



To: Fund Development Executives

From: The Sharpe Group

Re: FUND RAISING IN TIMES OF UNCERTAINTY

Date: October 20, 2008

In recent weeks, many have raised questions about the ways current economic conditions may affect charitable giving. History teaches us much of what we may expect and suggests proactive steps we can take today to adjust our fund development efforts for the remainder of this year and beyond.

First, abundant evidence suggests charitable giving overall has not declined significantly during periods of recession over the past forty years. According to "Giving USA Spotlight," Issue 3, 2008:

"Total giving has increased in current dollars in every year but one since recording began. The exception is 1987, when a tax law change in 1986 prompted some people to 'give early' in order to maximize the value of tax deductions they could claim.

Economic changes, such as slowed growth or a decline in gross domestic product, occur without economic recession. When the economy shows stress, whether it is a recession or not, giving may grow more slowly. It is important to note that giving still grows.

In current dollars, before adjusting for inflation, giving has increased an average of 8.4 percent in years without a recession. In years with a recession, giving has increased 6.2 percent (also in current dollars)."

When adjusted for inflation, *Giving USA* reported in the same publication that giving holds steady or declines only slightly during periods of economic recession:

"The average rate of change in giving during a recession is a drop of 1 percent. This decline compares with the total 40-year average of [inflation adjusted] growth in giving of 2.8 percent for 1967 through 2007. During years without a recession, giving has increased an average of 4.3 percent."

The report goes on to state that many charitable entities continue to see increases in giving even during recessions:

“Not all charities, or even all types of charities, experience the ‘national average rate of change’ in any year, let alone in recession years. In fact, Giving USA surveys from 2001 through 2007 found that in all years, 49 to 59 percent of charities saw growth in giving. Even in the worst year surveyed (2002), less than half saw a drop in total gift dollars received.”

Organizations appear to experience economic downturns differently depending on their missions, fund raising programs, and other factors. When viewed from the perspective of individual charities, some will see giving decline during economic downturns while others may see significant increases.

In our experience, the reasons for the overall resilience of American philanthropy are many.

First, charitable giving is high on the priority list for many donors and is by no means the first thing they cut in times of economic slowdown. Other discretionary spending will normally be cut first. Historically, as long as people remain employed, most will continue to give. If a couple decides to postpone a vacation or a home addition, for example, they may have more discretionary funds to save, spend on other needs, or give. Ironically, some donors may actually increase their giving during downturns as they cut back on other spending. Many will be hesitant to cut a pledge to their religious affiliation or tell a peer they can't afford their annual alma mater gift. Other donors see and respond positively to increased needs around them.

History indicates beneficiaries of increased giving may be those entities donors are already supporting. Acquisition of new donors during difficult economic times can be somewhat harder because donors tend to focus their giving on causes that are already important to them.

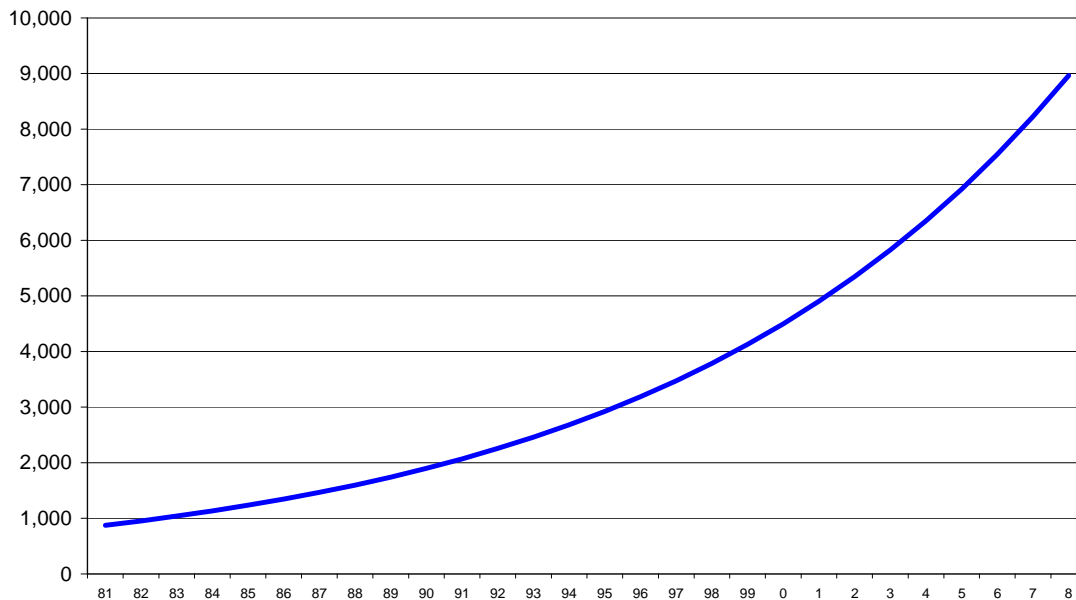
Keep these things in mind when considering major donors. When companies lay off workers during slower periods, it is not normally senior management who feel the brunt of the job reductions. In today's economy, with the exception of executives in some of the more affected industries, major donors on the whole tend to enjoy greater job security. Some may therefore feel a responsibility to increase their giving if they are untouched by factors hurting the ability of others to give.

Major donors may, however, pay more attention to the form and timing of their gifts. Now could be a good time to inform them about the importance of carefully deciding what may be the best property to give. For example, some have seen the value of securities fall in recent months but still enjoy significant gains. They may be wise to give those securities and conserve cash and/or use the cash they might have otherwise donated to instead diversify their holdings through the purchase of a broader group of stocks at lower current market prices.

Many older donors who are comfortably retired and no longer in the workforce may be among those least affected by the current economic conditions. They obviously can't lose their jobs. Many of the more affluent among seniors have long ago retired their mortgages and were not caught up in the subprime lending excesses of recent years. Retired persons may also be less affected by increased fuel costs because they are no longer commuting and may drive less than others.

Concerning stock values, keep in mind that people in their 60s and older have likely been investing over a long term and may still enjoy significant gains. Take a moment and study the following chart that shows a growth trend in funds invested over a 27-year period stretching from 1981 to the present:

**Investment Returns Over
27 Years**

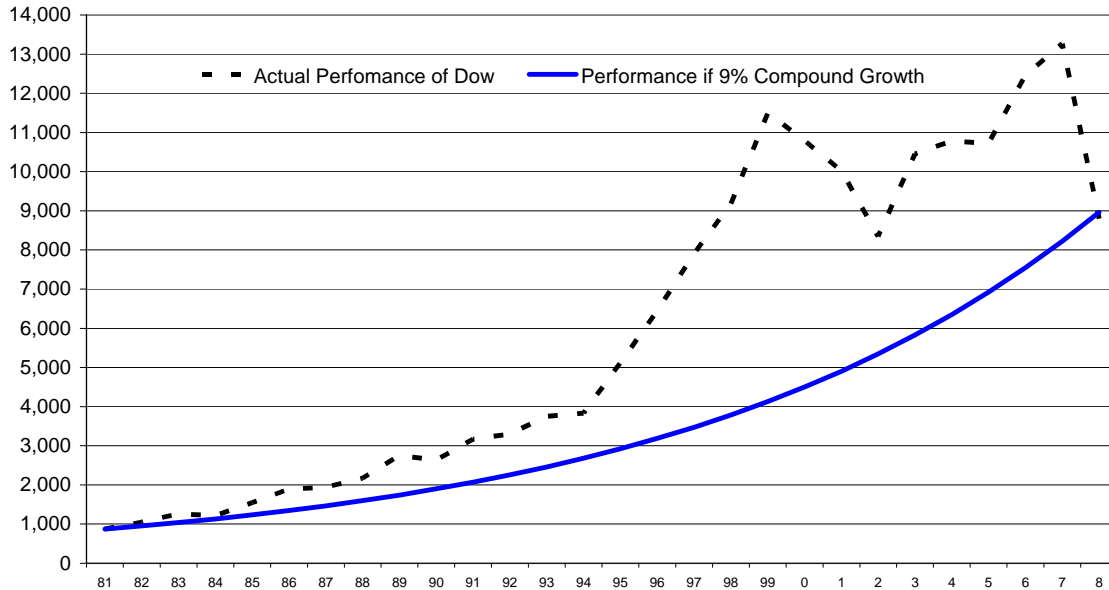


Provided by:
The Sharpe Group

Many donors currently in their prime giving years have been investing over this time frame. What the above chart reveals is the growth an investor would have actually experienced had the Dow Jones Industrial Average (DJIA) grown at an average compounded rate of 9% (without adjusting for inflation or accounting for dividends) over the past 27 years. Most would be more than satisfied with this result, especially considering the dividends that would have been enjoyed during this upward growth trend.

For perspective's sake, let us consider the actual performance of the Dow over that 27-year period compared to the 9% experience charted above:

Dow Jones Industrials Average For Period 1981-2008



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Interestingly enough, as of October 16, 2008, the Dow closed at almost exactly the level represented by a 9% compound growth over the past quarter century. As a result, significant numbers of older donors still enjoy substantial levels of wealth accumulated gradually over many years. Many of these donors have not experienced the full negative impact of recent market declines because they had previously reduced their equity exposure in keeping with standard investment advice for those at or approaching retirement years.

Some of these investor/donors may find this to be an excellent time to use securities that still may have increased many fold in value - but yield little income - to fund gift annuities and other gifts that provide immediate tax benefits along with additional income that can help them pay for higher medical expenses and other costs.

Keep in mind also that as part of HR 1424, popularly known as the *Emergency Economic Stabilization Act of 2008*, Congress extended the ability for those over 70½ to make tax-free distributions from their IRAs to qualified charities. While some fundraisers have resisted the concept of asking donors to give from their retirement assets in today's environment, they may be missing an important point.

As we know, much of the wealth in this country is controlled by retired persons and this is consequently a very important and reliable donor segment. IRS data reveals, for example, that over half of gifts of securities are made by persons over the age of 65. If we are reluctant to encourage the appropriate persons to give from what may be unneeded mandatory retirement plan withdrawals, then when would it ever be appropriate to ask retirees to give from their income and/or accumulated assets?

According to the National Committee on Planned Giving, hundreds of millions of dollars were given directly from IRAs under prior incentives in the law in 2006 and 2007. The average rollover gift was over \$16,000. For many affluent senior donors this may be the most tax-effective way to give this year. Experienced fundraisers know many of the larger gifts come from this group of retirees. Not communicating this opportunity for fear of offending those to whom it does not apply may be doing your donors and your nonprofit a disservice.

Despite all of the evidence regarding giving during recessionary periods, some have questioned whether we are now in an economic situation different than the past and whether the history of the last 40 years is still relevant. Are we in “uncharted territory?” Recently, commentators have likened the current economic situation to the Panic of 1907 that led to the Depression of 1908. In a September 2008 interview, former Federal Reserve chairman Alan Greenspan stated the financial crisis that began with the collapse of the subprime-mortgage market last year “is probably a once-in-a-century event.”

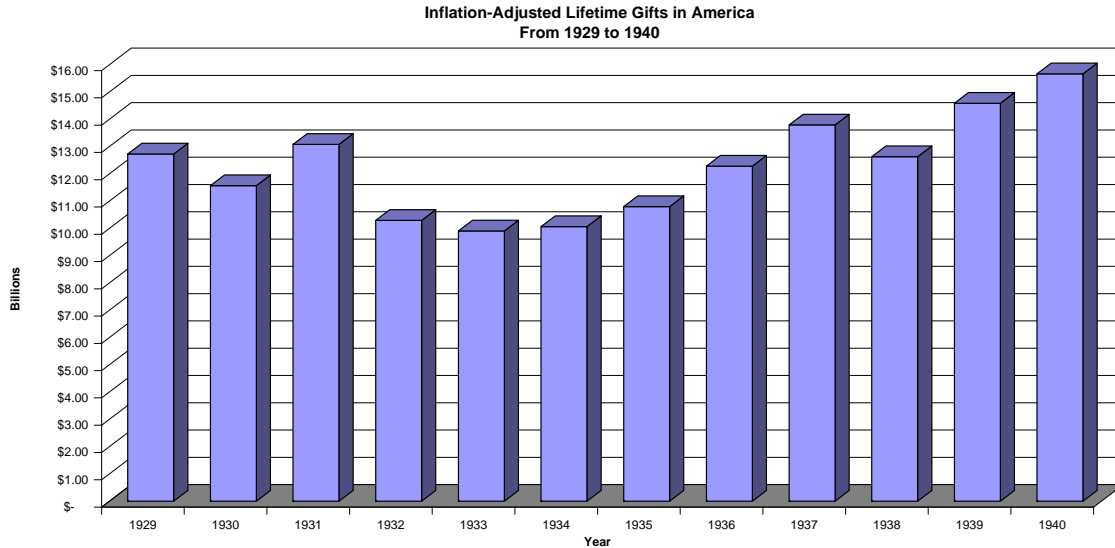
Does this mean we may be encountering a more serious set of challenges to philanthropy than any of the more recent recessionary periods? Is there a need to look further back in history? Evidence suggests that fund raising was alive and well even during the Depression of 1908. In fact, Texas Christian University (TCU) announced the following in its 1908 annual report on its fundraising efforts:

“Endowment is the key to the campaign. Resting awhile from brick and mortar, it is purposed to concentrate on obtaining an impregnable financial backing, as the surest guaranty, not only for permanency, but for the highest grade of work as well... One of the brightest hopes lies in the increasing number of able people who are remembering TCU with large donations in the form of annuity gifts, named endowment funds, and bequests... The day of larger accomplishments is at hand.”

In 1992, at a time when the U. S. was grinding through a deep recession and some were actually predicting conditions approaching another Great Depression, The Sharpe Group prepared an historical report outlining research on philanthropy during the Depression of the 1930s. “*Philanthropy in Uncertain Times*” examined fund raising in America during that era based on contemporary reports and studies completed shortly after the end of World War II. The complete report can be accessed at www.sharpenet.com/uncertaintimes.

While no one knows the exact extent of the economic crisis we now face, we can take to heart some of the lessons of the Great Depression.

Giving was, in fact, negatively impacted somewhat at the outset of the Great Depression. Note trends in giving by living individuals included in a landmark 1950 report, *Philanthropic Giving*, published by the Russell Sage Foundation. Totals have been adjusted to 2007 dollars:



Indications are that giving did not decline dramatically in the immediate aftermath of the crash of 1929. In fact, *The New York Times* reported on December 8, 1931 that giving to 155 Community Chests (predecessors in many cases to United Way organizations) rose some 14.9% between 1930 and 1931. The 1950 Sage Foundation report also indicated that charitable giving increased overall in 1931.

Similar to more recent periods of recession, patterns of giving were uneven during the Depression, with some organizations reporting better results than others. It was reported toward the end of the Depression in 1939 that a number of educational institutions raised more funds during the 1930s than during the preceding period of prosperity. The ways in which gifts were made also showed a shift. It was noted in an article in *The New York Times* in April 1939 reporting on gifts to higher education that “although [outright] gifts showed a decrease in Depression years, the amount of bequests showed a sharp increase.”

Other reports at the time also indicated that where major gifts were concerned, bequests became a much higher percentage of reported gifts, peaking at some 70% of substantial gifts reported in 1933. By the end of the Depression and the beginning of World War II, the percentage of bequests had returned to more traditional norms of 10% to 20% depending on the reporting source. It is interesting to note that over the past 25 years, bequests received by higher education as reported by the Council for Aid to Education (CAE) have averaged 23% of individual giving, with charitable remainder trusts and other life income gifts bringing that total to the 30% to 35% range over time depending on whether the face value or the present value of trusts and annuities is reported.

All indications from data summarized in the Sharpe report of 1992 as well as experience during the ensuing 16 years indicates that donors may be more likely to make commitments in the form of bequests and other planned gifts in lieu of outright gifts during times of economic uncertainty. Mortality trends are presumably not affected by economic vicissitudes, so rates of bequest realization are unaffected. Studies also show that the time period between making bequests and receipt by charities may actually be reduced during periods of economic downturn as more older persons revise their plans very late in life based on changes in their economic circumstances.

In fact, the latest data from the Sharpe Estate Information Database, a compilation of statistics on thousands of recently received charitable bequests, reveals the average age at completing a will that actually leaves funds to charity is now 80, with a median age of 79. The average age at death is now 85, with a median of 84. While this data may seem contrary to other reports based on surveys of *living* donors of all ages, prudent organizations may wish to verify this information on their own through a study of their most recent estates.

The Sharpe Group advises that you consider taking the following practical steps to adjust fund development efforts to meet the challenges of the current environment:

1. Refine your case statement to focus on needs that are most relevant in today's environment and make a compelling case for why you need funding. Make sure a donor understands how her/his gift will have an impact.
2. Place more emphasis on "making the thank" with those donors who have been most loyal over time relative to time spent "making an ask." A competent "thank" may be more effective than an "ask" in some situations and may actually result in greater additional giving. Stay in touch with donors and thank them for past support based not only on the amount of their most recent gifts but also based on longevity of giving and cumulative giving.
3. Be prepared to help donors make gifts using the most appropriate property and timing. As noted earlier, many older donors still own securities, real estate, and other property that reflect significant increases in value and they may be well-served from a tax and financial planning perspective to make gifts using these assets.

4. Focus on the use of charitable lead trusts, term-of-years charitable remainder trusts, and other planning vehicles that produce immediate or very near-term funding from relatively younger donors. Organizations that do not have staff dedicated to planned giving should be prepared to work more closely with donors and their advisors when examining these options. For a recent *Trusts & Estates* magazine article designed to encourage advisors to help clients better structure their gifts, see www.sharpenet.com/uncertaintimes. For more information to educate advisors, see <http://www.pgdc.com/general/about-pgdc-network>.
5. Remember that despite indications of greater importance in challenging economic times, bequests and other planned gifts that result in funding only at the death of one or more persons will not necessarily be a “magic bullet.” In this environment it may be best to focus bequest and other planned gift efforts on the oldest among your constituency. Remember that a 70-year-old has a life expectancy of more than 15 years. It will be decades before bequest commitments from the oldest baby boomers are received in any significant numbers. If looking to conserve scarce budget dollars, focusing resources on the 70-and-older donor group may be best. There will be time to focus on encouraging eventual bequests from today’s 50-70 year olds later as their ultimate gifts are not expected actuarially until perhaps 2020 to 2040 or later.

Communicate the simple message, “Near, Dear, and Clear” to staff and volunteers who are not engaged in fund development on a daily basis but who may be called upon to help with donor relations in coming months.

Make every effort to be as “near” to your donors as possible. See every important donor face-to-face as soon as is practical. If there are geographic limitations, use the telephone and any other means to create a sense of “nearness.”

Do all in your power to be “dear” to donors. In difficult times, donors continue to support the entities about which they really care. It is difficult to create those types of relationships in a short period of time. It is much easier to strengthen the ones that already exist.

Be prepared to make it “clear” why funding is needed. If you do not have a compelling case for support in this environment, it will be very difficult to raise funds. If economic circumstances have changed your relative needs, adjust your appeals to focus on where funds are most needed today.

In conclusion

No one has a crystal ball. No one can predict the future. We can, however, do all in our power to examine the current reality that confronts us, even as it changes on a daily, if not hourly, basis. History tells us that Americans are generous people. Charitable giving provides intangible rewards for many donors that are as fulfilling and lasting as fortunes can be fleeting.

Taken together the nonprofit sector in America provides untold billions of dollars of vital services in health, religion, education, social services, science, conservation, culture and more, and as a sector is a critical partner along with the private and public realms.

Those privileged to serve in positions of leadership in America's nonprofit community shoulder a responsibility every bit as great, if not greater, than those working to restore the vitality of America's business community.

Now is the time to look to the future with confidence that can be gained from the past and employed in appropriate ways to assure that our nonprofit sector remains strong and capable of delivering the tangible and intangible services that make a society great, regardless of immediate economic fortune.

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