Current Trends in Philanthropy

By Eileen Heisman

Arms-length philanthropy is a thing of the past. Whether donors want to measure charitable-giving goals against easily accessible data or maximize tax benefits, people who support causes are looking beyond the old ways of giving. They are strategizing—consulting advisors, using giving vehicles, tracking charities’ progress—and considering philanthropy as part of their overall wealth planning.

The trend toward strategic philanthropy coincides with charitable giving’s rebound to pre-recession levels. In 2014, Americans gave $358.38 billion—80 percent of which came from individuals.1

Financial advisors need to keep abreast of trends in philanthropy because donors increasingly include charitable giving in their overall wealth planning. More than 70 percent of external advisors say that they talk about philanthropy with their clients. However, only 55 percent of clients report that they have had a conversation about philanthropy with their advisors.2 What does that tell us?

It is a clear message: There is a disconnect between what advisors are saying and what clients are hearing when it comes to philanthropy. In order to reach clients, and to connect with the next generation, advisors should keep a pulse on what is happening in charitable giving.

The following are key trends in the philanthropic landscape that donors and advisors alike should watch.

The Impact of the Next Generation

The millennials (born between 1980 and 1999) are the largest living generation, totaling 80 million people in the United States alone.3 They will make up 50 percent of the workforce by 2020 and will be on the receiving end of the projected $30-trillion wealth transfer that is underway. Even if you wanted to, it would be impossible to escape the influence that millennials are having in every facet of society.

Charitable giving is one place where millennials already are making their mark. Almost 85 percent of them gave charitably in 2014 and 70 percent volunteered.4 Seventy-seven percent of millennials reported they’re more likely to volunteer when they can use their specific skills to benefit a charity or cause, which indicates a desire to maximize their philanthropic impact.

A number of qualities describe and carry over into millennials’ giving: They are tech-savvy, social beings who are motivated by outcomes. In an increasingly interconnected world, new technology is making it easier to access information and, more importantly, give at the click of a mouse or the swipe of a smartphone. Online giving is increasing and 62 percent of millennials prefer to give through their mobile devices.5

Not surprisingly, millennials are active on social media—90 percent own smartphones and 51 percent say they are mostly or always online and connected.6

Data tell us that sharing news of an online gift or fundraiser on social media can increase philanthropy. For example, in an average peer-to-peer fundraising campaign that is shared on Facebook, 15–18 percent of donations are referred directly from that site.7 Similarly, average total online donations to a fundraiser increase ten-fold by incorporating Twitter.8

This social sharing has given rise to some of the charitable sector’s most innovative strategies. #GivingTuesday, founded in 2012 by the 92nd Street Y in New York City and other cohorts, is one such effort that uses social media—and active millennial subscribers—to launch a sustainable, replicable day of giving. #GivingTuesday follows Black Friday and Cyber Monday and is a day dedicated to giving. The social aspects of #GivingTuesday have allowed it to spread far and fast. It has been adopted in 11 different countries in just three years. Each year, online fundraising has spiked (63 percent from 2013 to 2014) on #GivingTuesday, and the hashtag had almost 33 million impressions on Twitter in 2014. Millennials gravitate toward movements such as #GivingTuesday because they are simple, social, and produce data-reported outcomes.

What Advisors Need to Know

Understanding what drives millennials in their daily lives will help advisors understand how to speak to them. Millennials give charitably and are socially conscious. Advisors can use that knowledge to initiate conversations about where millennials’ passions are and how they can reach their goals—financial, professional, and charitable—over time.

The Rise of Crowdfunding

With the up-and-coming generation increasing its philanthropic activity, it is not surprising that new vehicles for giving are gaining popularity. Crowdfunding—the practice of fundraising small amounts of money from a large number of people—is one that has taken off over the past decade.

The 2008 presidential campaign was the first massively adopted crowdfunding
The number of crowdfunding sites has exploded and the number of projects that people can fund has increased exponentially. The philanthropic sector took advantage of this trend and has since produced massively popular sites such as Kiva, which allows donors to fund microloans; or Donors Choose, a project-based site that allows public school teachers to fundraise for classroom projects or equipment. Nonprofit organizations also have created their own self-branded crowdfunding sites. They allow donors to support the charity without giving up a portion of their donation to the overhead that other sites often impose. In particular, universities have adopted this strategy.

Crowdfunding benefits nonprofits greatly. By allowing hundreds or even thousands of donors to pool small gifts, charities eliminate the transactional costs of processing small donations and the overhead costs of sending individual gift receipts and other gift-processing tasks.

What Advisors Need to Know

Today’s small donors (and crowdfunding contributors) are tomorrow’s major gift donors. It is important for advisors to understand the ways in which donors give charitably—both large and small—in order to find the most effective solutions to their clients’ giving goals.

The Increase of the Mega-Gift

The antithesis of crowdfunding is the mega-gift—a supersized charitable gift from a single donor. Predictably, mega-gifts in the United States declined substantially during the Great Recession. However, as the economy and stock market have rebounded, so have the single, large gifts from America’s most generous philanthropists.

In 2014, 850 individuals made charitable gifts of $1 million or more in the United States, a 144-percent increase from the low of 348 mega-gifts in 2010.9 These gifts represent the largest charitable donations and pledges. Many of these gifts are to universities and hospitals, and others are to private foundations and donor-advised funds with multiple charities as the ultimate beneficiaries.

The donors are often bold names with global recognition—Gates, Buffet, Koch—many of whom are giving while living. Others are quieter about their philanthropy. Some leave the bulk of their estates for charity, like Ralph C. Wilson, Jr., who made the largest individual gift in 2014 via bequest: $1 billion to a foundation that bears his name.

The return of the mega-gift is not just an American phenomenon. Gifts of $1 million or more are increasing around the globe. Taking corporate gifts into consideration, U.S. donors made 1,408 gifts of $1 million or more, for a total of $16.92 billion in 2013.10 In the United Kingdom, donors made 292 gifts worth a total of $2.2 billion, a 50-percent increase in the number of gifts over the prior year. Interestingly, as a region, the Middle East nears the United Kingdom’s total, with $1.84 billion, but only 38 donors contributed to that total.

In some countries, such as the United Kingdom, the increase in mega-giving coincides with economic prosperity. In others, such as China and Singapore, mega-gifts are a signal of a cultural shift in philanthropy among ultra-high-net-worth individuals. For example, charitable giving in China has a long history. Before the Cultural Revolution, giving was mostly locally based. During and after the Cultural Revolution in the mid-20th century, giving in China was not a prominent part of everyday life. A number of factors—including government services and support for citizens, the economic structure, and government policies around approving charities—contributed to the limited philanthropic landscape in China. Most experts point to the 2008 Sichuan earthquake in southwest China as a pivotal moment for Chinese understanding of how private philanthropy could help their fellow citizens in need. Now, Chinese philanthropy is playing catch-up and Chinese citizens and corporations are contributing to various causes and social problems.

What Advisors Need to Know

The return of the mega-gift in global philanthropy is a reflection of economic prosperity and cultural encouragement among the world’s wealthiest donors. Clients who aspire to make major gifts should plan them with their advisors. Often it is the advisor who coordinates a gift agreement, such as one that includes naming rights or a matching gift program.

Working with donors, the charity, and specialized lawyers to arrange a complex gift can be a lengthy process. Advisors can help a donor determine when to make a charitable gift, which assets can fund it, and over a time span that makes sense. Meaningful gifts can—and should—take time.

The Explosive Growth of Donor-Advised Funds

Donor-advised funds (DAFs) are the fastest-growing giving vehicle in philanthropy. There are more than 217,000 individual DAFs in the United States; DAFs outnumber private foundations by more than three to one. They also outnumber the combined total of other charitable giving vehicles (charitable remainder trusts, charitable lead trusts, pooled income funds, etc.).

Despite their popularity, DAFs just now are becoming a mainstream wealth-planning tool for advisors to offer their clients. DAFs are defined as philanthropic-giving vehicles managed by a charity. Donors establish, name, and fund the DAF account. They must make an irrevocable, tax-deductible contribution to the charitable sponsor to finalize its creation. Donors then recommend grants from those funds to other charitable organizations over time. In other words, a DAF is like a charitable savings account—donors can contribute to a DAF and invest the DAF’s charitable assets until they are ready to make a grant.

DAFs operate similarly to private foundations, but one key difference is donor control. Private foundations offer donors control over both grantmaking and investments whereas DAFs offer donors only...
advisory privileges. Once donors make an irrevocable gift to their DAFs, they may recommend investment strategies and grants, but the charity that manages the DAF has ultimate authority to approve or deny the recommendations.

The recent growth trajectory for DAFs is steep—from 2012 to 2013, contributions to donor-advised funds jumped 23 percent. DAFs across the United States hold approximately $53.74 billion, an 80-percent increase in the past five years. DAF donors granted nearly $10 billion in 2013, and the U.S. DAF annual payout rate (the amount of charitable dollars relative to the amount of charitable assets) exceeds 20 percent.

Numbers like this are hard to ignore. DAFs have attracted ardent supporters and even a few critics. Proponents say that DAFs offer benefits that donors value: low-cost management, immediate tax benefits, ease of use, and a vehicle that can be passed on to the kids. They also say that the benefits attract more charitable dollars than donors would otherwise give. On the other hand, critics say that DAFs are collecting charitable donations that otherwise would support direct-service charities.

What Advisors Need to Know

DAFs have experienced explosive growth and show no signs of slowing down. Their tax advantages, the fact that they can be established in a day, and their ease of use are cited as huge benefits to both donors and advisors. Advisors should get acquainted with DAFs and their benefits to give clients the information they might need to start one.

The Increase and Ease in Global Giving

Charitable giving used to be concentrated primarily around where a donor lived or went to school. With a 24/7 news cycle and social media bringing other countries and cultures into our living rooms, giving has shifted and global giving trends have emerged.

In 2014, Americans donated $15.1 billion to international causes, which represents 4 percent of total giving.11 This figure is down slightly from the prior year, but no doubt charitable giving across borders has increased substantially in the past two decades. International disaster relief, such as recovery efforts for the Haiti earthquake in 2010 or the Japanese earthquake in 2011, attracts immediate support from charitable Americans.

International giving also is made easier by certain types of giving vehicles. For example, many charities that manage DAFs provide direct foreign grant services. For donors, this means that giving a grant to an alma mater and to an overseas charity requires the same click of a mouse. International charities also have created structures to simplify giving for U.S. donors. Some foreign charities have established domestic U.S. counterparts, often calling it their “Friends of …” or “American Chapter,” to facilitate charitable gifts from the United States and offer donors the same U.S. tax benefits as other U.S. charities.

What Advisors Need to Know

Giving across borders is increasingly attractive for U.S. donors. As international giving continues as a trend, advisors would be wise to learn about the impact that it can have on donors’ individual financial and tax situations and the different ways donors can support global causes. Advisors that know how to maximize tax advantages by using U.S. “Friends of …” chapters will be able to help their clients.

The Impact of Impact Investments

Impact investing is a concept that has been around for nearly 40 years—although the term we use now to describe it didn’t exist until 2007.12 The double-bottom-line benefit allows donors to make money on a socially beneficial investment. Investors may choose to use impact investments through giving vehicles or as part of their personal financial portfolios.

The structure of impact investments is varied. Investors can be individuals, foundations, pension funds, or companies. The investments are even more wide-ranging. The most exciting part of impact investing is that the possibilities are virtually limitless—investors can support agri-business, housing projects, clean air innovation, medical technology, or literacy programs in any corner of the world.

The challenge can be finding the right investors for the right projects at the right time. Organizations such as Social Capital Markets and Big Path Capital can help showcase investment projects. Others provide direct investment opportunities such as Root Capital and the Calvert Foundation.

What Advisors Need to Know

Clients increasingly want to align their investment strategies with their social values—a common trait among millennials. Impact investments may be the best option for them. Advisors who understand how to access the best impact investments will be poised to help clients meet their double-bottom-line of generating social and financial returns.

Conclusion

Donors are becoming increasingly strategic and savvy in how, where, and when they deploy their financial resources for the benefit of society. Being a smart, well-informed advisor will complement and support what donors are thinking and how they might deploy their well-earned social capital.

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Endnotes
8. See “2012: It was a Very Good Year for Social Giving,” on MDG’s Advertising and Marketing blog, http://www.mdgadvertising.com/blog/2012-it-was-a-very-good-year-for-social-giving/.
11. Giving USA, see endnote 1.
12. For more information about impact investing, please visit Global Impact Investing Network’s website at http://www.thegiin.org/about.