Philanthropy Has Important Challenges but Are They the Ones We’re Talking About?

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A number of pundits have recently taken aim at the nonprofit sector, especially in heated battles about the deductibility of charitable donations. Before jumping into the fray, we at the Angeletti Group have asked our colleagues and donors to take a deep breath and look at the bigger picture. As important as discussions are about the presence and lobbying power of the nonprofit sector, they distract from the biggest question concerning nonprofits: what must nonprofits focus on now to touch lives, change lives, and save lives?

This question requires us to discuss the challenges that limit our power to do good. Here are five to start you thinking.

**The Concentration of Wealth.** According to the Federal Reserve Bank of St. Louis’ findings in 2019, the top 10 percent of Americans earned income in 2016 equal to that of the bottom 90 percent of all other Americans combined. No wonder then that, since the 1980s, nonprofits have faced a parallel concentration of donors. Consider this change: 35 years ago a collegiate fundraising leader told me that 80 percent of the dollars typically came from 20 percent of the donors. I was surprised. But by 2008, when I tallied the results for a campaign I directed, 94 percent of the campaign dollars came from 1.7 percent of the donors. I was flabbergasted. Giving increasingly relies on those who have the greatest capacity—and the most generous intentions—to make a significant philanthropic difference.

And the best major-gift officers, no slouches at learning from experience, followed the advice that Deep Throat gave to Woodward and Bernstein during their Watergate investigation for *The Washington Post*—follow the money. Successful fundraising has moved from traditional pipeline building into highly focused, major-gift operations.

Perhaps we should have thought more about that shift. That concentration of donors at the top led to a still-continuing decline in event fundraising, always an expensive proposition, and to shriveling returns on annual appeals. Did this shift cause nonprofits to lose the opportunity to “raise friends” and to build consensus about a charity’s role and vision? And are nonprofits now practicing community building with most of the community no longer participating?

This trend has also stratified the American charitable community. American charities are sliding into camps of *haves* and *have nots*, driven by an “aspirational gap,” according to Bridgespan, an international strategic adviser to charities. America’s wealthiest claim to want to change the world, but in 2018 only gave away 1.2 percent of assets. And although 80 percent expressed a desire to address poverty, public health, or environmental issues, 80 percent actually gave to well-endowed universities, hospitals, and cultural institutions. As the big become bigger, the small become smaller.

**American Migration.** At our peril we forget that Americans are a restless folk, and migrations already underway will reshape American philanthropy just as they reshape American politics and culture. Many older donors of the Quiet Generation and Baby Boomers have become snowbirds or relocated permanently. Their children have been difficult to engage at comparable giving levels—and now they too are moving away. As one New Jersey fundraiser reminded me recently, that next generation of wealth stays until their children finish secondary school and then seeks a change of lifestyle or celebrates their good fortune in warmer, American tax havens.

America’s ethnic communities are part of the trend too. A late January article in *The New York Times* charted how the high cost of living in New York City is driving Black residents to migrate, some
to nearby states but many to the South in what we might call the Great Repatriation, a distant echo of the Great Migration. Like their white counterparts, they leave behind institutions and organizations that rely on their support and that do not necessarily possess the resources to mount annual or semi-annual Southern junkets, er, donor-engagement trips. Even for those migrants who maintain their home ties, Northern charities must now compete against worthy Southern cousins for support from these transplants. And the pandemic accelerated the outflow of migrating dollars, especially after digital nomads discovered the joys of no longer commuting to work.

If migratory trends continue, East and West Coast and Rust Belt causes must redouble efforts to maintain a financial base and, in some cases, to confront the necessity of merging with like-minded charities. The trend will also challenge Northern and Southern charities to engage with newcomers and adjust their cultural visions to accommodate new ideas, personalities, and dynamics. Migration will multiply conversations about race, ethnicity, history, culture, and values. It is inescapable. Those conversations will determine at which charities donors will feel most comfortable. The more donors rub shoulders with newcomers or outsiders, the more American nonprofits must confront organizational discomfort as they fulfill their missions.

Migration and economic achievement have also brought ethnic enclaves into formerly homogenous white communities. But most charities have ignored that change. Doing so has limited their potential through a failure to embrace the workplace and cultural shifts necessary to create trust with communities of color. Charities can no longer afford that luxury. The challenges ahead are simply too large. Nonprofits must broaden their constituencies, which means that addressing that gap in trust is a great place to start.

**Generational Demographics and Dynamics.**
American nonprofits will not escape the challenge that colleges and universities face right now as they attempt to achieve their admissions targets. As a New Jersey college administrator told me recently, American high schools will have 4.6 percent fewer students from 2018 to 2028 than before, and, thus, fewer people will graduate from college. Workforce automation will further expand the chasm between the social classes as technology eliminates positions, including a few typically occupied by college graduates.

Given the link between wealth and a bachelor’s degree, that prospect should concern all charities. Will the decline in college graduates soon yield fewer dollars, fewer returns on appeals, and more volatile social contexts in which to operate? Beyond that, like a similar dip in the cohort born in the 1930s, might we expect a plateau or a small decline in the eventual number of major gifts and bequests? The demographic dip will haunt nonprofits for another 70 years.

Combine that demographic curve with a generational shift in lifestyle and philanthropic philosophy, and charities face a serious headache. As one parent recently mentioned, his twenty-somethings and their peers actively support causes, but their voting patterns in the most recent midterm election reveal they focus on big social issues—voting rights, women’s rights, the environment, social justice—with a preference for large organizations that can effect meaningful change. They look past small, local organizations and more traditional sectors in their impatience for social change. In fact, patience is not a virtue for them, he said, although the young have never been patient. They have more discretionary income, even adjusted for inflation, than their parents had at the same age, but they spend more of it on mortgages, club memberships, eating out, travel, and eventually, among families of wealth, on private education for their children. In their busy schedules, they believe their time is as valuable to a charity as their money. Charities may beg to differ and face a special hurdle in communicating with and engaging millennials, Gen Z, and xennials (born 1977 to 1983), who live on their phones.

**Workforce Resiliency and Well-Being.** To be plain, the COVID-19 pandemic kicked the stuffing
out of local charities. Before the arrival of vaccines, charities closed, operated with few personnel if they operated at all, and in some instances found donors interested only in supporting health-related causes. Even hospitals temporarily shuttered their usual fundraising activities to manage gifts of personal protective equipment, clothing, footwear, bottled water, and meals delivered to beleaguered nurses and physicians. A mass, work-from-home experiment also ensued, followed by the so-called—and mislabeled—Great Resignation. According to labor economist Arindrajit Dube, the time off “made workers at low-wage jobs [realize they had] historically underestimated how bad their jobs are.” —Including a multitude of low-paying jobs in philanthropy. As a result, our employees sought better jobs. We are, in fact, in the midst of a Great Reshuffling, according to Dube, as noted by Nobel laureate Paul Krugman in a 2022 *New York Times* column.

The pandemic prompted many Baby Boomers to retire, and problems with childcare forced some parents to forgo any return to work. For those who did return, the stress of food, housing, job, and economic insecurity, social and political turmoil, and longer hours to compensate for vacancies triggered an unprecedented mental health crisis. We still have not recovered—and may not for a generation, parents and children alike.

The vacancies and our overworked “remainders” make recruiting replacements difficult and reduce the hours for addressing our pipeline of prospects. Not only do nonprofits have a decreased capacity to deliver on their promises, but they also have a decreased ability to seek the gifts that support their causes. From front-line workers to fundraisers managing portfolios of up to 150 donors, charities need more than engagement surveys, annual picnics, and charity-themed merch for their employees to thrive on the job. Staff at all levels need childcare solutions, ongoing training in self-care and mindfulness, flexible schedules, hybrid work arrangements, workplace crediting policies for fundraisers that encourage collaboration rather than competition, and rational sick-day and time-off policies. Small charities among us will struggle to offer such benefits, but the entire sector faces this crisis.

Do not forget higher salaries for mid-level and clerical staff and affordable health insurance for everyone. Just as crucial: why is creating a safe, welcoming, non-harassing workplace so hard? We have work to do.

**Gift law reform.** Another significant debate concerns the rules governing donor-advised funds (DAFs) and private foundations. Should they change, for example, to mandate that DAFs pay out their contributions within a specified period of time? Doing so would unlock billions in assets to benefit millions of Americans.

And as private foundation rules now stand, donors can pay family and friends for travel, lodging, and meals to attend board meetings and have those expenses count against the foundation’s required annual distribution. Aruba, anyone? The Maldives next year? Not all private foundations are abusive, but this does open the possibility of providing family and friends with a sinecure while veterans go begging for shelter and mental health services.

We join others calling for Congress and the IRS, clarify the laws and regulations governing payouts to charities from individual retirement accounts, other retirement plans, and pay-on-death accounts. We at TAG believe the laws should become more stringent on the country’s largest financial institutions and not allow them to withhold payouts longer than three months after notification of a donor’s death. We also believe that a charity should only need to prove its existence in good standing and share its federal identification number to obtain the funds due it. Brokerage houses and banks now hold these funds hostage and earn billions in commissions and fees for managing the portfolios while they force charities to file needless paperwork and assemble confidential information from all their trustees that no law or regulation requires. In fact, the regulations prohibit charities from opening IRA accounts at all to take transfers. The financial companies ignore that fact.
Final thoughts. Other issues deserve discussion. Improving nonprofit governance can prevent boards from becoming social echo chambers and unleash the power of charities to do good in the world. And nonprofit leaders and boards should undertake more strategic planning, especially about crisis management, succession planning, and their communities’ unmet needs.

To face these challenges, we need another resource that almost no charity undertakes: research. Can we discover through controlled experiments, for instance, that abolishing the income-tax charitable deduction will generate little change in American philanthropy? Many believe Americans give as a part of their nature and will continue to give, no matter what. But according to the Charities Aid Foundation, for at least the past five years the United States has not ranked as the most generous nation in the world, based on 2021 data. We trail Indonesia.

Nonprofits can buy research on best practices from The Advisory Board and consulting firms or from Bridgespan and a few other nonprofits, although not all can afford to. We should all be grateful to the Pew Research Center for insights into American social thought and donors’ attitudes about giving. But the rare few undertake research into basic fundraising methods and strategies that can sustain charities for the next 25 or 50 years. We need that.

It is past time for a full-throated conversation. We have some thoughts on solving some of these challenges. You probably do too. We all have plenty to learn and unlearn.

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