Step 2

- Not "give now or don't give"
- Instead "give now or **break my pledge**"

Andreoni, J. & Serra-Garcia, M. (2019). The pledging puzzle: How can revocable promises increase charitable giving. CESifo Working Paper No. 7965

Multiply and divide - Pledges

- The experience is multiplied
- The cost is divided

Field experiment - Division

1,200 monthly donors, either

- “Can you consider increasing your monthly contribution with [X Amount]?”
- “Can you consider increasing your contribution with [X Amount] starting in [month Y], which means that the first increase will be on the 28th of [Month Y]?” (Y=2 months from now)

Average increase 1/3 larger for the 2nd group

A year later, the differences still persisted

Breman, A. (2011). Give more tomorrow: Two field experiments on altruism and intertemporal choice. *Journal of Public Economics, 95*(11-12), 1349-1357. Field experiment 1: Diakonia

Lab experiments – Sharing gains

- Even easier than paying with future money is paying with future gains
- Subjects asked to commit part of their winnings to charity, either before or after they won
- Those asked before they won gave 23% more often and in larger amounts

Kellner, C., Reinstein, D., & Riener, G. (2019). Ex-ante commitments to “give if you win” exceed donations after a win. Journal of Public Economics, 169, 109-127, 127.

Divide the cost, increase the giving

Sharing future gains works in story and legal structures

Lab experiments - Multiplication

Those who gave from later payments got to experience being charitable twice

- They were charitable once when they pledged to give
- They were charitable again when they made the gift

Adding an audience made the impact larger; now, they **were seen as** charitable twice

Andreoni, J. & Serra-Garcia, M. (December, 2019). Time-inconsistent charitable giving. NBER Working Paper No. 22824, https://www.nber.org/papers/w22824

Running with the big dogs

- Multiplying the donor's giving experience works
- Dividing the giving cost does, too
- The real power is not in auctions or even pledges
- It's in massive donations: charitable foundations, funds, trusts, and endowments

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