The Philanthropy **Outlook** 2020 & 2021

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For more detailed information about the methodology used in The Philanthropy Outlook*, locate the Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com.*

Introduction

The Philanthropy Outlook provides nonprofit scholars and practitioners with critical information about the charitable giving environment in 2020 and 2021. This includes projected philanthropic contributions by donor source (individuals/households, foundations, bequests, and corporations) and gifts to three recipient subsectors (education, health, and public-society benefit). While many reports contain anecdotal predictions for charitable giving, *The Philanthropy Outlook* provides empirical data produced through rigorous analysis that fundraisers and nonprofits can use to develop effective strategies for their organizations in the coming years.

This edition of *The Philanthropy Outlook* projects giving for the years 2020 and 2021 in relation to the year 2019.[1] After a couple of transition years for giving due to the Tax Cuts and Jobs Act (TCJA) and other factors, estimates for 2020 and 2021 reflect a return to broad growth in charitable giving. We explain how different economic variables will affect giving by source and to the three subsectors during these years, and provide additional context for the giving predictions. This context includes information about how broad economic conditions may alter the philanthropic landscape.

No forecast model can project future conditions with absolute certainty, and all models have a margin of error.[2] As noted in the first edition of *The Philanthropy Outlook*, forecasts are affected by three conditions: the number of future predictions made, unpredictable events or shocks, and the stability of the underlying variables used in the model.[3] Following the presentation of the results within this report, we provide context to help nonprofits and fundraisers get a more full picture of the results.

PHILANTHROPY OUTLOOK 2020 & 2021

This section presents the projections for total giving, giving by source, and giving to the three recipient subsectors included in this report and describes how different economic variables will impact giving. Overall, Americans should expect philanthropic growth in the coming years:

- The growth rate for total giving is expected to rise above the historical 10-year, 25-year, and 40-year annualized average rates of growth.[4]
- All sources of giving are projected to increase their contributions in 2020 and 2021. Giving by bequest will see the largest increase in 2020, followed by giving by foundations. Giving by foundations will see the largest increase in 2021. Increases in contributions from individuals/households will be higher than increases in gifts made by corporations, which are more tepid.
- Among the recipient subsectors, giving to health is projected to increase the most in 2020 and 2021. In 2020 and 2021, the health, education, and public-society benefit subsectors are expected to see giving rise above the 10-year, 25-year, and 40-year historical trends.

STRESS TEST ANALYSIS

For this edition of *The Philanthropy Outlook*, the report presents a stress test for 2020 and 2021, using conditions similar to the Great Recession of 2007-2009 to see how charitable giving would change compared with *The Philanthropy Outlook's* results. This stress test analysis does not suggest that any potential new recession would be equivalent in severity and length to that of the Great Recession, rather, this analysis, which is modeled in part on the conditions used for the severely adverse scenario of the Dodd-Frank Act Stress Test (DFAST) for banks, serves a similar role as that of the DFAST—to ensure that organizations could continue to function under severely adverse conditions.[5] Just as the results of the DFAST help banks to self-regulate and identify and address potential risks, this stress test analysis is intended to help nonprofits and fundraisers in a similar way.

This section draws on reports and academic research that explore how the landscape for charitable giving has changed since the Great Recession, and identifies lessons learned from the Great Recession that can help nonprofits and fundraisers make decisions about how resources might be best spent under recession conditions.

CONDITIONS THAT MAY AFFECT THE OUTLOOK FOR GIVING

This section of the report includes additional information about long-term trends and conditions that may affect the outlook for giving.

METHODOLOGICAL OVERVIEW

This section provides a high-level summary of our methodology for creating *The Philanthropy Outlook* forecasting model and producing the charitable giving estimates. Finally, the Limitations subsection describes the limitations of using scientific methodology to predict future giving outcomes.

For more detailed information about the methodology used in *The Philanthropy Outlook*, please view the Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com.

We hope *The Philanthropy Outlook 2020 & 2021* offers helpful insight on the complex factors influencing the philanthropic environment and assists you in making important decisions for the future of your organization.

Total Giving

2020 4.8% 2021 5.1%

Total giving is predicted to increase by 4.8% in 2020 and by 5.1% in 2021.[i]

In 2020 and 2021, total giving is expected to be higher than the historical 10-year, 25-year, and 40-year annualized average rates of growth.[6]

Specific factors that will significantly and positively influence total giving in 2020 and 2021 include:[ii]

- Above-average growth in the S&P 500 in the preceding and projected years,
- Growth in the preceding years' personal income, and
- Growth in GDP.

Year-over-year growth in the current year's S&P 500 influences individual/household giving for the subsequent year, especially giving by those with median and higher levels of income. In general, growth in personal income for all types of households will positively impact total giving in 2020 and 2021.

Other factors that will positively influence total giving in 2020 and 2021 include close-to-average growth in household and nonprofit net worth in the preceding years and above-average growth in the number of itemizers in the projected years.

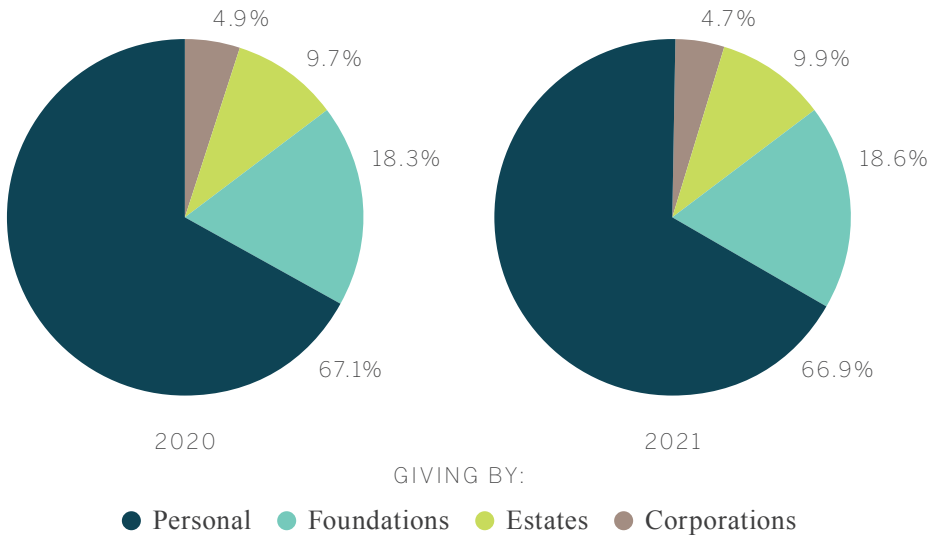
[i] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[ii] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook also includes information about the stability of the variables.*

Figure 3

DISTRIBUTION OF TOTAL GIVING, BY SOURCE, FOR THE YEARS 2020 AND 2021

Figure 3 shows the proportion of total giving by each source for the years 2020 and 2021. In 2020, 67.1% of total giving is expected to derive from personal giving, followed by 18.3% from foundations, 9.7% from estates, and 4.9% from corporations. In 2021, the proportion of personal giving and giving by corporations will decline slightly, while the proportion of giving from estates and foundations will rise slightly.



Figures 4 and 5 show total giving in 10-year segments over the 40-year periods ending in 2020 and 2021. At 4.8%, the projected rate of growth for giving in 2020 is higher than the average growth rate of 3.0% in the 10-year period ending in 2020, as shown in Figure 4. At 5.1%, the rate of growth for giving in 2021 is also higher than the average growth rate of 3.5% in the 10-year period ending in 2021, as shown in Figure 5.

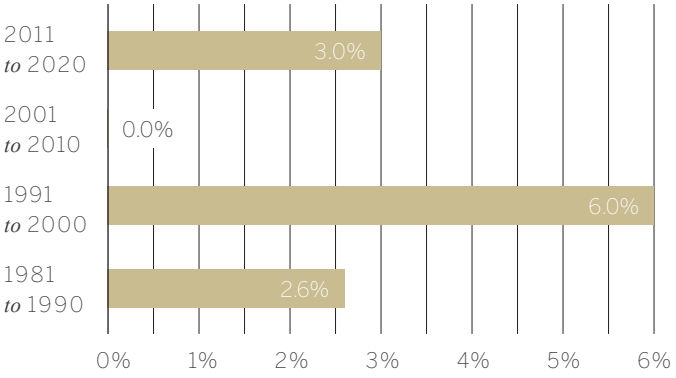


Figure 4

AVERAGE RATES OF CHANGE FOR GIVING, SELECTED TIME PERIODS, 1981–2020

(Data are in inflation-adjusted dollars)

Figure 4 shows that the estimated average rate of growth for giving in the 2001–2010 period (which includes the Great Recession) is the lowest of the last four decades, at 0.0%.[7] The 1991–2000 period saw the highest rate of growth in total giving, at 6.0%, reflecting the economic boom of the 1990s.

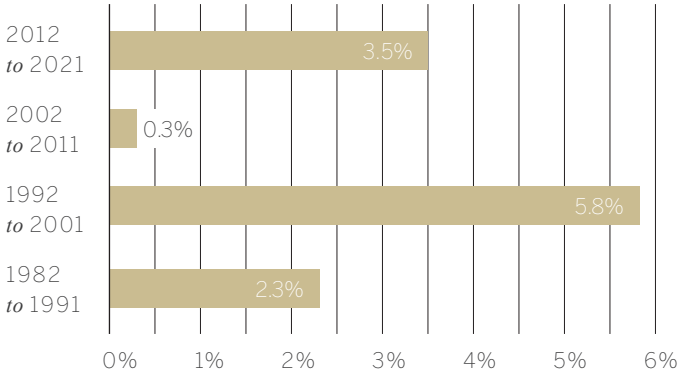


Figure 5

AVERAGE RATES OF CHANGE FOR GIVING, SELECTED TIME PERIODS, 1982–2021

(Data are in inflation-adjusted dollars)

Figure 5 shows the average annual rate of growth for giving in 10-year periods from 1982 to 2021.[8] The effects seen in Figure 4 are only slightly changed here: the economic boom of the 1990s resulted in the largest increase in giving occurring during the 1992–2001 period (5.8%). Additionally, the Great Recession is responsible for the tepid 0.3% growth in giving during the 2002–2011 period. Compared with Figure 4, the 2012–2021 period appears to demonstrate that total giving will return to long-term historical norms following the Great Recession.

Giving by Individuals/ Households

2020 4.4% 2021 4.7%

Giving by individuals/households includes cash and non-cash donations to U.S. charities contributed by all American individuals and households—including those who itemize their charitable contributions on their income taxes and those who do not.

Giving by American individuals/households is predicted to increase by 4.4% in 2020 and by 4.7% in 2021.[iii]

The projection for giving by individuals/households in 2020 and 2021 is expected to surpass the historical 10-year, 25-year, and 40-year annualized average growth rates.[9]

Contributions from itemizing households and non-itemizing households are included in the forecasts for individual/household giving for the years 2020 and 2021.[10]

Specific factors that will significantly and positively influence individual/household giving in 2020 and 2021 include:[iv]

- Average growth in consumption in the preceding years,
- Average growth in personal income in the preceding years, and
- Above average growth in S&P 500 in the present and preceding years.

A large body of work demonstrates, with few exceptions, the link between household income and wealth and philanthropic giving.[11] In general, as income and wealth increase, so do the amounts that households give to charity. Growth in the S&P 500 is also associated with growth in giving by individuals.

Personal consumption, the amount expended by consumers for goods and services, is associated with households' long-term financial stability and has historically been correlated with giving by individuals.[12]

[iii] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[iv] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook also includes information about the stability of the variables.*

Giving by Foundations

2020 6.3% 2021 6.6%

Giving by foundations includes grants to U.S. charities made by all American foundations. Community, private (including family), and operating foundations are among the types included in this prediction.[v]

Giving by foundations is predicted to increase by 6.3% in 2020 and by 6.6% in 2021.[vi]

The projections for giving by foundations (grantmaking) in 2020 is above the historical 10-year annualized average growth rate of 4.4% and the historical 40-year annualized average growth rate of 5.7%. The foundation giving projection for 2020 is on par with the 25-year annualized average of 6.3%, while the grantmaking projection for 2021 is above the historical 10-year, 25-year, and 40-year annualized average growth.[13]

Specific factors that will significantly and positively influence foundation giving in 2020 and 2021 include:[vii]

- Average growth in the preceding year's GDP; and
- Above average growth in the S&P 500 in the present and preceding years.[14]

These two factors will account for most of the predicted growth in giving by foundations in these years. Since foundations typically budget their giving based on asset growth, trends in the prior year's S&P 500 impact giving in the current year. As such, above-average predicted growth in the S&P 500 in 2019 and 2020 will influence strong foundation giving in 2020 and 2021.

The majority of the projected increase in foundation giving for the years 2020 and 2021 will be influenced by growth in the prior years' GDP. However, growth in giving positively influenced by rising GDP will be tempered by the projected rise in household and nonprofit net worth in 2020 and 2021. This tempering effect may be due to foundations restraining giving during positive economic periods to save grant funding for economic downturns.[15]

[v] *This prediction does not explicitly break out directional changes in growth for each foundation type.*

[vi] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[vii] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook also includes information about the stability of the variables.*

Giving by Estates

2020 6.6% 2021 6.5%

Giving by estates includes cash and non-cash donations (bequests) to U.S. charities contributed by all American estates—including those that itemize their charitable contributions on their estate taxes and those that do not.

Giving by estates is predicted to increase by 6.6% in 2020 and by 6.5% in 2021.[viii]

The amount that an estate bequeaths largely depends on asset health at the time of the donor's passing. If the growth in assets held by estates slows, less will be given in the form of bequests.

The projections for giving by estates in 2020 and 2021 are above the historical 10-year, 25-year, and 40-year annualized average rates of growth for giving of this type.[16]

The factors that will most significantly and positively influence estate giving in 2020 and 2021 include:[ix]

- Above average growth in the S&P 500, and
- Average growth in household and nonprofit net worth in the preceding years.[17]

These two factors will account for the majority of the predicted growth in giving by estates in these years.

Giving by estates can vary greatly from year to year. This volatility is mostly due to very large bequests made by a few estates in a given year. Therefore, a significant increase one year will suppress the rate of growth in giving the following year. The projected increase in bequest giving in 2020 and 2021 will hold unless substantially large gifts are made in 2019 or 2020.

[viii] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[ix] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook also includes information about the stability of the variables.*

Giving by Corporations

2020 0.4% 2021 1.4%

Giving by corporations includes all IRS itemized cash and non-cash donations to U.S. charities contributed by all American corporations and businesses and their foundations.

Giving by corporations is predicted to increase by 0.4% in 2020 and by 1.4% in 2021.[x]

The projections for giving by corporations in 2020 and 2021 is predicted to be below the historical 10-year, 25-year, and 40-year annualized average growth rates for this sector.[18]

Specific factors that will significantly and positively influence corporate giving in 2020 and 2021 include:[xi]

- Average growth in GDP, and
- Above average growth in the S&P 500.

These two factors account for the majority of the predicted growth in giving by corporations in these years.

A slightly negative 1-year treasury rate may moderate the positive results projected for corporate giving in these years—decreased confidence in short-term investments may also mean that corporations are more likely to hold back on increasing corporate giving.[19]

[x] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[xi] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook also includes information about the stability of the variables.*

Giving to Education

2020 5.1% 2021 5.5%

Giving to education includes all cash and non-cash donations from itemizing and non-itemizing American households to U.S. education charities, including institutions of higher education, private K-12 schools, vocational schools, libraries, educational research and policy, and many other types of organizations serving educational purposes.

Giving to education is predicted to increase by 5.1% in 2020 and by 5.5% in 2021.[xii]

The projections for giving to education in 2020 and 2021 are higher than the historical 10-year, 25-year, and 40-year annualized average growth rate for giving of this type.[20]

Specific factors that will significantly and positively influence education giving in 2020 and 2021 include:[xiii]

- Average growth in personal consumption in the preceding years,
- Average growth in GDP, and
- Average growth in consumer expenditures on health in the preceding years.

These factors will account for the majority of the predicted growth in giving to education in these years. However, average growth in consumer expenditures on recreation and average growth in consumer expenditures on nonprofit services will temper these positive effects.

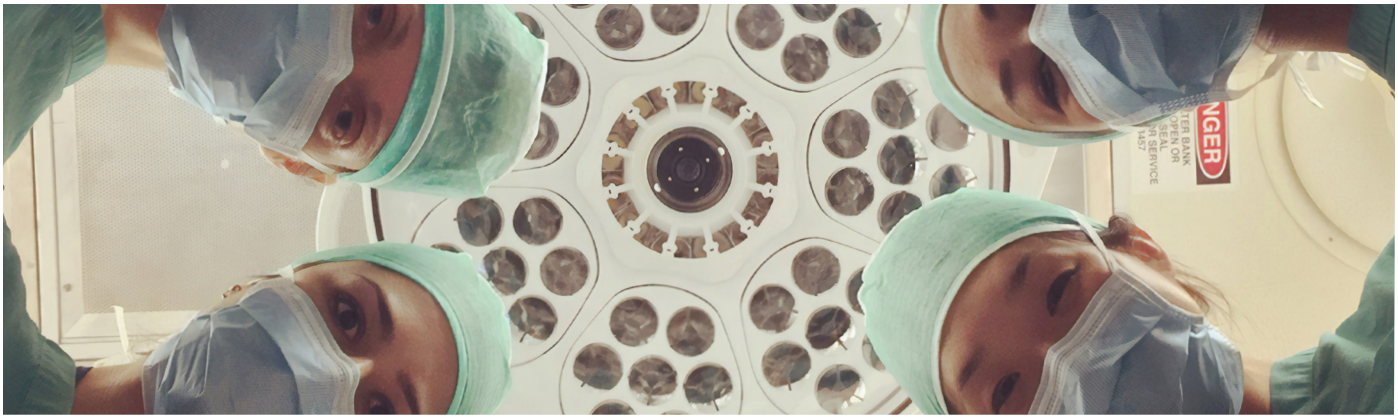
[xii] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[xiii] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook model also includes a full list of the variables tested and included in each model, as well as information about the stability of the variables.*

Giving to Health

2020 ↑ 7.9% 2021 ↑ 7.3%

Giving to health includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. health charities, including nonprofit community health centers, hospitals, and nursing homes; organizations focused on the treatment and/or cure of specific diseases; emergency medical services; wellness and health promotion; mental healthcare; health research; and other types of health organizations.



Giving to health is predicted to increase by 7.9% in 2020 and by 7.3% in 2021.[xiv]

The current projections for giving to health in 2020 and 2021 are higher than the historical 10-year, 25-year, and 40-year annualized average rates of growth for giving of this type.[21]

Specific factors that will significantly and positively influence health giving in 2020 and 2021 include:[xv]

- Average growth in consumer expenditures on healthcare services,
- Average growth in consumer expenditures on nursery to high school education, and
- Average growth in household and nonprofit net worth.

These factors will account for the majority of the predicted growth in giving to health in these years.

However, average growth in consumer expenditures on service receipt sales of nonprofit organizations will temper these positive effects.

[xiv] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[xv] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook model also includes a full list of the variables tested and included in each model, as well as information about the stability of the variables.*

Giving to Public-Society Benefit

2020 5.1% 2021 5.0%

Giving to public-society benefit includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. public-society benefit charities, including independent research facilities, community development organizations, human and civil rights organizations, philanthropy associations, commercial donor-advised funds, United Ways, federated charities, and other types of organizations.

Giving to public-society benefit is predicted to increase by 5.1% in 2020 and by 5.0% in 2021.[xvi]

In 2020 and 2021, public-society benefit giving is predicted to surpass the historical 10-year, 25-year, and 40-year annualized average growth rates.[22]

Specific factors that will significantly and positively influence public-society benefit giving in 2020 and 2021 include:[xvii]

- Average growth in consumer expenditures on recreation services in the preceding years, and
- Above-average growth in total giving, and
- Above-average growth in the difference in personal savings rate in the preceding years.

These factors account for the majority of the predicted growth in giving to public-society benefit in these years.

However, average growth in consumer expenditures on education services in the preceding year, average growth in personal savings in the preceding year, and above-average growth in the S&P in the preceding year may temper this growth.

Giving to public-society benefit organizations tends to be affected by trends that influence consumer behavior regarding luxury expenditures.

[xvi] *All growth rates are based on predictions for giving in inflation-adjusted 2018 dollars using 2019 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2020 and 2021; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[xvii] *For the definition of these variables and their sources, see the "Variable Definitions and Sources" list in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook model also includes a full list of the variables tested and included in each model, as well as information about the stability of the variables.*

Table 1

HISTORICAL ANNUALIZED AVERAGE RATES OF CHANGE FOR GIVING

	10-Year Average	*25-Year Average*	*40-Year Average*
TOTAL	2.0%	3.0%	2.7%
INDIVIDUALS	1.6%	2.5%	2.2%
FOUNDATIONS	4.4%	6.3%	5.7%
CORPORATIONS	3.3%	2.3%	2.8%
BEQUESTS	0.9%	3.9%	3.5%
EDUCATION	3.4%	3.5%	3.2%
HEALTH	3.8%	4.0%	2.4%
PUBLIC-SOCIETY BENEFIT	4.1%	3.1%	4.3%

These data are drawn from historical giving data found in *Giving USA 2019: The Annual Report on Philanthropy for the Year 2018*. Data are adjusted for inflation to 2018 dollars.

Stress Test Analysis

For this edition of *The Philanthropy Outlook*, the report presents a stress test for 2020 and 2021, using characteristics similar to the Great Recession of 2007-2009 to see how charitable giving would change compared with *The Philanthropy Outlook's* results. This stress test analysis does not suggest that any potential new recession would be equivalent in severity and length to that of the Great Recession, rather, this analysis, which is modeled in part on the conditions used for the severely adverse scenario of the Dodd-Frank Act Stress Test (DFAST) for banks, serves a similar role as that of the DFAST—to ensure that organizations could continue to function under severely adverse conditions.[23] Just as the results of the DFAST test help banks to self-regulate and identify and address potential risks, this stress test analysis is intended to help nonprofits and fundraisers in a similar way.

Such a measure is helpful because the Great Recession also demonstrated that the charitable sector is susceptible to the effects of economic downturns. In 2008, the S&P 500 declined 40.8% over 2007, while GDP decreased 2.0% and another 1.4% the following year (all in real terms).[24] The unemployment rate soared to 9.5% in June 2009 (up from 5.0% in late 2007).[25] At the same time, total charitable giving declined 7.2% in 2008 and 8.0% in 2009 in inflation-adjusted dollars.[26] Giving by bequests, foundations, and corporations saw a decline in giving in either 2008 or 2009, but giving by individuals was hit hardest, with a decline of 11.7% in 2008 and 5.7% in 2009 in inflation-adjusted dollars.

Given the enormous impact of the Great Recession on charitable giving, it makes sense for nonprofits and fundraisers to stress test their organizations and look for ways to manage any potential risk. Under recession conditions similar in scale to the 2007-2009 recession that would hypothetically begin in late 2019 and intensify through 2020, total giving would be 10.6% lower than *The Philanthropy Outlook's* current projection for growth in total giving in 2020.[27] All sources of giving would see declines for 2020 and 2021 compared with the current projections. It is key to remember that this scenario presents a comparison between the current projections, in which growth is expected to be strong.

Giving landscape after the Great Recession

As fundraisers and nonprofits consider how they may guide their organizations to be able to withstand the hypothetical conditions described in the stress test, it is key to consider the ways that the Great Recession has had a significant and lasting effect on charitable giving patterns.

Overall, the percentage of households participating in charitable giving has declined by 13% from 2000 to 2016, according to data from the Philanthropy Panel Study (PPS), a module within the University of Michigan's Panel Study of Income Dynamics.[28] By comparison, the share of households donating to charity from 2000 to 2008 held relatively steady. In addition, the study found that American households gave a smaller percentage of their income to charity after the Great Recession compared with before.

Significantly, the Great Recession did not impact every segment of society at even rates. Some groups were hit especially hard: notably, men held 78% of the jobs that were lost in the Great Recession, and unemployment rates for men soared to 8.9% (compared with 7.2% for women) in the first quarter of 2009.[29] In addition, the Great Recession hit at a time when people born in the 1980s (generally considered older Millennials) were first entering the workforce. The difficult job market and wage stagnation experienced by this demographic group has had long-term effects: a recent study found that the wealth level for this group is 34% lower than it would have been had the Great Recession not occurred.[30]

Accordingly, an analysis of the PPS data found that the charitable giving patterns for both of the aforementioned demographic groups were negatively impacted by the Great Recession: single men were 8.1% less likely to give after the Recession (compared with a 5.1% decline for single women).[31] Millennials were roughly 4% less likely to give after the recession than before and are not giving at rates comparable to the rates of other generations at the same point in their lives.

While demographic-specific factors may play a role, another study suggests that the Great Recession may have had a long-term negative impact on giving behavior more generally.[32] The study found that the fall in charitable giving in the PPS after the recession could not be entirely explained by controlling for a number of different variables, including shocks to income and wealth. One of the study's authors suggested that households may be more cautious about how to spend discretionary income in the wake of the Great Recession, which may in turn lead to less charitable giving.[33]

Lessons learned from the Great Recession

It is also valuable for nonprofits and fundraisers to identify areas of the giving landscape that have proven to be relatively resilient in the years during and after the Great Recession.

FOUNDATION AND CORPORATION GIVING

An analysis of the Million Dollar List, a database of gifts of $1 million or more, found that foundations actually gave more gifts of $1 million or more during the recession.[34] It is possible that foundations are more responsive to the market, and therefore rebounded more quickly than other sources the market improved after the Great Recession, or that foundations responded to increased societal need as a result of economic conditions. The same analysis found that giving by corporations at the level of $1 million or more closely followed the business cycle rather than broader economic trends.

RESILIENT GIVING PATTERNS

Though individuals were significantly impacted by the Great Recession, some bright spots emerged. Nonprofits and fundraisers may consider strengthening their efforts in the following areas to mitigate risk and ensure resiliency in the face of a potential recession:

- A recent longitudinal study of donor-advised fund granting patterns found that payout rates (defined as the ratio of total grant dollars awarded to assets), as well as flow rate (defined as the ratio of total grant dollars awarded to total contributions received by donor-advised funds in a given year), actually increased during the Great Recession.[35] These findings suggest that donors with donor-advised funds may be uniquely situated to continue giving during a potential recession.
- Donors and grantmakers appear to have responded to increased need during the Great Recession: giving to human services from all sources of giving actually increased in inflation-adjusted terms in both 2008 and 2009, and giving to food banks in 40 cities increased 31.9% from 2008 to 2009.[36] Nonprofits and fundraisers might consider the importance of making a case for the need that their organization fills, and may also consider the role that media coverage has in making donors aware of increased need during an economic downturn.

Conditions That May Affect the Outlook for Giving

Changes to the variables used in the projection models for charitable giving have the potential to change the outlook for giving. For definitions of these variables and their sources, see Variable Definitions and Sources in the Guide to the Philanthropy Outlook model at www.PhilanthropyOutlook.com. The Guide to the Philanthropy Outlook also includes information about the stability of the variables.

This section of the report includes additional information about long-term trends and conditions that may affect the outlook for giving.

Income inequality and critiques of philanthropy

Multiple measures of inequality exist. One such measure, the share of income held by the top 10% of families in the United States, has been on the rise for several decades.[37] Another study of household wealth found that the share of all wealth held by the top 1% of households grew 9.9% from 1962 to 2013, and 33.0% for the next 4% of households. By 2013, the top 5% of households held 64.9% of all the wealth in the U.S. This trend has continued in recent years—the Gini index, which measures distance between incomes, increased a statistically significant amount in 2018 over 2017.[38]

There are multiple perspectives about the impact the rise in income inequality might have on charitable giving. One recent study found that giving as a share of income declined for high-income households in periods of high inequality, and increased in periods of low inequality, such as the period following World War II.[39] The study controlled for income and a number of other factors, concluding that this trend is more behavioral and psychological in nature. The study suggests areas for future research, including exploring the theory that high-income households have increased "social distance" from the rest of society as inequality increases, which translates into a decreased impetus to give.

Offering a different perspective, one recent critique of philanthropy suggests that income inequality has had a positive effect on the assets of private foundations.[40] However, this critique, along with others, raise concerns about the impact that income inequality might have in philanthropy, arguing that mega-donors using private foundations and other philanthropic vehicles have the power to weaken or even circumvent civil society.[41]

Continued growth in income inequality could have a number of different effects in the coming years, especially if mega-donors shift their giving behaviors, or if the nonprofit community seeks to change policies and regulations internally or at the state and federal level in response to recent critiques.

Upcoming elections and new legislation

Local, state, and national elections will take place in 2020. In general, political donations have not been found to have a negative impact on charitable giving.[42] However, a recent study by the Women's Philanthropy Institute identified changes in giving patterns around the 2016 presidential election: relevant progressive charities received an increase in donations in the days immediately following the election, and that increase was driven by women donors.[43] This study raises the question of how donor groups may shift their giving in response to political events.

In 2020 and 2021, donors may respond to policy changes proposed by potential presidential candidates should they be elected. For example, presidential candidates Senator Elizabeth Warren (D-MA) and Bernie Sanders (D-VT) have both proposed a wealth tax.[44] There are different

ideas about how mega-donors in particular may respond to such a change in policy. Philanthropist John Arnold has suggested that paying higher taxes may be perceived by some mega-donors as a replacement for charitable giving. Others have suggested that mega-donors would have an increased incentive to take advantage of the tax benefits of charitable giving under a wealth tax.[45]

Regardless, a new wealth-tax would likely create a major incentive for donors to give in the year before the new tax would go into effect.[46] The philanthropic world saw a similar situation in December 2017—experts urged nonprofits to notify donors of the tax policy changes and take advantage of the charitable deduction before the Tax Cuts and Jobs Act went into effect.[47] In addition, several national donor-advised fund sponsors reported an influx of new accounts in December 2017, which may also have been a response from donors seeking to make a tax-advantaged gift.[48]

Finally, new legislation may have an impact on charitable giving in the coming years. For instance, several pieces of legislation have proposed a universal charitable deduction as a way for non-itemizing individuals to claim a tax deduction for giving to charity.[49] In late 2019, Representative Mark Walker (R-NC) introduced a bill that would allow a universal charitable deduction of $4,000 for individuals and $8,000 for married couples. A universal charitable deduction is expected to have a positive effect on giving to charity.

Methodological Overview

To review our complete methodology, please view the Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com.

This edition of *The Philanthropy Outlook* produces forecasts for the annual growth rates and levels of individual/household, foundation, estate, and corporate giving, as well as giving to education, health, and public-society benefit for the years 2019 through 2021.[50] The forecast for total giving is produced as the sum of the four donor components. Collectively, 34 different variables, plus lagged values for many of these variables, were incorporated into the final models for giving by donor and recipient subsectors.

In the initial stages of methodological development, all possible combinations of variables were compared,

resulting in more than 100,000 regressions for individual/household giving alone. Fewer regressions were needed for the three remaining components. For each component, the best model was selected by first considering its explanatory power through 2018. The models with the best explanatory power were then re-estimated through 2007. One-year-ahead forecasts were constructed through 2018 for these models, and the best model was selected as the one with the lowest root-mean-squared error (RMSE¬).[51] We relied on historical data from *Giving USA: The Annual Report on Philanthropy* and available IRS data.

See Figure 1 in the Guide to the Philanthropy Outlook Model for a comparison of actual versus predicted growth rates for total giving for the years 2007 to 2017, as well as the "Variable Definitions and Sources" section for

a list of the candidate variables. We know that events can sometimes have a delayed effect on giving. For that reason, we considered previous-year and contemporaneous values of the explanatory variables, as well as previous-year values of the dependent variables (i.e., historical giving values).

For the individual/household and corporate giving models, it is not practical to test all variables at the same time. Instead, we adopted a three-step approach. In the first step, only the current values of the candidate variables were included in the regression. The best model within this set was referred to as the "base model." The selection procedure was implemented over all possible combinations of the lagged variables added to the base model. The best model following this step was the "revised model."

In the third step, the selection procedure was run over all possible combinations of variables in the revised model. Any variables included in the final models from previous editions of *The Philanthropy Outlook* were also included for testing. The result was the "final model." The estate and foundation models were estimated in a single step because the number of candidate variables was small enough that the previous and current values of the variables could be evaluated in one program.

The models for estimating giving to the recipient subsectors were developed using a modified version of the aforementioned individual/household and corporate giving models. In general, giving to the recipient subsectors is difficult to predict, as each of the subsectors experiences unique conditions that affect giving. Moreover, because there are several subsectors that receive gifts from the four major donor types, the subsectors experience more variance in giving on a year-to-year basis than do the sources of giving. To adjust for these factors, additional steps were added to the original three-step approach.

When using the "base model" approach, we tested all combinations of a set of subsector-specific variables. These variables were derived from the different types of personal consumer expenditures, which allowed us to evaluate variables specific to each subsector. Next, the variables were tested with the lag of all personal giving variables, and the resultant list was tested with the lag of all subsector-specific variables. This "revised model" was then tested against all possible permutations of itself, along with variables from prior years' models, which resulted in the "final model" for each subsector.

Tables 2 and 3 in the Guide to the Philanthropy Outlook Model describe the models for each source of giving and for giving to the recipient subsectors. Note that for each source of giving, with the exception of giving by estates, the adjusted R^2s (coefficients of determination) are high. Moreover, the signs of the coefficients are generally consistent with economic theory that giving responds positively to increases in the ability to give and general economic conditions. See Table 4 in the Guide to the Philanthropy Outlook Model to reference the ratio of RMSE to the standard deviation for each giving prediction.

The forecasts of the different components were processed using the final version of each model and covered 2019 to 2021.[52] Implementing the forecasts entailed auxiliary models for the explanatory variables (i.e., independent variables). These auxiliary models are described in the Guide to the Philanthropy Outlook Model.

For a full list of variable definitions and sources, visit the Guide to the Philanthropy Outlook Model, www.PhilanthropyOutlook.com.

Limitations

The Philanthropy Outlook was developed using well-established econometric methods. The models selected for producing each component of *The Philanthropy Outlook* are composed of a linear combination of growth rates (or 1-year differences) for key indicators. The results point toward linkages between specific economic variables and philanthropic giving. These linkages can be positive or negative (inverse), as well as direct or indirect. With these results, we cannot say that a particular variable caused philanthropy to rise or fall; rather, they point us toward what is likely to happen and why.

The Philanthropy Outlook is meant to be informational. The Indiana University Lilly Family School of Philanthropy and Marts & Lundy make no guarantees about its accuracy. Similar to other types of predictions, it is impossible to know ahead of time all the factors that will affect giving into the future. While *The Philanthropy Outlook* is based on scientific methodology, there are limits to the use of such methodology to predict future outcomes.

We have confidence in the measures we have taken to adjust for the Tax Cuts and Jobs Act (TCJA), including our ongoing data partnership with the University Of Pennsylvania Wharton School Of Business and the incorporation of key variables directly affected by TCJA in the models. However, the sweeping changes ushered in by TCJA represent an out-of-sample change, with possible behavioral effects that are difficult to estimate before final data has been received.

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[14] Growth in charitable giving is often driven by prior-year growth in specific economic variables, especially for foundation giving.

[15] This is one hypothesis. Foundations will adopt various strategies given funding priorities.

[16] Prior-year projections are not included in this report. Data for years prior to 2019 come from *Giving USA 2019: The Annual Report on Philanthropy for the Year 2018*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[17] Growth in charitable giving is often driven by prior-year growth in specific economic variables. For estate giving, this is true for household and nonprofit net worth.

[18] Prior-year projections are not included in this report. Data for years prior to 2019 come from *Giving USA 2019: The Annual Report on Philanthropy for the Year 2018*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[19] Note that these generalizations are based on national-level data and are not necessarily indicative of a single corporation's philanthropy program or strategy.

[20] Prior-year projections are not included in this report. Data for years prior to 2019 come from *Giving USA 2019: The Annual Report on Philanthropy for the Year 2018*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

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