

PORTRAIT OF PHILANTHROPY:
THE COLUMBIA FOUNDATION AND THE CAPACITY FOR
INDIVIDUAL GIVING IN HOWARD COUNTY

PART II: HOWARD LEGACY STUDY

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for
The Columbia Foundation

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Introduction

In the fall of 2003, the Board of Trustees of The Columbia Foundation set out to answer a series of questions related to Howard County's capacity for individual giving. The Foundation wished to understand more clearly the rapidly changing environment of Howard County, provide valuable information to its nonprofit constituency, and identify its marketing needs.

The Columbia Foundation engaged Jean Moon & Associates to develop a way to assess these issues, analyze the findings, and then make recommendations for the future.

Six months of research, surveys, personal interviews and focus groups resulted in a comprehensive report published in July of 2004. Interview results, surveys and data were compared and analyzed, and conclusions reached. Major issues, obstacles and opportunities were documented for The Columbia Foundation. The factors affecting philanthropy in Howard County were identified. A "profile" of a philanthropist in Howard County was developed, and recommendations were made for future work.

Portrait of Philanthropy, Part II

Nationally, 75.6% of giving comes from living individual. When bequests are included as well, 83.6% of all giving comes from individuals.

This latest study looks at bequests as The Columbia Foundation launches its Howard Legacy Society. Learning about and sharing information about bequests is logically the next step in the process of educating our community about individual philanthropy. Just as the original study involved research, individual interviews, focus groups, and surveys, this study has included the same vehicles.

Acknowledgements

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Bequests

bequeath *vt.* to declare, give by will 1. to leave property to another by last will and testament 2. to hand down; pass on

Why is bequest giving important to The Columbia Foundation?

Bequests are the fastest growing source of unrestricted income to charities, posting a 9.2% increase in 2004. Bequests are responsible for 80% of all existing endowments. Donors who set up bequests tend to increase their current giving.

Charitable bequests are the most popular of all planned gifts, accounting for 90% of planned giving. Bequests are easy for donors to understand and inexpensive to create. Not only do they enable donors to maintain ultimate control of their assets, they allow donors to truly leave a legacy.

As our community ages and the number of retirees increases, two new developments may benefit The Columbia Foundation greatly in the short-term and long-term: the new pension law and the upcoming generational transfer of wealth.

New Pension Law

A new boon to local philanthropy recently occurred with the signing of the Pension Protection Act of 2006. A provision in the new law gives retirees the option to transfer IRA assets directly to charity – without first counting it as income and paying income tax. In 2006 and 2007, holders of traditional and Roth IRAs who are at least 70 ½ years old can make direct charitable transfers up to \$100,000.¹

Generational Transfer of Wealth

The Washington, DC, area stands to benefit greatly from the huge transfer of wealth anticipated over the next 50 years as today's retirees and baby boomers leave their assets to their beneficiaries and charities. A new study, to be released in October 2006 by Boston College's Center on Wealth and Philanthropy, shows that Washington area residents are expected to bequeath \$2.4 trillion over the next 50 years.

Local beneficiaries of this huge transfer can expect to inherit more than elsewhere in the country, according to study, as the average wealth of households in this region is substantially greater. According to the study, local charities will receive close to \$460 billion during the time period.

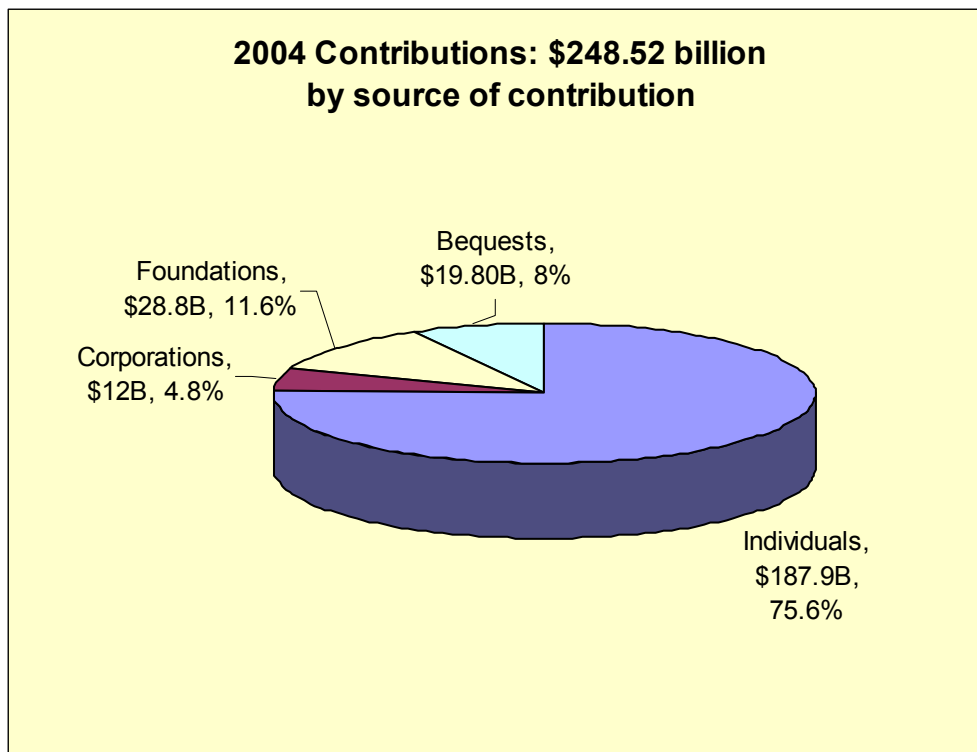
¹ Donor-Advised funds may not be eligible for this direct transfer.

Charitable Contributions and Bequests

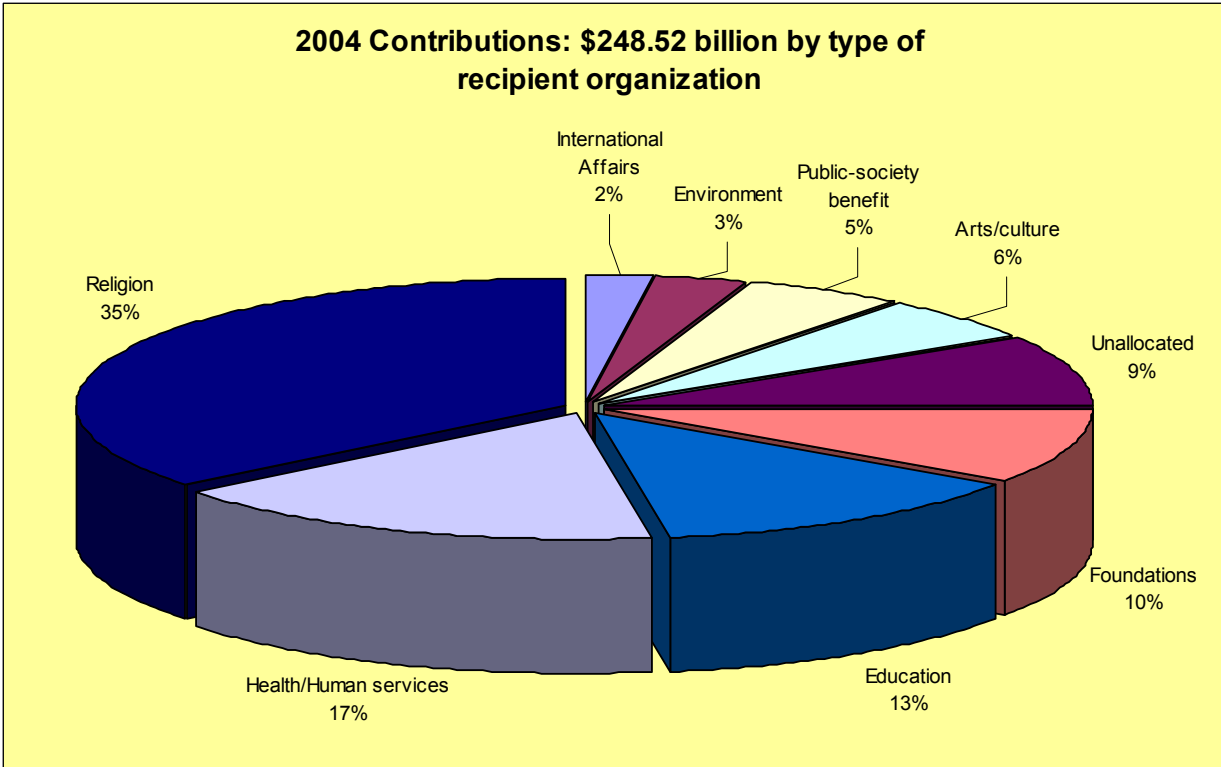
In 2004, bequests accounted for approximately 8% of all charitable contributions.

Charitable contributions from all sources rose by 2.3% in 2004, the first positive growth (in inflation-adjusted terms) since 2000. Gifts from individuals, both living and deceased, have not yet returned to the levels attained in 2000, but this should not be a cause for concern for The Columbia Foundation. Why?

The national economy improved significantly in 2004, benefiting families of wealth – the Foundation’s target audience. However, unemployment in 2004 remained above 5% for the third year in a row and the national median wage rose less than the inflation rate of 2.7%, causing many middle- and low-income households to see their incomes stagnate or decline.

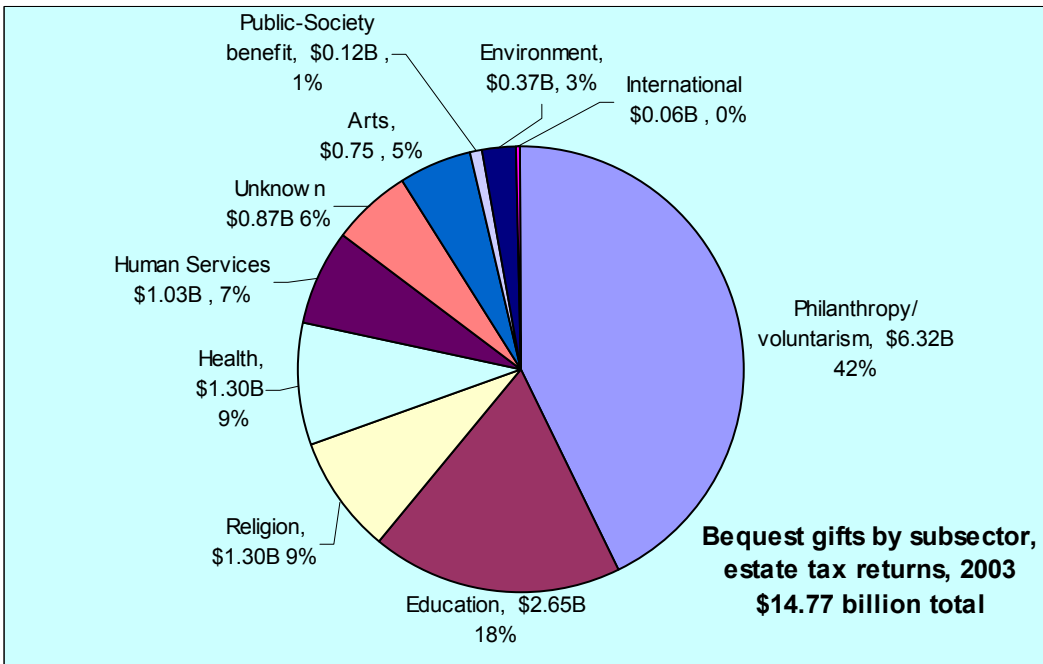


Source: AAFRC Trust for Philanthropy



Source: AAFRC Trust for Philanthropy

As in previous years, religious organizations and institutions received the lion's share of contributions from all sources, while the majority of bequest gifts were made to foundations.



Family Foundations and Bequests

The 42% of bequest gifts that are made to foundations include gifts to family foundations. A recent interview with a financial planner in Howard County is telling: of his 25 clients with family foundations, virtually all are leaving bequests only to their foundations. These clients, with family foundations and average assets of \$10 million or more, are probably not the best market for The Columbia Foundation.

However, family foundations have extensive administrative requirements that can become burdensome, and donor-advised funds may be attractive for some families. Donor-advised funds have no start-up costs, no administrative requirements, and no excise taxes. Those who do not have the time or desire to invest in a family foundation, or those with assets of less than \$10 million may find that setting up a donor-advised fund makes sense.

History of Bequest Giving

Today, on average, 7.7% of estate assets are bequeathed to charities, a percentage that has grown over the years. This percentage also rises as the value of the estate increases.

Larger bequest gifts in recent years may be attributable to the following:

- Much higher gross estates
- More sophisticated estate planning
- Greater awareness of charitable needs

Study of the historical data show that charitable bequests increased 3,419% after the charitable deduction for bequests was enacted in 1918. Prior to 1917, charitable bequests represented 0.121% of total gross estates. In 1921, that percentage rose to 3.043. Between 1989 and 2000, charitable bequests averaged 7.284% of gross estates, with the current average 7.7%.

Key Facts and Figures about Bequests

National Findings

- Only 42% of people have wills
- Eight percent of households report that they have included charitable bequests in their wills
- In 2003, 18% of estate tax returns included a charitable bequest
- The number of estates over \$1 million has grown, from fewer than 28,000 in 1992 (valued at \$58 billion) to about 66,000 in 2003 (valued at \$120 billion.)
- Large estates (those over \$20 million) account for 40% of the total dollar value of charitable bequests
- In 2003, charities received 5% of the smallest estates (\$1 million - \$2.5 million), and higher percentages as the estate values increase.

- In 2004, the federal estate tax filing threshold rose to \$1.5 million and the tax rate on estates fell. Despite predictions, there has been no observed impact on charitable giving as the requirements have changed.
- Studies cannot agree on whether a repeal of the estate tax would make any difference (or what sort of difference) in charitable giving. (See above statement.)

Bequests in Maryland

Estates over \$1 million settled in 2003

Patterns of giving in Maryland bode well for bequests, with percentages exceeding the national averages:

- 21% of Maryland estates included a charitable bequest, compared to 18% nationally
- 9.1% of the assets of all estates settled in Maryland were distributed in charitable bequests, compared to the 7.7% US average
- The average of Maryland charitable bequests was \$1,031,000, compared to the US average of \$1,147,000

Bequests in Howard County

Major institutions in Howard County report few planned gifts. Howard County General Hospital, Howard Community College, and The Columbia Foundation know of 25 planned gifts in total. No more than five bequests have been received to date. Bequests are not a focus of fundraising among these institutions, nor are they the focus of resource development by smaller nonprofits funded by The Columbia Foundation. Of those surveyed, one organization reported four unexpected gifts of between \$2,000 and \$135,000, and another representative of a nonprofit organization remembered having received a bequest of “several thousand dollars” from a will left by a woman who had not notified the agency of the pending gift.

When asked, all the established non-profits indicated that they were interested in learning more about bequest donors and planned giving.

Bequest Donors

Characteristics of Bequest Donors:

- Have some prior affiliation with the charity (79%)
- Tend to enjoy higher income levels than the general population
- Are likely to be older and less likely to have children at home
- Are likely to cite a lack of family need as a motive
- Majority also support charitable interests with cash gifts
- Majority include more than one charity in their wills
- The primary source of motivation for bequest gifts are direct print communications from charities, rather than recommendations from advisors*
- Only one donor in three has informed the charity of a bequest. Most common reasons for not telling the charity in advance were lack of desire for attention (53%), and desire for privacy (13%)
- More than two fifths of those who have set up gifts to charity in their wills are younger than 55
- Most donors add their first charitable bequest to their wills at age 49

Top reasons for making a charitable bequest:

1. Desire to support the charity (97%)
2. Ultimate use of the gift by the charity (82%)
3. Desire to reduce taxes (35%)
4. Estate and/or financial planning issues (35%)
5. Create a lasting memorial for self or loved one (33%)
6. Relationship with representative of charity (21%)
7. Encouragement of family or friends (13%)
8. Encouragement of legal or financial advisors (12%)

Interviews with Foundation bequest donors support these findings. When asked why they decided to leave a bequest to The Columbia Foundation, most cited previous association with the Foundation or the desire to support their community [through an institution that they know and trust.] Interestingly, a number of donors also cited a significant event as a catalyst, such as an inheritance, the graduation of a child, or an illness.

As noted above, the top two reasons for making a charitable bequest are directly related to the charity – knowledge of the charity and support for the work it does.

* Electronic communications may become more acceptable as the current population ages.

Interviewees said, in response to the question, **Why did you decide to leave a bequest in your will to The Columbia Foundation?:**

- It [the Columbia Foundation] is an institution making a difference in a sphere of influence outside the other charities of choice (education and housing). It reaches all across the community.
- Wanted to support a local organization
- The “sense of obligation,” interest in the arts and lack of heirs contributed to the desire to “do someone some good” with the money left at the time of their deaths.
- Impressed with experience with TCF which was reinforced by a conversation with an estate planner, who indicated that people left as little as \$10,000-\$15,000 bequests.
- Wanted to establish a memorial fund, wanted to be able to dictate terms of how the money was going to be used and retain control even after we’re gone.
- Involvement with TCF plus 30 years in county led to decision to give money to TCF and temple.
- This is where I live, and the bequest furthers my community activities. It is a natural extension. I won’t be around forever, but my dollars, at least, will be. Bequest includes unrestricted and restricted funds.

Summary

The study of bequest giving is a logical extension of any study of individual philanthropy. Charitable gifts from both living and deceased individuals account for 83% of all giving. Bequests are the fastest growing source of unrestricted income to charities, posting a 9.2% increase in 2004. Bequests are responsible for 80% of all existing endowments, the backbone of community foundations. And foundations receive the largest share of bequest gifts – 42%.

Most bequest gifts come from donors already aware of or involved with a charity, and those who set up bequests are likely to be more generous donors while living.

Not surprisingly, similar factors identified in the original study affect bequest giving, and the profile of a bequest giver is similar to that of a living donor. As previously learned, personal contact and involvement (or knowledge) are key. While a desire to reduce taxes or recommendations from advisors may influence bequest givers, most give from a desire to support the charity, with their primary motivation being communications from that charity. Obstacles to bequest giving include perceived family need and lack of a will.

Only one-third of bequest donors inform the charity of their intention. This issue may be addressed by on-going communications with all donors about the advantages of bequest giving or the creation and promotion of a “legacy society.”

The original study developed a list of characteristics of a philanthropist in Howard County:

- Gives to causes to which he or she feels connected
- Has a graduate degree
- Has significant discretionary income
- Lives and works in Howard County or nearby
- Has a family history of giving and volunteering
- Currently volunteers for a nonprofit organization
- Is established
- Is currently working
- Is usually married
- Is not highly leveraged

Howard County is well positioned to capitalize on bequest gifts. Howard County is currently 3rd in the country for median household income and Maryland ranks above the national average in the percentage of estates filed with bequests.

A bequest donor in Howard County –

- Is already a philanthropist
- Is aware of and probably connected in some way to the charity
- Is motivated to give because of a desire to support the charity
- Enjoys a high income level
- Is older
- Does not have the need to support a family

Sources:

- Giving USA 2005, published by the AAFRC Trust for Philanthropy.
- The Washington Post, July 26, 2006. *A Mammoth Wealth Transfer Awaits the Area, Study Predicts: 1*
- *New findings on charitable bequests*, by Robert F. Sharpe and Company, December 2000, from a survey by the National Committee on Planned Giving.
- *Leaving a Legacy of Care*, by Paul G. Schervish, John Havens, and Albert Keith Whitaker. www.philanthropyroundtable.org/magazines/2006/janfeb/.
- *Determinants of US Donor Behaviour: The Case of Bequests* by Adrian Sargeant and Elaine Jay. Study sponsored by the Association of Fundraising Professionals and Mal Warwick & Associates, Inc., June 2004
- *The State of Bequest Giving in Maryland, 2005*. The Association of Baltimore Area Grantmakers.