

# The 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy



## PHILANTHROPIC MANAGEMENT

### Donors continue to show a strong commitment to causes they care about

High net worth households continue to drive philanthropy in America, and nearly 98 percent of them made charitable donations in 2009. Despite the challenging economy, donors remained loyal to issues they care about by continuing to support, on average, six or seven charitable causes. In addition, wealthy donors demonstrated their commitment to nonprofit organizations in 2009 through an increase in volunteerism.

### ...yet the economic downturn did impact giving levels in some subsectors

Giving as a percentage of income remained relatively steady in 2009 compared to the previous study, with wealthy donors contributing just over 9 percent of their income to charitable causes in 2009, compared to approximately 11 percent in 2007.

However, while commitment to nonprofits remained strong, wealthy households appear to be making trade-offs in the dollar amounts that they give to charity, with the overall average gift amounts in this study decreasing by 35 percent from 2007, after adjusting for inflation.

Several charitable subsectors did see increases of up to 21 percent in average amounts given by wealthy donors, including the arts, environment/animal care and international giving. And although average giving amounts to health and education declined in 2009, they remain among the top nonprofit subsectors supported by wealthy households (70 and 80 percent respectively). Consistent with the two previous studies, between 70 and 85 percent of high net worth households supported health, religion, the arts, education and basic needs, with the percentage of households giving to basic human needs increasing from 75 percent in 2005 to 85 percent in 2009.

### The wealthy give to make a difference

When asked about the motivations and influences driving their charitable behavior, high net worth households reported that they gave when they believed their gift would make a difference (72 percent), when they felt financially secure (71 percent), and when they knew the organization was efficient in its use of donations (71 percent). These responses highlight the concern donors have about the effective use of their contributions.

continued

### About the study

Established in 2006, the Bank of America Merrill Lynch Study of High Net Worth Philanthropy, conducted in partnership with The Center on Philanthropy at Indiana University, is the largest and most comprehensive survey to date of the charitable practices and attitudes of wealthy Americans.

The 2010 study examines, among other things, which nonprofit sectors wealthy donors support, how they direct their largest gifts, what motivates them to give and to discontinue support for a nonprofit organization, where and how often they volunteer, and who they turn to for advice about philanthropy. Its findings are based on the responses of high net worth households that were randomly surveyed during June and July of 2010 regarding their philanthropic giving in 2009.

#### Please see last page for important information.

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## **Volunteerism remains strong and volunteers continue to give more**

Volunteerism remained strong among high net worth households in 2009. The study revealed that wealthy individuals have been giving more of their time and talent to the organizations and causes they value since 2007. Nearly 79 percent of high net worth individuals volunteered in 2009, and the percentage who volunteered more than 200 hours a year rose significantly, from 27 percent in 2007 to 39 percent in 2009.

The study also found that the more that high net worth individuals volunteered, the more money they gave. For example, those who volunteered over 200 hours a year donated 51 percent more than those who volunteered less than 200 hours, and 163 percent more than what non-volunteers donated.

### **Donors are strategic with their giving**

Donors are becoming more sophisticated about their giving; they are actively seeking charitable advice, are using more than one charitable vehicle, and appear to be including their giving within their broader wealth plan.

**Experienced and proactive.** Nearly three-quarters of households report that they are experienced in charitable giving and giving practices and rely upon a strategic plan and/or a budget to guide their charitable giving.

**Use of advisors growing.** Consistent with previous results, the 2010 study notes that donors increasingly rely on their accountants (68 percent), attorneys (41 percent), and financial/wealth advisors (39 percent) to support their charitable giving decisions.

**Heightened use of charitable vehicles.** Despite the economic downturn, donors continue to allocate the largest share of giving (nearly 22 percent) to endowed giving vehicles — foundations, trusts and funds — and these donations increased 21 percent from 2007. By investing in these charitable vehicles, high net worth donors are demonstrating their long-term support for nonprofit organizations with their current contributions.

**Donors are targeting gifts to provide operational support.** More than 55 percent of all high net worth households gave their largest gift in 2009 to fund the general operations of an organization. This indicates donor recognition of the evolving needs of the nonprofit community and their confidence that the organizations they support will use their donations appropriately.

## **Donors are concerned about taxes and investment risk**

**Donors are sensitive to tax considerations.** In a shift from previous studies, wealthy households reported being more sensitive to the effect of tax policy on their giving. Sixty-seven percent of wealthy households would somewhat or dramatically decrease their charitable contributions if they received no income tax deductions for their donations; 47 percent responded this way in 2007. If the estate tax were repealed, 43 percent of wealthy households would somewhat or dramatically increase the amount they leave to charity in an estate plan, compared to 36 percent in 2007. The heightened sensitivity concerning taxes is likely due, at least in part, to the unsettled state of federal tax policy at the time of this survey.

**Donors are more conservative with philanthropic investments than personal investments.** In a new area of research, 35 percent of wealthy households cited a willingness to take on above average or substantial risk in their personal investments, while only 23 percent reported this level of risk tolerance for their philanthropic investments. Furthermore, only 25 percent of households reported being completely risk averse in the investment of their personal assets versus one-quarter reporting the same with respect to their philanthropic investments. One interpretation of these findings could be that donors have an appreciation for the fact that charitable assets are intended for public benefit and should therefore be invested more conservatively.

### **Donors maintain certain expectations of the nonprofits they support**

Continuing a trend from the previous study, donors maintain specific expectations of the charitable organizations they support, with the following factors ranking among the most important:

#### **Good governance**

- Demonstrate sound business and operational practices (87 percent)
- Spend an appropriate amount on overhead (80 percent)
- Provide full financial disclosure/transparency (62 percent)

#### **Personal attention**

- Acknowledge contributions, including sending receipts (85 percent)
- Do not distribute personal information (80 percent)
- Honor anonymity (77 percent)
- Honor request for use of gift (69 percent)

**Why wealthy donors stop donating.** In 2009, 35 percent of households stopped giving to at least one organization and 27 percent stopped giving to at least two organizations that they previously supported. Significantly, donors in the latest study did not stop giving to more organizations than they reported having stopped giving to in the past — signaling a steadfastness despite the economic downturn. The top four reasons why they stopped giving to a particular charitable organization in 2009 were:

- Too frequent solicitation/organization asked for inappropriate amount (59 percent)
- Decided to support other causes (34 percent)
- Household circumstances changed (financial, relocation, employment, etc.) (29 percent)
- Organization changed leadership or activities (29 percent)

**High confidence in nonprofits.** In a tremendous show of faith, a combined 95 percent of wealthy households reported having a great deal or some confidence in the ability of nonprofit organizations to solve domestic or global problems as compared to the business and government sectors.

### **Family continues to play an important role with wealthy donors**

Philanthropy is a family matter for most high net worth households.

**Family traditions.** More than 70 percent of wealthy families have family traditions in which they involve their children and/or younger relatives in charitable giving, such as making gifts to honor the memory of an individual (35 percent), making gifts to organizations they are involved with (34 percent), having family discussions about giving throughout the year (27 percent), volunteering as a family (18 percent), and making family decisions about charitable giving during the holidays (10 percent).

Moreover, the vast majority (85 percent) of households instruct their children and/or younger relatives about philanthropy. According to respondents, other sources from which younger individuals learn about the value of giving include religious institutions (45 percent), nonprofits (21 percent), and through their own personal efforts (19 percent).

### **Wealthy households make giving decisions collaboratively.**

For the first time, this study examined how charitable decisions within high net worth households are made. The findings suggest that among wealthy couples that make charitable donations (those who are married and/or living with a partner), both giving partners are likely to be involved in the decision-making process. Forty-one percent confer with their partner or spouse and then make joint decisions about charitable giving.

The findings of the 2010 study present opportunities for nonprofit organizations and advisors to better understand the motivations of donors and can help to inform their practices. The study can also provide guidance for donors themselves.

### **Opportunities for nonprofit organizations**

It is critical for nonprofit organizations, particularly in times of uncertainty, to reassure donors — whether through personal contact, on-site visits, or nonsolicitation communications — that their organization is fulfilling its mission effectively and responsibly.

With increasing competition for a limited pool of donations, our study results indicate that those organizations that demonstrate sound business practices, provide exceptional responsiveness to donors' requests, and proactively involve donors in the lifeblood of their mission are likely to continue to sustain these relationships over the long term. In short, organizations need to engage their donors' hearts and minds.

- **Understand their motivations.** Whether you are meeting donors at an open house or conducting a program at their house of worship, it is important to create a personal connection that taps into their beliefs and priorities.
- **Meet their expectations.** Through ongoing communications and on-site events, donors can see the impact of their philanthropy and you can demonstrate your organization's commitment to strong governance and greater transparency. You should also aim to provide a higher level of responsiveness to their requests for gift acknowledgements and anonymity.
- **Cultivate families.** Through family philanthropy workshops, on-site visits, or community outreach efforts, encourage wealthy donors to invite their children and grandchildren to witness your mission in action.
- **Encourage participation.** Invite donors to become actively involved in activities that leverage their skills, education and life experiences.

## How donors can make their philanthropy meaningful

Donors who want to ensure that their philanthropy has impact and will continue to meet their objectives now and in the future may want to consider a strategic plan for their giving. This may include making strong connections with the nonprofit organizations they support, involving multiple generations of their families, and structuring their philanthropy within a giving vehicle.

- **Expect — and ask for — results.** To gauge the impact of your giving, maintain an ongoing dialogue with the organization's staff members and request that they communicate with you through newsletters, financial reports, and on-site meetings.
- **Consider structuring your giving through a charitable vehicle.** Individuals and families are using giving vehicles with greater frequency — and using more than one vehicle. Doing so can help you to have greater focus and impact on areas you care about and also help to establish your legacy.
- **Get involved.** Your gift of time and skills can be as important as your financial support in helping an organization fulfill its mission. And, it can give you a “ground floor” view of operations and practices that can help you assess the organization's overall effectiveness.
- **Make your philanthropy intragenerational.** Inviting children and grandchildren to become involved in your philanthropic activities can enhance the personal fulfillment you derive from these activities, increase the impact of your giving, and help ensure that your values and priorities are instilled in future generations.
- **Consult your advisors.** Individuals and families are increasingly turning to financial, tax and legal advisors who can help them integrate philanthropy into their overall wealth management and legacy planning strategies. These professionals can provide investment, tax planning, and philanthropic advice and solutions that can help you maximize the financial benefits of giving on a more strategic basis.

## Putting the strength of Bank of America Merrill Lynch to work in your best interest

Based nationally and delivered locally through a dedicated relationship team, Philanthropic Management brings your organization our best thinking and over 200 years of experience. For more information, contact your Bank of America Merrill Lynch advisor.

## For more information

To download the full 2010 Bank of America Merrill Lynch Study of High Net Worth Philanthropy, visit [www.bankofamerica.com/philanthropic](http://www.bankofamerica.com/philanthropic).



The information provided is based on the 2010 *Bank of America Study of High Net Worth Philanthropy*, researched and written by The Center on Philanthropy at Indiana University. Bank of America cannot confirm or guarantee the accuracy or completeness of the analysis provided in the study. Key findings referenced do not represent the entire findings in the study. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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