Where Wealth Lies and Its Implications for Fundraising

Planned Giving Today

Vol. 33, No. 6 (June 2022) pp. 1, 3, 5, 7

Carol Kolmerten and Bruce Bigelow

How often does a fundraising appeal say something like "just send us a check"? Most of us in the fundraising business are used to thinking about raising money as raising cash. And most donors certainly think that way. But if we think about where wealth actually lies, it lies in non-cash assets like real estate, securities, retirement plans. "Cash" is only around 10% of the wealth in the United States.

When we first saw the "wealth" chart (drawn from data the Federal Reserve gathered twenty years ago), we nodded in agreement: yes, wealth was concentrated in real estate and securities—and we, as fundraisers should think seriously about how donors could use their non-cash assets. Here is what the "Wealth Chart" looked like in 2000:

WHERE DOES WEALTH LIE?

- 30-40% Real Estate
- 15-20% Closely Held Stock
- 15-20% Publicly Traded Securities
- 15-20% Qualified Retirement Plans
- 10-15% Cash/Cash Equivalents

But twenty years later the chart looks different. Now qualified retirement plans, public stocks, real estate, and closely held stock and partnerships made up 82% of the nation's wealth

2019: WHERE DOES WEALTH LIE?

- 24% Retirement Plans
- 24% Publicly Traded Securities
- 22% Real Estate
- 11% Closely Held Stock/Partnerships
- 11% Cash/Cash Equivalents
- 5% Personal Property (Vehicles, Furniture, Art, Collections, Etc.)
- 3% Life Insurance Reserves*

*Distributional Financial Accounts of the United States, Federal Reserve, March 2019

We are believers that good data should drive good fundraising. In the 2000s we stressed marketing plans for giving gifts of real estate. In 2020, we shifted our emphasis, not because real estate had become less valuable or gifts using these assets any less attractive, but rather because two other assets had taken a much larger role in the wealth distribution mix than had been the case earlier. We talked now about retirement plans and both public and private businesses.

As you can see by looking at the 2019 (the most recent) wealth chart, marketing giving from retirement plans much more deliberately would be beneficial, both to the nonprofit and to the donor, because not only is that where the money is, but also because giving retirement plans can provide a tax savings at estate time that no other asset can. At the end of life, retirement plans are the most tax efficient gift to nonprofits for a single person (married folks can, of course, roll over their plan to their spouses). But divorced or widowed donors—cannot, and their children must pay income tax on the first dollar they receive; plus, children (or anyone else who receives an inherited IRA) only have ten years at most to withdraw the money.

But also, we urge nonprofits to think much more about their donors who own privately held partnerships or businesses. Private businesses (closely held) are often where the truly transformational gifts might come from.

As we looked at the Federal Reserve data, we discovered another critical piece of information about wealth distribution. Even though retirement plans tied for top asset category on the wealth chart, one group of people had almost no retirement plans: the top 1%.

WEALTH DISTRIBUTION

Top	Retirement Plans	Private Stock/ Partnerships
1%	6%	55%
Next 9%	39%	30%
Next 40%	42%	15%

We should not have been surprised that relatively few of the wealthiest Americans have a qualified retirement plan. They are not employees who have W-2s with withholding for 403(b)s and 401(k)s. They do not have an employee matching their withholding for retirement. They may have started their company in a garage with no benefits. At all. And certainly no retirement plans.

But they do own private businesses and the top ten percent of wealth holders own 85% of the value of these private businesses.

Implications for Fundraising

Retirement Plans

Retirement Plans have, as we have seen—and as many of us have experienced ourselves—grown tremendously in the last twenty years. They grow tax-free, of course, and most retirement plans have benefitted significantly from the rise in stocks, bonds and mutual funds during this period. Many people have contributed the maximum they can to their plans and, often, employers have matched those contributions with money, thus further multiplying the potential of these plans. Nothing like the benefits of compound interest, especially when an employer can be contributing half.

And who owns these plans, in large part? The upper middle class. The retired teachers or nonprofit staff; the denizens of upper corporate management; the doctors, attorneys, dentists, and accountants. And maybe even a few fundraising consultants as well. . . all of which opens the door for significant gifts that many people might never have considered. For these people, who may have never considered themselves wealthy, giving all or part of a retirement plan lets them give what, for them, could be a transformational gift. Let's look at two such examples.

<u>Example #1</u>

Sharon is a widow, now 77 years old, whose husband left her in good financial shape when he died a decade ago. Because she grew up in the shadow of the Depression and heard stories from her older relatives about how Aunt Emily had no money at the end of her life, Sharon retains a sense of uncertainty about the future.

Thus, Sharon told us she fears becoming a "bag lady" even though we could see that her assets would easily support her for several lifetimes: She has a stock portfolio worth roughly $5 million, a lovely home in which she has lived for forty years, a vacation home on a nearby lake that her grandchildren enjoy visiting, and a "small" retirement plan worth $3 million. She also receives $141,500 in RMDs (and more next year), which she readily admits that she does not need.

We suggested a plan that allowed her to give more to the independent school her children and grandchildren attended, which also permitted her to rid herself of her "bag lady" fears. We suggested that Sharon treat her retirement plan as her "charitable fund," allocating $100,000 each year from her RMD requirement, in outright contributions to the school and then make the school the beneficiary of the plan at her death. She still had her capital assets (houses, stock portfolio) to leave her children well off, and she could always, tap into her retirement plan herself if she needed it. Her own financial security, her philanthropic impulse, and her financial benefit all were wrapped up in the plan. Sharon—and the school—were delighted.

<u>Example #2</u>

Charlie and Laura are both in their mid-70s. Both were long-time university professors, and each had an IRA worth $2 million. They now rely on the minimum required distributions from those plans to cover their living expenses and travel costs. Although they are devoted to the universities for which they worked and would like to leave a significant legacy at the end of their lives, they also have two children and, given that their IRAs are the largest single asset in their

portfolios, they are reluctant to leave either the universities or their children out of their long-range plans.

We recommended that they establish a charitable remainder trust which goes into effect at the second death, naming the children as the 5% income beneficiaries for twenty years and splitting the remainder between the universities in the end. In that way, they benefit both family and charity with the same dollar: the children receive 100% (or more) of the value of the IRAs over two decades, and the universities also receive 100% (or more) twenty years hence—all while avoiding the income tax that would be imposed if the IRAs went directly to the children. Again, combining benefit to charity and to family through a creative use of retirement plans has produced a "both/and" instead of an "either/or" solution to Charlie and Laura's plans.

Privately Held Partnerships and Corporations

Because private business interests are held by far fewer people than own retirement plans, and because the entrepreneurs who own and manage these assets tend to be wealthier than most other potential donors, gifts of private businesses do not arise from a concerted or concentrated marketing campaign. These types of gifts need individual conversations with donors that focus on the specific characteristics of the businesses involved and often come only after a close analysis of how the business is organized and owned.

For many wealthy donors who have inherited their money, or who have also learned the intricacies of federal taxes while building their companies, having tax advisors and wealth advisors have helped them forge paths to tax savings for their millions. But some entrepreneurs have been shocked by their success and could use the help of a nonprofit to explain how giving to a nonprofit by using company stock or partnership shares could save them considerable tax dollars and allow a much bigger impact than they might have envisioned..

<u>Example</u>

Pam and Al were the first of both of their families to graduate from college. They grew up in a small rural town and had no access to (and no need for) wealth advisors. Starting with a hobby in her garage, Pam developed her love for designing scrapbooks, into a small business. She became increasingly frustrated that the materials she needed to carry out her scrapbook avocation were unavailable from any central repository; thus, she decided to fill that gap. Starting with a website and a phone, she developed an inventory of the items she would like to have and started marketing them to other scrapbook aficionados. Now, ten years into the business, Pam and Al find themselves grossing $5 million per year.

At the same time, Pam and Al are now surprised by their tax bill of over $1 million. We created a plan that was both simple and multi-faceted. Since their cash flow was the key to their finances, step one was to make annual gifts of at least $100,000 to their favorite charity, the zoo, where they and their children spent many a happy weekend, thus reducing their annual tax burden. Then we suggested they give a 10% interest in the company to their city's zoo, generating an even larger tax deduction, and avoiding some of the capital gains tax that might eventually come if/when they sold the business. Because the company was such a large generator of cash flow,

the zoo also had the option of keeping the shares and receiving 10% of the annual profits. Pam and Al still had more than enough for their living needs and for their children, and they were able, using the partnership assets, to make a large gift.

The plan had an added family benefit. Pam and Al, having discovered the joys of philanthropy, wanted to pass along the importance of philanthropy to their children, so they carved out a portion of their annual contribution for the children to designate—to support a specific animal habitat or a special program at the zoo. Pam and Al's generosity thus prepared the way for a whole new generation of philanthropists.

The Ultimate Lesson

So what do we learn from these examples and from paying attention to the data about wealth distribution? First, staying aware of the assets that our donors hold in their portfolios should govern the nature of the conversations we have with them. And the result is, as the examples above indicate, often a larger gift, more satisfied donors, and a lifelong pattern of philanthropy.

Second, by focusing on the non-cash assets donors can use to fund their philanthropy, we, as charitable organizations, demonstrate that we understand and connect with our donors on issues more complex and more global than cash alone. Sophisticated donors want to work with sophisticated partners and talking about non-cash assets like retirement plans and privately held partnership interests just reinforces that connection.

But talking about retirement plans to the top 1% or talking about closely held businesses to upper middle class professionals is waste of time. Conversations with donors need to meet them where *they* are and focus on the assets that they have at their disposal. The result is often a plan that is generated as much by the donors as by the gift officers, a plan that can span years – or even generations.

Finally, these kinds of conversations are the real fun of fundraising. When a donor makes a gift like the ones we have described, we celebrate—together—the success of the giving and the impact of the gift. And that is a critical part of why we stay in this business.