Review of Literature on Giving and High Net Worth Individuals

March 2011

The Center on Philanthropy at Indiana University

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Introduction

Philanthropic activity among high net worth individuals has received much attention in recent years, becoming the focus of scholarly research and policy interest. High net worth philanthropy has received media attention with a number of stories about wealthy individuals making substantial pledges or contributions. High-profile donors and the efforts of philanthropists such as Oprah Winfrey, George Soros, and Ted Turner, among others, have generated a renewed interest in the idea of the wealthy giving away large portions of their fortunes to charitable causes. But this is not a novel trend. Beginning with Andrew Carnegie, the wealthy have historically contributed generously to various philanthropic endeavors. This paper seeks to review the existing literature on giving by high net worth individuals and to identify areas for future research. Key areas of inquiry include questions of who gives (What percentage of high net worth individuals donate to charity?); how much do they give (How do factors like income and wealth affect the amount donated to charity by high net worth households?); to what purposes (What causes benefit most from high net worth individuals' contributions); what are the regional variations in high net worth giving; and in what ways do "mega-gifts" ($50 million or more) differ from other forms of high net worth giving? Other questions have to do with public policy and how laws related to charitable deductions and estate taxation impact high net worth individuals' decisions to give. These questions are all significant in furthering our understanding of the dynamics that cause these wealthy and influential donors to make charitable contributions.

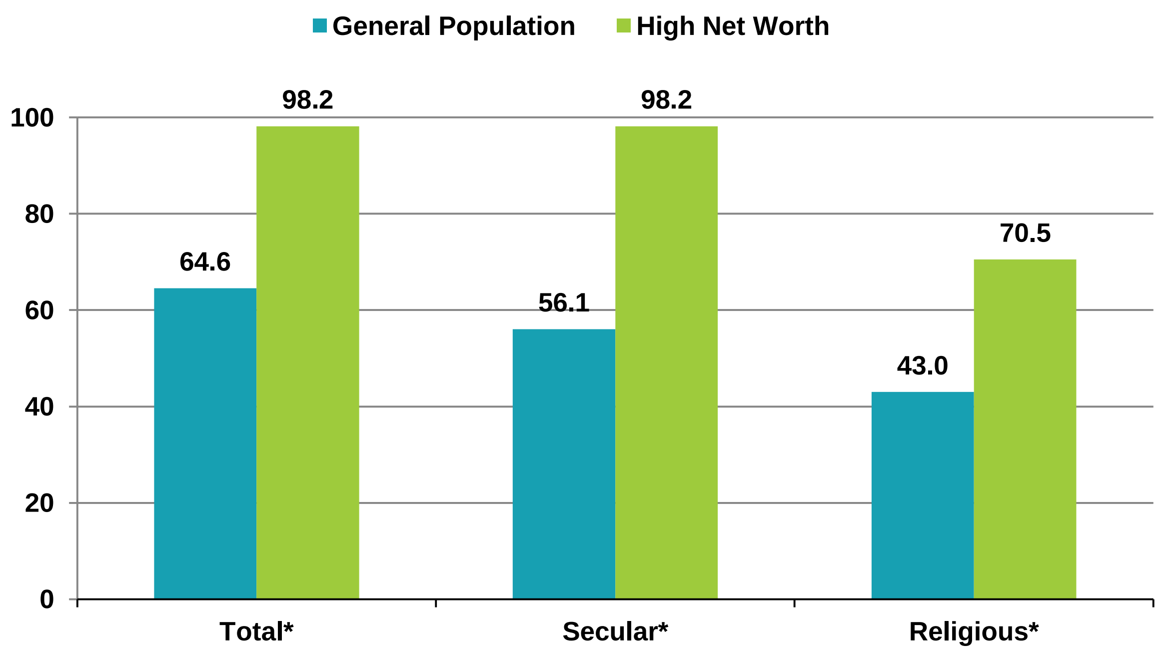
Studies of High Net Worth Philanthropy

A review of literature suggests that existing studies of high net worth giving have combined qualitative and quantitative surveys of clients at financial management firms and interviews based on personal networks of wealthy individuals. There are a limited number of studies using random samples of households, as well as some studies that rely on tax data for their analyses. While existing studies are not uniform in their methodologies or their definitions of wealth and high net worth (see Appendix A), some consistent findings have emerged. The following sections highlight the major findings of these studies and how they inform the discussion of high net worth philanthropy.

Patterns of Giving

Most studies of giving by high net worth individuals have found that the wealthy are very likely to give, with 97 percent or more reporting that they contribute to charitable causes (Bankers Trust Private Banking, 2000; U.S. Trust, 2002; Spectrem Group, 2002; Center on Philanthropy at Indiana University, 2010a). By comparison, according to the Center on Philanthropy Panel Study (COPPS), a module of the Panel Study on Income Dynamics (PSID) conducted by the University of Michigan, about 65 percent of the United States general population as a whole contributed to charity in 2007, as shown in Figure A.

FIGURE A: PERCENTAGE OF HIGH NET WORTH HOUSEHOLDS WHO GAVE TO CHARITY IN 2009, COMPARED TO THE U.S. GENERAL POPULATION (%)



Note: Source for the U.S. general population is the Center on Philanthropy Panel Study 2007 wave, the latest year available. High net worth figures are for 2009 giving and are based on the Center on Philanthropy 2010 Bank of America Merrill Lynch (BAML) Study of High Net Worth Philanthropy
*The difference between general population and high net worth results was found to be statistically significant.

Not surprisingly, most research suggests that the wealthy give substantially more than the general populace, although it is important to note that the estimates vary greatly, based on studies' different thresholds for defining wealth. Estimates of annual giving by high net worth households range from $1.2 million per family in 1997 (Schervish & Havens, 2001) to $17,400 per family in 2006 (Northern Trust, 2007) to $54,000 in 2009 (Center on Philanthropy at Indiana University, 2010a). These estimates compare with estimates for average American households of $147 per household in 1995 (Havens & Schervish, 2001) to approximately $2,000 in 2005 (Rooney & Frederick, 2007). However, it is important to note that each study uses a different threshold in defining high net worth donors, and that two of the studies rely on convenience samples drawn from client lists at financial management firms while the 2010 Bank of America Merrill Lynch

(BAML) Study of High Net Worth Philanthropy uses a nationwide random sample of high net worth households. In fact, the three waves of the Bank of America survey (2006, 2008, and 2010) are among the only random sample surveys of high net worth households available, though the BAML study's respondents are self-selected (See Appendix A for more detailed information on the various survey methods).

Also significant to the discussion is the disproportionate share of total charitable dollars that high net worth individuals contribute. Several studies examine data from the Survey of Consumer Finances from 1989 to 2001 and find that high income households account for as much as 30 to 70 percent of all individual charitable giving, depending on the level of wealth examined (Havens & Schervish, 2001; Havens, O'Herlihy, & Schervish, 2006). These results suggest that a very small percentage of the population is responsible for a comparatively large portion of charitable giving. For example, in 2000, 0.4 percent of families had incomes of $1 million or greater, yet they accounted for 16 percent of charitable dollars (Schervish & Havens, 2003b).

The fact that the wealthiest households make comparatively large charitable contributions is not surprising. However, one of the most intriguing questions related to high net worth philanthropy is how changes in income and wealth affect giving. In a comprehensive article on patterns of giving among high net worth individuals, Steuerle (1987) found that for those earning higher than the median income, charitable donations tended to increase with income. The author also identifies a threshold of $500,000 in net worth as the point at which charitable bequests begin to increase commensurate with increasing wealth, but concludes that net worth in and of itself is not a good predictor of lifetime charitable giving. Havens, O'Herlihy & Schervish (2006) noted that giving as a percentage of income was fairly constant at about 2.3 percent among the 98 percent of households that earned less than $300,000, and that above the $300,000 level, giving increased to an average of 4.4 percent of income. Though inconsistent measures of wealth and income make comparison across different studies difficult, there do appear to be some differences in the patterns of giving between average donors and wealthy donors. Table 1 compares data on giving both by size and as a percentage of income from the 2010 BAML Study of High Net Worth Philanthropy, tax data from 2009, and the 2004 and 2007 Survey of Consumer Finances.

TABLE 1: GIVING AS A PERCENTAGE OF INCOME AND AVERAGE GIFT SIZE BY INCOME LEVEL

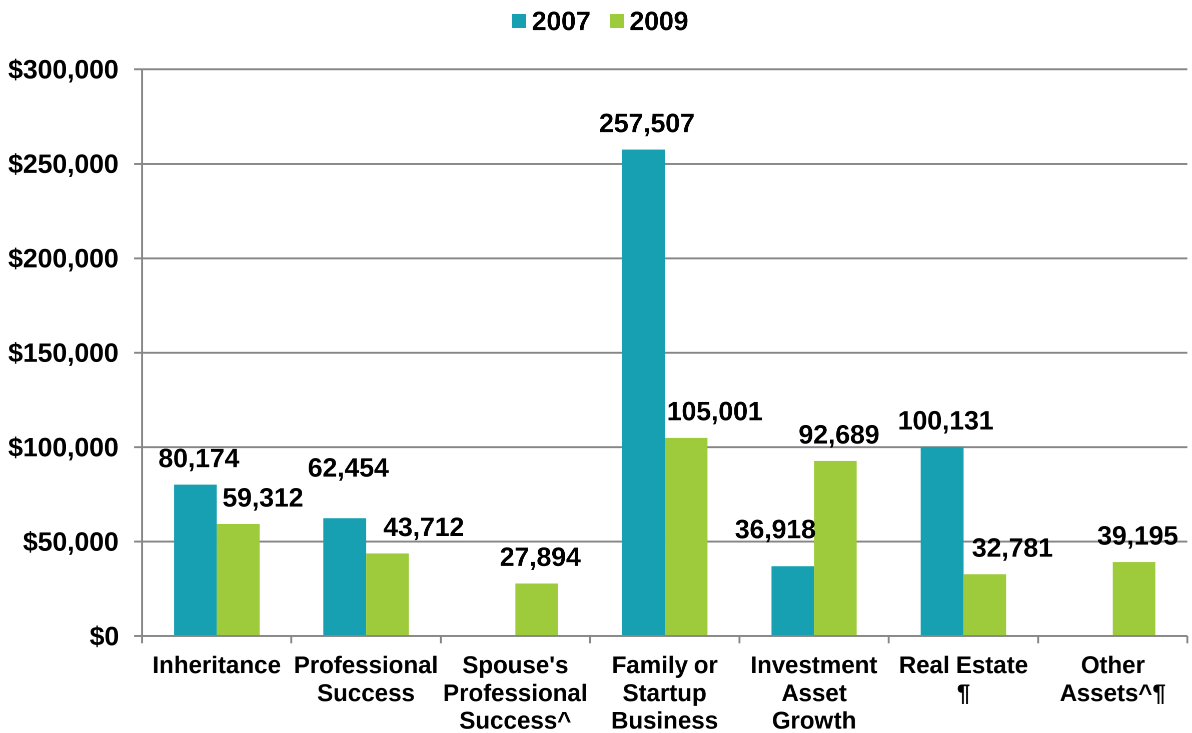
Source of data	Income level	Percent who donate (%)	Giving as a percentage of income (%)	Mean gift size	Median gift size
Bank of America 2010 Study of High Net Worth Philanthropy (examines giving in 2009)	All respondents	-	9.1	$54,016	$12,050
	< $200,000	-	16.5	-	-
	$200K-$500K	-	8.8	$30,716	-
	$500K-$2M	-	8.0	$100,011	-
	> $2M	-	8.7¶	$259,692¶	-
2007 Survey of Consumer Finances – High Net Worth Respondents (2006 charitable contributions)^	All HNW respondents	92.92	-	$232,319	$10,000
	< $200,000	81.72	-	$10,815	$2,500
	$200K-$500K	92.30	-	$14,395	$5,000
	$500K-$1M	96.03	-	$37,635	$12,000
	$1M-$2M	98.21	-	$109,914	$35,000
	$2M-$5M	98.59	-	$224,312	$70,500
	$5M +	98.34	-	$1,227,695	$253,500
2004 Survey of Consumer Finances – High Net Worth Respondents (2003 charitable contributions)^	All HNW respondents	90.79	-	$182,607	$11,000
	< $200,000	67.09	-	$51,896	$2,500
	$200K-$500K	84.68	-	$17,834	$3,600
	$500K-$1M	94.21	-	$34,544	$15,000
	$1M-$2M	97.49	-	$131,958	$40,000
	$2M-$5M	98.76	-	$189,201	$51,000
	$5M +	99.36	-	$1,017,000	$187,000
Individual Income and Tax Data, Tax Year 2008†	All returns	34.2‡	7.6	$4,343	-
	< $50,000	15.9	10.9	$2,043	-
	$50K-$75K	51.8	4.1	$2,548	-
	$75K-$100K	68.7	3.4	$2,925	-
	$100K-$200K	85.7	2.9	$3,838	-
	> $200,000	95.3	3.3	$17,680	-

¶ May not be statistically meaningful because households at this high income group contain fewer than 50 respondents
^Analysis includes only donors classified as high net worth (income at least $200,000 or net worth at least $1 million); only includes donors that report giving $500 or more
† Only includes data for those returns that itemize deductions
‡For tax data, this column indicates percentage of returns that itemize deductions

Several other surveys examine contributions as a percentage of income and consistently find that a majority of donors contribute less than 5 percent of income, regardless of their level of income (Independent Sector, 2001; U.S. Trust, 2002). One exception to this is a survey of clients published in 2007 by Merrill Lynch and Capgemini finding that among clients who requested philanthropic offerings in their portfolios, high net worth individuals contributed 7.6 percent of their wealth in 2006, while ultra-high net worth individuals (those who have assets in excess of $30 million) contributed at least 10 percent of their wealth (Merrill Lynch and Capgemini, 2007). Similarly, the 2010 Bank of America Study of High Net Worth Philanthropy found that high net worth households gave more than 8 percent of their income in 2009 (Center on Philanthropy at Indiana University, 2010a). Although the existing literature suggests that a positive correlation may exist, the relationship between increasing philanthropy and wealth is clearly an area that requires more rigorous academic attention to determine the strength and consistency of this relationship.

Finally, the source of a donor's wealth has been found to have an impact on how much the donor contributes. Figure B reflects data collected for the 2010 BAML Study of High Net Worth Philanthropy and shows that despite a decline in giving between 2007 and 2009, those donors whose wealth comes from a family or startup business tend to be the most generous, giving an average of $105,000 in 2009. This number fell dramatically from 2007's average of $257,000, as did the disparity between giving based on source of wealth. In fact, those who earned their wealth primarily from investment and asset growth achieved neared parity with those who gained their wealth from family or startup businesses. Among the lowest average giving groups in 2009 were those who earned their wealth from real estate and those who earned their wealth from professional success.

FIGURE B: AVERAGE TOTAL GIVING BY PRIMARY SOURCE OF WEALTH, 2007 AND 2009 ($)



¶ May not be statistically meaningful because the sample contains fewer than 50 respondents
^This question was not asked in 2007
Source: Center on Philanthropy, 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy

Limitations of Existing Research

Many existing studies of giving by high net worth individuals have data limitations, and although they provide significant insight, these reports do not provide a complete picture of giving by high net worth individuals. Convenience samples that rely mainly on clients at financial management firms are neither random nor nationally representative, and typically have a small sample size. Nearly all of these surveys use a different definition of wealth, with some using total income, some using assets, and some using a combination of the two, making it difficult to create comparisons or benchmarks across studies. These studies usually do not provide comparative data of average households, and thus cannot show how the behavior of high net worth individuals is unique. Finally, the current literature does not distinguish between standard high net worth giving and the sort of “mega-giving” becoming increasingly popular among the ultra-wealthy.

Tax records are useful because they can provide a large number of data but are limited because they only contain information about income, not about wealth, and they only provide data on giving for those individuals who choose to itemize their returns. Additionally, tax data only provide numerical data on total giving, and fail to disaggregate how giving is broken down by recipient, vehicle for giving, donor motivations, or other correlated factors. Researchers also suggest that tax data do not fully represent total giving. Joulfaian (2000) found that charitable giving could exceed claimed income tax deductions by a factor of at least two—that is, the very wealthy gave twice as much as they could deduct on tax returns, and Schervish and Havens (2003a) estimated that total charitable contributions exceeded claimed deductions in 2001 by as much as $7.4 billion.

The Bank of America study of High Net Worth Philanthropy provides a random sample of high net worth households with comparative data for average households. The biennial report is the largest study of high net worth giving to date, but it is limited because the data are not based on a longitudinal panel. Additional limitations include the small sample size and the fact that respondents are self-selected. Other research produced as part of the *Giving USA 2010* suite indicates that patterns of giving change over a person’s lifetime, and it would be useful to track these patterns among high net worth donors (Charitable Giving and the Millennial Generation, 2010b).

Despite the limitations, the study of high net worth philanthropy provides much information about the relationship between income, wealth and giving, and clearly deserves additional scholarly attention. Specifically, the lack of longitudinal data makes analysis of trends difficult. The Survey of Consumer Finances, conducted triennially by the U.S. Federal Reserve Board and Department of the Treasury, is a promising potential source for these data in the future.

Challenges in Measuring Giving

Beyond the specific limitations of the existing studies of high net worth philanthropy, the study of charitable giving in general faces numerous challenges in its quest to accurately gauge the levels of generosity shown by all donors and in all forms. One of the primary challenges is how to conceptualize giving when it does not take the traditional form of donating cash to an organization. Examples of these other forms of philanthropy include gifts in-kind of stock, real estate, valuable property and volunteer hours. In addition to the obvious difficulty in measuring these gifts quantitatively, as gifts in-kind from high net worth donors increase in value, the potential for errors or inconsistencies in valuation have more of an impact on our understanding of the state of high net worth philanthropy. The 2010 BAML Study of High Net Worth Philanthropy finds that from 2007 to 2010, over 93 percent of high net worth individuals reported making donations by cash or check, while only 32 percent reported gifts of stocks or mutual funds and less than 16 percent reported gifts of non-financial assets. However, the study does not attempt to place a dollar value on these contributions, which could be significant, particularly among high net worth donors who want to take advantage of the additional tax benefits that gifts of appreciated property provide (Auten, Clotfelter, & Schmalbeck, 2000). In general, research about gifts in-kind by individuals is lacking, with the exception of bequest giving. Inter-vivos gifts, or those made during the donor’s lifetime, of stock and other property are an important aspect of giving by high net worth individuals and deserve increased scholarly attention.

Related to the issue of measuring gifts in-kind is the challenge of measuring wealth. Because income tax data are more readily available than data on wealth, a number of studies of high net worth philanthropy focus on giving as a portion of annual income. However Steuerle (1987), Auten et al. (2000) and others have pointed out that wealthy individuals may be inclined to contribute high dollar amounts out of their wealth through bequests rather than from income during life (Havens & Schervish, 2001). The reasons for this include the tendency to contribute based on one's perceived wealth rather than one's actual wealth, as well as the desire to maintain control of one's wealth. Still, the result is that without more complete data about wealth and more research into the causal relationship between wealth level and inter-vivos and bequest giving, it will remain difficult to accurately predict a wealthy individual's generosity during life and after death.

Other challenges in measuring high net worth philanthropy include recall bias, underreporting of donations, and difficulty in accurately and consistently measuring contributions to individual subsectors. Mark Wilhelm (2007) conducted a comprehensive study of philanthropic survey methodologies and concluded that the various survey instruments and methodologies produced notably different data and results, in large part due to the level of specificity of questions asked. Survey methods that asked specific questions about amounts given, methods of giving and recipient organizations resulted in fewer instances of missing data, and thus fewer instances of underreporting (Wilhelm, 2007). Conversely, Lee and Woodliffe have argued that social desirability bias (over-reporting in order to gain esteem or to achieve social capital) might have a significant impact on the accuracy of giving data in general, and by extension high net worth giving data. (Lee & Woodliffe, 2010)

Volunteering by High Net Worth Individuals

In addition to contributing money, nearly 79 percent of high net worth individuals surveyed report volunteering their time in 2009, giving an average of 307 hours. Based on an estimated value of $20.85 per volunteer hour (Independent Sector, 2010), 307 hours amounts to $6,400 in contributed value. High net worth individuals were most likely to volunteer for an educational or youth service organization in 2009, with 43.5 percent reporting service to this type of organization. Social/community service organizations, civic/political/international organizations, and religious organizations followed, with 38.7 percent, 38.6 percent, and 38.6 percent of respondents, respectively, reporting volunteering for each type of organization. The study also finds that as the number of volunteer hours increase for a high net worth individual, the total giving of the individual also rises (Center on Philanthropy at Indiana University, 2010a).

High net worth individuals often possess specific skills and traits that add value to an organization, such as business or leadership experience, which can lead to service on boards and advisory committees. These individuals have often reached their peak earning years and have experience that lends to important roles within an organization. Volunteers, particularly those who serve in more specialized capacities, such as board members or professional consultants, also tend to contribute more to organizations than those who donate money or assets solely and those who volunteer in a more general role (Center on Philanthropy at Indiana University, 2008a; 2010a).

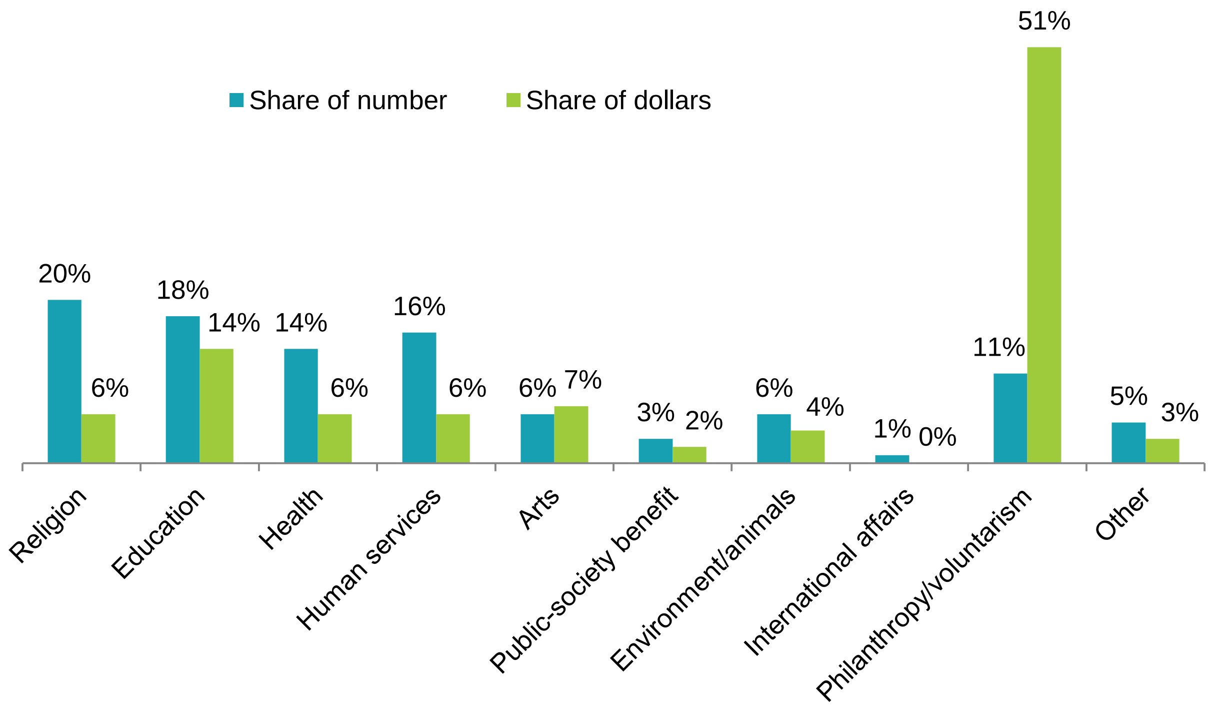
Vehicles for Giving

Some research, including Steuerle's and Joulfaian's studies of tax returns and the 2010 BAML Study of High Net Worth Philanthropy, has focused on the strategies and methods that high net worth individuals use to donate money, and finds that in general, those with high net worth prefer to contribute more out of their estates than out of lifetime income. Of the fraction of donor resources that are contributed during life, high net worth donors show a high likelihood of using a number of vehicles for giving, rather than giving directly to an individual or an organization. Auten, Clotfelter and Schmalbeck (2000) provide an excellent overview of many of these vehicles, including private foundations and split-interest trusts, analyzing the tax implications for each. In many cases, high net worth individuals are able to receive more advantageous tax treatment through the use of a charitable remainder trust or other giving vehicle than by simply selling an asset, particularly when the size of a contribution exceeds the limit for deductibility.

Steuerle (1987) examines income and estate tax returns and finds that although net worth does not accurately predict lifetime giving, there is strong evidence to suggest that high net worth individuals are likely to make larger gifts through bequests than they do annually during life. One reason the author offers to explain the preference for this mode of giving is that donors are likely to give from liquid assets inter vivos, while wealth that takes the form of corporate stock and real estate is less likely to be donated during life. Consistent with these findings is a more recent study by Joulfaian (2000) of tax returns from 1987 through 1996 submitted by 882 wealthy people and estate tax returns for the same people for 1996 to 1998. The author finds that the largest contributions came through bequests. In the ten years before death, wealthy individuals donated an average of $3.1 million and at death their charitable bequests averaged $8.4 million. For those estates valued at more than $100 million, charitable bequests accounted for 78 percent of their total gifts during the ten years studied. These data confirm Steuerle's earlier finding that high net worth individuals are more likely to give from their wealth rather than annual income.

Figure C uses data from the U.S. Department of the Treasury to demonstrate the percentage of estates that contain provisions for bequests to various subsector organizations. Aside from donations to giving vehicles such as foundations (labeled below as "Philanthropy/voluntarism"), the largest share (14 percent) of these bequest dollars are designated for educational organizations. This is consistent with other sources that show high net worth individuals are more likely to contribute to educational institutions than average donors, a claim that is supported by research on the recipients of contributions from high net worth donors, to be discussed later.

FIGURE C: PERCENTAGE OF ESTATES WITH A CHARITABLE BEQUEST BY TYPE OF RECIPIENT ORGANIZATION



Source: *Giving USA 2009*, analysis provided by U.S. Department of the Treasury, 2009

The 2010 BAML Study of High Net Worth Philanthropy finds that in 2009, respondents contributed an average of $75,867 to a giving vehicle such as a private foundation, fund, or trust. Additionally, over 20 percent reported having an endowment fund with a specific charitable organization and nearly 18 percent reported giving to a community foundation through a donor-advised fund. Consistent with the studies above, nearly half (46 percent) of respondents reported having a charitable provision in their will. Table 2 shows data from the 2008 BAML Study of High Net Worth Philanthropy (analyzing giving in 2007) that indicates some of the reasons high net worth households choose to use a giving vehicle. Among those respondents who had or would consider establishing a particular giving vehicle, maximizing charitable deductions was ranked among the top three reasons for all five types of vehicles examined. Avoiding capital gains, estate, or gift taxes was also a frequently cited reason for several of the types of giving vehicles. Schervish and Havens (2001) also found a propensity among high net worth donors to use vehicles of philanthropy rather than giving directly, with the largest share of charitable dollars (63 percent) going to trusts, gift funds, and foundations rather than directly to charitable organizations. An interesting area for additional research involves the reasons for this propensity, which could include issues of trust and confidence, tax considerations, and control of the grant-making mission of the organization.

TABLE 2: WHY HIGH NET WORTH HOUSEHOLDS CHOOSE TO HAVE OR CONSIDER ESTABLISHING EACH TYPE OF VEHICLE BY EACH FACTOR CHOSEN (%)

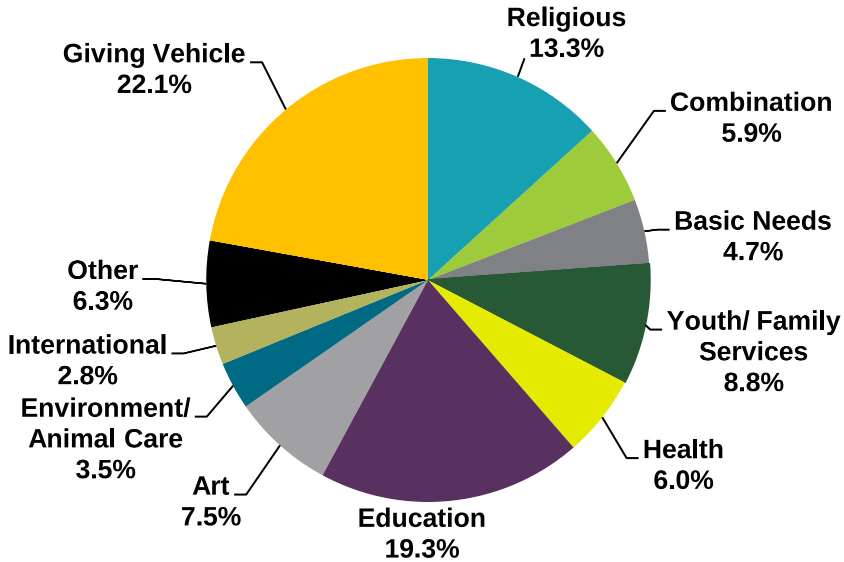
	Private Foundation	Donor-Advised Fund	Charitable Remainder/Lead Trust	Provision in Will	Endowment Fund
Maximize Charitable Deductions	**50.9**	**46.1**	**40.1**	**27.8**	**27.4**
Avoid Capital Gains	**35.7**	**43.0**	**35.9**	16.2	14.6
Greater Control over Use of Donations	**33.9**	27.3	12.7	15.5	13.4
Leave a Charitable Legacy	30.4	20.3	21.8	**35.3**	**26.2**
Avoid Estate/Gift Taxes	30.4	**31.3**	**47.2**	**44.3**	14.6
Meet Societal Needs Strategically	23.2	18.8	7.8	9.4	14.6
Create Family Unity/Continuity	23.2	10.2	3.5	9.1	7.3
Maintain Privacy of Giving	18.8	14.1	8.5	11.3	4.9
Support Orgs. through Grantmaking	17.9	27.3	17.6	13.9	**22.0**
Advisor Recommended	6.3	7.8	12.7	8.7	2.4
Receive Personal Benefit/Income	5.4	3.9	26.1	2.3	3.1
Greater Public Recognition	5.4	0.8	2.8	2.9	4.9

Source: Center on Philanthropy, 2008 Bank of America Merrill Lynch Study of High Net Worth Philanthropy

Recipients of High Net Worth Giving

The philanthropic behavior of high net worth individuals is distinct from that of the general population in the specific subsectors to which they contribute charitable support. Several academic studies and convenience sample surveys find that high net worth donors are more likely than the general population to give to educational institutions, and while the potential for tax benefits does influence the decision to give, the specific cause or organization was a more important factor. The source of a donor's wealth also appears to have an impact on where contributions are made. Several studies have found that high net worth donors value personal connection to and relationship with a cause or organization, and one report suggests that charities have the opportunity to access an untapped pool of resources from high net worth donors if they can connect their goals and values to those of donors effectively. Figure D shows the distribution of high net worth giving among the various subsectors, using data from the 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy.

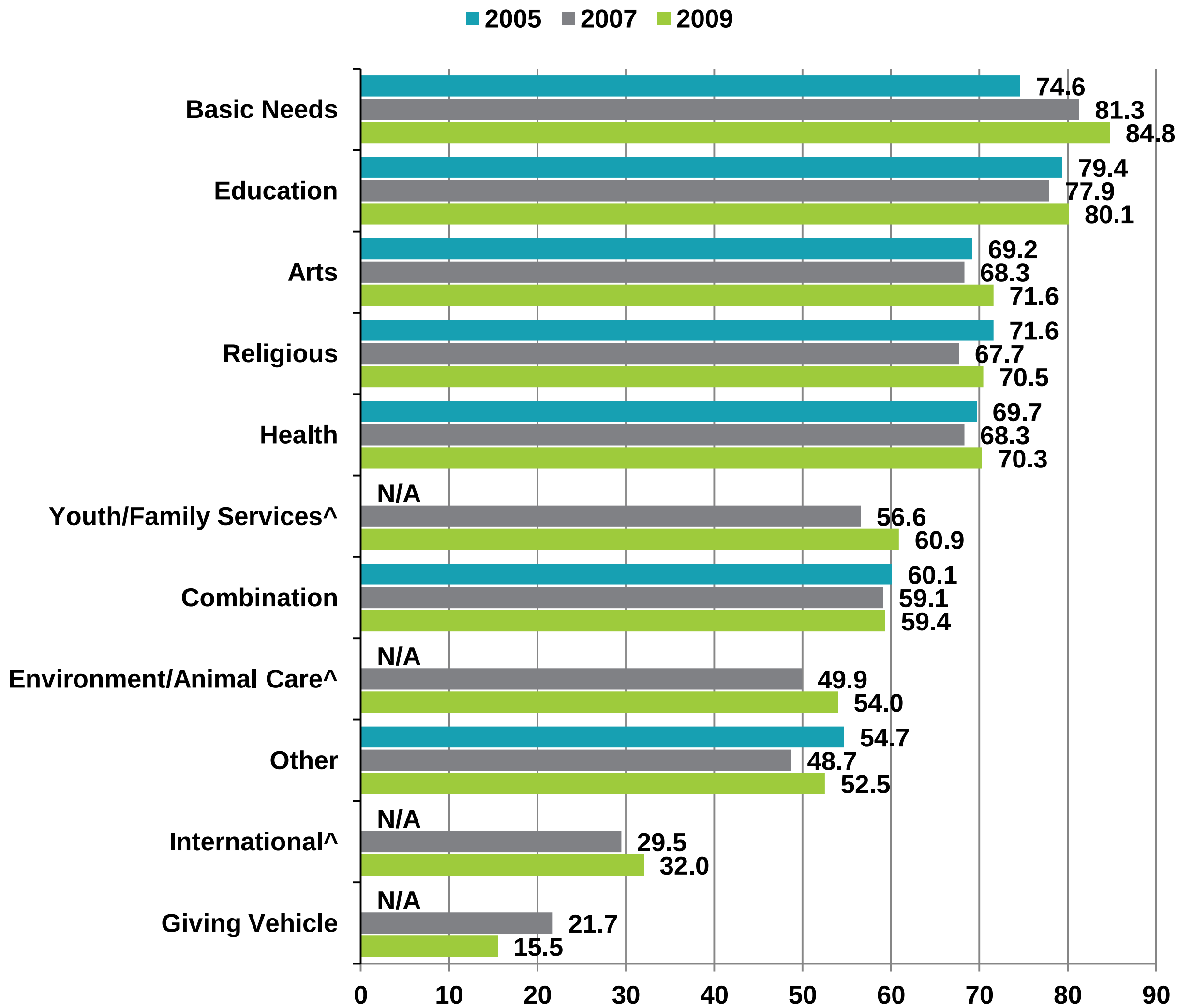
FIGURE D: DISTRIBUTION OF HIGH NET WORTH GIVING BY SUBSECTOR, 2009 (%)



Note: Combined organizations include United Way, United Jewish Appeal, and Catholic Charities.
'Giving Vehicle' represents gifts to private foundations, charitable trusts, or donor-advised funds.

In an examination of how high net worth donors target their giving, a 2000 Internet survey of 1,000 high-wealth households compared data to a sample of 2,000 U.S. residents representing the general population. According to this survey the wealthy give more to education, arts, and political/advocacy organizations than do households in the general population (HNW, Inc., 2000). Similarly, Havens, O'Herlihy & Schervish (2006) find that high net worth donors give the largest percentage of their total charitable contributions to education, followed by religion, and human services. This contrasts with donors in the general population, who give a larger percentage of total donations to religious organizations than to any other subsector. The 2007 U.S. Trust Survey also finds that educational institutions and health-related organizations were the most likely to receive charitable contributions from wealthy individuals, with 68 percent of respondents saying they would donate to the former and 66 percent indicating they would donate to the latter. Again, however, the studies cited here rely heavily on data collected from clients of financial management organizations, and may not be representative of all high net worth individuals. Still, the 2010 BAML Study of High Net Worth Philanthropy finds that high net worth households contributed a larger share of philanthropic dollars to educational organizations ($12,759 on average) than to any other subsector, with the exception of contributions to giving vehicles, which averaged $75,867, in 2009. Figure E shows the percentage of high net worth households who gave to charitable subsectors in 2005, 2007, and 2009.

FIGURE E: PERCENTAGE OF HIGH NET WORTH HOUSEHOLDS WHO GAVE TO DIFFERENT CHARITABLE SUBSECTORS, 2005, 2007 AND 2009 (%)



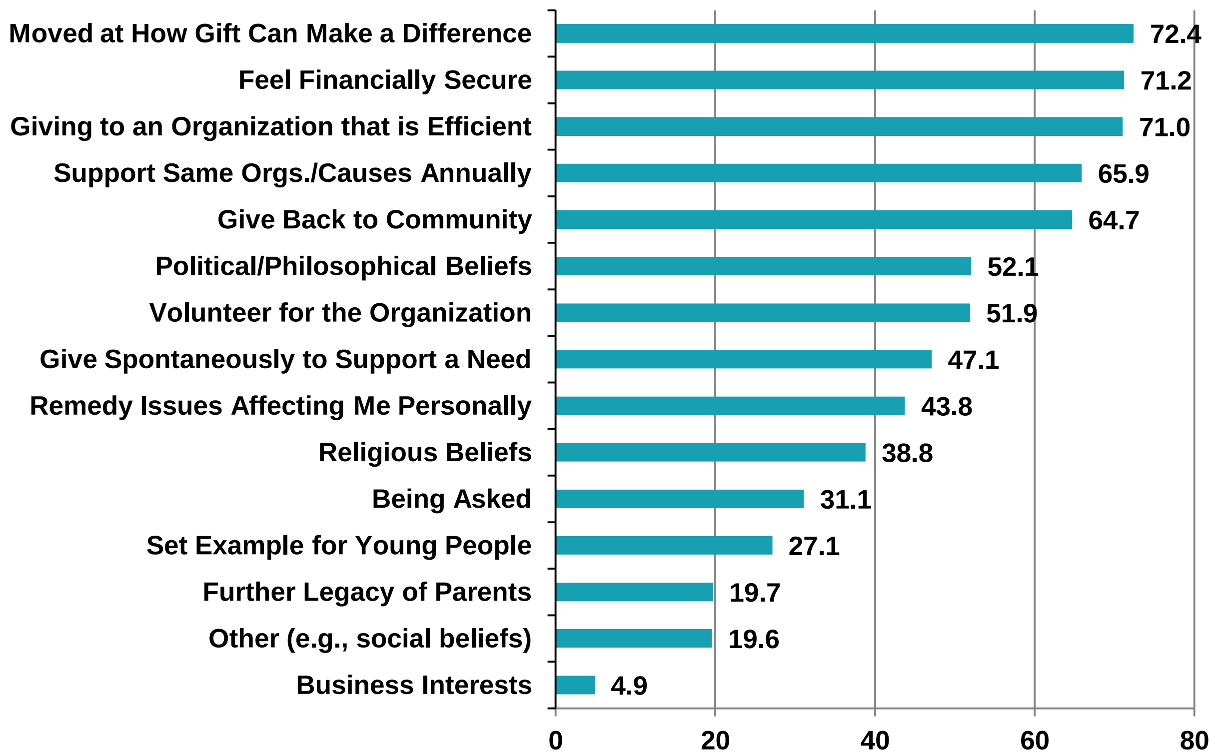
^Giving to youth or family services, environment/animal care, and international causes are included as "other" giving in 2005.
Note: Combined organizations include United Way, United Jewish Appeal, and Catholic Charities.
'Giving Vehicle' represents gifts to private foundations, charitable trusts, or donor-advised funds.
Source: Center on Philanthropy, 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy

Donor Motivations and Constraints

A consistent finding across various studies is that high net worth donors are cited as wanting to "give back" to the community. A 2000 Internet survey of 1,000 high net worth individuals finds that 50 percent of respondents felt an obligation to give back, and the most recent BAML Study of High Net Worth Philanthropy (2010a) finds nearly 65 percent report giving back to one's community as an important motivator (see Figure F). Other motivating factors include making a difference in the world, feeling strongly about a cause or an organization, feeling financially secure, and receiving tax benefits (HNW, Inc., 2000; Citigroup, 2002; Schervish, 2007; Center on Philanthropy at Indiana University, 2008a).

Religion is a factor in many high net worth households, with over 70 percent of donors reporting contributions to religious causes in 2009, despite less than 39 percent reporting that religious beliefs are an important motivating factor in their giving (Center on Philanthropy at Indiana University, 2010a). Other research suggests that religious donors may show more consistency in their philanthropy. Using data from the Center on Philanthropy Panel Study (COPPS) and the University of Michigan Institute for Social Research Panel Study on Income Dynamics (PSID), Helms and Thornton (2008) find that, among donors at all income levels, nonreligious donors giving to secular causes were more sensitive to tax rates and income compared to religious donors. Research to determine if this trend holds among only high net worth individuals would provide important insight.

FIGURE F: WHAT MOTIVATES HIGH NET WORTH HOUSEHOLDS TO GIVE (%)



Source: Center on Philanthropy, 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy

Another intriguing pattern among high net worth donors is the transmission of philanthropic values to younger generations. The 2010 BAML Study of High Net Worth Philanthropy finds that over 70 percent of high net worth donors report having at least one family tradition of philanthropy, and over 85 percent report using their own personal or family network's philanthropic efforts to educate their children about giving. Data collected from 250 interviews with wealthy donors similarly show that high net worth donors identify this transmission of values to children as a motivating factor in their giving (Schervish, 2007). Researchers also found that peer influence was an important factor for donors in a report by the Center for High Impact Philanthropy at the University of Pennsylvania. Among donors who gave an average of $1.5 million each, 26 out of 33 respondents rated it "important" or "very important" to learn about a group from a peer before making a gift (Noonan & Rosqueta, 2008).

In an analysis of philanthropy among wealthy donors in New York City, Ostrower (1995) notes that some donors use philanthropy as either an entrée to or a demonstration of high social standing. For this reason, high net worth individuals are more likely than average donors to contribute to educational and cultural institutions, which are perceived as being more elite. In some cases, the desire to have one's name and identity outlive the donor was an additional motivation for giving by bequest. Although Ostrower finds that more than half of the people she interviewed planned to do most of their giving during their lifetimes, among those donors who planned to include a charitable bequest in their estate plans, an important motivation is the ability to connect to an institution for which the donor feels some passion. Sargeant et al. (2005) support this conclusion, stating that "where giving makes a donor feel good about themselves and where there is a family connection to the cause, it would appear that individual bonds to the organization are strengthened" (Sargeant, Ford, & West, 2005, p. 5).

Sargeant et al. (2005) also found that a prospective donor's trust in an organization and its ability to impact the selected cause can be a strong motivating factor for giving. The authors note that "trust appears to be significantly affected by the performance of the charity and its communication." Additionally, "trust is created when a nonprofit is perceived to have had an impact on the cause and by maintaining appropriate communications with the donor" (Sargeant, Ford, & West, 2005). The development of a personal connection to an organization or cause, coupled with trust in the organization's ability to make an impact, can have an enormous effect on giving.

Karlan and List (2007) examine the effect of donor matching and find that revenue per solicitation increases 19 percent and the probability that an individual donates increases by 22 percent when match money is available. Interestingly, this increase occurs when the match is at a rate of $1:$1. Increasing the ratio to $2:$1 and even $3:$1 has no additional impact on the donor. These findings support the notion that potential donors are more likely to contribute if they perceive an additional incentive, but the findings look only at average donors, not specifically at the effect such matching incentives have on high net worth donors or very large gifts.

Despite an ever-expanding range of research and data on the reasons for giving, little investigation has been done on the distinct motivations for high net worth individuals and households to donate mega-gifts. This is an avenue for future research in light of the increasing trend among the economic elite to divest of large portions of their wealth in favor of giving to charitable organizations.

Constraints on Donors

Despite a number of factors that motivate donors to give, high net worth donors tend to have expectations of the organizations to which they donate, both in terms of how the organization behaves toward potential donors and how they operate. In a report on high net worth households, researchers at the Center on Philanthropy at Indiana University observed that respondents indicated four categories that would induce them to give more: 1) improved perceptions of operations, especially efficiency, with the most frequent choice being "less spent on administration"; 2) greater personal financial capacity; 3) more information available about nonprofit and giving options; and 4) personal preferences about time allocation and information-sharing (Center on Philanthropy at Indiana University, 2006). Donors clearly prefer a more efficient organization, and data from the 2010 BAML Study of High Net Worth Philanthropy confirm this, with over 71 percent of respondents reporting they give to an organization if they know it operates efficiently. In addition to organizational efficiency, some donors cite being asked too often and being asked for an inappropriate amount (Center on Philanthropy at Indiana University, 2010a; Hope Consulting, 2010) as reasons they would stop supporting an organization. A recent study by Landry et al. (2008) examines the factors that induce a solicitee to decide whether to give, and find differences among previous givers and those who have never given to an organization, as well as between solicitations that simply ask for money and those that provide some sort of gift to donors. However, the paper does not distinguish between high net worth donors and average donors.

An important advantage the nonprofit sector has is the comparatively high level of trust it receives from high net worth individuals. The 2010 BAML Study of High Net Worth Philanthropy finds that 94.5 percent of respondents have “some confidence” or a “great deal of confidence” in nonprofit organizations and their ability to solve domestic and global problems. This is higher than the level of confidence placed in businesses and government at all levels, and is a positive sign that these wealthy donors will continue to be motivated to contribute to nonprofit organizations as a way to fulfill their previously stated philanthropic goals.

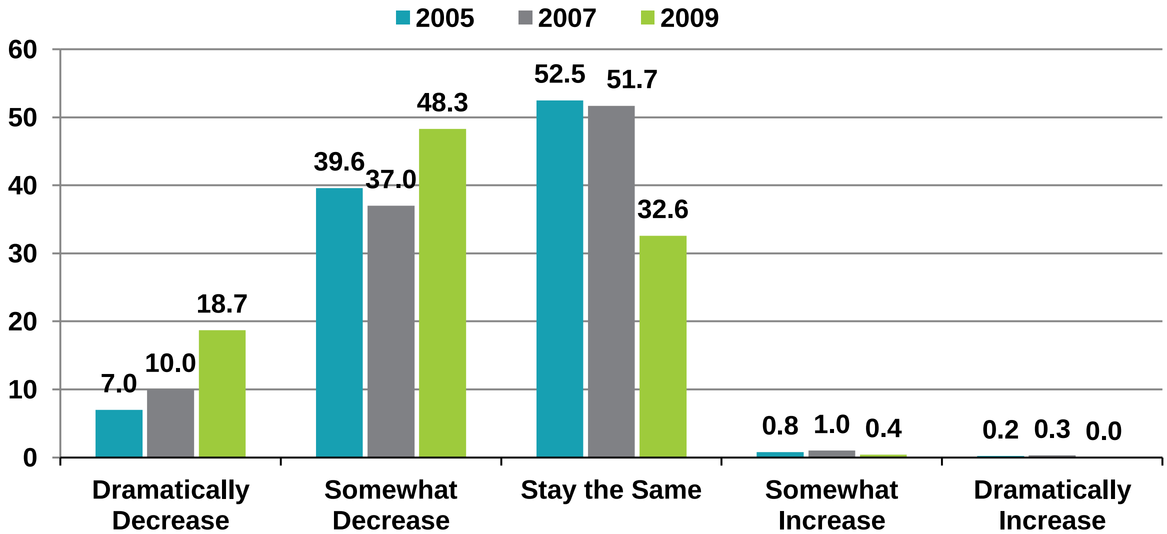
Policy Issues

An area of great interest to those who study philanthropy, and particularly those who study high net worth philanthropy, is the effect of tax policy on giving levels. In its landmark 1975 report, the Commission on Private Philanthropy and Public needs—commonly known as the Filer Commission—notes that U.S. tax policy has traditionally served to encourage charitable giving by reducing the tax liabilities of those who give. While the report states that charitable contributions at least match the amount of tax revenue foregone by the government as a result of charitable deductions, it also points out the argument that the progressive nature of the tax structure makes charitable deductions by the wealthy comparatively more costly for the government in terms of foregone revenue. When charitable deductions are viewed as a subsidy, lower-income taxpayers receive proportionally less subsidy than high-income taxpayers (Commission on Private Philanthropy and Public Needs, 1975).

Several studies have found that among high net worth donors, tax benefits did have some impact on the decision to give, but were less important than other factors (Citigroup, 2002; U.S. Trust, 2007). Another study found that more wealthy people (34 percent) valued tax benefits than respondents in the general population (11 percent) (HNW, Inc., 2000). Steuerle (1987) suggests that some of the wealthy are willing to pay additional taxes in order to continue to hold wealth. The author notes that modifying tax and legal mechanisms for giving wealth away, as well as shifting the balance between tax incentives to give and various disincentives, could impact the tendency of high net worth individuals to give a greater portion of their wealth away during life.

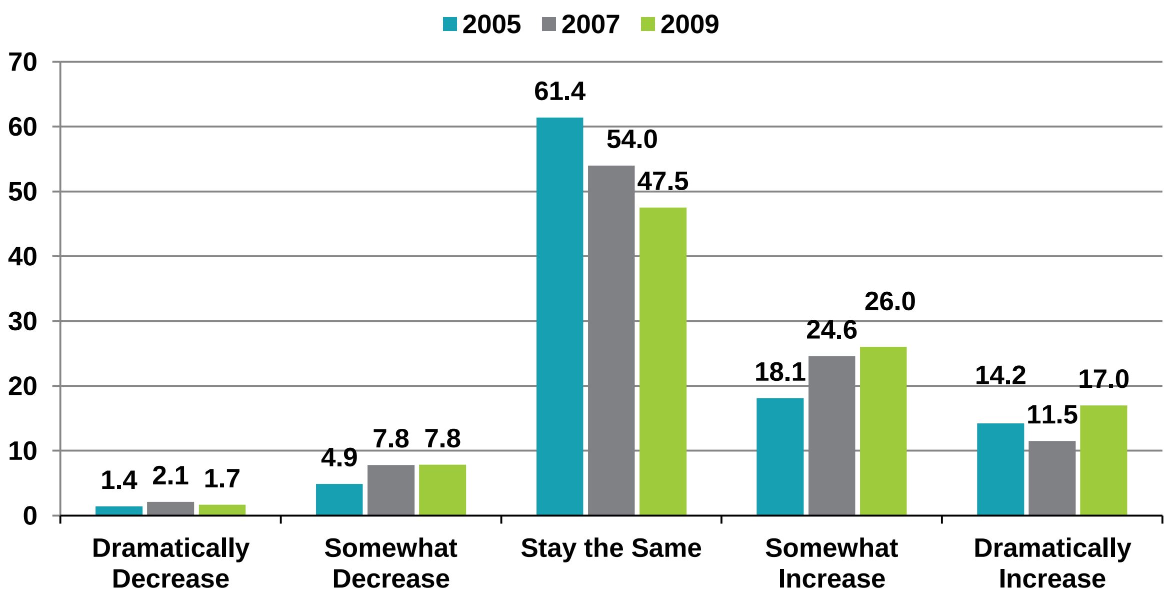
Empirical research shows that tax policies have a considerable effect on the high net worth donors from whom a large percentage of total charitable contributions derive. Data from the 2010 BAML Study of High Net Worth Philanthropy expands on the discussion of the effect of tax policy on the likelihood of high net worth donors to give. When asked how their giving would change if there were no tax deductions for donations, 67 percent of respondents in 2009 said they would decrease their contributions either somewhat or dramatically. This contrasts with 2007, when only 47 percent of respondents reported that they would decrease donations. The study also finds that less than half of respondents (47.5 percent) would leave the same amount to charity if the estate tax were permanently repealed and 43 percent would increase their contributions to some degree. Figures G and H illustrate the potential implications of changes in tax policy for high net worth philanthropy, based on data from the 2010 BAML Study of High Net Worth Philanthropy. These figures demonstrate that although high net worth donors rank tax considerations lower than other motivating factors in their impact on the decision to give, changes in the level of tax benefits for charitable contributions could potentially have a significant impact on the amounts that high net worth donors give.

FIGURE G: CHANGE IN GIVING IF INCOME TAX DEDUCTIONS FOR DONATIONS WERE ELIMINATED, 2005, 2007 AND 2009 (%)



Source: Center on Philanthropy, 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy

FIGURE H: CHANGE IN ESTATE PLANS IF THE ESTATE TAX WERE PERMANENTLY ELIMINATED, 2005, 2007 AND 2009 (%)



Source: Center on Philanthropy, 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy

Auten et al. (2000) provide a comprehensive overview of the options prospective donors have to transfer their wealth to charitable purposes and receive maximum tax benefits. The authors provide additional analysis of the impact of tax benefits among the wealthy, particularly the effect where limits on charitable deductions may constrain the size of gifts. Additionally, in a 1990 working paper for the National Bureau of

Economic Research, Auten examines the effects of changes in tax policy in the 1980s both through economic models and analysis of 1989 income tax returns. The author notes that two major tax bills (one in 1981 and a second in 1986) cut the top marginal tax rates significantly, increasing the cost of making charitable contributions for those taxpayers who itemize their deductions. He finds that, consistent with economic models that predict such a decrease, charitable contributions among wealthy taxpayers declined following the changes in tax laws. Auten points out that the models were not (and cannot be) perfect predictors of behavior that is largely influenced by noneconomic factors. However, his analysis suggests that changes in tax policies, especially significant reductions in rates among the highest tax brackets, have a substantial effect on charitable contributions by the wealthy, and subsequently on the organizations that rely on these donations (Clotfelter, 1990).

Because they account for such a significant share of charitable contributions in total, the reaction by high net worth donors is an important consideration for policymakers and academics. The existing research shows that while they may not perceive tax benefits as being very important, high net worth philanthropists do show a tendency to alter their giving based on taxation, and substantially, in some cases.

Summary

The rigorous study of giving by high net worth households is an invaluable component in understanding the philanthropic sector because of the level at which high net worth households give and the potential influence these donors have on shaping trends and policies in the nonprofit sector. However, the picture we currently have of high net worth philanthropy is incomplete. A number of studies have established that wealthy individuals are likely to give to charity, and that they are quite generous when they do. We also have several studies that illustrate how much an individual at any given level of income is likely to contribute annually. However, we still lack sufficient insight into the relationships among income, wealth, giving during life, and giving out of one's estate, which are all issues that take on a high degree of importance for high net worth donors as well as the organizations that depend on them. Additionally, we would benefit from more insight into the social, economic and cultural aspects of high net worth philanthropy and the effects that donor incentives, such as tax benefits, have on giving. Increasing our knowledge about the motivations and constraints on donors and the effect on giving of changes in tax policies can inform policymakers, academics, and professionals in the nonprofit sector, and can lead to more responsible and sustainable relationships between those in the nonprofit sector and high net worth philanthropists.

There are significant gaps and inconsistencies in the current research on high net worth giving that future studies should seek to alleviate. First, the academic and philanthropic communities must come to a common definition of "wealth" and "high net worth" to ensure that data across studies are being captured in a consistent manner for comparative purposes. Second, researchers should identify the strength and consistency of the correlation between the total value of one's wealth and one's propensity to give on a large scale, both in life and after death. Additionally, longitudinal data about the giving habits and propensities of high net worth individuals and households is needed to augment the current research. Geographic trends about high net worth giving at the local level, nationally and globally would further expand knowledge about where gifts are coming from and where they are being received. In-depth research on the effects of public policy on high net worth giving is sparse, and future studies should enlighten that discussion. An examination of giving trends by the wealthy should be analyzed to identify causal relationships between economic trends, increases in need (such as with disasters) and public policy in order to develop better predictive models. Finally, future studies should seek to identify trends among the ultra-wealthy and the disbursement of mega-gifts ($50 million or more), as these gifts have a significant impact on nonprofits and philanthropic endeavors.

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Appendix A: Surveys of High Net Worth Individuals

Name of Survey	Sponsoring Organization	Data Collection Method	Sample Size	Definition of High Net Worth
Bank of America Merrill Lynch Study of High Net Worth Philanthropy (2006, 2008, 2010)	Bank of America Merrill Lynch, researched and written at Center on Philanthropy at Indiana University	Survey – Random sample	801 (2010 study)	Income over $200,000 and/or net worth (excluding value of residence) at least $1,000,000
PNC Wealth and Values Survey (2010)	PNC Wealth Management	Online interviews	1,046 (867 plus oversampling of 179 respondents in South Florida)	Investable assets at least $500,000
Money for Good: The US Market for Impact Investments and Charitable Gifts from Individual Donors and Investors (2010)	Hope Consulting	Focus groups, Online survey	N/A	Income over $300,000
Tomorrow's Philanthropist (2009)	Barclays Wealth in cooperation with Ledbury Research	Survey, expert interviews	500 (150 with investable assets over £3 million/$5 million	Investable assets over £500,000/$1 million
Wealth in America: Findings from a Survey of Millionaire Households (2007, 2008)	Northern Trust Corporation	Online survey – convenience sample	1,014 (2008)	Liquid assets $1 million or more
Center on Philanthropy Panel Study (2007)	University of Michigan Institute for Social Research	Survey – longitudinal panel	8,280	N/A
World Wealth Report 2007	Merrill Lynch and Capgemini	N/A	N/A	N/A
Survey of Affluent Americans XXVI (2007)	U.S. Trust	Interviews – Convenience sample	264 (50 with total assets $25 million+)	Investable net worth $5 million or more (excluding value of residence)
Survey of Consumer Finances (2007, 2004)	U.S. Federal Reserve Board, U.S. Department of the Treasury	Interviews – random sample	~4,500	N/A; **NOTE**: SCF data on giving only include those respondents who reported making contributions of $500 or more
Wealth & Affordable Donations in Uncertain Times: Trends in Income,	NewTithing Group	Analysis of tax data	N/A	N/A

Assets, and Charitable Giving, 1997-2003 (2003)				
Among the Wealthy: Those Who Have It Give It Away (2002) ¶	Citigroup	Survey – convenience sample	N/A	N/A
Charitable Giving and the Ultra High Net Worth Household: Reaching the Wealthy Donor (2002) ¶	Spectrem Group	Survey – convenience sample	N/A	N/A
Wealth with Responsibility Study/2000	Bankers Trust Private Banking	Survey – Convenience sample	112 (30 with net worth $50 million+)	Net worth at least $5 million
HNW Wealth Pulse: Wealth and Giving (2000)¶	HNW, Inc.	Survey – convenience sample	N/A	N/A
Dallas Survey on Giving: High-Net Worth Individuals and Private Foundations (2000)	The Dallas Foundation	Survey – random sample	301 HNW residents of Dallas County, 115 private foundations	Pre-tax income $100,000 or more or total assets $1,000,000 or more

¶ Survey no longer available from source