The Philanthropy Outlook: 2015 & 2016

Presented by Marts & Lundy

Researched and written by the
Indiana University Lilly Family School of Philanthropy

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Foreword

Philanthropy is broadly defined as private action for the public good. The U.S. philanthropic sector is a central aspect of American social, economic, and civic life. Philanthropy solves local and global problems, promotes and supports arts and culture, builds communities, and provides for basic human needs, health, and education—to name just a few examples of its importance and power.

A key component of the U.S. and world economy, total philanthropic contributions in 2013 amounted to an estimated $335.17 billion—or 2% of U.S. GDP.[1] In turn, more than 1.4 million nonprofits—among which two-thirds are 501(c)3 charities—generate nearly $900 billion dollars each year as a part of the U.S. economy.[2] In addition, the nonprofit sector provides 11% of all U.S. jobs, paying out 9% of total U.S. wages.[3]

Because of the value of the nonprofit sector and the donations on which the sector relies, The Philanthropy Outlook provides data and analysis for predicted year-to-year growth rates in U.S. philanthropy for the years 2015 and 2016. These trends include overall U.S. giving and giving by individuals/households, foundations, estates, and corporations.

While the economic and financial sector has seen greater-than-normal economic volatility in recent years, the coming years are expected to be slightly more stable and optimistic. The Philanthropy Outlook reveals that the future of philanthropy is bright:

- Contributions from all sources of giving are expected to grow into 2015 and 2016.
- The expected growth of total giving in each year, 2015 and 2016, will exceed the estimated annualized average rate of growth in total giving in the years following the Great Recession (3.1%).[4]
- While giving by individuals/households will see the slowest overall growth in 2015 and 2016, compared with the other sources of giving, giving by foundations and corporations is expected to be quite strong in both 2015 and 2016.
- Giving by estates is expected to grow in 2015 and 2016, although at a slightly volatile rate across those years.

With support from Marts & Lundy, the 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.

It is the hope of the Indiana University Lilly Family School of Philanthropy and Marts & Lundy that you find this information informative and useful as you work to make change in the coming years. You can rely on The Philanthropy Outlook to provide you with data on future giving trends that are rigorous in transparency and development and are informative and useful.

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Introduction

Economic projections have been in existence since the early 20th century, and the U.S. government has been producing national economic projections since the 1920s.[5] Governmental projections have been used to help stabilize the economy in conjunction with policy, as well as for decision-making purposes. Today, financial projections provide a means for sectors, institutions, and organizations to implement practices and policies that proactively address future conditions.

All economic projections rely on other correlative economic data, and the models created in development of The Philanthropy Outlook are no exception. To create these giving predictions, the research team used econometric methodology to test economic factors with established and theoretical links to giving with an historical national giving data set.[6] The team based the categories for giving on those displayed in *Giving USA: The Annual Report on Philanthropy*. These categories include giving by individuals/households, foundations, estates, and corporations.[7] To develop the giving predictions for 2015 and 2016, the research team also developed predictions for the economic variables that explain giving levels.

The models that the research team developed for predicting future giving are comparable in scientific rigor to those used in predicting other types of economic data.[8] However, importantly, no methodology for creating future economic conditions is absolute. Whether issued by the U.S. government, or a research institute, or through scholarly research, predictions have varying levels of accuracy depending on specific conditions. These conditions include:[9]

- **The number of predictions.** For each step into the future a prediction takes, uncertainty increases. Since each step is built off the last, if an early value is significantly different from the prediction, then values based on it will be also be affected.

- **Unpredictable events.** These events include policy changes, like adjustments to the tax code or changes to charitable deductibility, as well as national and international economic recessions/depressions and disasters.

- **Stability of the underlying variables.** Some variables have a narrow range of variability, while others have a very wide range. An example of a variable with a narrow range is U.S. GDP, which has declined by up to 3% and has increased up to 8% since 1949.[10] An example of a variable with a wide annual range of variance is the S&P 500 stock price index, which has declined by up to 51% as recently as 2008 and has increased up to 36% in the mid-1950s.[11]

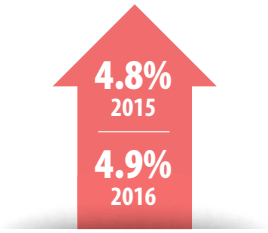
The Philanthropy Outlook includes contributions from U.S. donors to U.S. charities.[12] Within each aspect of The Philanthropy Outlook, this report:

- **Displays the projected rate of change for each year, 2015 and 2016.** These rates of change are in inflation-adjusted 2013 dollars—the same approach used by government entities in their predictions.

- **Provides contextual explanations for those economic factors that will most significantly influence the predicted changes in giving in 2015 and 2016.** Some factors directly impact giving, some produce a delayed effect on giving, and some indirectly affect giving.

Subsequent to each giving outlook, this report provides a summary of the most important implications of this data for nonprofit leaders along with specific action items for using this information. This report concludes with an overview of those conditions that may affect our giving predictions, as well as an overview of the methodology used in the development of The Philanthropy Outlook. To review the complete methodology, please view the Technical Appendix.

Philanthropy Outlook: 2015 & 2016



Total Giving

Total giving is predicted to increase by 4.8% in 2015 and by 4.9% in 2016.[1]

Each year, total giving is substantially influenced by trends in giving by individuals/households. In 2015 and 2016, giving by individuals/households is expected to rise at an above-average rate.[13]

Specific factors that will significantly influence total giving in 2015 and 2016 include:

- Above-average projected growth in the S&P 500 in preceding years,[14] and
- Average to above-average projected increases in personal income[15] and household and nonprofit net worth.[16]

Trends in the current year S&P 500 affect giving in the future year as individuals/households will generally budget their current year's giving on the growth of last year's assets. Therefore, we anticipate that above-average growth in the S&P 500 in 2014 and 2015 will positively affect total giving in 2015 and 2016.

Personal income is directly related to how much individuals/households have at their disposal to give. Because of this linkage, increases in personal income in both years will positively influence total giving in 2015 and 2016.

Household net worth will affect total giving in 2015 and 2016, as giving by itemizing households, in particular, is related to the level of their assets. 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.

[1] All growth rates are based on predictions for giving in inflation-adjusted 2013 dollars. The Philanthropy Outlook projects the growth rates of variables into 2015 and 2016; predicted growth rates are compared with the variable's historic mean.

FIGURE 1

Distribution of total giving, by source, for the years 2015 and 2016

Figure 1 shows the proportion of total giving by each source for the years 2015 and 2016. In 2015, about 70.2% of total giving is expected to derive from individuals/households, followed by 15.3% from foundations, 9.1% from estates, and 5.3% from corporations. The distribution is similar in 2016, with foundations, estates, and corporations receiving a slightly greater share compared with 2015 and individuals/households receiving a slightly smaller share.

All four components are expected to grow in 2015 and 2016, but individual/household giving is expected to grow at a slower rate than each of the remaining components.

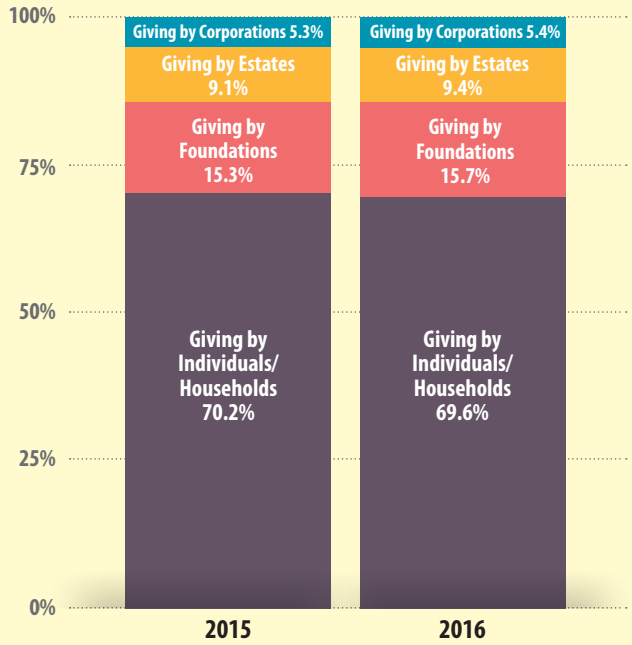


FIGURE 2

Average rates in change for giving, selected time periods 1975-2015

(Data are in inflation-adjusted 2013 dollars)

Figures 2 and 3 provide historical context for the projected changes in giving in 2015 and 2016. Both figures reveal that the rates of growth for giving in these years—4.8% in 2015 and 4.9% in 2016—are just slightly below the average annual rate of growth for giving of 5.1% expected in both the periods 1975-2015 and 1976-2016.

Figure 2 shows the average annual rate of growth for giving in 10-year periods, 1975 to 2015.[17] As the figure shows, the estimated average annual rate of growth for giving in the period 2005-2015 is much lower, at 0.8%, than the other 10-year periods, especially 1995-2005. In that particular period, giving saw an unusually high average annual growth rate of 8.5%. In the years 1995-2000, specifically, the average annual growth rate for giving was 13% per year, reflecting the expansion of the "dot-com" bubble.

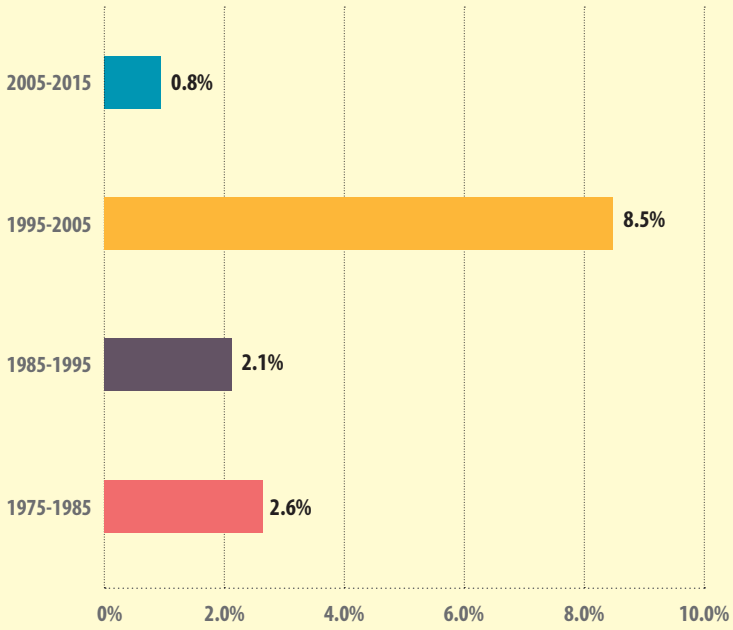


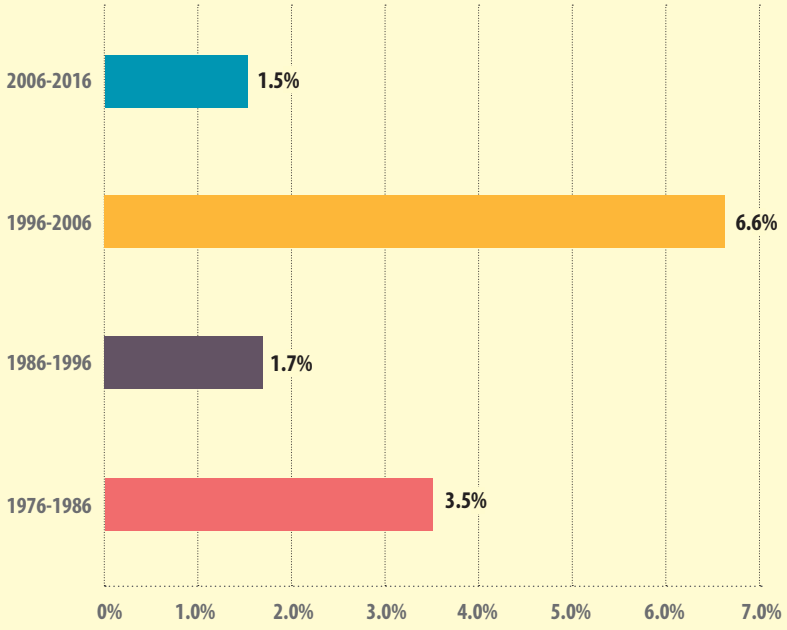
FIGURE 3

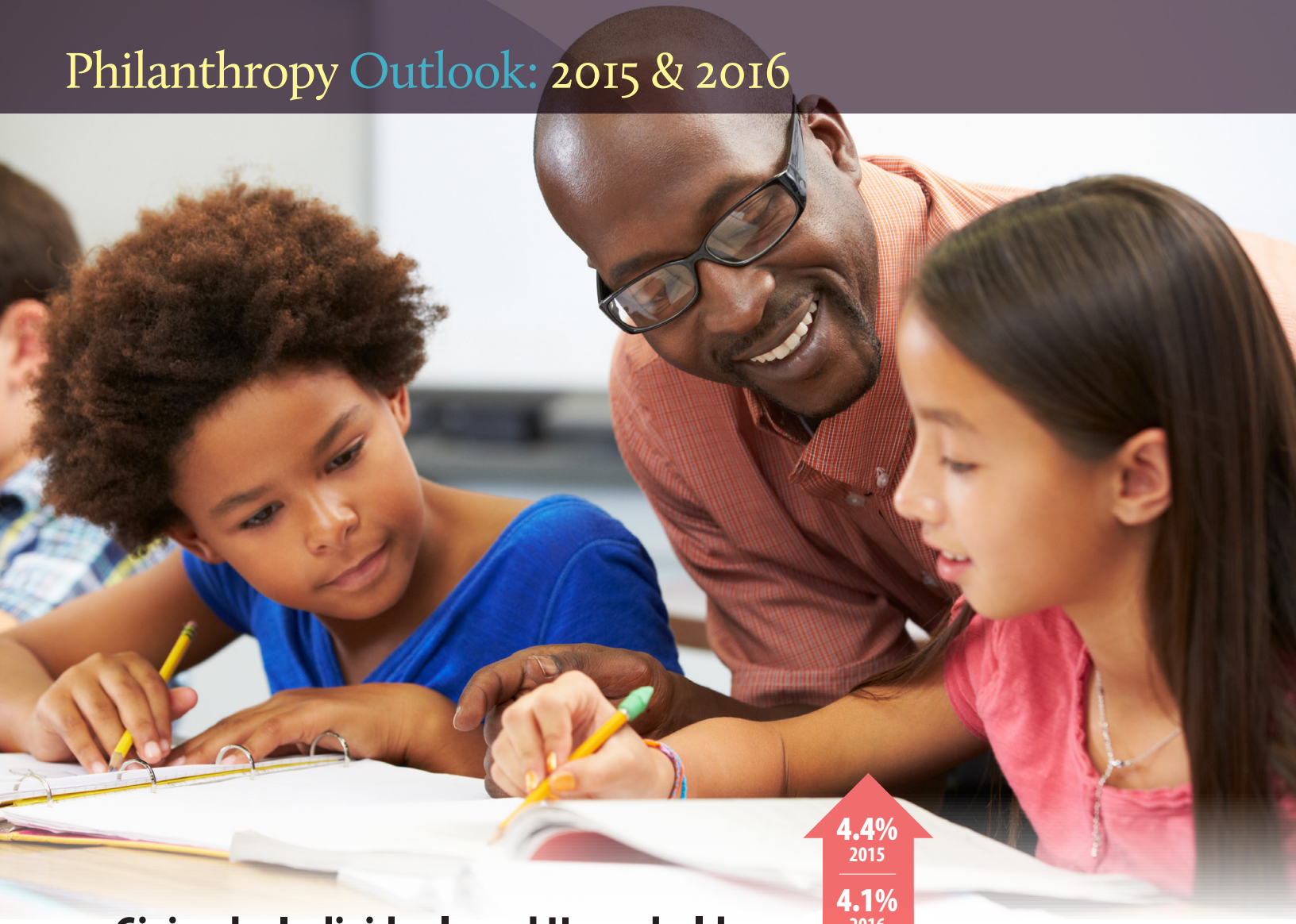
Average rates in change for giving, selected time periods 1976-2016

(Data are in inflation-adjusted 2013 dollars)

Figure 3 shows the average annual rate of growth for giving in 10-year periods, 1976 to 2016. As the figure shows, the estimated average annual rate of growth for giving in the period 2006-2016 is about one-quarter the rate of growth in the period 1996-2006 and less than half the rate of growth in the period 1976-1986.[18]

Following the recession of 2001, the early years of the first decade of the new millennium were prosperous in large part due to the U.S. housing bubble. With this prosperity came an increase in giving. In the years 2004 and 2005, specifically, giving rose at an average annual rate of 7.8%. As the housing bubble began to burst in the years 2006-2007 and the Great Recession took hold in 2008, giving began to decline.





Giving by Individuals and Households

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 4.4% in 2015 and by 4.1% in 2016.[II]

Specific factors that will significantly influence individual/household giving in 2015 and 2016 include:

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

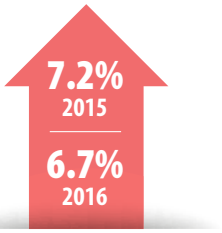
These two factors will account for the majority of the predicted growth in giving by individuals and households in these years.

The predicted growth in giving by individuals/households is more than one percentage point higher than the historical average. In addition to the factors mentioned above, above-average expected growth in the S&P 500 contributes to this higher-than-average performance for individual/household giving.[19]

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).[20] Compared with prior years, the percentage of giving by non-itemizers is predicted to be lower—accounting for less than 10% of giving in both years. In contrast, giving by non-itemizers has generally fluctuated between 15% and 20% over the last two decades.[21]

The decline in non-itemized giving can be traced to large predicted increases in individual itemized giving. Itemized giving is expected to increase at an average 6% rate through 2016.

[II] All growth rates are based on predictions for giving in inflation-adjusted 2013 dollars. The Philanthropy Outlook projects the growth rates of variables into 2015 and 2016; predicted growth rates are compared with the variable's historic mean.



Giving by Foundations

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.[III]

Giving by foundations is predicted to increase by 7.2% in 2015 and by 6.7% in 2016.[IV]

Specific factors that will significantly influence foundation giving in 2015 and 2016 include:

- Above-average projected increases in the S&P 500 in preceding years, and
- Projected growth in the GDP in preceding years. [22]

These two factors will account for the vast majority of the predicted growth in giving by foundations in these years. Trends in the current year S&P 500 affect giving in the future year as foundations typically budget their current year's grantmaking on the growth of last year's assets. As a result, above-average growth in the S&P 500 in 2014 and 2015 will positively affect foundation giving in 2015 and 2016.

Broadly speaking, positive trends in the GDP reflect a growing economy. Growth in the prior year's GDP is linked with current year's grantmaking indirectly through growing assets and strengthening financial health. Therefore, increases in the GDP in 2014 and 2015 will positively influence giving by foundations in 2015 and 2016.

Giving by foundations tends to be counter-cyclical with the economy. That is, as other types of donors scale back giving in difficult economic periods, foundations give more. As a result, growth in the net worth of households and nonprofits in preceding years will slightly temper foundation giving in 2015 and 2016.

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

[IV] All growth rates are based on predictions for giving in inflation-adjusted 2013 dollars. The Philanthropy Outlook projects the growth rates of variables into 2015 and 2016; predicted growth rates are compared with the variable's historic mean.

Giving by Estates

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 2.7% in 2015 and by 6.3% in 2016.[v]

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

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

- Above-average projected growth in the S&P 500.

In addition, in direct reflection of the impact of assets on estate giving, the following factor will also significantly impact estate giving:

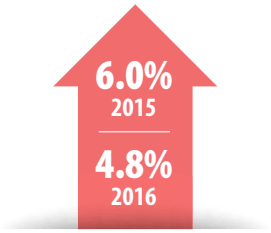
- Above-average projected growth in household and non-profit net worth in preceding years.[23]

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

However, a projected decline in the interest rates of governmental securities will marginally adversely impact estate giving in 2015 and 2016.

Giving by estates fluctuates widely from year to year. This variance is mostly due to very large bequests being made by a few estates in a given year. Further, as large increases in one year naturally deflate growth rates in the following year, the below average predicted growth in estate giving for 2015 will be minimized by predicted well above-average predicted growth in estate giving in the preceding year.[24]

[v] All growth rates are based on predictions for giving in inflation-adjusted 2013 dollars. The Philanthropy Outlook projects the growth rates of variables into 2015 and 2016; predicted growth rates are compared with the variable's historic mean.



Giving by Corporations

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 6.0% in 2015 and by 4.8% in 2016.[VI]

Specific factors that will significantly influence corporate giving in 2015 and 2016 include:

- Average projected growth in the GDP, and
- Above-average projected growth in corporate savings.[25]

These two factors will 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, above-average growth in consumer sentiment in preceding years, and slightly above-average growth in current-year consumer sentiment will also positively drive corporate giving in 2015 and 2016.[26]

Greater positive growth in giving by corporations for the years 2015 and 2016 will be offset by slight growth in employment rates in preceding years.[27] As the number of employees rise, companies will have to pay out overall higher amounts to their growing payrolls. As a result, companies may scale back on their philanthropy.

Corporate savings are defined as corporate profits that are left over after taxes and dividend payments.[28] Corporate savings are very similar to corporate profits, which are corporate income after subtracting expenses.[29] 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.[30]

There are a couple of potential reasons for the negative influence of current-year corporate profits on corporate giving. First, companies often use philanthropy as a marketing tool to increase public goodwill. As current profits increase, the need for corporations to use philanthropy as a marketing tool declines. Second, as the economy becomes stronger, so does demand. Increased demand increases production and, therefore, related costs. Current-year costs reduce liquid assets available for corporate contributions. Nevertheless—as the data reveal—as corporations save their profits they increasingly give philanthropically. This makes sense given the fact that corporations tend to plan their future giving based on at least a full year's accounting of profits.

[VI] All growth rates are based on predictions for giving in inflation-adjusted 2013 dollars. The Philanthropy Outlook projects the growth rates of variables into 2015 and 2016; predicted growth rates are compared with the variable's historic mean.

Conditions That Will Affect the Outlook for Giving

According to the *Global Economic Prospects* report issued by the World Bank in January 2015, growth in global economic markets in 2014 was lower than anticipated.[31] World Gross Domestic Product (GDP) grew 2.6% in 2014, just slightly above the 2.5% growth rate in 2013. World GDP is expected to rise 3.0% in 2015, followed by 3.3% in 2016. These modest world economy projections impact the U.S. economy in a number of ways, including inflating currency exchange rates, inducing volatility in commodities markets, and depressing economic trade.

While the U.S. economy has exceeded expectations in the last few years and has been generally stronger than the world economy, growth has been slow.[32] In 2014, U.S. GDP grew 3.1%. U.S. GDP is expected to rise 3.2% in 2015, but will slow in 2016 and 2017—due, in part, to the projected sluggishness of the world's economy.[33] These economic conditions will directly impact the philanthropic sector by affecting donors' ability to give and the financial health of nonprofits. Faced with continued economic and financial uncertainty in the long-term, professionals who work for or on behalf of nonprofits must continuously apprise themselves of current and projected trends that influence the sector.

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. However, when grouped together, certain factors become more important than others concerning their influence on giving. In addition, some factors are more stable than others, which influences the confidence in which we can make predictions about what might happen to giving in future years. Stable factors are those with a relatively small range of variance, either from month to month or from year to year. Unstable factors are those with a relatively wider range of variance, either from month to month or from year to year.

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 Table 4 in the Technical Appendix by clicking here. Table 4 lists the outcomes for each of these variables, by source, for the years 2015 and 2016. 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.[34]

Gross Domestic Product (GDP)
GDP 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 foundations and corporations is deemed highly reliable.[35]

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.[36]

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.[37]

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[38]

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.

Interest Rate for Governmental Securities
The interest rate for governmental securities influences estate giving, in particular. This variable is a stable economic indicator. Therefore, its predicted impact on giving by estates is deemed highly reliable.[39] This variable plays a small role in our predictions.

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 effect on giving. In the following section, we provide explanations for those conditions that may change the giving predictions.[40] We focus on those factors that will have the greatest bearing on giving. For more detailed information about these variables, see Table 4 in the Technical Appendix by clicking here. Table 4 lists the outcomes for each of these variables, by source, for the years 2015 and 2016.

Total Giving
Predicted total giving will be lower if the S&P 500 grows more slowly than estimated for preceding years (less than about 12% in 2014 and 8% in 2015), household and nonprofit net worth grows less than about 4% for each year 2015 and 2016, and personal income grows less than about 3% each year 2015 and 2016.

Individual/Household Giving
Predicted individual/household giving will be lower if household and nonprofit net worth grows less than about 4% each year 2015 and 2016, personal income grows less than about 3% each year 2015 and 2016, and the S&P 500 grows more slowly than estimated for preceding years (about 12% in 2014 and 8% in 2015).

Foundation Giving
Predicted foundation giving will be lower if household and nonprofit net worth grows faster than estimated for preceding years (more than about 4% each year 2014 and 2015), the GDP grows more slowly than estimated for preceding years (more than about 2% in 2014 and about 3% in 2015), and the S&P 500 grows more slowly than estimated for preceding years (more than about 12% in 2014 and 8% in 2015).

Estate Giving
Predicted estate giving will be lower if household and nonprofit net worth grows more than about 4% each year 2015 and 2016 or more slowly than estimated for preceding years (about 4% for each year 2014 and 2015) and the S&P 500 grows less than about 8% in 2015 and 7% in 2016. In addition, estate giving in each year will be inversely affected if the preceding year's giving varies from our prediction.

Corporate Giving
Predicted corporate giving will be lower if the GDP grows less than about 3% each year 2015 and 2016, corporate savings grow less than about 8% in 2015 and 7% in 2016, the S&P 500 grows less than about 8% in 2015 and 7% in 2016, and consumer sentiment grows less than about 4% in 2014 and 1% in 2015 or declines in 2016.

Implications

The results of The Philanthropy Outlook suggest that the nonprofit sector appears to be continuing on the road to recovery. The evidence presented in this report concurs with some other reports that several different types of organizations are experiencing an uptick in private revenue. Many organizations are now hiring and funding staff development, as well as investing more in their fundraising and development programs compared with recent past years. While this might not be true for your organization, The Philanthropy Outlook provides hope about the potential, possible reality for the philanthropic sector into the near future.

The Philanthropy Outlook provides information that no other report has provided before—predicted growth rates for philanthropic giving in future years along with data-rich contextual explanations. Such depth and transparency of information is essential for providing those interested in the philanthropic sector with results that are research informed and as accurate as possible. We offer this set of implications as a starting point for professionals in using this information to increase philanthropy within the U.S. and worldwide.

Total Giving
Growth in total giving in 2015 and 2016 is expected to outpace predicted growth in U.S. GDP in these same years, pushing the predicted proportion of total giving to GDP to 2.02% (compared with 1.99% in 2013).[41]

Average annual giving is expected to increase by $17.3 billion in the five-year period 2012–2016. This is compared with an average decline of $6.7 billion realized in the years 2007–2011.[42] The conversion of these available dollars—a total of nearly $70 billion real dollars in this five-year period—from donors to nonprofit organizations will require not only a positive economic environment but also the thoughtful cultivation of donor relationships.

In the years to come, Americans' ever-present philanthropic spirit will continue to be harnessed through the use of newer technologies and engagement techniques in support of both traditional causes and innovative initiatives designed to tackle the most pressing challenges of our time. Be sure to keep abreast of current technologies useful for engaging donors, as well as future developments in technology—especially those relating to communication and donation processing—to maintain relevance and connection with donors.

Individual/Household & Estate Giving
Historically, the vast majority of cash and non-cash contributions have come from individuals/households and estates. In 2015 and 2016, it is estimated that 79% of all U.S. contributions will come from these sources.[43] By comparison, between the mid-1970s and early 2000s, the proportion of total giving from these sources ranged between 85% and 90%.

Seasoned fundraisers and nonprofit leaders know that philanthropy depends on relationships. Given the declining proportion of giving by individuals/households and estates over the last four decades, fundraisers should develop meaningful ways for cultivating relationships with donors over the long-term. Philanthropic gifts of any size are given as a result of relationships built on trust and confidence.

Foundation Giving
Offsetting the long-term declines realized in the total proportion of individual/household and estate giving are the complementary increases in giving by foundations, which is expected to rise to 15% of total giving in 2015 and 16% of total giving in 2016. The proportion of giving by foundations predicted for these years is a large increase from the 6% of total giving from foundations in the 1970s.

The increasing importance of foundation giving reflects the growing trend of donors using institutions and asset-building giving vehicles, like donor-advised funds, for their giving. Fundraisers may consider harnessing donors' desires to take more control of their giving by developing thoughtful donor-engagement programs within their organizations. Moreover, fundraisers may consider developing donor-advised fund programs to provide donors with this option.

Corporate Giving
The above-average growth in corporate savings predicted for 2015 and 2016 will translate into increased corporate philanthropy during those years. Fundraisers may want to be proactive in building relationships with companies that fund causes well-aligned with their organizations' missions. Such proactivity requires that organizations be prepared with well-developed cases for support ready to share with large, national companies as well as local businesses.

Methodological Overview

Note: To review our complete methodology, please view our Technical Appendix.

This Philanthropy Outlook was constructed using econometric methods.[44] We began this process by testing economic variables that have known links to charitable giving against historical giving data. Overall, we tested more than 16,000 combinations of variables for each source of giving—individual/household, foundation, estate, and corporate. We selected approximately two dozen variables for all of the giving models representative of predicting each giving type. We call these the base models, and there were several versions of these models. In testing the models' ability to predict giving, we relied on historical data from *Giving USA: The Annual Report on Philanthropy* and available IRS data. The models that performed the best, as defined by having the lowest root-mean-squared error, were chosen as the next set of base models.[45]

Our first sets of models included only contemporaneous variables—that is, factors occurring in that specific time period. Since we know that sometimes an event can have a delayed effect on giving, we wanted to ensure that we captured variables that relate to one-year delayed effects. These types of variables are called "lagged variables." Thus, we performed an additional econometric procedure that tested the influence of lagged variables on the four types of giving. We found that some lagged variables did have a relationship with one or more of the four types of giving. Following this process, then, we added the appropriate lagged variables to the models and eliminated a few variables from the original base models. At this point, we finalized our base models, which included 10 economic variables.

In the final iteration of creating the giving predictions, using historical giving data as a benchmark and the 10 economic variables, we tested the models' ability to predict giving. See Figure 1 in the Technical Appendix for a comparison of actual versus predicted growth rates for total giving for the years 2003 to 2013.

Following the development of the base models, using econometric methodology, we predicted each of the economic variables on which our models were built for the years 2015 and 2016. The final variables are located in Table 1 in the Technical Appendix, and are also listed in the following section titled, "Variable Definitions and Sources."

Finally, we developed giving predictions for each source of giving for the years 2015 and 2016.[46]

See Table 2 in the Technical Appendix for the models for each source of 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.

Variable Definitions and Sources

Independent Variables

With the exception of the real interest rate on one-year government securities, each of the variables below is expressed as a year-to-year growth rate. The interest rate is expressed as a year-to-year change.

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 the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm.

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 the Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/HNONWRA027N.

Number of Individual/Household Itemizers and the Value of Non-Itemizer Giving
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 2014: The Annual Report on Philanthropy for the Year 2013,* written and researched by the 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 the Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/GS1.

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 the Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/GS1.

Employment
The employment rate 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 rates come from the 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 the 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 the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/newsreleases/release_archive.htm.

GDP
GDP is "the value of the production of goods and services in the United States, adjusted for price changes," according to the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm. Data for GDP come from Table 1.1.5 at the 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 the value of 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 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the 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 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the 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.

Growth Rate for Estate Giving
The growth rate for estate giving includes cash and the value of 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 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the 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 the value of non-cash IRS itemized donations contributed by all U.S. corporations to U.S. charities. Historical data for the growth rate in corporate giving were derived from *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org.

Limitations

The Philanthropy Outlook was developed using well-established econometric methodology. The models selected for producing each component of The Philanthropy Outlook are composed of a linear combination of the growth rates (or one-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 (inverted), 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. The 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.

About the Indiana University Lilly Family School of Philanthropy

The 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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Citations

[1] *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[2] $887.3 billion in 2012. The amount does not include income generated by religious organizations. B. McKeever & S. Pettijohn, *The Nonprofit Sector in Brief 2014,* retrieved from http://www.urban.org/UploadedPDF/413277-Nonprofit-Sector-in-Brief-2014.pdf

[3] This is 2010 data presented in *The Nonprofit Almanac,* The Urban Institute, 2012, www.urbaninstitute.org

[4] This analysis is based on a comparison of The Philanthropy Outlook data with *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013*. The figures on which this analysis is based are in inflation-adjusted terms through 2013. *Giving USA* is researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[5] S. Silverthorne, "The Entrepreneurs Who Invented Economic Forecasting," Working Knowledge, Harvard Business School, http://hbswk.hbs.edu/item/7331.html

[6] Historical national giving data are from *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[7] Across these two reports, the categories hold the same types of data but the names are slightly different. Individual giving in *Giving USA* is the same as individual/household giving in The Philanthropy Outlook. Bequest giving in *Giving USA* is the same as estate giving in The Philanthropy Outlook.

[8] This statement is based on the R^2 values noted in the Technical Appendix.

[9] M.P. Clements, P. H. Franses, & N. R. Swanson, Forecasting Economic and Financial Time-series with Non-linear models, *International Journal of Forecasting,* 2004, 20:2, 169-183; R. Fildes & S. Makridakis, The Impact of Empirical Accuracy Studies on Time Series Analysis and Forecasting, *International Statistical Review/Revue Internationale de Statistique,* 1995, 63:3, 289-308. Retrieved from http://www.jstor.org/stable/1403481?seq=1#page_scan_tab_contents

[10] 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, http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm. 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

[11] These data are in inflation-adjusted terms. 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), http://research.stlouisfed.org/fred2/series/GS1

[12] Each prediction includes cash and non-cash donations, which are not explicitly separated in the report.

[13] Averages are in comparison to a national charitable dataset going back to 1973, as published by *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[14] This 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), http://research.stlouisfed.org/fred2/series/GS1

[15] 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

[16] 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

[17] Data for years prior to 2014 come from *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* written and researched by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[18] Data for years prior to 2014 come from *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* written and researched by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[19] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For total individual/household giving, this is true of the S&P 500.

[20] Data for itemized tax returns comes 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 2014: The Annual Report on Philanthropy for the Year 2013,* written and researched by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[21] These figures are according to *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* written and researched by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

Citations

[22] 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. 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

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

[24] Predicted 2014 data are not included in this report.

[25] 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

[26] 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

[27] 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

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

[29] Data for corporate profits come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/newsreleases/release_archive.htm

[30] 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/newsreleases/release_archive.htm

[31] *Global Economic Prospects,* World Bank Group, 2015, retrieved from http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a_web_full.pdf

[32] *Global Economic Prospects,* World Bank Group, 2015, retrieved from http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a_web_full.pdf

[33] *Global Economic Prospects,* World Bank Group, 2015, retrieved from http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP15a_web_full.pdf

[34] The model predicted a 2014 growth rate for S&P 500 of 12.1% while the realized value was 9.3%. This difference is well within expected variance.

[35] The predicted growth rate for GDP in 2014 was 2.3%, while the preliminary actual growth rate was 2.4%. The final growth rate for GDP in 2014 will be available in spring 2015.

[36] The actual value of household and nonprofit net worth is not yet available for 2015.

[37] The predicted growth rate for personal income in 2014 was 2.7%, while the preliminary actual growth rate was 2.3%. The final growth rate for personal income in 2014 will be available in spring 2015.

[38] The predicted growth rate for employment in 2014 was 0.9%, while the preliminary actual growth rate was 2.1%. The final growth rate for employment in 2014 will be available in spring 2015.

[39] The predicted change in the interest rate for governmental securities was 41.2% in 2014 from 2013, -7.8% from 2014 to 2015, and -25.0% from 2015 to 2016.

[40] Note that the predictions for 2014 economic data were made prior to the 2014 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.

[41] This is according to historical data provided in *Giving USA,* compared with projected increases in the GDP and total giving in The Philanthropy Outlook. *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[42] Data for years prior to 2014 come from *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013,* written and researched by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[43] *Giving USA 2014: The Annual Report on Philanthropy for the Year 2013*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[44] Specifically, The Philanthropy Outlook used forecasting methodology.

[45] Mean Squared Errors (MSE) are used to determine the extent to which a model fits the data. A low MSE means that there is minimal variance in the data and therefore that the model is a good estimator of the data.

[46] Predicted 2014 data are not included in this report.

The Philanthropy Outlook: 2015 & 2016

Presented by Marts & Lundy

Researched and written by the
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