The Philanthropy **Outlook** 2016 & 2017

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Foreword

In this second annual edition of The Philanthropy Outlook, we project national philanthropic giving for 2016 and 2017. Included in this report are projections for total giving and giving by donor category, as well as giving to education. The outlook for giving to education was developed due to its substantial importance and presence in the American philanthropic sector. Philanthropy is critical in supporting higher education, private K-12 schools, libraries, and other types of educational organizations. In 2014, the education sector accounted for 15% of contributions received by U.S. charities, making it the second-largest recipient category of charitable contributions.[1]

Philanthropy's role in education has grown both more visible in recent years and more diverse. Increasingly, charitable contributions are being used to fund public and charter schools, teacher training and effectiveness, educational innovation, and scores of other initiatives. While debates concerning how best to fund education are ongoing, the sophistication of philanthropic funding for education continues to evolve. Because of these changes, The Philanthropy Outlook aims to provide practitioners with educational outlook data that can be used proactively and strategically in the context of program planning and fundraising.

For the years 2016 and 2017, The Philanthropy Outlook projects continued growth in the U.S. philanthropic sector.

- The total giving rate is expected to rise above the 5-year, 10-year, and 25-year annualized averages, demonstrating sustained resilience during recent difficult economic periods.[2]
- Contributions from all sources of giving are expected to grow in 2016 and 2017. Giving by foundations will realize the most robust growth, followed by giving by estates and corporations. The rise in giving by individuals/households will be a bit more modest than giving by other sources, yet still within a healthy range of growth.
- Giving to education will continue to demonstrate strong growth into 2016 and 2017. The giving rates for giving to education in these years will be slightly higher than the 40-year annualized average for giving of this type, about equal with the 25-year average, and much higher than the 10-year average.[3]

With continued support from Marts & Lundy, Indiana University Lilly Family School of Philanthropy developed this report to help inform the nonprofit sector. Nonprofit leaders and staff can use the information within The Philanthropy Outlook to guide decision making about future budgeting, staffing, fundraising, programming, and general nonprofit development, as well as for board reports, general nonprofit reports, and research on philanthropic giving trends. This information can also be used to demonstrate to the general public the importance and impact of the philanthropic sector and the likely positive developments in giving yet to come. The Philanthropy Outlook provides data and analysis on future giving trends that are rigorous in their development, transparent, and informative.

This edition of The Philanthropy Outlook projects giving for the years 2016 and 2017 in relationship to the year 2015.[4] Throughout this report, we offer detail on those economic factors that will have the most significant influence on giving for these years, as well as other information that provides context for these trends. Later in the report, we include information about how certain economic conditions may alter our projections for giving. The final portion of this report provides practitioners with important implications of The Philanthropy Outlook to apply in the course of both daily practice and short- and long-term planning.

Tables and Figures

For more detailed information about the methodology used in The Philanthropy Outlook, locate the outlook's Technical Appendix at www.PhilanthropyOutlook.com.

Introduction

Philanthropy is undergoing significant transformation. These changes are bringing both challenges and opportunities for nonprofits to recalibrate their approaches to engaging, stewarding, and retaining donors, as well as structuring overall revenue generation. Below, we highlight four key areas of change that are impacting philanthropy today and consequently in the near- and long-term future. As you read this report of 2016 and 2017 projections for philanthropic giving, consider these and other economic, social, technological, and political factors to plan for the coming years.

Changing demographics within the United States are causing shifts in philanthropic giving patterns. Wealthy Millennials, for example, are more likely to use their wealth to create social impact as compared with older generations.[5] Moreover, this age group is raising new questions about how philanthropy can most effectively be leveraged in creating change. The wealthiest of U.S. Millennials, Mark Zuckerberg,[6] and his wife, Dr. Priscilla Chan, rocked the world of philanthropy in December 2015. The couple announced that they would be contributing 99% of their lifetime wealth in the form of Facebook shares to a new limited liability company (LLC) for the purpose of social-impact investing and philanthropic giving.[7] The Chan-Zuckerberg Initiative, along with the rise of giving through donor-advised funds[8] and the increased integration of values with investment, entrepreneurism, and career life,[9] demonstrates a clear preference among Millennials to be actively involved and engaged in their own philanthropic endeavors.

While generational factors continue to shape this new era of philanthropy, so too is the increasing diversity of the U.S. population. More than four in ten Millennials are non-White.[10] The current youngest generation—Generation Z—is approximately 50% non-White, with a significant proportion comprised of a blend of races and ethnicities.[11] Moreover, other forms of diversity—such as those within the domains of religion and the LGBTQ community—are also increasingly being considered in the changing landscape of philanthropy.[12]

Demographic shifts in philanthropy are coinciding with both a changing **economic climate** and tumultuous **political dynamics**. While the general U.S. economic landscape is continuing to stabilize, not all U.S. households have experienced the same rate of financial recovery. A late 2015 report revealed that median income and wealth

among U.S. middle-class households—which comprise the largest segment of U.S. households—have fallen since the early 2000s (4% and 28%, respectively).[13] Households in the West North Central, West South Central, Middle Atlantic, and East South Central regions have had the most difficult financial recovery.[14]

On the political landscape, contentious congressional battles over nonprofit and charity tax policies in recent years,[15] as well as myriad proposed changes that may come with U.S. presidential nominations,[16] add to the complexity of the current philanthropic environment.

From sophisticated websites and e-commerce tools to social media platforms and even bitcoin, it could be said that **technological innovations** have had the most impact on philanthropy in the last five to ten years. Technology has greatly expanded the donor-nonprofit relationship through enhancing nonprofit transparency, engaging donors and other constituents, leveraging peer-to-peer fundraising, and providing greater ease in giving and philanthropic involvement. While data do not yet reveal a specific link between changing technologies and increased overall giving, emerging forms of technology have significant weight to bear on both the present and future philanthropic landscape. However, as one report has noted, it is critical for the philanthropic sector to attend to the limits of technology—including information overload and the lack of high-quality information.[17]

Combined, these areas of influence pose the greatest challenge to nonprofits in the areas of fundraising and revenue generation, either directly in terms of effective engagement and retention of a diverse range of donors and maintenance of a strong revenue structure, or indirectly, such as in the areas of staffing, leadership, collaboration, and partnerships. Yet, the challenges these dynamics pose are also opportunities for growth—opportunities wherein nonprofits and their leaders and constituents can reimagine new possibilities. The positive results found within The Philanthropy Outlook 2016 & 2017 provide a strong foundation to all U.S. nonprofits for transforming these challenges into opportunities to build a brighter future.

Total Giving

2016 4.1%

2017 4.3%

Total giving is predicted to increase by 4.1% in 2016 and by 4.3% in 2017.*

In 2016 and 2017, total giving is expected to rise above historical 10-year and 25-year average rates of growth. Total giving in both years will be slightly below the 40-year average growth rate of 4.4%.[18]

Specific factors that will significantly influence total giving in 2016 and 2017 include:

- Above-average growth in the S&P 500 in preceding years and projected years,[19]
- Average growth in personal income,[20] and
- Slightly above-average growth in household and nonprofit net worth.[21]

Trends in the current year's S&P 500 affect giving in the subsequent year as individuals/households—typically those with higher than the median annual income—often budget their current year's giving based on the performance of last year's assets. Therefore, we anticipate that projected above-average growth in the S&P 500 in 2015 and 2016 will positively affect total giving in 2016 and 2017.

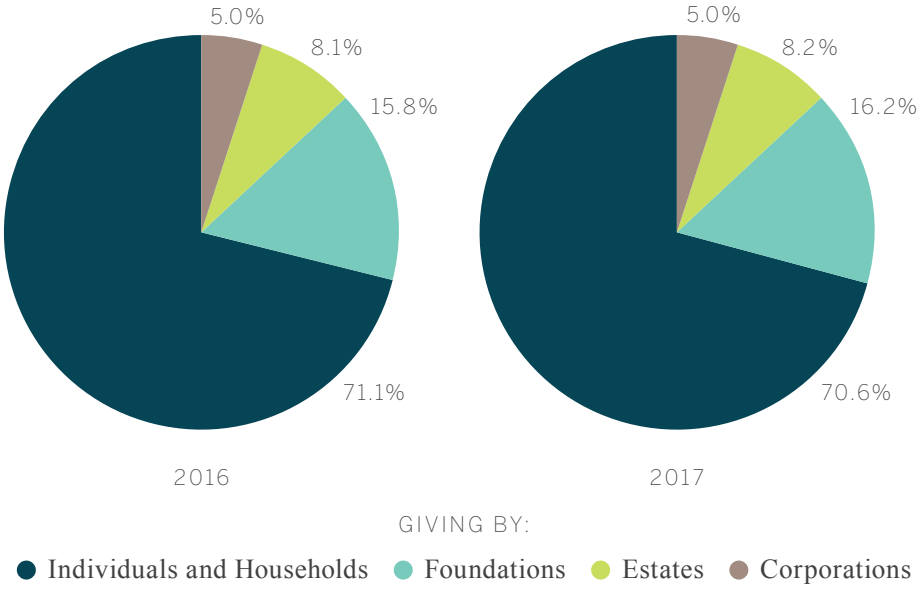
Below-average growth in personal income is expected to mitigate increases in giving influenced by the S&P 500 in 2016 and 2017. However, slightly higher-than-average projected increases in household and nonprofit net worth will enable households and other donor types to draw from their assets, if necessary, to give.[22]

** All growth rates are based on predictions for giving in inflation-adjusted 2014 dollars using 2015 as the base year. The Philanthropy Outlook projects the growth rates of variables into 2016 and 2017; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 in this report for this data.*

Figure 1

DISTRIBUTION OF TOTAL GIVING, BY SOURCE FOR THE YEARS 2016 AND 2017

Figure 1 shows the proportion of total giving by each source for the years 2016 and 2017. In 2016, 71.1% of total giving is expected to derive from individuals/households, followed by 15.8% from foundations, 8.1% from estates, and 5.0% from corporations. In 2017, the proportion of giving from individuals/households will decline slightly, while the proportion of giving from estates and foundations will rise slightly. The proportion of giving from corporations will remain steady between 2016 and 2017. All four components of giving are expected to grow in 2016 and 2017.



Figures 2 and 3 show total giving in 10-year segments over the 40-year periods ending in 2016 and 2017. Both Figures reveal that the rates of growth for giving in these years—4.1% in 2016 and 4.3% in 2017—are considerably higher than the average rate of growth in the 10-year periods ending in 2016 and 2017. This finding demonstrates that total giving is expected to maintain a healthy stance.

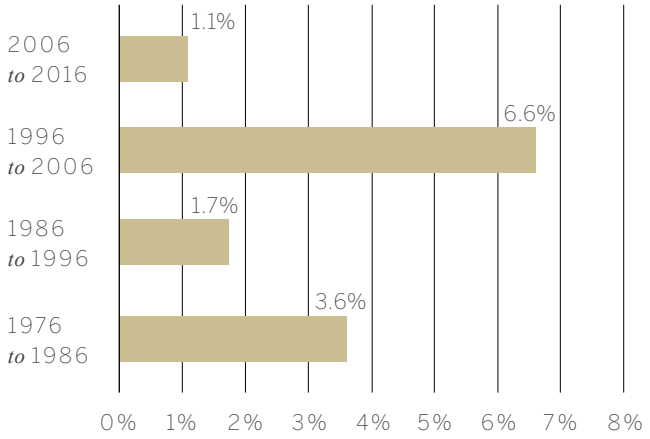


Figure 2

AVERAGE RATES OF CHANGE FOR GIVING, SELECTED TIME PERIODS, 1976-2016 *(Data are in 2014 dollars)*

Figure 2 shows that the estimated average annual rate of growth for giving in the period 2006-2016 is lower, at 1.1%, than the other 10-year periods, especially 1996-2006.[23] In that particular period, giving saw an unusually high average annual growth rate of 6.6%. The growth in charitable contributions during that period reflects robust economic development within the U.S., especially in the mid-to-late 1990s. Growth in total giving in the 2006-2016 period was considerably impacted by significant declines in giving during the Great Recession (2008 and 2009).

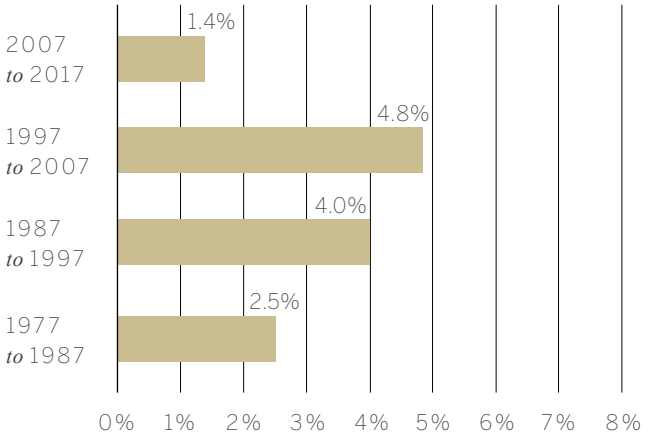


Figure 3

AVERAGE RATES OF CHANGE FOR GIVING, SELECTED TIME PERIODS, 1976-2017 *(Data are in 2014 dollars)*

Figure 3 shows the average annual rate of growth for giving in 10-year periods, 1977 to 2017. Giving in periods 1987-1997 and 1997-2007 are comparable, at 4.0% and 4.8%, respectively.[24] Total giving in the period 2007-2017 saw the lowest rate of growth, reflecting the severity of the Great Recession.

Giving by Individuals/Households

2016 3.7% 2017 3.8%

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

Giving by American individuals/households is predicted to increase by 3.7% in 2016 and by 3.8% in 2017.*

The current projections for giving by individuals/households for the years 2016 and 2017 are above the historical 10-year and 25-year average rates of growth for giving of this type. Individual/household giving for the year 2016 is expected to rise at the same level as the 40-year average rate of growth, while giving in 2017 will be slightly higher than the 40-year average.[25]

Specific factors that will significantly influence individual/household giving in 2016 and 2017 include:

- Average growth in personal income, and
- Above-average growth in household and nonprofit net worth.

Individual/household giving is comprised of contributions from those who itemize their charitable deductions on income taxes (itemizers) and those who do not (non-itemizers).[26] Estimated contributions from itemizing households are expected to increase very slightly as a percentage of total individual/household giving for the years 2016 and 2017, as compared with the two-year preceding period.

** All growth rates are based on predictions for giving in inflation-adjusted 2014 dollars using 2015 as the base year. The Philanthropy Outlook projects the growth rates of variables into 2016 and 2017; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 in this report for this data.*

Giving by Foundations

2016 5.7%

2017 6.4%

*Giving by foundations includes grants made by all U.S. foundations to U.S. charities. The foundation types included in this prediction include community, private (including family), and corporate foundations.**

Giving by foundations is predicted to increase by 5.7% in 2016 and by 6.4% in 2017.**

The current projections for giving by foundations (grant-making) for the years 2016 and 2017 are above the historical 10-year average rate of growth for giving of this type, but well below the 25-year and 40-year average rates of growth.[27]

Specific factors that will significantly influence foundation giving in 2016 and 2017 include:

- Above-average increases in the S&P 500 in preceding years,[28] and
- Slightly below-average to average projected growth in the Gross Domestic Product (GDP) in preceding years.[29]

These two factors will account for most of the predicted growth in giving by foundations in these years. Trends in last year's S&P 500 affect giving in the current year, as foundations typically budget their giving on asset growth. As a result, above-average projected growth in the S&P 500 in 2015 and 2016 is expected to positively affect foundation giving in 2016 and 2017.

Growth in GDP reflects an expanding economy. For projecting foundation giving, growth in prior years' GDP is linked with giving in the current year. This is an indirect process, as giving is the result of asset and institutional health. Thus, projected increases in GDP in 2015 and 2016 are expected to positively influence giving by foundations in 2016 and 2017. However, the increases in giving for these years will be slightly subdued, compared with projections for the prior two-year period, given that GDP is likely to be slightly below or at its historical average in the years 2015 and 2016.

** This prediction does not explicitly break out projected rates of growth for each foundation type.*

*** All growth rates are based on predictions for giving in inflation-adjusted 2014 dollars using 2015 as the base year. The Philanthropy Outlook projects the growth rates of variables into 2016 and 2017; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 in this report for this data.*

Giving by Estates

2016 4.8% 2017 4.9%

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

Giving by estates is predicted to increase by 4.8% in 2016 and by 4.9% in 2017.*

The amount that an estate bequeaths significantly 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 current projections for giving by estates for the years 2016 and 2017 are above the historical 10-year, 25-year, and 40-year average rates of growth for giving of this type. The growth rates for 2016 and 2017 are more than double the 10-year average.[30]

The factors that will most significantly influence estate giving in 2015 and 2016 will be:

- Above-average growth in the S&P 500, and
- Slightly above-average growth in household and nonprofit net worth in preceding years.[31]

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

Giving by estates can shift substantially from year to year. This variance is mostly due to very large bequests being made by a few estates in a given year. Naturally, a large increase in one year will mitigate the growth rate in giving the following year. The projected increases in bequest giving in 2016 and 2017 will hold unless substantially large gifts are made in 2015 or 2016.

** All growth rates are based on predictions for giving in inflation-adjusted 2014 dollars using 2015 as the base year. The Philanthropy Outlook projects the growth rates of variables into 2016 and 2017; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 in this report for this data.*

Giving by Corporations

2016 4.6% 2017 4.7%

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

Giving by corporations is predicted to increase by 4.6% in 2016 and by 4.7% in 2017.*

The current projections for giving by corporations for the years 2016 and 2017 are higher than the 10-year and 25-year historical averages for giving of this type, but lower than the 40-year average growth rate.[32]

Specific factors that will significantly influence corporate giving in 2016 and 2017 include:

- Average growth in GDP, and
- Above-average growth in corporate savings.[33]

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

Projected above-average growth in the S&P 500 in both years, improved consumer sentiment in preceding years, and average to slightly above-average improvement in current-year consumer sentiment will also contribute to the positive results for corporate giving in 2016 and 2017.[34] Greater positive growth in giving by corporations for the years 2015 and 2016 will be mitigated by slight growth in employment rates in preceding years.[35]

Corporate savings are defined as corporate profits that are left over after taxes and dividend payments.[36] Corporate savings are very similar to corporate profit, which is corporate income minus expenses. In this analysis, while growth in corporate savings will positively influence corporate giving, current-year growth in corporate profits is expected to negatively impact corporate giving.[37] The negative influence of current-year corporate profits on corporate giving is likely the result of a reduced need to use philanthropy as a marketing tool and increased current-year production costs that tap into the same company resources used for philanthropic initiatives.[38]

** All growth rates are based on predictions for giving in inflation-adjusted 2014 dollars using 2015 as the base year. The Philanthropy Outlook projects the growth rates of variables into 2016 and 2017; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 in this report for this data.*

Giving to Education

2016 6.3% 2017 6.1%

Giving to education includes all IRS itemized cash and non-cash donations contributed 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 6.3% in 2016 and by 6.1% in 2017.*

The current projections for giving to education for the years 2016 and 2017 are higher than the historical 10-year and 40-year average rates of growth for giving of this type.[39] Education giving for the year 2016 is expected to rise slightly more than the 25-year annualized average, while giving in 2017 will match the 25-year average.

Specific factors that will significantly influence education giving in 2016 and 2017 include:

- Average growth in GDP for preceding years and projected years,[40] and
- Above-average growth in the S&P 500 in preceding and projected years.

These two factors account for the majority of the predicted growth in giving to education in these years. Projected above-average growth in household and nonprofit net worth in preceding years will also have a slightly positive effect on giving to education in 2016 and 2017.

One factor that has been known to affect annual contributions to education is whether large institutions are currently running fundraising campaigns.[41] Another factor is foundations' capacity to give to education. Historically, educational institutions have received a significant portion of grants from foundations. In 2012, these institutions received one-in-three grants issued.[42] The increase in foundation giving projected in 2016 and 2017 bodes well for strong education giving in these years.

Very large gifts to educational institutions, especially to higher education, have a significant impact on yearly education giving. Because high-net-worth households give to education at a higher rate than do general population households, changes in giving by these households or large gifts from these households are highly influential on annual education totals.[43] The projected increases in giving to education in 2016 and 2017 will hold unless substantially large gifts were made in 2015 or will be made in 2016 but not in subsequent years.

** All growth rates are based on predictions for giving in inflation-adjusted 2014 dollars using 2015 as the base year. The Philanthropy Outlook projects the growth rates of variables into 2016 and 2017; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 in this report for this data.*

Table 1

HISTORICAL ANNUALIZED AVERAGES FOR GIVING

	10-Year Average	*25-Year Average*	*40-Year Average*
TOTAL GIVING	1.0%	3.6%	4.4%
Giving by INDIVIDUALS/HOUSEHOLDS	0.2%	2.8%	3.7%
Giving by FOUNDATIONS	5.2%	13.3%	10.8%
Giving by ESTATES	2.1%	4.6%	4.6%
Giving by CORPORATIONS	2.5%	2.8%	5.9%
Giving to EDUCATION	3.8%	6.1%	5.9%

These data are drawn from historical giving data found in the 2015 edition of *Giving USA: The Annual Report on Philanthropy* for 2014. Data are adjusted for inflation to 2014 dollars.

Implications

U.S. charitable giving has seen overall moderate growth in the last several years, with some years much stronger than others. Between 2010 and 2014, estimated charitable giving grew more than 18% or at an annualized rate of 3.6% per year.[44] The peak of giving in this time span was in 2012 when total giving rose 8.1% over 2011.

For the year 2014, it is estimated that American donors gave nearly $360 billion to approximately 1.1 million U.S. charities.[45] This figure amounts to more than 2.1% of U.S. GDP and was an increase in giving of 5.4% over 2013.[46] Thus, estimated 2014 giving demonstrated stronger-than-average gains in giving compared with other recent years following the Great Recession. Likewise, last year, The Philanthropy Outlook projected a continued pattern of above-average growth in total charitable giving for the year 2015—at 4.8%.

Growth in total giving is likely to continue to outpace predicted growth in U.S. GDP in 2016 and 2017, resulting in an increasing share of the overall U.S. economy.[47] Average annual giving is expected to increase $13.0 billion per year between 2013 and 2017. This is compared with an average decline of $3.2 billion realized in the years 2008 to 2012.[48] In 2016 and 2017 alone, a total of $33 billion real dollars will become newly available to charities from donors of all types.

In 2016 and 2017, **giving by individuals/households** and **estates** will comprise 79% of total giving. Individual/household giving is expected to continue to decline slightly as a percentage of total giving, to 71% of the total, as compared with prior years. In 2013, as a point of comparison, individual/household giving comprised 73% of the total. However, growth in estate giving as a percentage of total giving will help to offset the declining proportion of individual/household giving during the same period.

Foundation giving will continue to grow as a percentage of total giving—a trend established in the early 1980s. In 2016 and 2017, foundation giving is expected to rise to more than 16% of the total. This is nearly a two-percentage-point increase over the proportion of foundation giving realized in 2014. **Corporate giving** will grow at a steady pace into 2016 and 2017, remaining at about 5% of total giving.

The steady growth in philanthropy in the last several years, coupled with our projections for continued growth across all donor types, should send a message of confidence to nonprofit leaders and fundraisers that the philanthropic sector is strengthening.[49] Across the board, new dollars are becoming available to U.S. nonprofits. This being said, with the changing landscape of philanthropy in this new era, it is vital that nonprofits continue to be mindful of changing dynamics within the sector as well as across those areas that influence the sector. Specifically, nonprofit leaders may consider:

- Developing new partnerships and collaborations with other organizations of varying types (e.g., other charities, foundations, for-profit, governmental) to broaden internal diversity and strengthen support networks in achieving similar goals.
- Investing in the analysis, structuring, and (re)development of revenue and fundraising programs that enable the most effective alignment between the organization and its constituents. These changes may include hiring or reassigning staff.
- Embracing and incorporating new technologies and innovations to reach broad groups of potential supporters as well as for maintaining current supporters.
- Developing board training and education programs concerning emerging trends in the sector and the potential impact of these changes on the organization, being mindful of how the sector is likely to change in 5, 10, and even 25 years.
- Investing more resources into the development of planned giving programs that offer an array of planned giving options to individuals and families.

Conditions That Will Affect the Outlook for Giving

In July 2015, the International Monetary Fund projected 3.3% growth in the global economic climate for the year 2015 and 3.8% for the year 2016.[50] These projections are more optimistic than previously released projections for these years.[51] Projected growth in the U.S GDP in 2016, while lower than the global growth in GDP, will be the result of continued declines in the unemployment rate, increasing incomes, declining oil prices, a more robust housing market, and overall improved consumer confidence. U.S. GDP is likely to remain steady in 2016.[52]

These noted projections will hold unless U.S. markets experience what economic analysts term "shocks." Shocks that could potentially harm the U.S. economic environment in 2016 and 2017 include global political conflict, sharp increases in inflation, or downturns in specific, large non-U.S. economic markets, among others.[53]

Specific trends that are expected to impact U.S. GDP and the financial stability of U.S. households in 2016 and 2017 include:

- Compared with 2014, oil prices declined dramatically in 2015. Prices are expected to remain low through at least 2016.[54]
- After years at 0%, the Federal Reserve announced in late 2015 that it will increase the Federal Funds rate to 0.25% to 0.50%.[55] One forecast estimates that the Federal Funds rate could increase to more than 2% in 2017.[56]
- In 2015, most regions of the U.S. saw continued gradual declines in the unemployment rate.[57] The national unemployment rate is expected to continue its gradual descent into 2016 and then plateau in 2017.[58]
- Home prices peaked in 2013, compared with several years prior, and declined in 2014. Home prices stabilized in 2015 and are expected to remain stable into at least 2016.[59]
- The Consumer Price Index, which measures the change in price for a basket of goods over time, is expected to steadily increase between early 2016 and late 2017.[60]

Some geographic regions in the U.S. have been doing better economically than others in recent years, as reflected by growth or stability in manufacturing, employment, and incomes.[61] Stronger regions include those states located on the Pacific Coast, in the Northeast, in Southern Atlantic states, in East-North-Central states, and in Mountain states. These areas are likely to maintain better economic stability than those in other geographies, including in the realm of philanthropic activity. However, results may vary by sub-region or by city and county.

These noted economic factors and many others influence charitable giving, whether in the context of present or planned giving. The influence of each of the economic factors found to correlate with philanthropic giving is assumed to be static, meaning that their influence on giving is generally the same over time. When grouped together, certain factors become more important than others. In addition, some factors are stable while others can be quite variable. More stable factors increase the confidence we have in our predictions, while less stable factors decrease confidence levels.

Below are statements concerning the stability of the variables used in The Philanthropy Outlook models. These variables all have significant influence on a number of different types of giving. For more detailed information about these variables, see Tables 1a and 1b in the Technical Appendix at www.PhilanthropyOutlook.com. Table 4 lists the outcomes for each of these variables, by source, for the years 2016 and 2017. For a definition of these variables and their sources, see the "Variable Definitions and Sources" list following the Methodological Overview section in this document.

Stability of the Variables

THE S&P 500

While the S&P 500 has significant influence on corporate, individual/household, and foundation giving, this variable is an unstable economic indicator. The likelihood that the growth rate for this variable will be considerably different than predicted is high.[62]

GROSS DOMESTIC PRODUCT (GDP)

GDP is generally a stable indicator of giving, meaning that the projected growth rate is not likely to differ significantly from what was predicted in this outlook. Therefore, its predicted impact on giving by foundations and corporations is deemed highly reliable.[63] However, GDP may fall if the U.S. economic environment experiences an exogenous shock as a result of recession, disaster, war, or other severe situations.

HOUSEHOLD AND NONPROFIT NET WORTH

Household and nonprofit net worth is a stable indicator of giving, meaning that the projected growth rate is not likely to differ significantly from what was predicted in this outlook. Therefore, its predicted impact on giving by individuals/households, foundations, and estates is deemed highly reliable.[64]

PERSONAL INCOME

Personal income is a stable indicator of giving, meaning that the projected growth rate is not likely to differ significantly from what was predicted in this outlook. Therefore, its predicted impact on giving by individuals/households is deemed highly reliable.[65]

EMPLOYMENT

The employment rate is a stable indicator of giving, meaning that the projected growth rate is not likely to differ significantly from what was predicted in this outlook. Therefore, its predicted impact on giving by corporations is deemed highly reliable.[66]

CONSUMER SENTIMENT, CORPORATE SAVINGS, AND CORPORATE PROFITS

While these variables have significant influence on corporate giving, they are unstable economic indicators. The likelihood that the growth rates for these variables will be considerably different than predicted is high.[67]

INTEREST RATE FOR GOVERNMENTAL SECURITIES

The interest rate for governmental securities has significant influence on estate giving, in particular. This variable is a stable economic indicator. Therefore, its predicted impact on giving by estates is deemed highly reliable.[68] This variable plays an overall small role in our predictions, otherwise.

Conditions That May Impact the Giving Predictions

Within each Philanthropy Outlook component presented in the main sections of this report, we provided an explanation for those economic factors that will likely have the greatest impact on giving. In the following section, we provide explanations for those conditions that may impact the giving predictions.[69] We focus on those factors that will have the greatest bearing on giving. For more detailed information about these variables, see Tables 1a and 1b in the Technical Appendix at www.PhilanthropyOutlook.com. Table 4 in the Technical Appendix lists the outcomes for each of these variables, by source, for the years 2016 and 2017.

TOTAL GIVING

Predicted total giving will be lower if the S&P 500 grows more slowly than estimated (6% in 2016 and 7% in 2017), household and nonprofit net worth grows less than 4% for each year 2016 and 2017, personal income grows less than 3% for each year 2016 and 2017, and GDP grows less than 3% for each year 2016 and 2017.

INDIVIDUAL/HOUSEHOLD GIVING

Predicted individual/household giving will be lower if household and nonprofit net worth grows less than 4% for each year 2016 and 2017 and personal income grows less than 3% for each year 2016 and 2017.

FOUNDATION GIVING

Predicted foundation giving will be lower if household and nonprofit net worth grows faster than estimated for preceding years (3% in 2015 and 4% in 2016), GDP grows more slowly than estimated for preceding years (3% for each year 2015 and 2016), and the S&P 500 grows more slowly than estimated for preceding years (6% in 2015 and 7% in 2016).

ESTATE GIVING

Predicted estate giving will be lower if household and nonprofit net worth grows more than 4% for each year 2016 and 2017 or more slowly than estimated for preceding years (3% in 2015 and 4% in 2016) and the S&P 500 grows less than 7% in 2016 and 6% in 2017. In addition, estate giving will be inversely affected if the preceding year's giving varies from our prediction.

CORPORATE GIVING

Predicted corporate giving will be lower if GDP grows less than 3% for each year 2016 and 2017, corporate savings grows less than 8% in 2016 and 6% in 2017, the S&P 500 grows less than 7% in 2016 and 6% in 2017, and consumer sentiment declines more than 1% in 2016 or declines at all in 2017. Corporate giving may also decline if corporate tax rates decline.

EDUCATION GIVING

Predicted education giving will be lower if GDP grows less than 3% for each year 2015, 2016, and 2017, the S&P 500 grows less than 6% in 2015, 7% in 2016, and 6% in 2017, and real consumption grows more than 3% for each year 2016 and 2017. In addition, education giving will be inversely affected if the preceding year's giving varies from our prediction.

Methodological Overview

To review our complete methodology, please view our Technical Appendix at www.PhilanthropyOutlook.com.

The Philanthropy Outlook produces forecasts for the annual growth rates and levels of individual/household, foundation, estate, corporate, and education giving for 2015 through 2017.[70] The forecast for total giving is produced as the sum of the four donor components. Collectively, 20 different variables, along with their lagged values, were incorporated into the final models for the five types of giving.

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 2014. Those models with the best explanatory power were then re-estimated through 2001. One-year-ahead forecasts were constructed through 2014 for these models, and the best model was selected as the one with the lowest root-mean squared error.[71] We relied on historical data from *Giving USA: The Annual Report on Philanthropy* and available IRS data. See Figure 1 in the Technical Appendix for a comparison of actual versus predicted growth rates for total giving for the years 2002 to 2013 and also the section titled, "Variable Definitions and Sources," for a list of the candidate variables. We know that sometimes an event can 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 of the 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 is 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 is the "revised model." In the third step, the selection procedure was run over all possible combinations of variables in the revised model. The result is 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.

Table 2 in the Technical Appendix describes the models for each source of giving and for education giving. 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 the economic theory that giving responds positively to increases in the ability to give and general economic conditions. See Table 3 in the Technical Appendix to reference the ratio of root-mean-squared error to the standard deviation for each giving prediction.

The forecasts of the different components were carried out using the final version of each model. The forecasts covered 2015, 2016, and 2017.[72] Implementing the forecasts entailed auxiliary models for the explanatory variables (i.e., independent variables). These auxiliary models are described in the Technical Appendix.

Variable Definitions and Sources

Independent Variables[73]

PERSONAL INCOME

Personal income is "the income received by persons from participation in production, government and business transfers, and government interest," according to www.bls.gov/bls/fesacp1061104.pdf. Data for personal income come from Table 2.1 at Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

PERSONAL CONSUMPTION

Personal consumption is a measure of personal consumption expenditure, a measure of "goods and services purchased by U.S. residents" according to http://www.bea.gov/national/pdf/nipaguid.pdf. Data for personal consumption come from Federal Reserve Bank of St. Louis (FRED), https://research.stlouisfed.org/fred2/series/PCE

INDIVIDUAL TAX RATE

The individual tax rate is the top marginal tax rate for individuals and households.

PERSONAL SAVINGS RATE

The personal savings rate is the percentage of disposable personal income that is used for savings. Data for the personal savings rate comes from Federal Reserve Bank of St. Louis (FRED), https://research.stlouisfed.org/fred2/series/PSAVERT

HOUSEHOLD AND NONPROFIT NET WORTH

Net worth for households and nonprofits is the net assets of households and nonprofits serving households after subtracting net liabilities. Data for the net worth of households and nonprofits come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/HNONWRA027N

INDIVIDUAL/HOUSEHOLD ITEMIZERS AND NON-ITEMIZERS

Data for itemized tax returns come from the Internal Revenue Service, http://www.irs.gov/taxstats. Data for non-itemized giving come from the *Philanthropy Panel Study*, Indiana University Lilly Family School of Philanthropy, http://www.philanthropy.iupui.edu/research-and-news, and *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

THE S&P 500

The S&P 500 is the value of the Standard & Poor's 500 Index on December 31 of a given year. Data for the S&P 500 come from Federal Reserve Bank of St. Louis (FRED), https://research.stlouisfed.org/fred2/series/SP500

CONSUMER SENTIMENT

Consumer sentiment is an index computed based on monthly surveys covering personal finances, business conditions, and buying conditions. Data for consumer sentiment come from the Consumer Sentiment Index, Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/UMCSENT

INTEREST RATE FOR GOVERNMENTAL SECURITIES

The interest rate for governmental securities is the rate of return on an asset after removing the effect of inflation. Data for the interest rates of governmental securities come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/GS1

EMPLOYMENT

Employment is a measure of the number of U.S. workers in the economy that excludes proprietors, private household employees, unpaid volunteers, farm employees, and the unincorporated self-employed. Data for employment come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/PAYEMS

CORPORATE SAVINGS

Corporate savings are corporate profits that are left over after taxes and dividend payments. Data for corporate savings come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

CORPORATE PROFITS

Corporate profits are corporate income after subtracting expenses. Data for corporate profits come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/national/index.htm

GDP

GDP is "the value of the production of goods and services in the United States, adjusted for price changes," according to Bureau of Economic Analysis, U.S. Department of Commerce. Data for GDP come from Table 1.1.5 at Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

Dependent Variables

GROWTH RATE FOR INDIVIDUAL/HOUSEHOLD GIVING

The growth rate for individual/household giving includes cash and non-cash donations contributed by all U.S. individuals and households (including those who itemize their charitable contributions on their income taxes and those who do not) to U.S. charities. Historical data for the growth rate in individual/household giving were derived from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

GROWTH RATE FOR FOUNDATION GIVING

The growth rate for foundation giving includes grants made by all U.S foundations to U.S. charities. Historical data for the growth rate in foundation giving were derived from Giving USA 2015: *The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org. Foundation giving data in *Giving USA* are based on estimates produced by the Foundation Center (www.foundationcenter.org) and include grants from community, private (including family), and corporate foundations.

Limitations

GROWTH RATE FOR ESTATE GIVING

The growth rate for estate giving includes cash and non-cash donations (bequests) contributed by all U.S. estates (including those who itemize their charitable contributions on their estate taxes and those who do not) to U.S. charities. Historical data for the growth rate in estate giving were derived from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

GROWTH RATE FOR CORPORATE GIVING

The growth rate for corporate giving includes cash and non-cash IRS itemized donations contributed by all U.S. corporations and corporate foundations to U.S. charities. Historical data for the growth rate in corporate giving were derived from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

GROWTH RATE FOR EDUCATION GIVING

The growth rate for education giving includes cash and non-cash IRS itemized donations contributed by U.S. donors to U.S. educational 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. Historical data for the growth rate in education giving were derived from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

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 the growth rates (or 1-year differences) of key indicators. The produced 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. However, the results presented in The Philanthropy Outlook do point us toward what is likely to happen and why.

The Philanthropy Outlook is meant to be informational. Indiana University Lilly Family School of Philanthropy and Marts & Lundy make no guarantees about the accuracy of The Philanthropy Outlook. Similar to other types of predictions, it is impossible to know ahead all of those 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.

Citations

[1] The largest category for charitable donations is religion, at 32% in 2014. *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org. The figures are all in inflation-adjusted dollars.

[2] Comparison data are drawn from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org. The figures are all in inflation-adjusted dollars.

[3] The year range for these data is 1974 to 2014.

[4] The rate of change for the year 2016 is relative to the year 2015. The rate of change for the year 2017 is relative to the year 2016.

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[6] "America's Richest Entrepreneurs, #1 Mark Zuckerberg," *Forbes*, December 16, 2015, http://www.forbes.com/profile/mark-zuckerberg/?list=40under40

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[17] *Threads: Insights from the Charitable Community*, Independent Sector, 2015, www.independentsector.org

[18] Historical averages reported in The Philanthropy Outlook are in comparison to a national charitable dataset going back to 1974, as published by *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org. The figures are all in inflation-adjusted dollars (2014). Prior-year projections are not included in this report.

[19] Year-to-year growth in charitable giving is often driven by prior-year growth of specific economic variables. For total giving, this is true of the S&P 500, consumer sentiment, GDP, employment rates, giving by estates, and net worth of households and nonprofits. Data for the S&P 500 come from Federal Reserve Bank of St. Louis (FRED), https://research.stlouisfed.org/fred2/series/SP500

[20] Personal income is "the income received by persons from participation in production, government and business transfers, and government interest," according to www.bls.gov/bls/fesacp1061104.pdf. Data for personal income come from Table 2.1 at Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

[21] Net worth for households and nonprofits is the net assets of households and nonprofits serving households after subtracting net liabilities. Data for the net worth of households and nonprofits come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/HNONWRA027N

[22] The relationship between nonprofit net worth and total giving likely reflects a symbiotic relationship between the health of nonprofits that receive personal contributions and giving levels. It could be, as well, that nonprofits with growing assets are more likely to employ sophisticated fundraising programs that positively impact giving by individuals and households.

[23] Data for years prior to 2015 come from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[24] Same as note 23.

[25] Prior-year projections are not included in this report. Same as note 23.

[26] Data for itemized tax returns come from the Internal Revenue Service, http://www.irs.gov/taxstats. Data for non-itemized giving come from the *Philanthropy Panel Study*, Indiana University Lilly Family School of Philanthropy, http://www.philanthropy.iupui.edu/research-and-news, and *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[27] Prior-year projections are not included in this report. Same as note 23.

[28] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For foundation giving, this is true for GDP, the S&P 500, and net worth of households and nonprofits.

[29] Data for GDP come from Table 1.1.5 at Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

[30] Prior-year projections are not included in this report. Same as note 23.

[31] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For estate giving, this is true for individual/household net worth.

[32] Prior-year projections are not included in this report. Same as note 23.

[33] Corporate savings are corporate profits that are left over after taxes and dividend payments. Data for corporate savings come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

[34] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For corporate giving, this is true for consumer sentiment and employment rates. Consumer sentiment is an index computed based on monthly surveys covering personal finances, business conditions, and buying conditions. Data for consumer sentiment come from the Consumer Sentiment Index, Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/UMCSENT

[35] Employment rates are a measure of the number of U.S. workers in the economy that excludes proprietors, private household employees, unpaid volunteers, farm employees, and the unincorporated self-employed. Data for employment rates come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/PAYEMS

[36] Data for corporate savings come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

[37] Corporate profits are corporate income after subtracting expenses. Data for corporate profits come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

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

[39] Prior-year projections are not included in this report. Same as note 23.

[40] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For giving to education, this is true of the S&P 500, GDP, employment rates, net worth of households and nonprofits, and historical education giving. Data for historical education giving come from *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

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[44] This figure is in inflation-adjusted dollars (2014) and derives from data in *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[45] *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[46] Data are in inflation-adjusted (2014) dollars.

[47] This is according to historical data provided in *Giving USA*, compared with projected increases in GDP and total giving in The Philanthropy Outlook. *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[48] Same as note 23.

[49] These trends reflect national-level data; therefore, individual organizational results will vary. Results by organizational type may also vary.

[50] These projections are in inflation-adjusted terms. "World Economic Outlook Update: Slower Growth in Emerging Markets, a Gradual Pickup in Advanced Economies," International Monetary Fund, July 2015, http://www.imf.org/external/pubs/ft/weo/2015/update/02/

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[61] Same as note 14.

[62] In The Philanthropy Outlook 2015, the model predicted a 2014 growth rate for the S&P 500 of 12.1% while the realized value was 9.3%. This difference is well within expected variance. Final 2015 values were not available at the time of release of this report.

[63] In The Philanthropy Outlook 2015, the predicted growth rate for GDP in 2014 was 2.3%, while the preliminary actual growth rate was 2.4%. Final 2015 values were not available at the time of release of this report.

[64] The actual value of household and nonprofit net worth was not available at the time of release of this report.

[65] In The Philanthropy Outlook 2015, the predicted growth rate for personal income in 2014 was 2.7%, while the preliminary actual growth rate was 2.3%. Final 2015 values was not available at the time of release of this report.

[66] In The Philanthropy Outlook 2015, the predicted growth rate for employment in 2014 was 0.9%, while the preliminary actual growth rate was 2.1%. Final 2015 values were not available at the time of release of this report.

[67] Data for consumer sentiment come from the Consumer Sentiment Index, Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/UMCSENT; Data for corporate savings come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm; Data for corporate profits come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/national/index.htm

[68] Data for the interest rates of governmental securities come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/GS1

[69] Note that the predictions for 2015 economic data were made prior to the 2015 calendar year closing. Because the growth rates noted are predictions, these figures will vary from those publicly available at the time of release of this report.

[70] Only the percentage changes for projected giving in 2016 and 2017 are reported in The Philanthropy Outlook 2016 & 2017.

[71] The Root Mean-Squared Error (RMSE) is a standard measure of forecast quality with lower values of the RMSE indicating greater predictive ability. See the Technical Appendix at www.PhilanthropyOutlook.com for the formula.

[72] Only the percentage changes for projected giving in 2016 and 2017 are reported in The Philanthropy Outlook 2016 & 2017.

[73] Also referred to as the "explanatory variables."

About Indiana University Lilly Family School of Philanthropy

Indiana University Lilly Family School of Philanthropy is dedicated to improving philanthropy to improve the world by training and empowering students and professionals to be innovators and leaders who create positive and lasting change. The School offers a comprehensive approach to philanthropy—voluntary action for the public good—through its academic, research and international programs and through The Fund Raising School, Lake Institute on Faith & Giving and the Women's Philanthropy Institute. For more information, visit www.philanthropy.iupui.edu

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About Marts & Lundy

Marts & Lundy has been the innovative leader in fundraising and philanthropy consulting for nearly 90 years. With nearly 40 full-time Senior Consultants and Analysts, Marts & Lundy offers clients an unparalleled depth of expertise and breadth of perspective on philanthropy. Since 1926 the firm has served thousands of clients, whose annual giving programs range from hundreds of thousands to millions of dollars and whose campaigns range from a few million to several billion. Founded in the belief that philanthropy has the power to transform not only institutions but, more importantly, the world in which we live, Marts & Lundy remains steadfastly committed to contributing innovative thinking and thought leadership to the profession of fundraising.

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