National Influence

By Tanya Howe Johnson, CAE

When members of NCPG's Strategic Directions Task Force met in Indianapolis in August, they agreed that one important reason for NCPG's existence is to ensure that the power of charitable gift planning is recognized and appreciated by all the groups that need to recognize it, including charity CEOs, legislators/regulators, donors and advisors, among others. It's an interesting challenge to promote the power of something that hasn't been measured. How much money really comes to charities through various planned gift vehicles every year? No one knows. How much return can an organization expect on its investment in charitable gift planning staff and infrastructure? That's difficult to predict. While NCPG has provided excellent tools for the counting and reporting of charitable gifts, and for the valuation of planned gifts, the use of the measurements is new, and not yet widespread enough to yield reliable sector statistics.

Occasionally, we get indicators that things are going well—or poorly. *Giving USA* says giving by bequest is at an all-time high. But, *The Chronicle of Philanthropy* says that bequest giving is not on track with wealth transfer estimates. NCPG's last survey of donors (2000) indicates that for every bequest provision a charity knows about, there are two that haven't been revealed. Then a trend toward increased longevity for older Americans suggests that all those bequests will be delayed. And we shouldn't forget the positive (or is it negative?) effect of the ever-morphing estate tax repeal...

NCPG definition of charitable gift planning

Charitable gift planning is the process of cultivating, designing, facilitating, and stewarding gifts to charitable organizations.

Charitable gift planning:

- uses a variety of financial tools and techniques for giving,
- requires the assistance of one or more qualified specialists,
- utilizes tax incentives that encourage charitable giving, when appropriate, and
- covers the full spectrum of generosity by individuals and institutions and is based on powerful traditions of giving in the United States.

The techniques of charitable gift planning include both revocable and irrevocable arrangements, gifts available for use at the time they are given and gifts that may not be available until a future date and split-interest gifts intended to balance financial, personal and charitable objectives.

Donors should seek charitable gift planning advice from professionals with integrity, expertise and experience in law, investments, property, tax and charitable transfers in order to assure both the technical merits of the transfer and the philanthropic quality of the gift.

...Local Connection

Since bequests are the most common, and most traditional, form of planned giving, the trend lines are longer and more predictable. But when NCPG broadened its definition of charitable gift planning, we began to focus on other forms of giving that are more difficult to track. We aren't the only ones who feel that pain. Two of the nation's most diligent researchers in the area of charitable giving, Paul Schervish and John Havens of Boston College, have their eyes on the data that is currently available. But like the trend-watchers at NCPG, they wish there were more.

In his response to *The Chronicle of Philanthropy's* critique (April 6, 2006), of the wealth transfer projections he developed with John Havens, Paul Schervish wrote, "There has been an increase in the rate of inter vivos giving among wealthy households in recent years…and this growth is likely at the expense of charitable bequests. In our writings on wealth transfer we usually state that 'if the transfer of wealth follows historical patterns, the transfer will be distributed as . . ..' In fact, the growth in the aforementioned vehicles…does not follow historical patterns, so that the estimates of inter vivos giving produced by the model may be too low and the estimates of charitable bequests too high."

I talked with Paul Schervish and John Havens about the big picture of planned giving, and the need to understand how demands on the donor (supply) side for lifetime giving opportunities affect expectations on the demand (charity) side.

THJ: You've stated that there may need to be some adjustment to the assumptions about historical giving patterns that underlie your wealth transfer model. How would you characterize the differences between the model and what seems to be happening out in the real world?

JH: We should note several factors that have varied from the wealth transfer simulation model and that affect the progress of giving via bequest, although they don't invalidate the model. From 1999 to 2002, there was a brief decline in wealth that affected people at the high end. In fact, it was the greatest decline since the Depression. Since 2002, the growth in wealth has returned to the trend. I think some of the data lags one to three years behind the aggregate wealth data; we may see some increase in charitable giving in a few years.

Also, people are living longer than the 1998 mortality rates, and a higher proportion of wealthy people say that they are in good health, and they live longer. Some of the transfer via estates may be delayed for about five years.

PS: As John says, some short term variations can be expected in the model for wealth transfer, but there are some larger trends that may need to be factored in. Wealth transfer is a reflection of growth in wealth, and we've looked at new data that shows growth in wealth is higher than the two percent estimate underlying our model. There is also evidence that households 70 and older have $9 trillion net worth (some will be spent of course, but a lot will be transferred—for those who are wealthy, the wealth continues to grow despite spending). The Survey of Consumer Finances shows that the amount people report as inheritances received is growing. The question for nonprofits is: with all the growth in wealth, why hasn't the level of bequest giving grown since the 90s? Why isn't the amount growing?

One thing we've had to adjust in our thinking is that what we predicted for bequests was a continuation of trends in the 90s. We allocated to estates the same level of charitable disposition through bequests that was the average in the 90s. If these bequests are not showing up, something must be happening because wealth is growing and the transfer is taking place, with an even lower level of taxes. We think that more and more of the transfer is occurring during lifetime and not being picked up in federal data on bequests or, if not during lifetime, charities are not getting their share.

THJ: The wealth transfer estimates increased many charities' focus on bequests, but that may have happened at a time when other types of giving were becoming more popular. What forms of inter vivos giving are favored by wealth-holders that don't show up in *Giving USA* estimates or other reports of philanthropy activity?

JH: There *is* data to show increases for a variety of giving strategies that do not show in estates. For example, the IRS and the Foundation Center report an increase in the number of private foundations. According to the Foundation Center, the number of such foundations has increased 29 percent between 1998 and 2004. The IRS also reports an 11 percent increase in the number of trusts that are allowed to file as private foundations. The number of CRTs has increased by 45 percent, from 85,000 in 1998 to 123,000 in 2004. The fair market value of CRT assets has increased by 33 percent during that period (adjusted for inflation).

PS: Those types of giving can be tracked through IRS data. We believe that large transfers are taking place through other types of giving, but there is no good data that charts exactly what every charity is receiving. All reports are based on estimates and projections.
For example, consider gifts of real estate. A recent *Wall Street Journal* article (August 16, 2006) about use of real estate in charitable giving and the growing willingness of charities to accept these gifts cited six ways to donate real estate to charity: outright, charitable remainder unitrust, charitable gift annuity, retained life estate, bargain sale, and bequest. Five of those methods need not be part of an estate, and there is no national data on the amount being transferred.

JH: Insurance gifts are also hard to track. When people transfer ownership of life insurance (whether the charity pays the premium or the donor pays the premium and gets a deduction), the value of the decedent's gift is not in the estate, although the gift is triggered by an event at death.

Another example would be IRAs that have charity designated as beneficiary. Most of these are under the radar for estates that don't have to file. Estate planners say that because there is no tax consequence of these gifts, a lot of 706 forms do not include IRAs with a charitable beneficiary.

PS: As yet, inter vivos giving is not up to the extent needed to keep the transfer estimate on track in the short term. But we need to get better measures of these types of giving to understand how the wealth transfer is continuing, even though the numbers reported are not keeping up with what was predicted in the model. Bequests may not be on track, but we believe the long-term wealth transfer is.

THJ: Is there anything in the research that points to specific things charities need to do to capture a larger share of the transfer amount?

PS: We've said from the beginning that people from the nonprofit world and donors could make our predictions invalid by shifting giving from estate to lifetime giving. When people recognize that they have financial security and have provided their children with sufficient resources, they are faced with the question of what to do with the remaining amounts of money. There's a gap between their resource stream and their expenditure stream; when they're confident that that gap is going to be positive, permanent and even actually growing, they're more prone to charity. This is one way that giving is moving into lifetime and away from estate.

Financial advisors are beginning to recognize this trend and open the door to philanthropy in regular dealings with their clients. In the past, they felt this was outside their duty; now as they are clarifying what clients want to BE, philanthropy is more natural for them to address. As more people avail themselves of sophisticated financial advice, there is more opportunity for gift planners to be part of the team and present their organizations' specific missions and programs to philanthropically inclined individuals.

THJ: Many families, particularly Baby Boomers, are accustomed to a higher standard of living and are nervous about outliving their resources—these families might naturally turn to less threatening methods of giving (revocable or estate gifts, contingent beneficiary designations). Those gifts won't show up on the transfer radar screen until they mature. Do you predict that the trend toward increased lifetime giving will falter as the Boomers age?

JH: The Boomer generation has a wealth distribution that is higher than the World War II generation 50 years ago; they're in as good shape as the prior generation in terms of purchasing power. Their wealth is actually growing faster than growth for the prior two generations. So they seem to be preparing for the future better than some of the commentaries indicate.

PS: It will be up to financial advisors to give Baby Boomers a realistic understanding of their wealth, and gift planners need to work with those advisors to turn that understanding into philanthropy.

THJ: What would need to happen in order to really quantify the amount of charitable giving that is happening, both inter vivos and through final estates? In an ideal world, what data needs to be collected in addition to the data we already have? Who needs to collect that data?

JH: Unfortunately, many of the inter vivos gifts we've been discussing often aren't tracked even in the statistics kept by the charitable organizations that receive them.

PS: Ideally, we need to have somebody at each charity—from as many charities as possible—provide data on all giving; in-kind; outright; bequests; everything. Capture the numbers of gifts and the dollars in each category, and report it regularly to a central collection point. If NCPG could be the collection point for that data, it would be a great thing for everyone involved in promoting philanthropy.

The conversation continues: NCPG has released a new edition of the *Guidelines for Reporting and Counting Charitable* Gifts (see an executive summary in this issue of *The Journal*). These guidelines provide a simple and realistic methodology for measuring all types of charitable giving across organizations. With widespread use of these guidelines, NCPG will be in position to begin collecting this much-needed gift data. NCPG's guidelines support the concept of the "triple ask," in which donors are invited to consider options for current and deferred giving and to make various types of gifts simultaneously as part of an overall charitable plan. We hope that as charities implement this paradigm, the visibility—and trackability—of all forms of charitable giving will increase. You'll find the full text of the *Guidelines for Reporting and Counting Charitable Gifts* in PDF format at www.ncpg.org/ethics_standards/NCPG%20counting%20guidelines.pdf