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## **Behavioral Economics and the Psychology Behind Major Gifts of Assets**

**Date: May 26, 2022**

**Time: 1:00 – 2:30 Eastern**

**Presenter: Prof. Russel James  
Texas Tech University**



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# The Psychology Behind Major Gifts of Assets



## Gifts of Wealth

and The Psychology  
of the Massive  
Donation

Professor Russell James, Texas Tech University





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# The Psychology Behind Major Gifts of Assets



## The Secret to Fundraising Math

Gifts of Wealth Not Disposable Income

Professor Russell James  
Texas Tech University



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# The Psychology Behind Major Gifts of Assets

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



# The Psychology Behind Major Gifts of Assets



Wealth is  
not income

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



# The Psychology Behind Major Gifts of Assets

## 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)



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## 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)





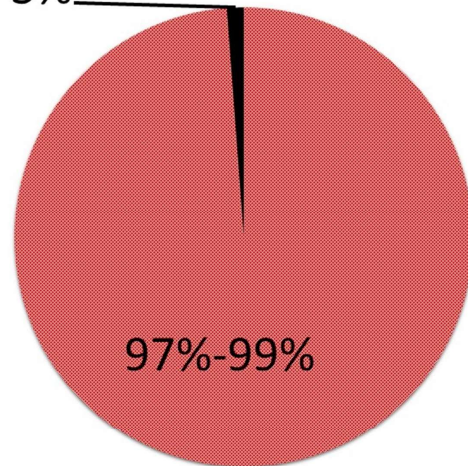
# The Psychology Behind Major Gifts of Assets

Wealth is a different money category

## Financial assets held by families (U.S. Census 2017)

<https://www2.census.gov/programs-surveys/demo/tables/wealth/2013/wealth-asset-ownership/wealth-tables-2013.xlsx>

1%-3%



- Other financial assets (stocks, bonds, retirement accounts, life insurance, mutual funds)
- Cash: Checking, savings, money market deposit accounts, and similar

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

# The Psychology Behind Major Gifts of Assets

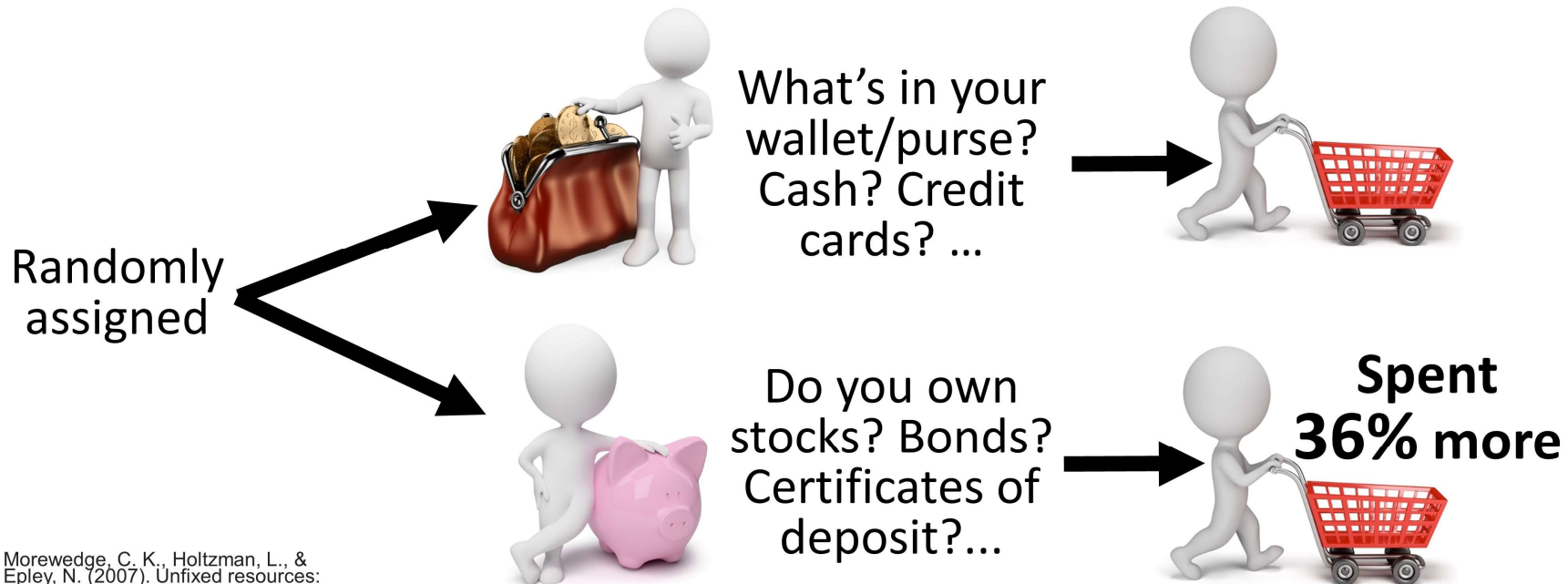


Gift size is  
relative to the  
money category

- 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



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.

# The Psychology Behind Major Gifts of Assets

Money categories change current donations

- A small ask from a small category works
- A big ask from a small category does not work
- A big ask from a big category works





# The Psychology Behind Major Gifts of Assets

## 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.

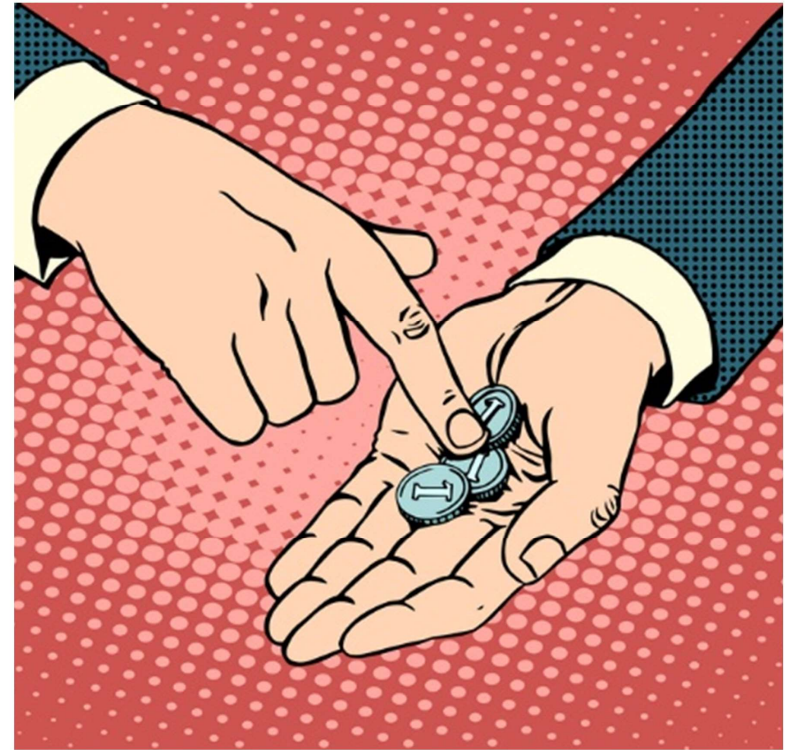


# The Psychology Behind Major Gifts of Assets

## 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.

# The Psychology Behind Major Gifts of Assets

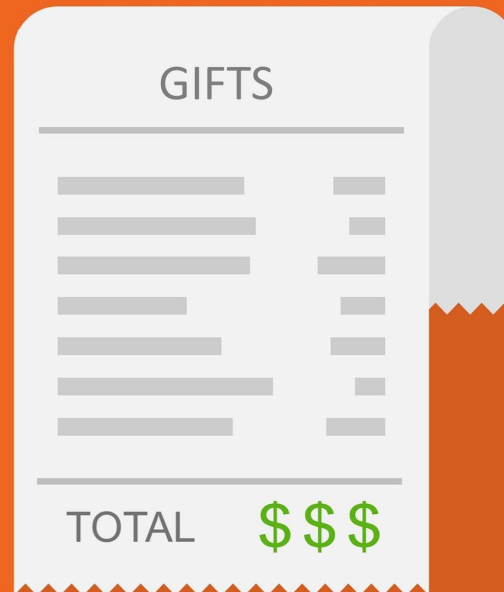
A small reference point makes future gifts small

- 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



# The Psychology Behind Major Gifts of Assets



## 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%



# The Psychology Behind Major Gifts of Assets

## Another experiment: Same result

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



Experiment 1. Hmurovic, J., & Lambertson, 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



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# The Psychology Behind Major Gifts of Assets



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





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# The Psychology Behind Major Gifts of Assets

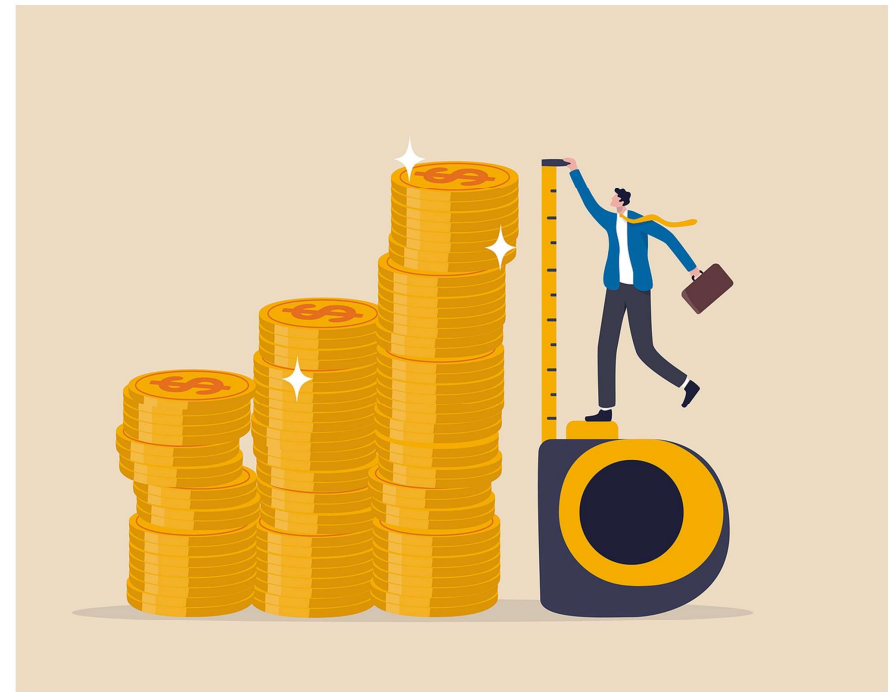
Best performing headline  
[6 mailings, 50,000  
people]

“CAMPAIGN DONOR FOR  
\_\_\_ YEARS

Your most generous gift  
was \$\_\_\_. Thank you.”

Emphasizes

- Largest gift
- Long relationship



# The Psychology Behind Major Gifts of Assets

Which gift is more valuable?

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A \$10,000 check  
\$10,000 of stock shares

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



# The Psychology Behind Major Gifts of Assets

## A money category question

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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.



# The Psychology Behind Major Gifts of Assets

## || Making the category donation-relevant

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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.





# The Psychology Behind Major Gifts of Assets

**Why cash is not king in fundraising**

**Data on the power of asset gifts from 1 million nonprofit tax returns**

Russell James III, J.D., Ph.D., CFP®  
Professor and Director of Graduate Studies in Charitable Financial Planning  
Texas Tech University

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

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- 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.





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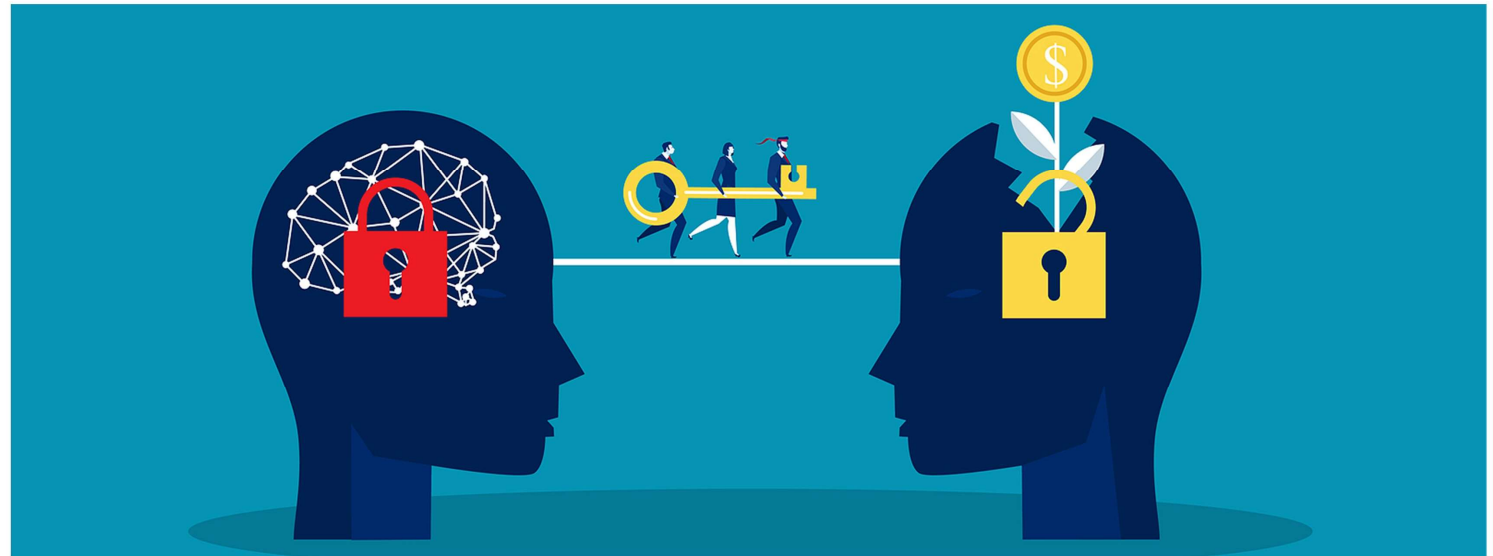
# The Psychology Behind Major Gifts of Assets



## 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

# The Psychology Behind Major Gifts of Assets



Mindset matters

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



# The Psychology Behind Major Gifts of Assets

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.

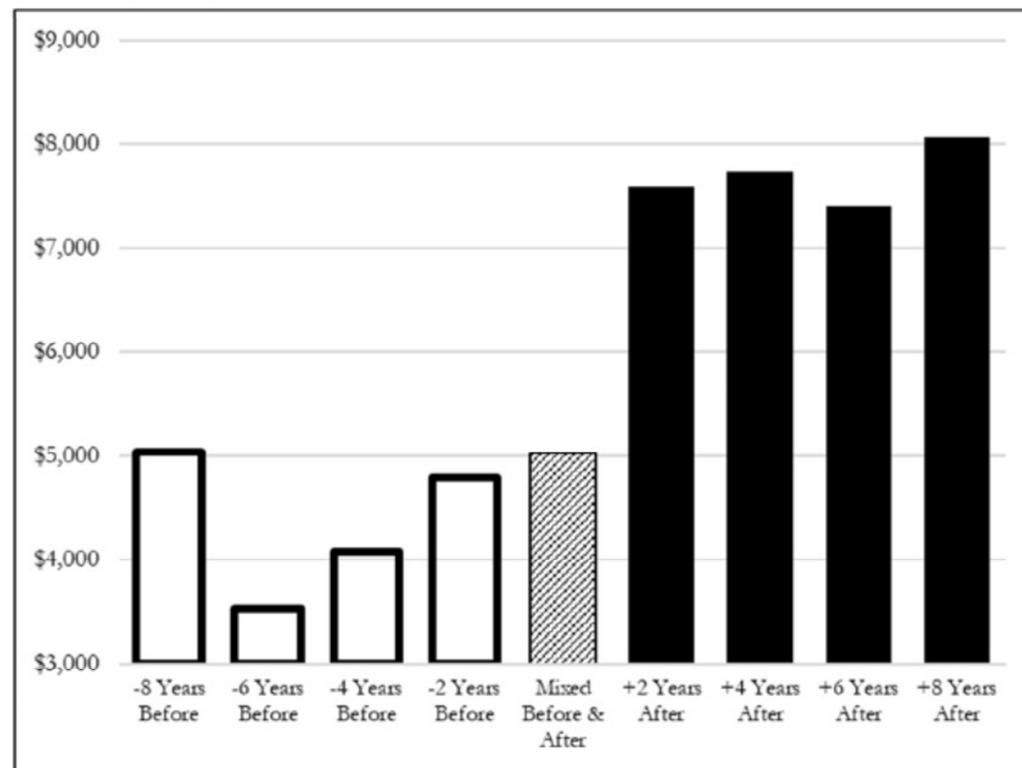


# The Psychology Behind Major Gifts of Assets

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.



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# The Psychology Behind Major Gifts of Assets



## The Secret to Fundraising Math

Gifts of Wealth Not Disposable Income

Professor Russell James  
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# The Psychology Behind Major Gifts of Assets



## The Psychology of the Massive Donation

Foundations, Funds,  
Trusts, and  
Endowments

Professor Russell James, Texas Tech University





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# The Psychology Behind Major Gifts of Assets



Most fundraisers don't understand the real world of philanthropy

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



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## The Psychology Behind Major Gifts of Assets

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.



# The Psychology Behind Major Gifts of Assets

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>





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# The Psychology Behind Major Gifts of Assets



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>





# The Psychology Behind Major Gifts of Assets



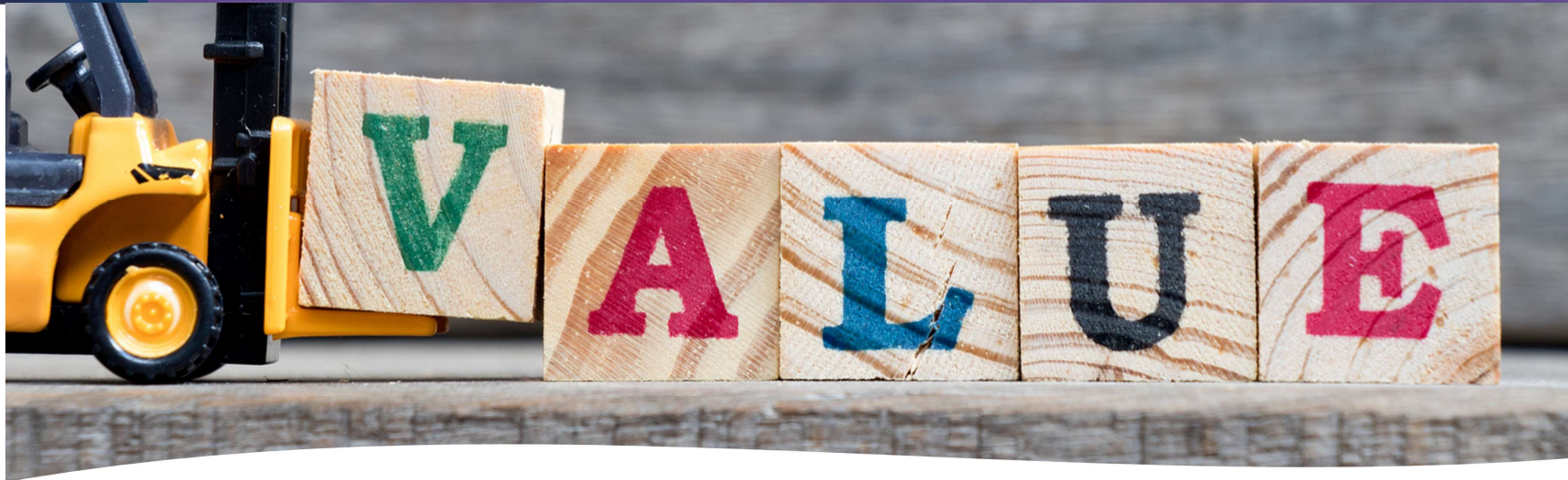
So what?

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Understanding the attraction of these instruments

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

# The Psychology Behind Major Gifts of Assets



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

# The Psychology Behind Major Gifts of Assets



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



# The Psychology Behind Major Gifts of Assets

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

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

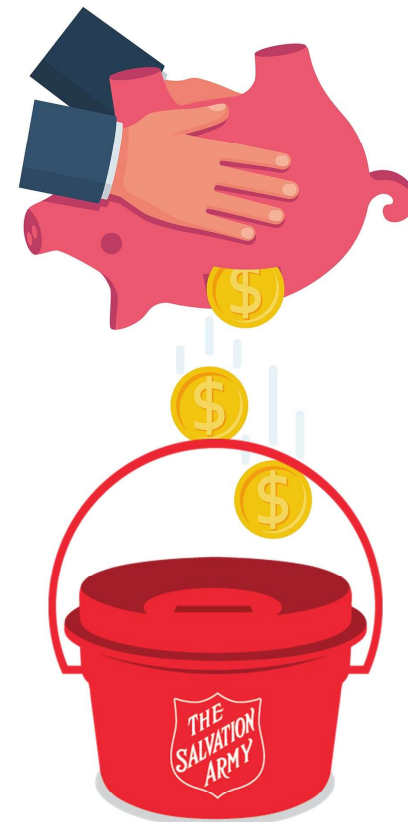




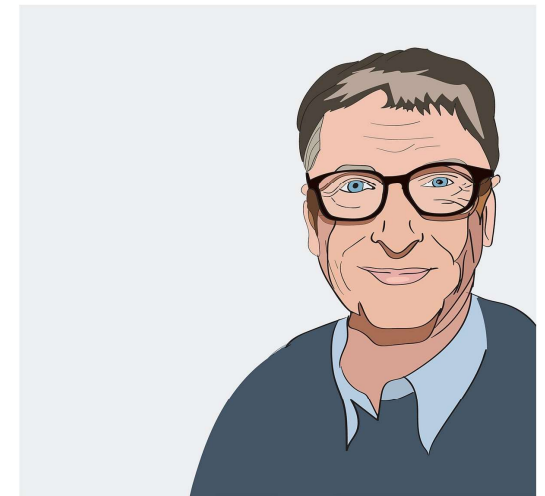
# The Psychology Behind Major Gifts of Assets

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



# The Psychology Behind Major Gifts of Assets



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





# The Psychology Behind Major Gifts of Assets

||| Allow giving and holding wealth at the same time

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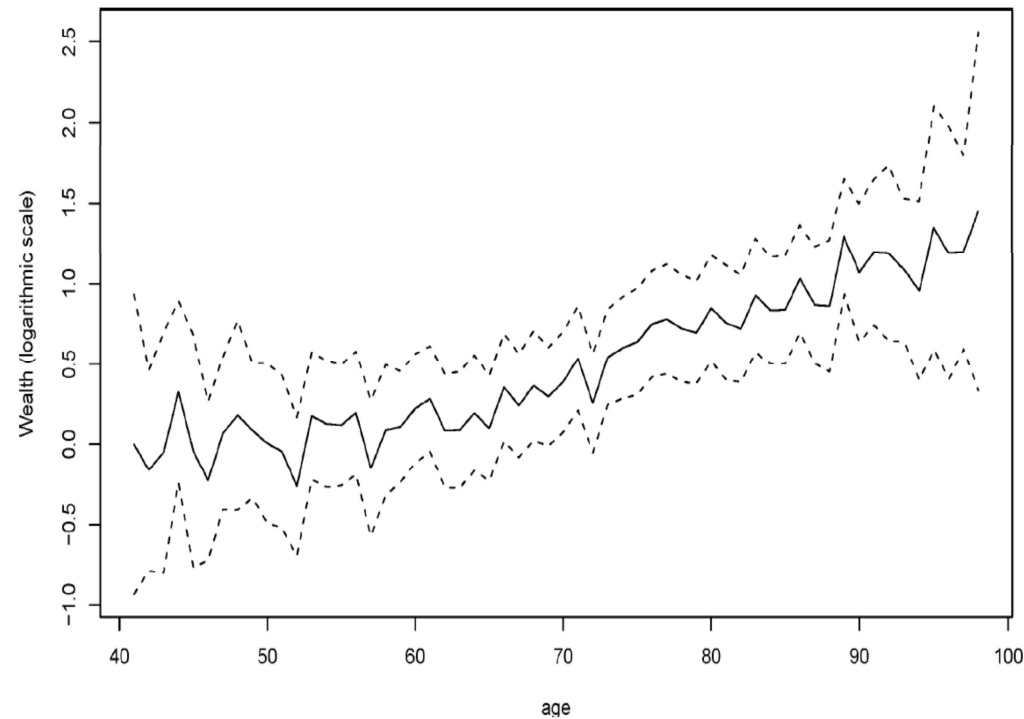
Step 2: The donor has already given (and received a tax deduction), yet the donor still holds the wealth



# The Psychology Behind Major Gifts of Assets

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 1.



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# The Psychology Behind Major Gifts of Assets



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

# The Psychology Behind Major Gifts of Assets

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





# The Psychology Behind Major Gifts of Assets



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

# The Psychology Behind Major Gifts of Assets

Large gifts come with lots of instructions



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

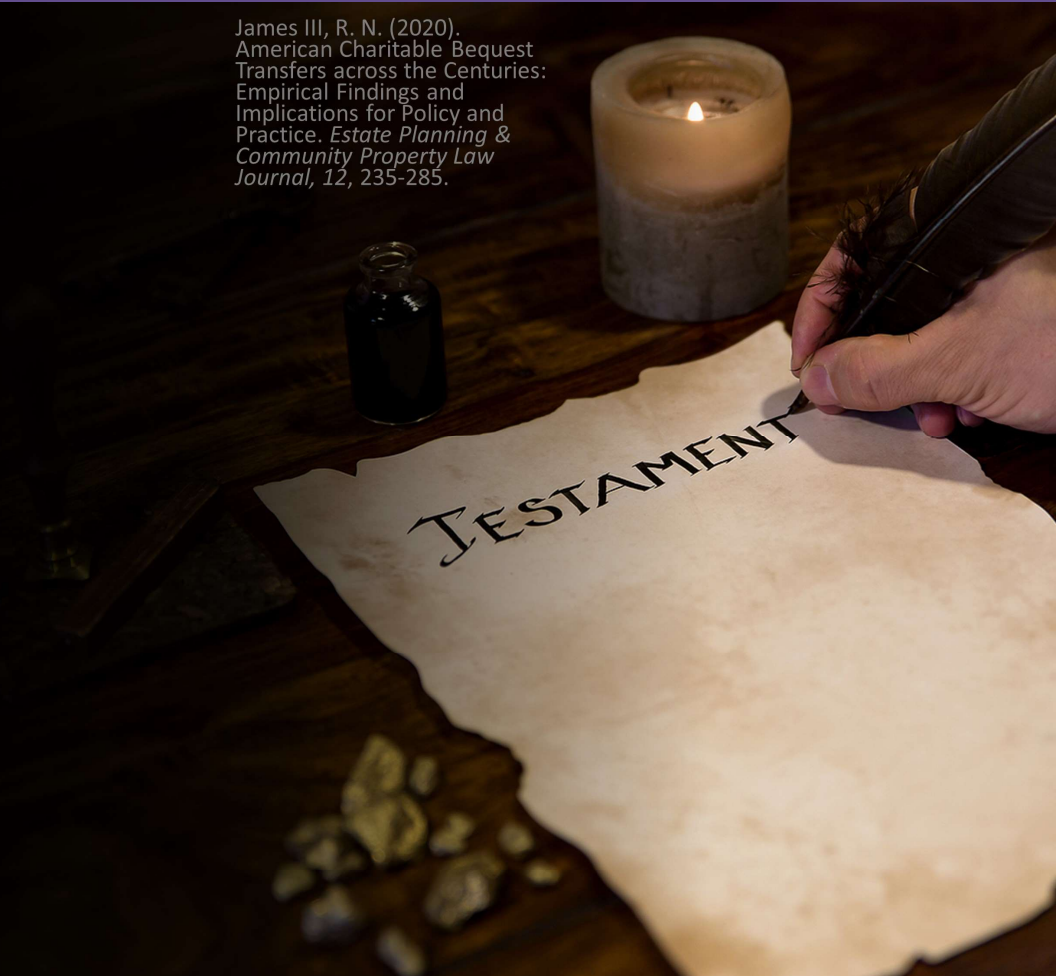
# The Psychology Behind Major Gifts of Assets

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

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.



# The Psychology Behind Major Gifts of Assets



Gift restrictions  
make the gifts  
larger

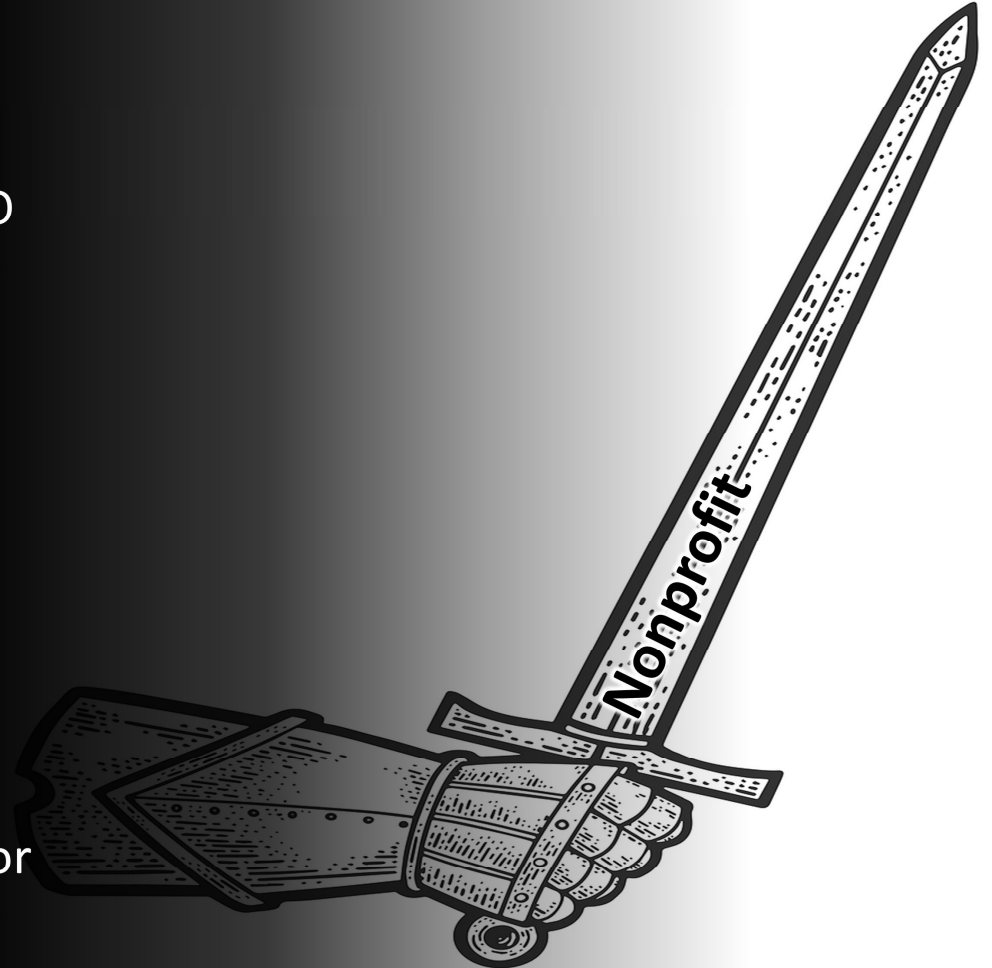
The instructions make the gift compelling



# The Psychology Behind Major Gifts of Assets

## 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.



# The Psychology Behind Major Gifts of Assets

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





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# The Psychology Behind Major Gifts of Assets

The ultimate charitable instrument for symbolic immortality

## The private foundation

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



# The Psychology Behind Major Gifts of Assets

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





## Mortality and permanence in experiments

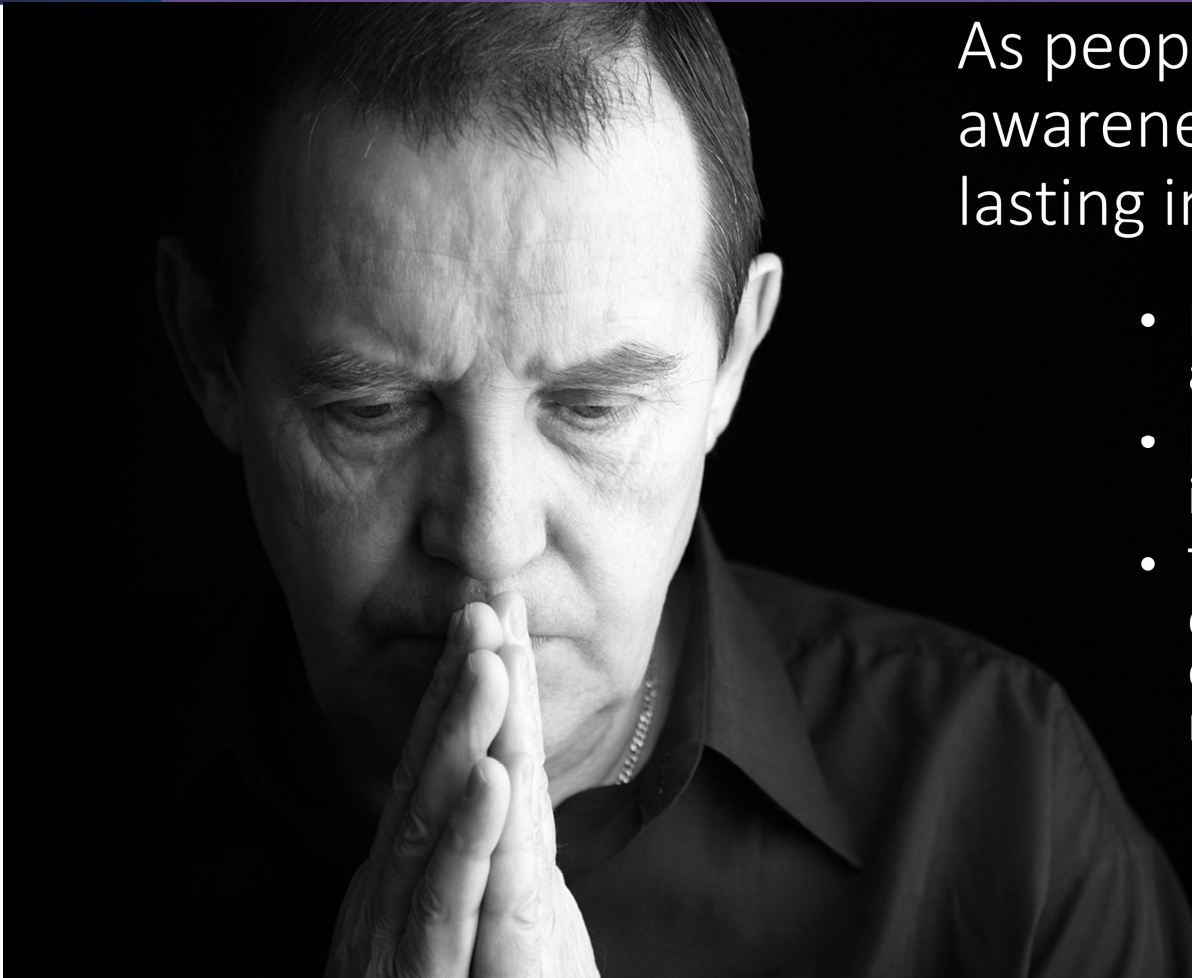
Charity Description	Average Gift	
	Normal Group	Death Reminded Group
“creating lasting improvements that would benefit people in the future”	\$100.00	<b>\$235.71</b>
“meeting the immediate needs of people”	\$257.77	<b>\$80.97</b>

- 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

## The Psychology Behind Major Gifts of Assets

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



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## The Psychology Behind Major Gifts of Assets

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 if they decide they want to





# The Psychology Behind Major Gifts of Assets

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?

# The Psychology Behind Major Gifts of Assets

This view doesn't  
work for fundraising

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

A close-up photograph of a hand holding a wooden block with the word "VALUE" printed on it in large, bold, black letters. The block is part of a larger arrangement of similar wooden blocks on a wooden surface. The background is slightly blurred, showing more blocks and the hand's fingers.

**VALUE**



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# The Psychology Behind Major Gifts of Assets



Yes, you  
can!

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



## || Allow permanent endowments

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



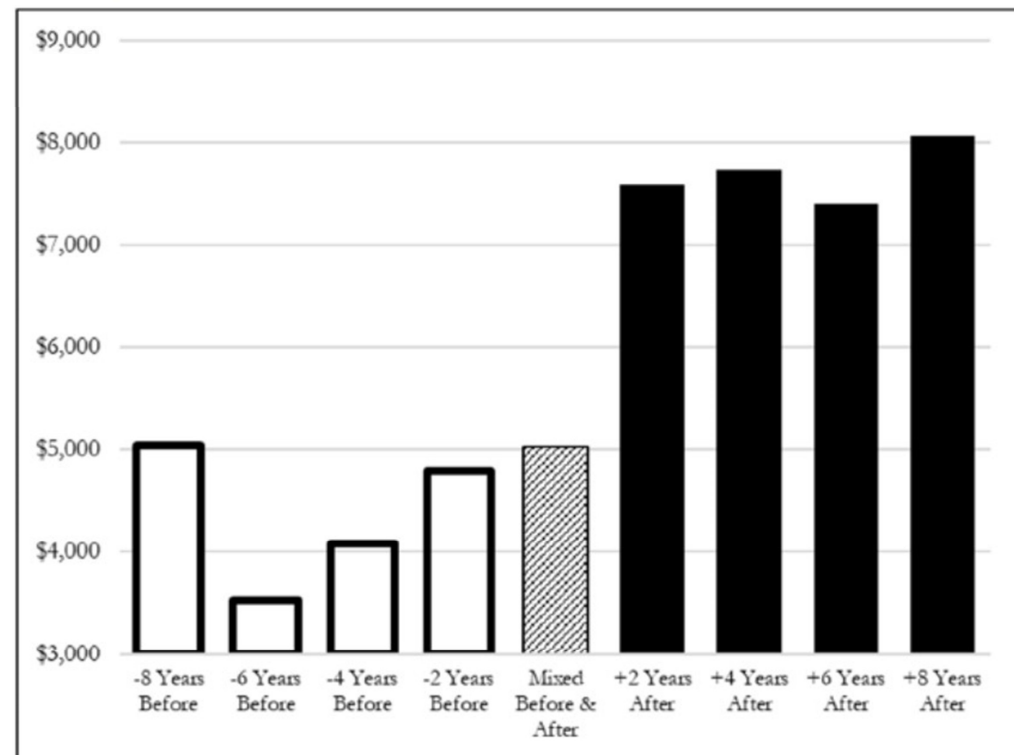


# The Psychology Behind Major Gifts of Assets

## 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.

# The Psychology Behind Major Gifts of Assets



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>

# The Psychology Behind Major Gifts of Assets



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

# The Psychology Behind Major Gifts of Assets

## || 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





# The Psychology Behind Major Gifts of Assets



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

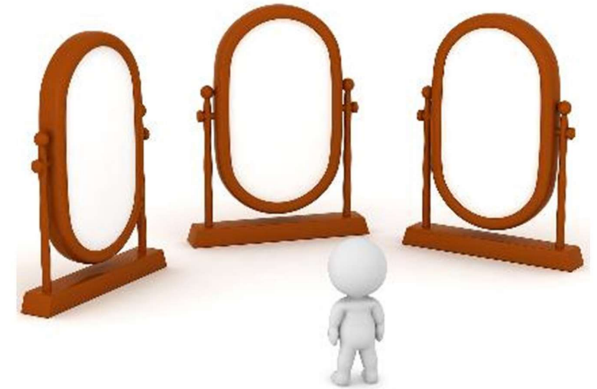
# The Psychology Behind Major Gifts of Assets

## || The ultimate benefit to the donor

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Enhanced identity

- Private (internal meaning)
- Public (external reputation)



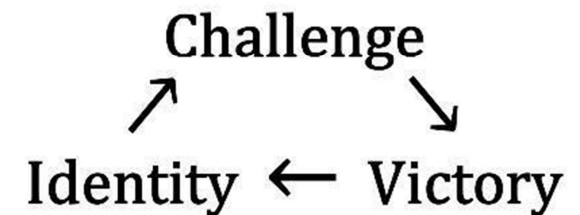
# The Psychology Behind Major Gifts of Assets

|| The universal donor hero story is an identity enhancement journey

The hero

1. Begins in the ordinary world
2. Is faced with a challenge (the call to adventure)
3. Rejects then accepts the call and enters the new world
4. Undergoes ordeals and overcomes an enemy
5. Gains a reward or transformation
6. Returns to the place of beginning with a gift to improve that world

**Original Identity** [1] →  
**Challenge** [2, 3, 4] →  
**Victory** [4, 5] →  
**Enhanced Identity** [5, 6]



# The Psychology Behind Major Gifts of Assets

OK, but what  
motivates  
billionaires?

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One study analyzed the letters accompanying 187 billionaires “giving pledge” commitments. (These were pledges to give at least half of their wealth to charity.)





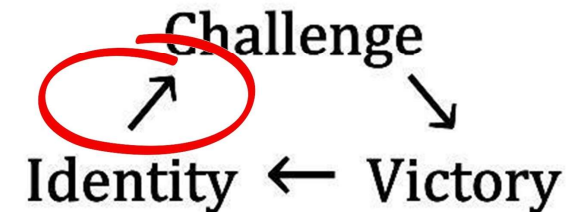
# The Psychology Behind Major Gifts of Assets

The gift comes from the donor's identity: their people, their values, and their life story

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.

**Original Identity** [1] →  
**Challenge** [2, 3, 4] →  
**Victory** [4, 5] →  
**Enhanced Identity** [5, 6]



# The Psychology Behind Major Gifts of Assets

## || The gift connects back to the donor's origins: Not giving, giving back

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.

**Original Identity** [1] →

**Challenge** [2, 3, 4] →

**Victory** [4, 5] →

**Enhanced Identity** [5, 6]



# The Psychology Behind Major Gifts of Assets

## || The gift results in a victory

These letters also typically included a “victory” reference, mentioning how the giving would make an impact, make a difference, and help solve societal problems.

**Original Identity** [1] →  
**Challenge** [2, 3, 4] →  
**Victory** [4, 5] →  
**Enhanced Identity** [5, 6]



# The Psychology Behind Major Gifts of Assets



The donor experience is worth the gift!

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- 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
- (None of the letters referenced wealth inequality and only one referenced guilt)



# The Psychology Behind Major Gifts of Assets



The universal hero story cycle is powerful for donors!

- 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.



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# The Psychology Behind Major Gifts of Assets



## Gifts of Wealth

and The Psychology  
of the Massive  
Donation

Professor Russell James, Texas Tech University



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## Questions?



Click the Q&A icon at the bottom of your screen.



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## Still Have a Question?

**Contact:** Prof. Russell James

**E-mail:** [russell.james@ttu.edu](mailto:russell.james@ttu.edu)  
or Connect with me on LinkedIn