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From Philanthropy to Social Investment: A New Way of Giving

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Over the last 50 years, philanthropic giving in the U.S. has grown to $427.71 billion, a tremendous achievement in generosity.[1] In that time, institutions and donors have become accustomed to what could be called "traditional" methods of doing business. However, the philanthropic market — and indeed, the U.S. itself — is fast approaching an inflection point that will radically transform charitable giving and presents a challenge to institutions that have become set in their ways.

Demographic shifts are poised to bring about significant changes in the philanthropic market, and this evolution is being accelerated by the emergence of newer, more dynamic models for giving and changes to the U.S. tax code. It's imperative for both institutions and the individuals they serve to recognize how these changes will affect their philanthropic endeavors and learn how to navigate them in the most efficient manner possible.

OLDER GENERATIONS PASSING ON ASSETS, NOT NECESSARILY HABITS

It's conservatively estimated that as much as $30 trillion will pass from baby boomers to their millennial children over the next 30 years.[2] This extraordinary transfer of wealth will have a tremendous impact on philanthropic giving. While the younger generations are poised to inherit their parents' money, it looks increasingly likely that they won't inherit their habits. Rather, they will seek to blaze their own path when it comes to addressing the problems in our society. Non-profit institutions need to be ready to handle this rising generation of philanthropists, because the old way of doing business may no longer measure up.

Older generations of givers, such as "traditionalists" (born mid-1920s to mid-1940s) and baby boomers (born mid-1940s to 1964), saw non-profit, philanthropic giving and investments in for-profit corporations as utterly separate pursuits. They expected the non-profits they engaged with to focus on providing a service or contributing social value and they expected their for-profit investments to do no more than simply provide financial return. This was simply the way things worked, and members of these generations typically saw little reason to rock the boat. Giving, in and of itself, was their way of having an impact and they generally trusted that the non-profits they gave to were applying their donations in the best possible manner. Rarely, if ever, did they seek out tangible evidence regarding the outcome of their giving.

YOUNGER GIVERS WANT MEASURABLE RESULTS

However, members of Generation X (born 1965 to 1981) and the millennial generation (born 1981 to 1997) do not share the preceding generations' trust in and deference to traditional institutions.[3] This skeptical attitude affects how they perceive philanthropic non-profits. The media often presents a stereotypical view of these younger generations, but many of the habits and behaviors attributed to younger people are mostly unfounded. For instance, while millennials are often portrayed as device-obsessed and self-centered, in fact, they tend to be action-oriented, civic-minded and willing to experiment with new models of making change. In general, younger philanthropists are seeking ways to solve society's most intractable problems by investing their time and resources efficiently. They look at the state of the world and our society and can't help but feel that traditional methods have failed to adequately address the problems we face. It leads them to wonder: If we haven't solved our biggest problems by now, why should we keep doing the same things and expect a different outcome?[4] They are also a much more diverse cohort, and as such are likely to be interested in a wider array of social issues and causes than the generations that preceded them.[5] In particular, young

[1] Giving USA, 2019
[2] "America's trillion-dollar wealth transfer," Marketwatch, April 30, 2017
[3] "The Undetected Influence of Generation X,"by Anna Sophia Martin, Forbes, September 13, 2016
[4] Generation Impact: How Next Gen Donors Are Revolutionizing Giving, by Sharna Goldseker and Michael Moody
[5] "Millennial generation is bigger, more diverse than boomers," CNN

women are playing a bigger role in philanthropic giving. By 2019, two-thirds of wealthy Americans will be women.[6]

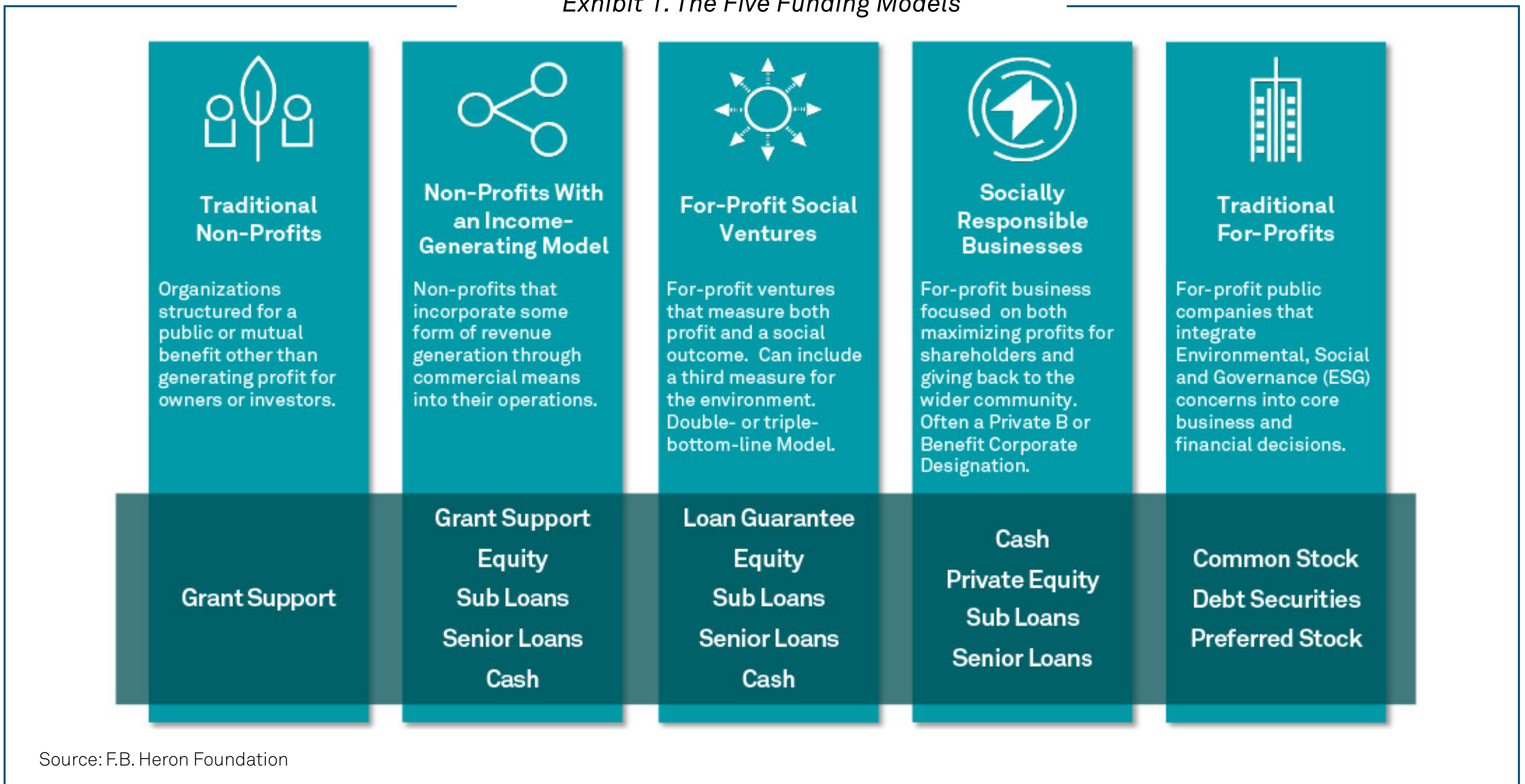
To them, giving is not the end of the story. They want to be able to see the impact that their donations are having on the world. They want to be able to measure success, however they define it, and to hold those responsible for achieving that success accountable.

As of 2019, millennials and Generation X comprise 139 million people, almost double the size of the baby boomers (71 million people).[7] Traditional non-profits cannot afford to ignore the preferences of younger donors, but will struggle to attract them unless they are able to address their need for greater transparency and measurable results. Already, newer, more dynamic models of giving are presenting non-profits with stiff competition.

SOCIAL FINANCE CONTINUES TO GROW

Though traditional philanthropy has shown continued growth in total dollars, it typically hovers around 2% of the U.S. Gross Domestic Product and rarely goes higher than that. Newer models, however, are showing that Americans' capacity for giving is not maxed out. According to the Global Impact Investing Network, measurable investments in impact vehicles reached $502 billion in 2018, which is 1.2 times larger than the philanthropic market of $427 billion.[8] These vehicles, which fall under the umbrella of "social finance," do more than just pursue a positive societal or environmental impact; they also seek to offer a satisfactory financial return, blurring the line between traditional charitable giving and investing. While traditionalists and baby boomers might find this hybrid approach to be unorthodox, younger givers see no conflict. To them, environmental, social and governance issues are intertwined with financial health and long-term, corporate sustainability.

Exhibit 1. The Five Funding Models



Source: F.B. Heron Foundation

Rather than limit themselves to writing checks to traditional non-profits, younger givers are looking across the whole spectrum of business models in pursuit of opportunities to make a difference. Traditional non-profits still have their place, but a "social investor" will endeavor to compile a portfolio of solutions that draws from both the non- and for-profit worlds. This means that traditional non-profits can no longer assume that they will be the most obvious destination for charitable giving as Generation X and millennials take over from their parents and grandparents.

[6] Pershing LLC
[7] Pew Research Center, "Millennials projected to overtake Baby Boomers as America's largest generation" by Richard Fry, March 1, 2018
[8] "Annual Impact Investor Survey," Global Impact Investing Network, 2019

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TAX CODE CHANGES COMPLICATE GIVING

In fact, given the recent changes to the U.S. tax code, traditional non-profits could have even more of an uphill battle attracting donations from young givers.

Increase to the Standard Deduction

Legislation passed at the end of 2017 raised the standard deduction to $24,000 (for taxpayers filing jointly in 2018) or $12,000 (for single taxpayers in 2018). Along with caps on the deductibility of state and local income taxes and property taxes, this is expected to result in fewer taxpayers being able to itemize their deductions. As a consequence, some taxpayers may attempt to exceed the standard deduction in a particular year by bunching their deductible expenses — particularly charitable gifts — in order to maximize their tax benefit. Instead of giving an equal amount of charitable gifts over the course of several years, for example, they would try to give as much as they could in a single year and nothing at all in the other years.

Younger taxpayers are likely to be most affected by this change. Institutions that rely on small- to medium-sized gifts, like a college or university's annual fund, may find it difficult to get young donors to give outside of their bunching year. They will have to take steps to encourage regular giving by offering incentives that rival the potential tax benefits of bunching, such as offering donors networking opportunities and a monthly subscription giving model.

Temporary Increase in Estate, Gift and Generation Skipping Transfer Tax Exemption

The new legislation also temporarily increases the exemption for estate, gift and generation skipping transfer tax from $5.6 million (2017) to $11.18 million (2018) per person through December 2025. As a result, donors will be incentivized to develop a philanthropic strategy for their Generation X and millennial heirs rather than establishing testamentary charitable gifts. As such, non-profits will need to focus their planned giving programs on lifetime giving as opposed to soliciting bequests, and invest in developing a strategy that appeals to the next generation of donors by emphasizing new methods of providing impact.

Introduction of the "Newman's Own Exemption"

One new tool that the tax legislation provides foundations is known as the "Newman's Own Exemption." This allows private foundations to own for-profit companies without needing to pay taxes on the revenue they generate — provided that all revenue goes toward the foundation's mission. In addition to being a way to create a new revenue stream, foundations may be able to use this to experiment with different ways of executing their mission and to appeal to younger givers interested in pursuing opportunities outside of the traditional non-profit structure.

DONORS AND NON-PROFITS MUST EVOLVE TOGETHER

When it comes to attempting to solve the problems they care most about, non-profit institutions and philanthropists alike now have more options than ever before. The continued evolution of the philanthropic market, from a purely non-profit pursuit to one that blends both for- and non-profit methods, will have a profound effect on how we view giving — less as charity, and more as a social investment.

As philanthropists come to think of themselves as social investors, non-profits must also redefine themselves as "for-purpose" institutions. This must be more than a rebranding. An effective for-purpose institution must understand what social investors want and strive to provide it to them, positioning themselves as a collaborative partner that can aid in identifying opportunities across the investment spectrum. Together, social investors and for-purpose organizations can create blended portfolios that best reflect their specific value sets, with the goal of finding new ways of solving old problems.

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Avery is Head of Strategic Philanthropy for BNY Mellon Wealth Management. In this role, Avery leads philanthropic thought leadership, education and solutions for individuals and families, Family Offices, Endowments and Foundations. With 20 years in the investment and financial services industry, Avery's experience as a philanthropic consultant focuses on working with families and successful non-profit institutions to improve grant-making efficacy, foundation and endowment management, use of planned giving, social finance and long-term strategic planning. Avery received a bachelor's degree from Sewanee: The University of the South with a dual degree in philosophy and fine arts. She later received her MBA in general management (with a focus on social enterprise) from The Fuqua School of Business at Duke University, where she received the Class of 1990 Scholarship (for work in the non-profit sector) and a Dean's Recognition Award.

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