



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



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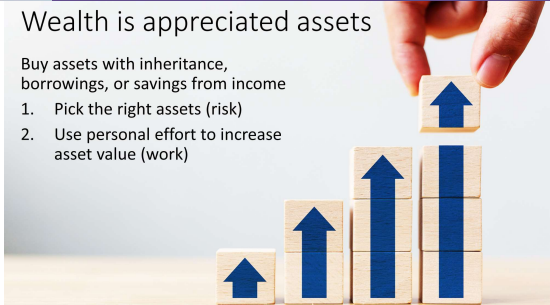


Wealth is not income

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

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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)



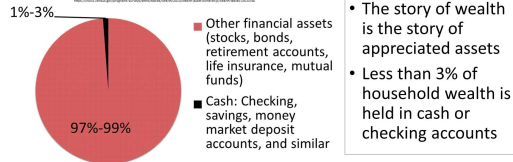
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Wealth is a different money category

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



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

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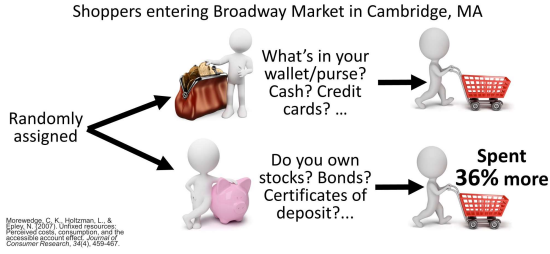


Gift size is relative to the money category

- 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

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Money categories change behavior



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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



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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"



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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



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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



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“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



Source: “Mental Accounting and Consumer Choice in Giving” by Richard H. Thaler, NBER Working Paper No. 11,000, 2004. Copyright © 2004 National Center for Charitable Giving, Inc. All rights reserved.

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|| Making the category donation-relevant

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

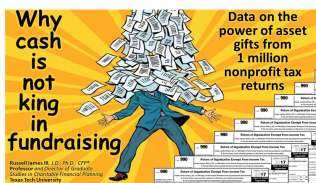
Whenever redecorating or moving [or an asset sale], is contemplated, charity comes to mind.



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Real world: Money categories and fundraising success

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

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|| 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.



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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

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Mindset matters

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


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Legacy gifts can be transformational for the organization

- Estate gifts from the wealthy can be enormous



James, R. N. III. (2022). Americans charitable bequest transfers across the centuries: Empirical findings and implications for policy and practice. Estate Planning and Community Property Law Journal, 72, 235-285, 271.

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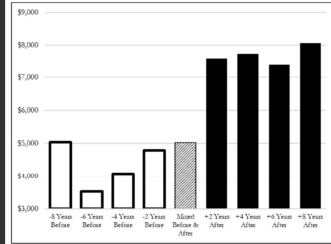
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Legacy gifts can be transformational for the donor

- 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, 2397-2433 at p. 2422.

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The Secret to Fundraising Math
Gifts of Wealth Not Disposable Income

Professor Russell James
Texas Tech University

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The Psychology of the Massive Donation

Foundations, Funds, Trusts, and Endowments

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Most fundraisers don't understand the real world of philanthropy

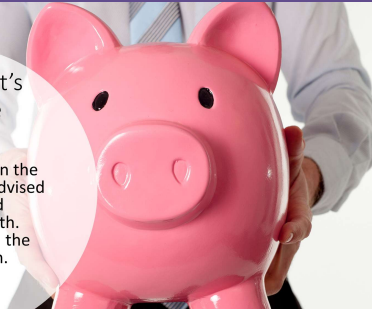
- They don't understand wealth
- They don't understand charitable instruments

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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.



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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




Hooverman, L.S. (August 2013). Split-Interest Trusts, Spring Year 2012. <https://www.irs.gov/pub/irs-soi/1208060splitinterest12.pdf>

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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 3a, Domestic Private Foundations: Income Statements and Balance Sheets, by Size of Fair Market Value of Total Assets, Tax Year 2018, <https://www.irs.gov/pub/irs-soi/19pfo3a.xls>

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So what?


Understanding the attraction of these instruments

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

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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

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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

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

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



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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-homogeneous charitable giving. NBER Working Paper No. 25824. <https://www.nber.org/papers/W25824>

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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

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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



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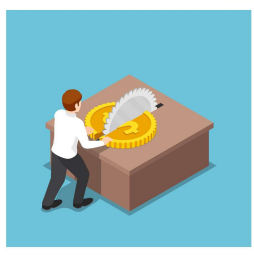
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Divide the feeling of paying a cost

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




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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



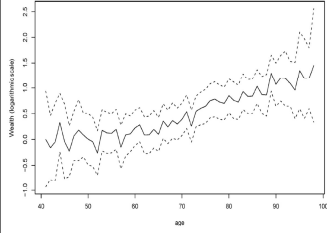
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Wealthy people like to hold wealth

- 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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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. Auerbach & A. Sundin (Eds.), *Death and Dollars: The Joint of Gifts and Bequests in America* (pp. 213-268). Washington, DC: Brookings Institution Press.

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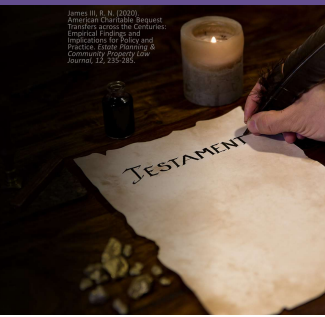
The Psychology Behind Major Gifts of Assets

James H. & M. (2020). American Charitable Bequest Transfers across the Centuries: Empirical Evidence and Implications for Policy and Practice. *Gift Planning & Community Foundation Law Journal*, 24(2), 94-104.

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



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Gift restrictions make the gifts larger | The instructions make the gift compelling

Harris, S. L., Scott, B. L., & Thomson, J. P. (2012). "Revealing to give more: Experimental evidence on restricted gifts and charitable behaviour." *Applied Economic Letters*, 18(8), 245-248.


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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.



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Pyszczynski, T., Greenberg, J., & Solomon, S. (1995). 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 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




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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



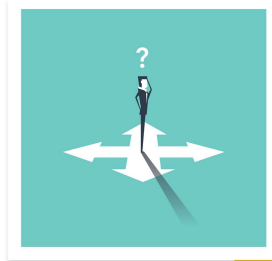
Rauh, B. G. & Newcomb, J. (Summer 2011) Federal Estate Tax Returns Filed for 2007 Decedents. *Statistics of Income Bulletin*, 31, 182-213, 191; Heinzer, M. P. (2007). Charitable contributions in an ideal estate tax. *The Law Review* 60, 263-321, 303.

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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



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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?

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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.



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Yes, you can!

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

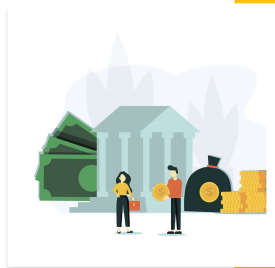
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Allow permanent endowments

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



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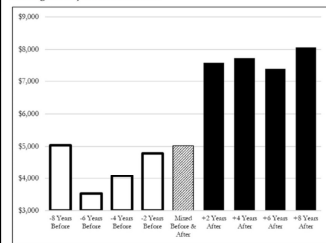
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Emphasize estate giving

- 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.

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

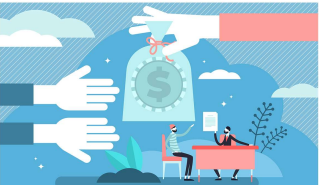
Promote instruments that combine gifts to the charity with continued control of the wealth

See <http://bit.ly/TexasTechProfessor>

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


Encourage instructions with large gifts

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- || 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



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Big gifts come from delivering big value to donors

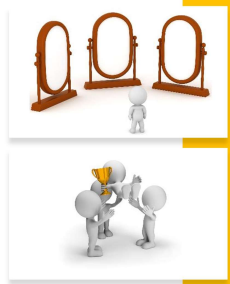
- Are you trying to deliver big value?
- Are you trying to compete with foundations, funds, and trusts?
- Doing so transforms the donor's experience and the charity's fundraising

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The ultimate benefit to the donor

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



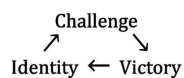
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The universal donor hero story is an identity enhancement journey

- 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]




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OK, but what motivates billionaires?

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



Schmitz, M. P., MORGAN, G. E. & MCCORMICK, E. W. (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.

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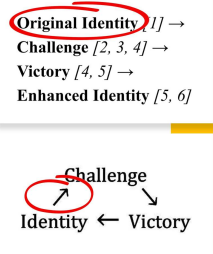
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The gift comes from the donor's identity: their people, their values, and their life story

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.



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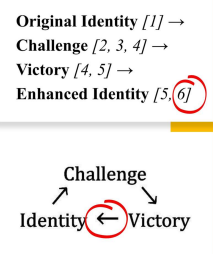
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The gift connects back to the donor's origins: Not giving, giving back

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.



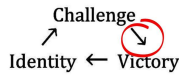
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The gift results in a victory

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]



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The donor experience is worth the gift!

- 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)

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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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Gifts of Wealth
and The Psychology of the Massive Donation

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Questions?



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Still Have a Question?

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