BEHAVIORAL ECONOMICS AND THE PSYCHOLOGY BEHIND MAJOR GIFTS OF ASSETS

PG CALC WEBINAR

MAY 26, 2022

Presented by:

Prof. Russell James
Texas Tech University
E-mail Address: russell.james@ttu.edu

I. The Secret to Fundraising Math: Gifts of Wealth Not Disposable Income

A. Gifts of wealth

A donation comes from the intersection of motivation and cost. Most of this series focuses on the motivation side. But often the secret to unlocking major gifts is on the cost side. That secret is this:

Major gifts are gifts of wealth, not disposable income.

It's a simple distinction. But it's powerful. Wealth is different. It's not just a different amount. It's a different category. It has a different origin. It triggers a different mindset.

B. Wealth is not income

Understanding gifts of wealth starts by understanding wealth. Wealth doesn't come from a paycheck. Wealth comes from owning assets that go up in value.

Of course, the media is fascinated by people with large paychecks. Athletes and celebrities make great story characters. But they rarely build wealth. In fact, they commonly go bankrupt.[1]

C. Wealth is appreciated assets

Wealth comes from owning assets that go up in value. People buy assets with inheritance,[2] borrowings, or savings from income. People buy assets that go up in value by,

1. Picking the right assets. This usually means accepting investment risk.[3]
2. Using personal effort to increase asset value. This is what successful business owners do.

This is how wealth is built. Bill Gates started a company and grew it by personal effort.[4] Warren Buffet created a new way to borrow money to buy stocks.[5] And he picked the right stocks.

---

[1] Carlson, K., Kim, J., Lusardi, A., & Camerer, C. F. (2015). Bankruptcy rates among NFL players with short-lived income spikes. *American Economic Review, 105*(5), 381-84; *See also,* Campbell, J. C. (2005). Who owns Kim Basinger: The right of publicity's place in the bankruptcy system. *Journal of Intellectual Property Law, 13*, 179-204. p. 185. ("The list of celebrities who have filed bankruptcy is not only long, but also surprising given the commercial success of those celebrities.")

[2] Harbury, C., & Hitchins, D. (2012). *Inheritance and wealth inequality in Britain*. Routledge; Wolff, E. N., & Gittleman, M. (2014). Inheritances and the distribution of wealth or whatever happened to the great inheritance boom? *The Journal of Economic Inequality, 12*(4), 439-468.

[3] Finke, M. S., & Huston, S. J. (2003). The brighter side of financial risk: Financial risk tolerance and wealth. *Journal of Family and Economic Issues, 24*(3), 233-256. *See also*, Aka, P. C., & Oku, C. (2016). Black retirement security in the era of defined contribution plans: Why African Americans need to invest more in stocks to generate the savings they need for a comfortable retirement. *Rutgers Journal of Law & Public Policy*, 14, 169-195.

The concept is the same for regular people. People borrow money from others. It's called a mortgage. They use it to buy an appreciating asset. It's called a house. Most middle-class wealth comes this way.[6]

Whether middle-class or ultra-high net worth, the answer is the same: Wealth comes from owning assets that go up in value.

D. Wealth is a different money category

In math, a dollar is a dollar. But in story, dollars are different. The story of wealth is the story of appreciated assets. Wealth is not cash. Less than 3% of household financial wealth is held in cash or checking accounts.[7]

Wealth is still money. But it's money from a different category. It's money with a different reference point. This affects fundraising.

E. Gift size is relative to the money category

Asking for gifts of cash is asking from the small bucket. Asking for gifts from appreciated assets is asking from the big bucket. This difference affects the donor's mindset.

Compared to other cash purchases, a $100,000 gift is absurdly large. The cash gift compares with coffee at Starbucks. It compares with spending from the disposable income category.

[4] Wallace, J., & Erickson, J. (1992). *Hard drive: Bill Gates and the making of the Microsoft empire*. Wiley.
[5] This was done by acquiring ownership in a retail stamps company, Blue Chip Stamps, and using the float to purchase shares of other companies. *See,* The Science of Hitting. (2017, July 17). *Berkshire and Blue Chip stamps*, https://www.gurufocus.com/news/543005/berkshire-and-blue-chip-stamps
[6] "home equity remained the primary source of wealth for most households, especially for lower income homeowners, with home equity comprising 42% of the total household net wealth of all homeowners and 77% of the total net wealth of lower income homeowners"
Turner, T. M., & Luea, H. (2009). Homeownership, wealth accumulation and income status. *Journal of Housing Economics, 18*(2), 104-114. p. 105. Citing to Di, Zhu Xiao, 2003. *Housing wealth and household net wealth in the United States*. Working Paper 03-8. Joint Center for Housing Studies.
[7] Board of Governors of the Federal Reserve System. (2019, June 6). *Financial Accounts of the United States - Z.1*, https://www.federalreserve.gov/releases/z1/20190606/html/b101h.htm
In 2018, $113,094.2 billion in total financial assets were held by households and $1,375.9 billion were held in checkable deposits and currency held by households. Thus 1.2% of total financial wealth is held in "cash" by that definition. Adding money market fund shares adds another $1,701.4 billion. Combined, this adds to 2.7% of household financial wealth. This excludes wealth from real estate. Thus, the share of total wealth held in these categories is actually much smaller.

Compared to wealth holdings, a $100,000 gift may be tiny. The asset gift compares with a different category. A stock gift compares with stock holdings. A real estate gift compares with real estate holdings. Large gifts are made possible by large reference points.

F. Experiments: Money categories change behavior

Reminding people of their wealth changes their behavior. One experiment asked different questions from people entering a store.[8]

- Some were asked about their wealth: Did they own stocks, bonds, certificates of deposit, etc.?
- Others were asked what was in their wallet or purse: Did they have cash, credit cards, photos, etc.?

What happened? People first asked about their wealth spent over 36% more at the store. They were reminded of a different money category. That reminder changed their behavior.

G. Experiments: Money categories change current donations

This is an area where small gifts and large gifts work differently. For example,

- A small ask from a small category works. It makes the whole thing seem painless. It's a trivial ask from a trivial category. Saying "yes" is no big deal.
- A big ask from a small category does not work. It makes the ask seem unreasonably large. The request is too big relative to the category.
- A big ask from a big category does work. The ask is big. But it's reasonable relative to the category.

One experiment illustrates this.[9] People were asked about a donation pledge. It would be deducted from their monthly paychecks. But the amounts were described either as $1/$4/$7 a day or as $350/$1,400/$2,500 a year. Changing the description format changed the comparisons. For example,

- When asked with the daily amount, people compared the gift with "routinely encountered, petty-cash types of expenditures."[10] The money category was trivial.
- When asked with the annual amount, people compared the gift with "infrequently encountered, major expenditures." The money category was large.

[8] 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.
[9] Gourville, J. T. (1998). Pennies-a-day: The effect of temporal reframing on transaction evaluation. *Journal of Consumer Research, 24*(4), 395-408.
[10] *Id* at p. 400.

For the smallest ask, the daily amount worked better. It was a trivial ask from a trivial category. It's just "pennies a day."

But for anything over $1,000, the result reversed. Gifting doubled when using the annual, rather than the daily, amount. The "pennies-a-day" story worked, but only for pennies. Big gifts needed big reference points.

H. Experiments: Money categories change future donations

The "pennies-a-day" story creates another problem. A small reference point makes *future* giving small.

In one experiment, workers had a gift made on their behalf.[11] For some it was donated in small daily segments. For others, it was given in one lump sum. After this, everyone had the chance to make their own gift. People whose previous gifts had been broken into small amounts acted differently. They gave about a third less.

Why did this happen? Further questions showed the answer. People used previous giving as the reference point for their donation. When previous giving had been made in small segments, it felt smaller. This smaller reference point led to smaller donations.

But there was a solution. Showing *the total* of prior gifts before making the ask worked. It made the small segment gifts feel larger. This larger reference point increased donations almost 50%.[12] For bigger gifts, we need bigger reference points.

Another experiment found a similar result.[13] When prior gifts were described in total terms, people gave more. If they were described in monthly terms, people gave less.

Describing past giving as several small gifts is a small-reference-point story. Describing it as a single large total is a large-reference-point story. Choosing a larger reference point changes the giving behavior.

Another experiment showed this in a different way.[14] It tested six mailings to over 50,000 people. The top-performing headline was,

"CAMPAIGN DONOR FOR ___ YEARS

[11] 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, http://www.acrwebsite.org/volumes/1023996/volumes/v45/NA-45
[12] *Id*. Experiment 3
[13] *Id*. Experiment 1
[14] Khan, H. & Hardy, E. (2019). *Using behavioural insights to encourage charitable donations among repeat donors*. Privy Council Office: Impact Canada. https://www.canada.ca/content/dam/ih-ci/documents/pdfs/HS-eng.pdf

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

This sets a reference point of the donor's largest gift. It also emphasizes the length of the relationship. It reminds the donor that they're the kind of person who makes these gifts – especially large ones.

I. Real world: A money category question

Which gift is more valuable:

- A $10,000 check, or
- $10,000 of stock shares?

The charity CFO will prefer the check. It's easier. Gifts of assets are a hassle. The charity has to retitle them. The charity has to sell them.

The donor's financial advisor will prefer the stock. Giving stock avoids capital gains taxes. It's cheaper for the donor.

Which gift should the fundraiser prefer? The gift of stock. If the fundraiser cares about the donor, the answer is already obvious. One gift costs the donor less. That's the gift the donor should make.

But there's another reason: categories matter. If gifting comes from a tiny category, future gifting stays tiny. If the same gift comes from a big category, future gifting can become big.

A checking account is where disposable income lives. Disposable-income gifts come from the small category. This keeps future gifts small.

Appreciated assets is where wealth lives. Asset gifts come from the big category. Asset gifts can lead to transformational donations.

J. Real world: Money categories and "mental accounting"

In math, a dollar is a dollar. In story, people put labels on money. They then treat the dollars differently based on those labels.[15] In experiments, when a new category of money becomes donation relevant, giving increases.[16]

[15] Thaler, R. (1985). Mental accounting and consumer choice. *Marketing Science, 4*(3), 199-214.
[16] 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.

Suppose a person gives furniture or clothes to a charity shop for the first time. From that point forward, the category becomes donation relevant. Whenever redecorating happens, charity comes to mind.

Suppose a person gives shares of stock for the first time. They learn that capital gains taxes are avoidable. From that point forward, the category becomes donation relevant. Whenever a sale is contemplated, charity comes to mind.

K. Real world: Money categories and fundraising success

Experiments and theory are fine. But how powerful is this in the real world? An analysis of over a million nonprofit tax returns showed the answer.[17]

Raising money from noncash assets predicts current and future fundraising success. This was true for every charitable cause. It was true for every charity size. And the difference was massive.

Consider this comparison. Suppose there were two otherwise identical charities. Both raised the same amount of contributions in year one. But there was a difference. One had raised these gifts only from cash. The other had raised gifts from both cash and stocks.

Fast-forward five years. What was different about the cash-and-stocks charity? It's total contributions, on average, grew twice as fast. One little fact doubled fundraising growth. *Doubled*!

This is a big deal. This isn't just academic theory. This isn't just a little experiment. This is years of data from most American nonprofits. This is as "real world" as it gets. And the difference is massive.

L. Real world: How to start

Fundraisers can start by sharing stories. These can be stories of others like the donor who have made gifts of assets. Donor stories can include stocks, bonds, real estate, or businesses.[18]

In conversation, this might begin with saying, "I help our donors give smarter." When asked for an explanation, the fundraiser can share a story that teaches.

Marketing materials can regularly teach the benefits of such gifts. (Of course, fundraisers should also educate themselves.)[19]

[17] James, R. N., III. (2018). Cash is not king for fundraising: Gifts of noncash assets predict current and future contributions growth. *Nonprofit Management & Leadership. 29*(2), 159-179.
[18] James, R. N., III. (2019). Using donor images in marketing complex charitable financial planning instruments: An experimental test with charitable gift annuities. *Journal of Personal Finance, 18*(1), 65-73.

Fundraisers can also listen. They can listen for upcoming financial events. A sale, a retirement, an inheritance can all be times when charitable planning works well. By learning, listening, and sharing, fundraisers can become a valuable advisor for donors. They can also change the donor's mindset.

M. Mindset matters

Most donors think of donations as something that comes from regular disposable income. Gifts come from "pocket change." These donors will give small. They will give small today. They will give small tomorrow.

But if a donor begins to think of donations as something that comes from wealth, things change. These donors will give big. They will give big today. They will give even bigger tomorrow.

N. The transformational estate gift

Legacy gifts are transformational. They can be transformational for the charity because of their size. For people worth over $2 million, estate giving averages 20, 50, or 100 years of their annual giving.[20] This multiple increases with increasing wealth. Legacy gifts from the wealthy can be enormous.

But legacy gifts are also transformational for the donor. Current giving increases dramatically after adding charity to an estate plan. Annual donations jump over 75%.[21] These are the same donors before and after. They just behave differently after changing their estate plans. Even eight years later, this higher level of giving persists.

Why does this happen? An estate gift is a gift from wealth, not disposable income. For many, putting charity in their will is their first commitment to donate *from their wealth*, rather than from their disposable income. This first gift from wealth can be transformational for the donor. It mentally reclassifies their wealth as donation relevant. This changes the reference point for donations. It opens the way for larger donations in the future.

---

[19] For details, see James, R. N., III. (2018). *Visual planned giving in color: An introduction to the law & taxation of charitable gift planning.* Version 5.1. Createspace Independent Publishing. www.encouragegenerosity.com/VPG.pdf

[20] 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. p. 271.

[21] "Thus, using these 8,891 "before and after" observations from 1993-2016, inflation-adjusted giving was, on average, about 77% greater after the charitable estate planning component was added than it was before ($7,699 versus $4,355)." 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. p. 2422.

O. Conclusion

The key to fundraising growth is changing the donor's mindset. That starts by understanding the secret: Major gifts are gifts of wealth, not disposable income.

II. THE PSYCHOLOGY OF THE MASSIVE DONATION: FOUNDATIONS, FUNDS, TRUSTS, AND ENDOWMENTS

Many fundraisers don't understand the real world of philanthropy. They don't understand wealth. They don't understand charitable instruments. So, let's start with some basics.

A. Because that's where the money is

In the U.S., the most important charitable instruments include,

- Charitable remainder and lead trusts
- Donor advised funds, and
- Private family foundations.

These are "kind of a big deal." What is the largest charity in the U.S.? It's a donor advised fund.[22] So is the third largest. And the sixth. And the eighth, and the ninth, and the tenth.

What about charitable remainder and lead trusts? They hold over $100 billion.[23] That's about 50 to 100 times what the American Red Cross or the American Cancer Society has.

What about private foundations? They hold about a trillion dollars.[24]

B. So what?

These foundations, funds, and trusts are kind of a big deal. But how does that help us raise more money?

---

[22] Philanthropy New Digest. (2017, November 2). *Fidelity Charitable tops list of largest charities in 2016*. https://philanthropynewsdigest.org/news/fidelity-charitable-tops-list-of-largest-charities-in-2016

[23] Unfortunately, the data for these instruments is nearly a decade behind. Rosenmerkel, L. S. (2013, August). *Split-interest trusts, filing year 2012*. https://www.irs.gov/pub/irs-soi/14eowinbulsplitinterest12.pdf

[24] $889,375,778,000 in 2016, so potentially more than a trillion at present. Internal Revenue Service. (2019, November). *Domestic private foundations study.* Table 3. Domestic private foundations: income statements and balance sheets, by size of fair market value of total assets, tax year 2016. Statistics of Income Division. https://www.irs.gov/pub/irs-soi/16pf03ta.xls

Over the long term, raising more money means one thing: Delivering more value to donors. Understanding the attraction of these instruments can help. It reveals the psychology of giving and wealth. It also shows your charity's real competition.

Charitable foundations, funds, and trusts attract huge donations. They provide real value to donors. They can

- 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, and
- Give permanence to the donor's identity.

Let's explore each of these ideas.

C. Multiply the feeling of being generous

A donor makes a gift to a charity. That's one step. Simple enough. But with foundations, funds, and trusts, things aren't so simple. That one step becomes three.

- 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.

These steps multiply the experience of generosity. The donor is generous when he gives to the fund. The government recognizes this. It awards him a deduction.

Later, the donor sends money out of the fund. The donor is generous again.[25] A charity recognizes this. It gets the money and makes an impact.

In between these two steps, the donor manages his charitable fund. This regularly reminds him (and others) of his generosity.

Suppose Bill Gates hadn't created a private foundation decades ago. Suppose he had just written a check to charity. Would we have been consistently reminded of his philanthropy for all these years? No. Would he have been? No.

[25] For laboratory experiments showing this effect *see*, Andreoni, J. & Serra-Garcia, M. (2019, December). *Time-inconsistent charitable giving*. NBER Working Paper No. 22824, https://www.nber.org/papers/w22824

Breaking apart these steps is powerful. The one-time experience of being charitable can become a lifetime experience.

D. Divide the feeling of cost

At the first step, the donor gives to his charitable fund. But this cost isn't as painful as a normal gift. The donor isn't giving up as much. He still controls the investments. In some cases, he can even benefit from them.[26] He still controls which charities get the funds and when.

At the third step, the donor transfers from the fund to a charity. But 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 affects only the timing. This transfer to charity doesn't affect the donor's personal finances. The donor doesn't have to worry about being able to afford it.

E. Allow giving AND holding wealth

At the second step, the donor has already given. He has already received a tax deduction for it. He has been charitable. And yet, he still holds the wealth. The donor gives the wealth *and* holds the wealth at the same time.

Why is this such a big deal? Because wealthy people like to hold wealth. That's part of the reason why they became or stayed wealthy.

Wealthy people like to hold wealth. That means they don't spend it even during retirement. What happens among the wealthy (top 5%) after age 65? Their rate of wealth accumulation actually *increases*.[27] At every older age, they just keep accumulating more. This is true even up to 100 years of age.

Wealthy people like to hold wealth. That means they don't give it away to family members during their life. They don't do so even though it would save enormously on estate taxes.[28] Of course, if they did that, they wouldn't be holding the wealth anymore.[29]

---

[26] With a charitable remainder trust the donor gets a share back as annual payments. With a unitrust version as investments increase, the donor's payments do too. A private foundation can use funds to hire insiders including family members to perform reasonable and necessary professional services.
[27] Kopczuk, W. (2007). Bequest and tax planning: Evidence from estate tax returns. *The Quarterly Journal of Economics, 122*(4), 1801-1854. Figure I.
[28] 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). Brookings Institution Press
[29] In actual practice when wealthy people do give substantial wealth to family members during life, they tend to give it in a way that does not relinquish control. For example, they may gift limited partnership interests that transfer ownership, but retain the general partnership interests that actually control the entity's operations. They give the wealth, but they don't give up control of the wealth.

Estate giving allows donors to give and hold wealth at the same time. A donor includes a charity in his estate plan. He is charitable. But he is still holding the wealth. Do wealthy donors prefer to give this way? Yes.

Those with estates under $2 million generate estate donations worth 3.5 times their annual giving. For those with estates of $2–$5 million, it's 20 times. For those with $5–$10 million, it's 25 times. For those with $10–$50 million, it's 28 times. For those with $50–$100 million, it's 50 times. For those with $100 million or more, it's 103 times annual giving.[30] Wealthy people prefer giving that allows them to continue holding wealth.

F. Include instructions reflecting the donor's identity

Gift instructions can be simple. Giving to a specific cause is an instruction. So is giving to a special project. What's the most extreme version of gift instructions? Foundations, funds, and trusts. These can involve pages of detailed instructions. The instructions control the gift for decades or even generations.

These large gifts come with lots of instructions. This is no accident. Large gifts from life savings require compelling motivation. Instructions reflect the donor's values, life story, and identity. They make the gift compelling.

This reality is not new.[31] In two studies of wills from the late 1800s,[32] charitable bequests were restricted in

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

It's not just that large gifts tend to be restricted. In experiments, allowing restrictions makes donations larger.[33] The instructions make the gift compelling.

---

[30] Steuerle, C. E., Bourne, J., Ovalle, J., Raub, B., Newcomb, J., & Steele, E. (2018). *Patterns of giving by the wealthy.* Urban Institute. Table 4. https://www.urban.org/sites/default/files/publication/99018/patterns_of_giving_by_the_wealthy_2.pdf

[31] James, R. N., III. (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.

[32] *See* James, R. N., III. (2020) analysis of data from Britt, S. H. (1937). The significance of the last will and testament. *The Journal of Social Psychology*, 8(3), 347-353 and Knaplund, K. S. (2015). Becoming charitable: Predicting and encouraging charitable bequests in wills. *University of Pittsburgh Law Review*, 77, 1-50.

[33] 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; Helms, S., Scott, B., & Thornton, J. (2013). New experimental evidence on charitable gift restrictions and donor behaviour. *Applied Economics Letters, 20*(17), 1521-1526; Li, S. X., Eckel, C. C., Grossman, P. J., & Larson, T. (2013).

G. Give permanence to the donor's identity

Philanthropy provides value to donors. It allows donors to accomplish things they couldn't do alone. 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. The charity is the donor's powerful instrument.

A charity can do something else that the donor can't. It can live forever.

One of the central psychological challenges for humans is personal mortality. This life is temporary. We're going to disappear. Facing this reality can be challenging.

In experiments, people respond to death reminders by pursuing "symbolic immortality."[34] This is 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 is the private foundation. It's often named for and managed by the donor and the donor's family. It's legally bound to advance the donor's values. And it lives forever. The donor's name lives on. The donor's values live on. The donor's story lives on.

H. Research on charitable permanence

When mortality is relevant, permanence becomes powerful. For estates over $5 million, 78% of charitable bequest dollars go to private family foundations.[35] Just 35 of the wealthiest and oldest schools get over a quarter of all estate gifts to education.[36] Permanence is powerful in estate giving.

In one experiment, mortality reminders increased current donations.[37] But this worked only when the charity was described as

"Creating *lasting* improvements that would benefit people in the future."

Who's in charge? Donor targeting enhances voluntary giving to government. Available at SSRN: https://ssrn.com/abstract=2293407

[34] 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.

[35] Raub, B. G. & Newcomb, J. (2011, Summer). Federal estate tax returns filed for 2007 decedents. *Statistics of Income Bulletin, 31*, 182-213. p. 191. https://www.irs.gov/pub/irs-soi/11essumbulestatereturns.pdf [perma.cc/2FJZ-LV46].

[36] Fleischer, M. P. (2007). Charitable contributions in an ideal estate tax. *Tax Law Review, 60*, 263-321. p. 303.

[37] 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.

If instead, the charity was described as

> "Meeting the *immediate* needs of people,"

the results reversed. Now, mortality reminders caused donations to fall.

In another experiment, permanence worked for memorial gifts. Adding a goal of making a scholarship fund permanent worked. It dramatically increased the likelihood for additional gifts in memory of a loved one.[38]

As people age, mortality becomes more present. So too does the desire for lasting impact.[39] Major gifts often occur at older ages. They often come from life savings. Permanence is important for these gifts. Large gifts tend to go to large charities that hold large endowments.[40] These charities offer more permanence.

Legal theory recognizes this power of permanence. One law professor writes,

> "Laws enforce perpetual funds for charity because to do otherwise would discourage gifts."[41]

The law doesn't allow perpetual funds because they're the best use of charitable dollars. It allows them because permanence attracts the donations in the first place.

[38] James, R. N., III. (2019). Encouraging repeated memorial donations to a scholarship fund: An experimental test of permanence goals and anniversary acknowledgements. *Philanthropy & Education, 2*(2), 1-28.

[39] In particular, as adults age, they are more likely to respond to mortality salience with an increased interest in generativity (emphasizing one's lasting impact) (Maxfield, et al., 2014), and it becomes increasingly important that the ending phase of one's life story "ties together the beginning and middle to affirm unity, purpose and direction in life over time" (McAdams, 1996, p. 309).
Maxfield, M., Greenberg, J., Pyszczynski, T., Weise, D. R., Kosloff, S., Soenke, M., Abeyta, A. A., Blatter, J. (2014). Increases in generative concern among older adults following reminders of mortality. *International Journal of Aging and Human Development, 79(*1), 1-21.
McAdams, D. P. (1996). Personality, modernity, and the storied self: A contemporary framework for studying persons. *Psychological Inquiry, 7*, 295-321.

[40] Over two-thirds of all donations over $1 million go to universities that hold large endowments or foundations that are large endowments. See, e.g., Coutts and Co. (2015). *Coutts million pound donors report*, http://philanthropy.coutts.com/en/reports/2015/united-states/findings.html and http://philanthropy.coutts.com/en/reports/2015/united-kingdom/findings.html
In 2019, nine of the ten largest charitable gifts went to such groups. Yakowicz, W. (2019, December 29). The biggest philanthropic gifts of 2019. *Forbes.* https://www.forbes.com/sites/willyakowicz/2020/12/29/the-top-10-philanthropic-gifts-of-2019

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

I. Do you want to?

Big donations come from providing donors with big value. Foundations, funds, and trusts do that. But so can charities. Charities can *if* they decide they want to. This isn't a trivial decision. In fact, it's rare.

In the view of many charity managers, delivering value to donors is crazy talk. They may think,

> "That's not how it's supposed to work. The donor's job is to deliver value *to the charity*. The charity's job is just to be its wonderful self. If the charity keeps doing its work, the donors are supposed to keep giving. This other stuff just makes it harder to use the donor's cash."

This view is common. But it doesn't work for fundraising. It doesn't work because philanthropy is not fixed. Delivering value to the donor *creates* philanthropy.

It also doesn't work because donors are free to choose. If we don't beat the competition, we won't get the money. For massive donations, the competition isn't the charity across town. It's foundations, funds, and trusts.

J. Yes, we can!

Charities can provide value to donors. They can compete with foundations, funds, and trusts. How? Let's look at some examples:

- Charities can allow permanent endowments that follow the donor's instructions forever.
  - If the charity is new or unstable it can borrow permanence. It can have an established community foundation hold the funds.
- Charities can emphasize estate giving.
  - This allows donors to give *and* hold wealth at the same time.
  - Once the final destination of the funds is set, current giving changes only the timing. No surprise then that donors increase annual giving by over 75% after adding charity to an estate plan.[42]
- Charities can give more influence over endowments during life.
  - One community foundation allowed scholarship donors to serve on the committee that selects recipients.[43] The result? It's now the state's largest scholarship program.[44]

[42] "Thus, using these 8,891 "before and after" observations from 1993-2016, inflation-adjusted giving was, on average, about 77% greater after the charitable estate planning component was added than it was before ($7,699 versus $4,355)." 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. p. 2422.

- Charities can promote instruments that combine gifts to the charity[45] with continued control of the wealth. This includes,
    - Charitable remainder trusts
    - Charitable lead trusts, and
    - Retained life estates.
- Charities can encourage instructions with large gifts.
    - Instructions increase the value of the gift experience. They also lead to discussions about bigger (or more permanent) impact from bigger gifts.
    - Want to increase a planned estate gift (or learn of its size)? Ask, "Have you ever thought about how you would like your gift to be used?" Give examples of gift amounts and their impact.
- Charities can get creative with blended gifts.
    - If the donor doesn't have the cash for a permanent endowment, offer a virtual endowment. The donor gifts annually for the payout plus some principal. An estate gift guarantees any remaining principal.
    - Discount any "unsold" naming opportunities by counting multi-year pledges, estate gifts, or irrevocable trusts.[46]

K. Conclusion

These are just a few examples of how charities can provide value to donors. The best solution for each charity or donor will vary. But the key is understanding one idea. Big gifts come from delivering big value to donors.

Many charities never get big gifts because they aren't trying. They aren't trying to deliver big value to donors.

Charities can compete with foundations, funds, and trusts. They can deliver big value to donors. They can transform the donor's experience. And that will transform the charity's fundraising.

---

[43] Oklahoma City Community Foundation. (2007, April 6). *Oklahoma City Community Foundation scholarship fund policy.* https://www.occf.org/documents/ScholarshipPolicy.pdf
[44] https://www.occf.org/fundoptions/
[45] Making the instrument restricted to the specific charity is the key goal here. Donor recognition, benefit, control, and value should be triggered when the instrument irrevocably names the charity. Otherwise, this would be treated like any other revocable estate gift.
[46] Such as charitable remainder trusts, charitable lead trusts, or retained life estate deeds. This "discounting" idea comes from Lani Starkey at Fifty Rock Consulting. Starkey, L. (2020, March 12). The five types of blended gifts: The what, when, and why of closing blended gifts [presentation]. *Hawaii Gift Planning Council Annual Conference on Gift Planning*, Honolulu, HI.

III. Postscript: The Universal Hero Story and the Billionaire Donor

One study analyzed the letters accompanying 187 billionaires "giving pledge" commitments.[47] (These were pledges to give at least half of their wealth to charity.) The researchers found that most letters included two elements.

First, they included an origin story. The letters referenced family upbringing as the source motivating generosity. In the same way, the monomyth begins with the hero's origin story in his ordinary world.

Second, they referenced a desire not to give, but to "give back." Giving back is different than giving. It references a circular process. In the monomyth, the hero returns to the original world. The hero returns with a gift or "boon" to improve that world.

These letters also typically included a victory reference, mentioning how the giving would make an impact, make a difference, and help solve societal problems. Additionally, they also tended to include references to the personal benefits from giving. This included terms such as ‘‘enjoyment,’’ ‘‘satisfaction,’’ ‘‘psychological returns,’’ or ‘‘pleasure’’. The donor experience justified the gift. (It is also interesting to note that none of the letters referenced wealth inequality and only one referenced guilt.)

The monomyth can be thought of as progressing through original identity → challenge → victory → enhanced identity. The justification given in these largest of all gifts tended to include these same elements.

[47] Schmitz, H. P., Mitchell, G. E., & McCollim, E. M. (2021). How billionaires explain their philanthropy: A mixed-method analysis of the giving pledge letters. VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations, 1-12.