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Values-Based Estate Planning

Selling Philanthropy to Your CFO

Research and Presentation by
Russell James, J.D., Ph.D., CFP®

Statistics and stories to get leadership support for planned gift fundraising

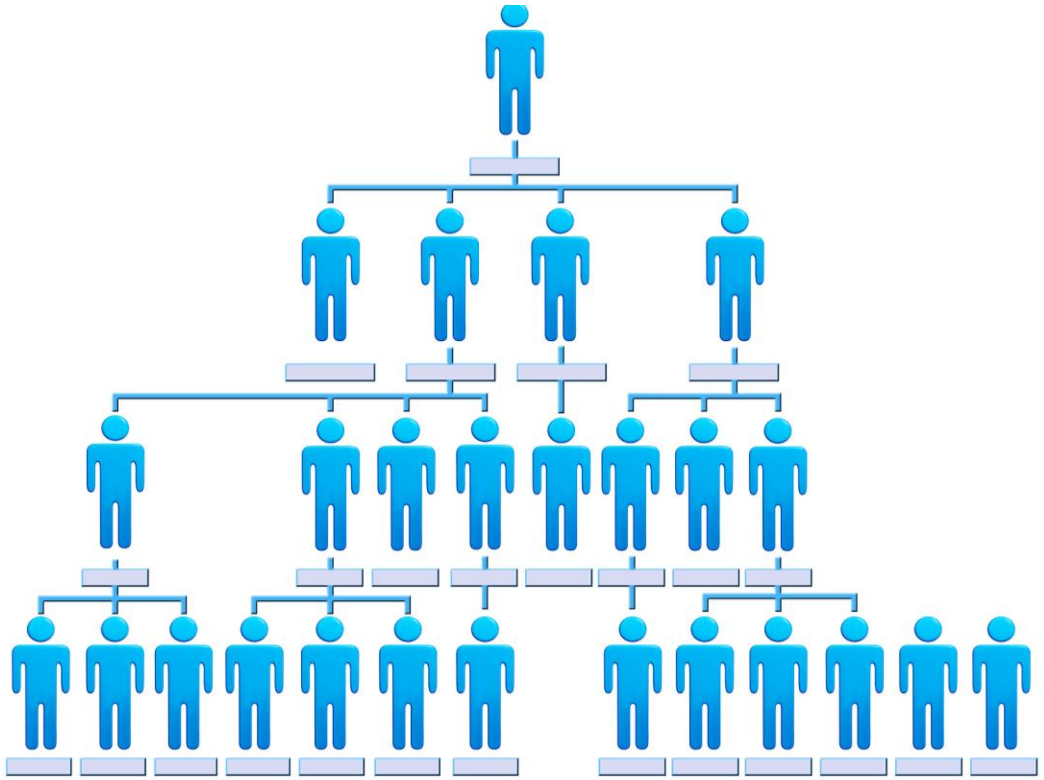
Planned giving conferences are great!

- 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

Highlights of statistics from three law review articles

These will be provided in the follow-up email

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

*by Russell N. James III**

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* Russell N. James III is a professor and the Director of Graduate Studies in Charitable Financial Planning at Texas Tech University in the Department of Personal Financial Planning.

TEXAS TECH ESTATE PLANNING & COMMUNITY PROPERTY LAW JOURNAL

EPJ

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

*Russell N. James III**

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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.

UC DAVIS LAW REVIEW

The story: Gifts of assets not income

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

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 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

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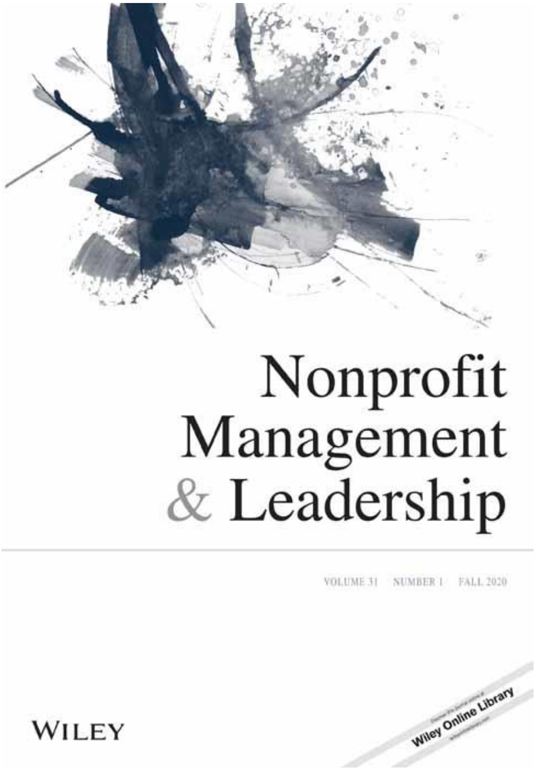
Both fund-raising practitioner advice and theoretical concepts from behavioral economics suggest that encouraging gifts of noncash assets may increase charitable giving. This paper analyzes data from 1,055,917 nonprofit tax returns (IRS form 990) filed electronically for the tax years 2010–2016 to explore 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



Cash is Not King in Fundraising:
Results from 1 Million Nonprofit Tax Returns

Professor Russell James III, J.D., Ph.D., CFP®
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Source: 1,055,917 nonprofit tax returns (IRS Form 990) filed electronically for the tax years 2010-2015 and part of 2016 with statistical analysis of the 761,876 forms from 205,696 nonprofit organizations reporting positive contributions.

5-year average growth in total fundraising (2010 to 2015)

NONPROFITS receiving ONLY CASH gifts	NONPROFITS receiving ANY NONCASH gifts	NONPROFITS receiving SECURITIES NONCASH gifts
11% GROWTH	50% GROWTH	66% GROWTH

Noncash gifts predict long-term fundraising growth

Nonprofits that effectively grow contributions income can differ in many ways, but simply knowing what type of gifts an organization raises is a surprisingly powerful indicator. For example, nonprofits raising over $1 million in 2010 that reported only cash gifts on e-filed nonprofit tax returns in 2010 and 2015 experienced an average total growth in contributions of 11% over these five years, barely keeping up with total inflation of 8%. In contrast, those reporting any noncash gifts in 2010 and 2015 grew their total contributions, on average, 50% over the same five-year period. Those specifically reporting noncash gifts of securities grew 66%. Thus, nonprofit organizations consistently receiving gifts of stocks or bonds grew their contributions six times faster than did those receiving only cash. Although 2010-2015 is the longest period with complete data, the results are not specific to just those years. For example, the 3-year rolling average total contributions growth ending in '13, '14, '15, and '16 was 5%, 1%, 2% & 0%, respectively, for nonprofits raising only cash gifts, but 34%, 30%, 30% & 25% for nonprofits raising any noncash gifts, and 44%, 42%, 39% & 33% for nonprofits raising noncash gifts of securities.

5-year average total fundraising growth by initial total fundraising size

	$100K to <$500K	$500K to <$1MM	$1MM to <$2MM	$2MM to <$3MM	$3MM to <$5MM	$5MM to <$10MM	$10MM+
Nonprofits reporting only cash	56%	25%	14%	18%	0%	0%	26%
Nonprofits reporting any noncash	137%	71%	60%	58%	48%	36%	35%
Nonprofits reporting securities	400%	176%	103%	94%	68%	50%	43%

This applies to nonprofits at all fundraising levels

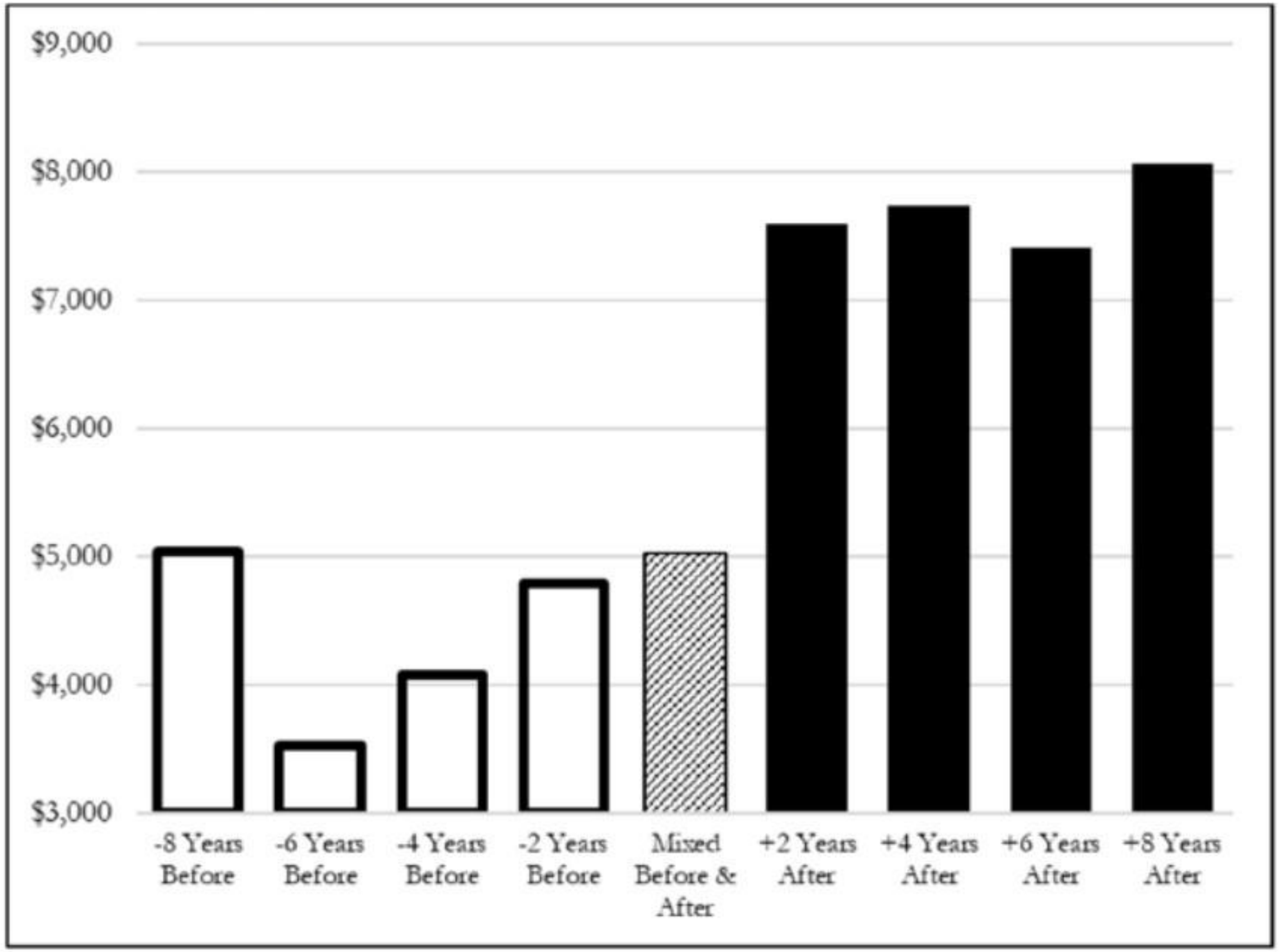
These results show a dramatic difference overall, but how does this apply to organizations starting at different initial fundraising levels? The second figure shows that, regardless of an organization's starting contributions level, those nonprofits consistently raising gifts of noncash assets – and particularly gifts of securities – grew total contributions much faster than did those raising only gifts of cash. Thus, the power of noncash gifts to predict long-term fundraising growth applies to nonprofit organizations at every fundraising level.

A smaller share from cash means growing contributions

Beyond receiving some noncash gifts, what happens when contributions shift towards a larger share of cash gifts or a larger share of noncash gifts? To answer that question, this analysis used all 761,876 of the 1,055,917 nonprofit tax returns that reported positive contributions, and compared organizations only with themselves at different points in time. Within the same organizations, when the share of total contributions coming from cash grew by 10%, total contributions in that same year, on average, fell by 13%. For example, if an organization raising $10 million with 80% of donations coming from cash experienced a shift to 90% cash donations in the following year, then it should also expect total contributions to fall 13% (to $8.7 million) in that same year. In contrast, if the organization experienced a 10%

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

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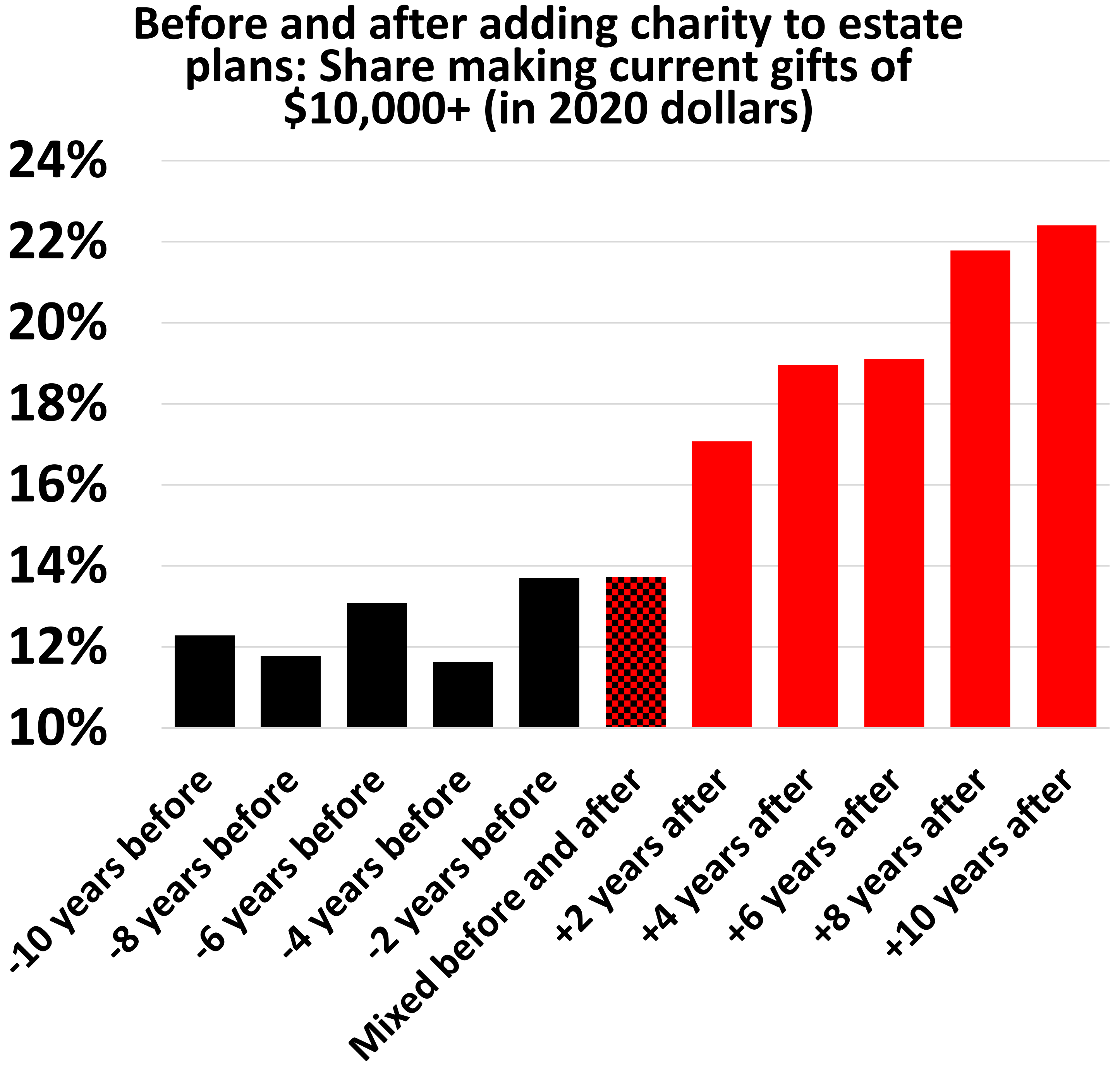
 Professor and CH Foundation Chair in Personal Financial Planning, Texas Tech University; B.A., Economics, Ph.D., Consumer Economics, University of Missouri-Columbia. J.D., University of Missouri School of Law.

Current giving 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 magical strategy: 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**

Charity Name	Rank	Fundraised income	A/c Year	*Legacies	*Donations	*Gifts in kind	*Undiv vol
Cancer Research UK	1	368.171	Mar-09	156.708	133.862	0	0.777
Oxfam	2	189.800	Apr-09	10.500	61.800	20.000	30.400
British Heart Foundation	3	175.462	Mar-09	50.322	30.583	0	0
Royal National Lifeboat Institution	4	146.900	Dec-08	94.500	0	0	52.400
NSPCC	5	126.788	Mar-09	20.654	98.468	0	0
Macmillan Cancer Support	6	119.727	Dec-08	45.434	26.045	0.612	30.975

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”

We’re going blind

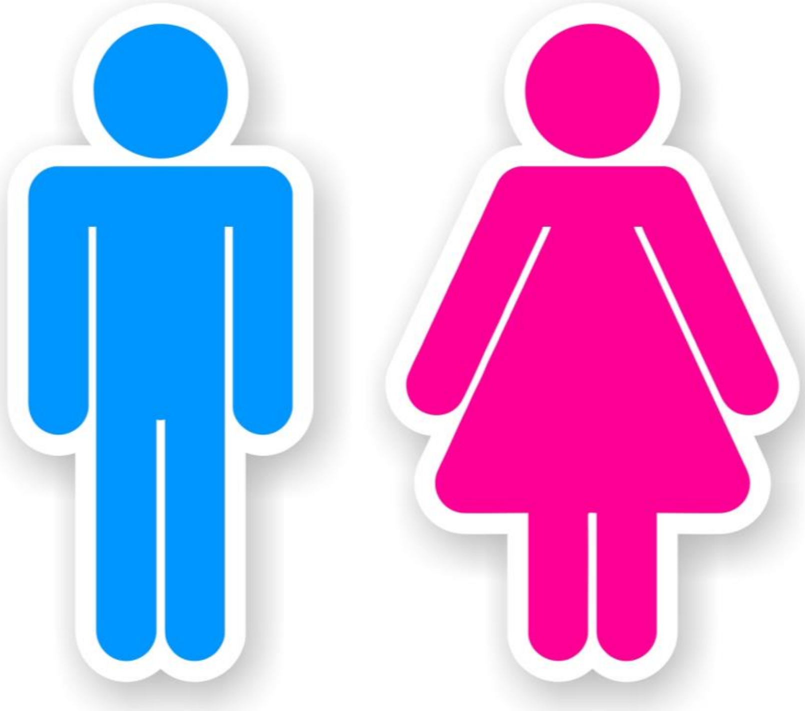
- Estate tax numbers are disappearing (exemption amounts)
- Probate data is disappearing (TODs/Trusts)
- Estimations are more just guesses

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.

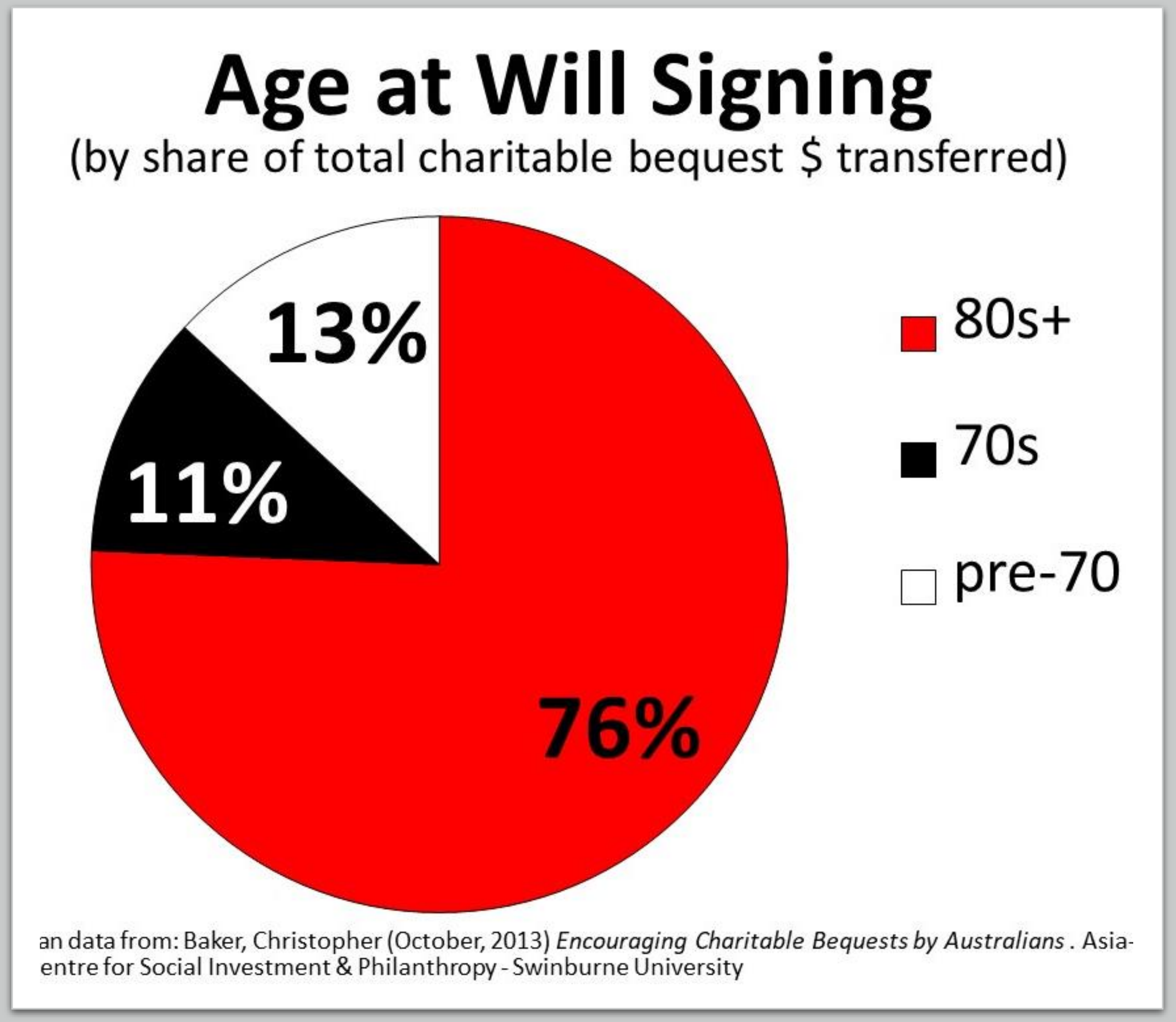
Selling long term results

Statistics and story

It’s how rich people give

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

	Years prior to death								
	0-2	3-4	5-6	7-8	9-10	11-12	13-14	15-16	17-18
Charitable Bequest Decedents									
Donate $1,000+/Year	39.3%	39.7%	43.6%	49.1%	52.7%	53.4%	53.3%	53.9%	56.9%
Volunteer 2+ Hours/Week	10.6%	15.4%	16.1%	21.0%	26.4%	26.1%	26.4%	31.7%	37.0%
20-Word Recall Score	7.26	7.98	8.52	8.85	9.05	9.71	10.17	10.61	10.49
Non-Charitable Bequest Decedents									
Donate $1,000+/Year	16.5%	19.1%	20.5%	22.5%	23.4%	24.8%	25.2%	27.0%	27.8%
Volunteer 2+ Hours/Week	5.0%	7.0%	9.3%	10.5%	12.7%	13.4%	14.3%	15.5%	15.9%
20-Word Recall Score	7.13	7.38	7.84	8.25	8.71	9.02	9.40	9.68	10.04

The current system is designed to fail

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

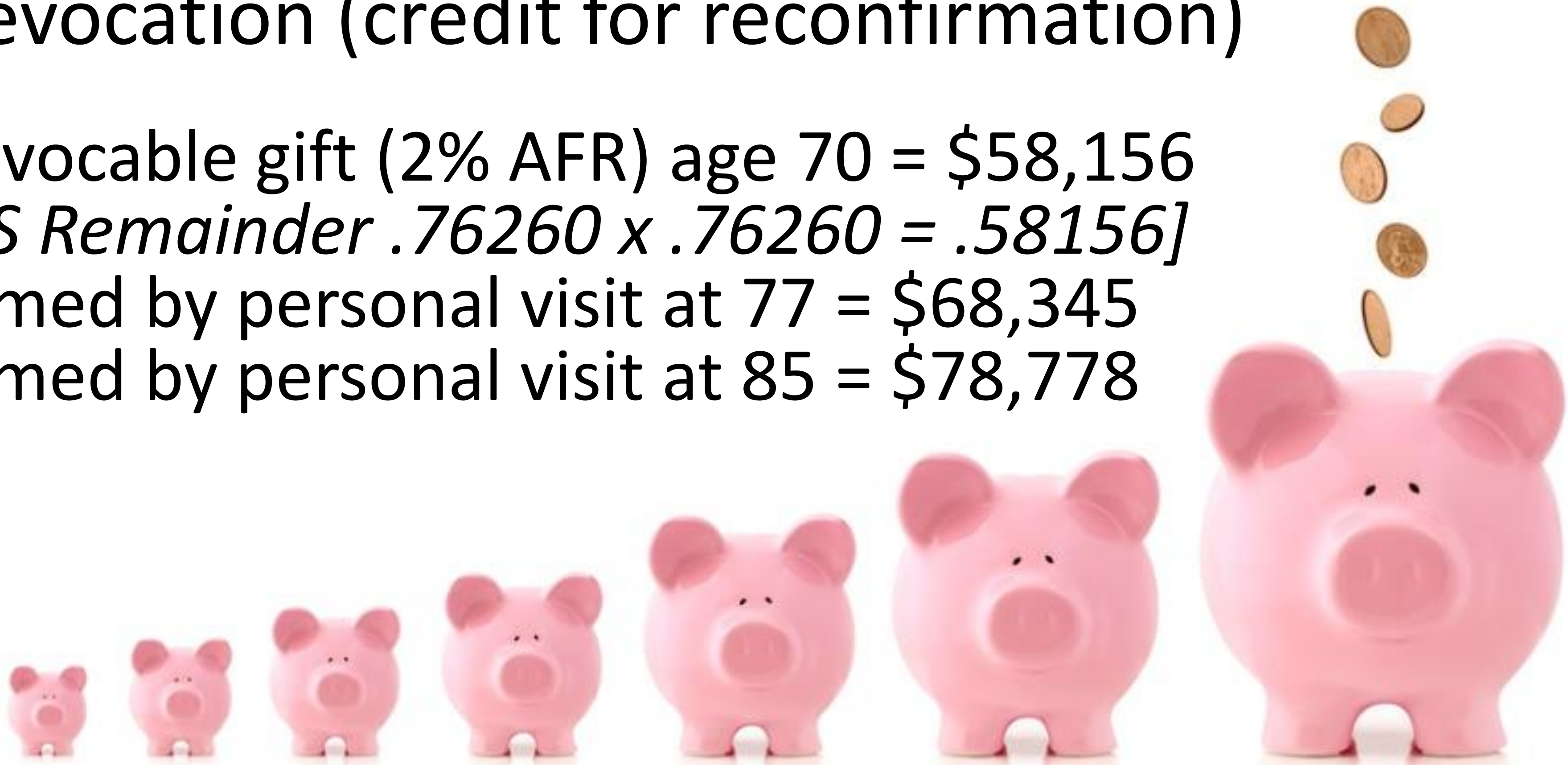
Use metrics that "work"

- If fantasy works, sell fantasy
- If reality works, sell reality
- For example, double discounting

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 (2% AFR) age 70 = $58,156
[IRS Remainder .76260 x .76260 = .58156]
Reconfirmed by personal visit at 77 = $68,345
Reconfirmed by personal visit at 85 = $78,778



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

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 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

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 a planned gift from another donor of a specific size (e.g., endowing a particular item)

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 drive near term fundraising growth
- Gifts in wills drives near term fundraising growth
- Wealthy people give by planned gifts with detailed instructions


CFO
Questions?
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