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Mission and Markets Episode 25

Speaker: Hello and welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management. Hosted by CAPTRUST's Heather Shanahan, each episode shares research, resources, and recommendations from industry insiders.

So your nonprofit can focus on what's most important, the mission.

Heather Shanahan: Welcome to this episode of Mission and Markets. My name is Heather Shanahan, and I'm your host. today I am joined by a guest I am so excited about, someone who I consider pretty darn legendary, Dr. Russell James with Texas Tech. So, we've certainly admired your work from afar over the years, so to have you as a guest with us today is, very excited.

We are quite geeked out over here to take a deep dive on all things donor related. So, Dr. James, welcome, and I'd love it for our audience if you would just tell us a little bit about you and your background before we get started.

Dr. Russell James: thanks so much for your kind words and, for the invitation to be here. So, I am, Russell James. I'm a professor in the School of Financial Planning at Texas Tech University, where I run the graduate program in charitable financial planning. I've been in the plan giving space now for, let's just say over 30 years.

And, I, not only, have, spent a lot of time as a practicing estate planning attorney, but also was director of planned giving for Central Christian College for about six years. served as president of that college for about five and a half years. that was very much a major gifts fundraising focused role with, completing a couple of successful capital campaigns.

and since that time, my focus has actually been on research and teaching, trying to, uncover what is it that, is successful at encouraging generosity, but in particular, encouraging generosity with major gifts of assets. So that's the area that I do, research and teaching, and happy to share all that with you today.

Heather Shanahan: Excellent. So I do think that's one of the things that makes a conversation with you so interesting, that your knowledge is not just experiential, but it's also based on research and, even on neuroscience. So we're delighted to have you with us. And today we're going to take a deeper dive inside the mind of the charitable bequest donor.

let's start with framing some definitions here. Can you explain to us what is a charitable bequest donation?

Dr. Russell James: Sure. This is anything where a person is sending an estate gift, a gift after the end of life to a charity. It could be something as simple as adding a beneficiary designation on a 401 or IRA or a life insurance beneficiary, but more traditionally we think of that as a gift in a will. And we'll generally use that phrase gift in a will because people are most interested in that.

but it actually references all different kinds of estate transfers to a charity.

Heather Shanahan: What prompted you to focus on this in your research?

Dr. Russell James: That's a great question. And of course, I'm coming from a background as an estate planning attorney, and, my PhD in economics was in charitable giving. So those are sort of natural fits. But also there's an enormous untapped potential in this space. And the reason I say that is we can look at the national data, and for example, for adults, over age 50, among those who are making substantial current charitable gifts, over 500 or over a thousand dollars, less than 10% of those people are including a gift in a will.

and so when we see that difference in behavior, wow, that's a really tremendous potential opportunity there. These people, it's not that they aren't charitable, they're just not expressing that charitable inclination in their estate plan. So I think that's what attracted me to the space.

Heather Shanahan: So these conversations are more complicated or harder than an annual gift discussion. why is that and What's the biggest thing that nonprofits get wrong around legacy giving?

Dr. Russell James: probably the biggest thing is simply not talking about it, because of the concern of, people are just really hesitant to anything death related rather than using the words and phrases that we've tested and work very well, they just don't do anything. and then the other biggest thing that I think they do wrong is, they do get the gift, that is planned, then they just count it and forget it.

they just ignore the donor, walk away from them. this is actually the standard practice. And what I mean by that is that most nonprofits actually have communication systems that are precisely designed to fail. And what I mean by that is this. The data shows us that the majority of charitable estate gifts are actually added in the last three to five years of life.

What happens in those last three to five years of life is not only that addition to the estate plan, but because of health and other concerns, those people who will actually transfer dollars to charity at the end of life, they tend to stop giving, and definitely they stop volunteering. Well, we've got all these charities that communicate with their oldest friends based upon recency of the last donation, which means they go completely radio silent right at that point when those final documents are being signed.

Heather Shanahan: So let's talk about why bequests are different. How does the decision making process to make a charitable bequest decision differ from those decisions to give or to volunteer?

Dr. Russell James: Well, certainly we know they are different. As I mentioned, less than 10% of substantial donors over age 50 have any, gift in their estate plan. they're different because they involve thinking about the end of life and that, decision making environment, very different from the typical context.

and in fact, one of the ways that we, learned that these decisions are different is, as you already alluded to, yes, we stick people in brain scanners and we have them make all of these different kinds of decisions, current giving decisions, volunteering decisions, gift in a will decisions.

And we find that these are not only different in their execution, they're actually neurologically different. They engage different parts of the brain when people are making these decisions about including a gift in a will.

Heather Shanahan: So specifically, what happens in our brains when we think about bequest gifts versus annual giving?

Dr. Russell James: So it's really fascinating when we saw the results, and that is that there is an increase in what you might call visualized autobiography. So these are simultaneous activations in a brain region responsible, for, taking an outside perspective on ourselves and for internal visualization. Now, we know that that simultaneous activation, happens when people are reviewing their life story because of other studies that, caused people to, review their life story.

And as they were engaging in that, we got this same, simultaneous activation, the same visualized autobiography. So the interesting part about that is not only does the charitable bequest decision uniquely involve this visualized autobiography, in terms of the brain region activation, but as that activation increases, the likelihood that someone will click on the button to say, "Yes, I definitely want that charity to be in my estate plan," also goes up dramatically.

So it really comes back to the idea that the charitable bequest is very much about the person's life story. How does this cause connect to my life story? And we see that not just in the neuroimaging, but others have done, research investigating why people picked the causes they picked to be in their estate plan, and the same answer comes up even when that's done through in-depth qualitative interviews, the answer being it is for many people a focus on their life stories or life narratives.

Heather Shanahan: So how does someone who's in a development capacity engage with a donor to capitalize on or extract that life story? What does that process look like?

Dr. Russell James: So once we know from the core science that this visualized autobiography, activation is what predicts someone saying, "Yes, I want to include that charity in an estate plan," then we can think about ways to engage with that. Let me give you a simple example. the most powerful phrase that we have yet tested that ramps up people's interest in a gift and a will or actually any estate related gift, attribute gift and a will or, charitable remainder, trust, whatever, is instead of asking about their interest in, making a gift in a will, we ask about their interest in making a gift and a will to support causes that have been important in my life.

Now, notice what that phrasing does. If you are asked about your interest in including a gift in your will to support causes that have been important in your life, what does that make you do? Well, you don't wanna be that guy who says, "No, causes have been important in my life." So you start thinking about it.

"Well, what causes have been important in my life? "Now, again, that is empirically a super powerful phrase, but the reason that we tested that was because we knew that if we could trigger this life review where they would find that connection between their life story and the cause, that is neurologically what triggers the decision to include the gift.

So that's an example where in our words and phrases we could do it, but also anything that kind of prompts this sense of nostalgia or how the cause or the

organization is connected with their life story, those kinds of reminders, it can be particularly powerful.

Heather Shanahan: So I think we all learned through stories and storytelling. do you have a specific example of this in practice? And what's one of your most memorable stories in a donor conversation?

Dr. Russell James: So in fact, what we've done is we've tested all kinds of stories. so we'll use, brief donor stories, maybe a paragraph, something like that. And here's a couple of things that we've learned about it. If we share a donor story, the number one most important feature is that it needs to be a story of someone that the donor feels like is someone like them.

So for example, if we share a donor story and it's pretty influential, and then we put an image of the donor there, if that image is of a donor who is of a completely different age group than you are, then actually the story, becomes ineffective. It worked much better if you don't put the donor image on there.

But if we put that same story with a donor image that is of your same age group, then boom, it actually makes that story more impactful. Now in terms of story content, what we're looking for is a story of a donor, a living donor. Living donors work better than deceased donors because why? Well, we're trying to - tell stories of people who are like me and I happen to be living, so a living donor story is more like me.

So that story of the donor is going to include a gift that reflects their life story and has some sense of permanence or a lasting impact. So it creates the social norm that, oh, so people like me include gifts in their wills that reflect their life story. And the thing that really works with the story is telling more of them.

one donor story outperforms none, but four outperform one, seven outperform four. And so that's one of the other things we found from the research. It's not so much hunting for that one magic story. Instead, it's a matter of just constantly telling examples after examples of this story so that ultimately the effect is I as a donor will feel like this is a normal thing to do.

People like me make gifts like this. And that social norm, to use the technical term, is incredibly powerful, especially in these end of life related decision making contexts.

Heather Shanahan: So if I'm meeting with the donor, then I'd best be prepared. This isn't just a walk-in spontaneously tell me about you. This is. I've done my research beforehand and I come prepared share stories for best outcomes.

Dr. Russell James: Yeah, exactly. And so the idea is get your stories down. Let me give you a quick example. Let's suppose I'm here at Texas Tech University and let's suppose you're an alumnus, and at some point what's going to come up is, hey, what's going on at the organization, right?

Or what's going on at the university? So what I'm gonna do is I'm gonna share three stories and then I'm gonna shut up. now, my first two stories don't have anything to do with death. We don't lead with death. We'll talk about that more later. And so I might talk about how, you know, really excited about the upcoming football season.

looks like our quarterback's gonna be healthy and lots of, promise, there. and, we're over 45,000 students now, if you can believe that. A lot of construction on the west side of campus for those new residence halls. Oh, and, Mary Smith did a neat thing. Now, did you know Mary because she graduated just two years before you?

well, no. Well, Mary spent her whole career helping other people get their finances in order, and she recently signed a new will that one day will create a permanent endowed scholarship for our financial planning students. By the way, that's the fourth step. Take a drink. What I have done now is in a very soft, safe, non-threatening way, I've given a person the opportunity, if they want, to pick up that conversation, to continue that conversation.

I've shared a story about someone like the donor who has included a gift and a will that has a sense of permanence, a permanent scholarship fund that reflects that person's life story. Even if the conversation doesn't continue from there, I've accomplished something really powerful. I have shared that living donor story that we know from the experiments is actually the most powerful way to shift the attitudes about including this kind of a gift.

Heather Shanahan: And then you took a pause baked in

Dr. Russell James: Exactly. But you've got to come prepared with your story.

Heather Shanahan: and your cup of water or coffee or whatever. so your research also found that family and loved ones play a powerful role in bequest decisions. What did you learn?

Dr. Russell James: So it comes back to this idea that when I'm faced with the fact that I'm going to disappear, if I'm faced with my mortality, which by the way, estate planning forces you to do, there is this hunger for a permanence, for making my identity continue. Now, my identity comes from my close people, personal values, and life story.

So what about that factor of close people? Well, we have found that you can, and experimentally, that, you can ask people about their interest and, what's your interest in leaving a charitable bequest gift to say organization X? And they might say, "No, not interested in that at all." But if we then ask them, "Do you happen to have a, loved one, a family member who would appreciate or would have appreciated your support of this kind of a cause?"

and if so, tell us about their connection to the cause." if we go through that reminder process and then we ask them the bequest question, again, except this time about a gift and a will, in honor or memory of a loved one, it dramatically ramps up their interest. so there is this desire to, continue those features of my life story, including my close people, in a, tribute or in a memorial gift.

So we know experimentally this works. And by the way, we also, replicated this, in the, FMRI. And what we learned is that, when you just ask somebody a charitable bequest question, it actually doesn't engage much in the way of memory or emotion. if we're asking them about how much you're gonna leave to a family member or friends, of course, that engages memory and emotion.

But if we go through this process of asking about a family member's connection to the cause and then asking about the tribute gift, when we ask about that tribute gift or, a memorial gift in a will, the memory and emotion associated with that bequest decision dramatically higher than, when we just ask them, the simple bequest decision, as you might expect that it would be.

That's what makes these particularly attractive, and it's something we can do very simply. Most people don't even, think about this as a possibility. so, look, if your organization sends out any kind of communications, something along the lines of check the box if, you'd like to receive more information or check the box if you've already included us with a gift in your will, all you gotta do is add one line.

My gift is in checkbox memory of honor of person, and relationship. just putting that line on there lets people know, oh, that's a thing that I can do. And for about one out of four people, just that one line bumps up their interest in making this kind of a gift.

Heather Shanahan: Usually we think we're moving the needle if we just say in whatever publication or communication, "Let us know if you are honoring us with bequest gift." That's it, just, so we can communicate, but this takes it to the next level. Do you find that there are, family members or relationships that are more compelling than others in terms of people's responsiveness?

Dr. Russell James: Yeah, we actually tested that, looked at all the different kinds of relationships. and here's what we found. people actually don't wanna do this for friends. Didn't work at all for friends. They also don't want to do it for descendants, right? So you're not gonna leave a gift in honor of, a son or a daughter or, a niece or nephew because you're supposed to just give them money, right?

You're not supposed to do that. But so it is all, about ascendants, and in particular female ascendants. So it could be, for example, uh, grandmother, very powerful. less powerful, but also up there is grandfather. aunt, very powerful, less powerful, but also up there is, uncle. mother, also works well.

father, was statistically insignificant. I had teenage daughters and they often considered my comments to be statistically insignificant, so I'm not sure if those things are related, but in general, this is driven by the desire to honor, ascendants, and family members. and this actually is more powerful if it is honoring someone who is deceased rather than someone who is, still living.

so those are the two factors that really, work best that ramp up that interest.

Heather Shanahan: That's fascinating. I'm sorry that you're irrelevant, but hey, let's talk about death.

So you say that the biggest obstacle isn't lack of generosity, it's avoidance. What do you mean by that?

Dr. Russell James: So we've actually got an entire field of experimental research that is devoted to the topic of how does it change people's values and preferences when you remind them that they're going to die? I kid you not, it's a real thing. And because of that, we have hundreds and hundreds of experiments in this area.

And what we find is essentially two kinds of responses that happen when you remind people of their mortality. Most people, most of the time, they're going to respond with what we call avoidance, Don't wanna deal with that. That doesn't really apply to me. Yeah, I'll get around to that, but not today, right?

Those are all expressions of avoidance. Now, if people move beyond that stage, then it is a response of the pursuit of symbolic immortality, the idea that I'm going to make some lasting impact that reflects my, identity, my values or life story, or close people. That's what takes over at that point.

But that first stage response for most people most of the time is, I don't wanna deal with this. it's icky death planning and it doesn't really apply to me. You someday, but not today. That's the biggest barrier.

Heather Shanahan: So we don't lead with death. Start with that. key takeaway. how should nonprofits talk about planned giving instead?

Dr. Russell James: So think about it as we want to begin with another topic, and along the way, we just happen to also deal with the death related planning, So that's the idea is if we want a larger audience, then we don't lead with death. Now, let me point out the exception to this. If you've already got somebody in your office, if you've got a captive audience, well, you can lead with death.

It's not a problem. Why? Because they can't engage in avoidance. You've got them right there. If they can't engage in avoidance, the only response then is that pursuit of symbolic immortality. And if you're offering them gift opportunities that have that lasting, permanence, impact, that's going to become more attractive in that space.

But if we're trying to get that audience, we lead with death, it's just not going to attract the audience. So what other things could we lead with? Well, we can lead with donor benefit, Like, hey, I'm gonna give a, seminar on how to give smarter or tax smart giving. Now, I'm gonna start out with things that have nothing to do with death, like, if you make a gift of an appreciated asset, you get a double tax benefit compared to a gift of cash.

So here's why that's smarter. we might even say, hey, if you're over age 70, you can look at making gifts directly from your IRA or IRA rollover. And by the way, for people of any age, you can name a charity as a beneficiary for part or all of that account because any of that money that goes to family, they've gotta pay income taxes on it.

Any of that that you send to charity wipes out those income taxes. Now, notice what we're doing. I've started just talking about a very innocuous topic, how to give smarter or tax savings. And I'm that quickly talking about estate planning, but I don't lead with death, and that means I'm going to get a larger audience.

and so the other topics, I've seen, plan giving, fundraisers give seminars, for example, on senior concerns. Talk about Medicare issues, health and longevity issues, and then in the last third, talk about estate planning. Again, they get that bigger audience because we're not leading with death when we're trying to, attract that audience to, inform them of some of these things.

Heather Shanahan: So you've described planned gifts as a form of symbolic immortality. How does this connect, and does it connect to endowments and permanent funds?

Dr. Russell James: Yeah, it really does. And experimentally, we can see this even without using these kind of permanent structures, even in the language we use to describe the impact of a gift. So for example, if, in one experiment, there was a poverty relief charity that was either described as, creating, lasting improvements that would benefit people in the future or making an immediate impact in people's lives.

Now, it turns out that for the normal group, it generated a lot more gifts if you describe the organization as making an immediate impact, in people's lives. But for the group that had first been reminded of their mortality, that actually completely reversed. And now it raised gifts, three to one, a larger amount of gifts if the organization was described as, creating, lasting, impact.

So, so the idea there is that we're not even changing the structures, we're just changing the language. People become very hungry for permanence once we're faced with our own mortality. Now, how does that connect to structures? Well, permanence language works, but structures are super powerful. Let me give you an example.

So I'm gonna go back a few years here, when our estate tax data showed us more of the population, because the exemption levels were lower. and so, back in, say, 2007, 2004, and this is before the rise of donor advised funds, for estates of \$5 million and above, 70% of the charitable estate dollars, and in some years, actually, 78% of the charitable estate dollars, they went to private family foundations.

so here's why that's important from a psychological perspective. the question of what is it that motivates the massive estate gift, not the pat on the head gift, the massive estate gift, that's actually an answered question. It is the features of the private family foundation, named for me or my family, lives forever, typically, is legally required to follow my values, my rules for all eternity.

And notice, even that 22 to 30% of charitable estate gifts that actually do go to public charities, most of those gifts go to large stable institutions that offer people that same experience, universities with permanent endowed funds, professorships, scholarships that are named, that are going to be following the donor's, rules, indefinitely, right?

and so again, that's that reason why this, the technical term is, pursuit of symbolic immortality or a hunger for permanence that reflects my identity, that's, showing just how powerful that is.

Heather Shanahan: So continuing on the theme of, endowments and permanent funds. I'm running a relatively young nonprofit organization, and we are at our infancy of some of these conversations. How does that conversation go with a potential donor?

Dr. Russell James: So there's a couple of different ways we can attack this issue. One is through the language we use, and the other is through the structures we use. Now, in the language we use, even if the organization is brand new, the Impact of the donor's gift can be described using lasting, terminology. So we're talking about the power of this gift and the impact that it can have in, future generations, for example.

And so to add those terms, and that goes back to the research that I, referenced where we describe the same organization, but when we describe it as making a lasting impact, that is very attractive. so we can be cognizant in an estate planning context that we're going to describe the impact using permanence language.

Now, what if we wanna move beyond that and we want to use permanent structures? Well, then you say, "Well, we're just a brand new organization, what can we offer?" That's when we partner. You're probably going to have a local community foundation or other, affiliated, foundations that will be more than happy to set up a fund that supports the organization, so that the person knows, "Oh, this fund is going to permanently, be accomplishing these kinds of good works, through your organization.

But if something happens to your organization, it keeps doing that through, other organizations that might be around at the time." So look, you know, if you are a, 150-year-old university, no problem, here's our fund. But if you are a two-year-old, nonprofit startup, then you want to partner with others who can, provide those kinds of services and that sense of permanence, but it's still a gift that's going to be benefiting you when that's funded.

Heather Shanahan: That makes sense in our community. Foundation clients are, in agreement with you and delighted for the nod.

So in wrapping up, if we have a nonprofit listening today who commits to changing only one thing about their planned giving program, what should that be?

Dr. Russell James: Super simple and enormously powerful for your bottom line. One thing, it's a checkbox, a checkbox on your donor record, and you're gonna click that checkbox whenever you get information that that donor has hit your magic age. Let's call it 75. If you don't have that much money, call it 80. Once they hit that magic age, you never stop communicating with them.

They quit giving, not a problem. We are still going to continue communicating with them. Why? We've got to stay top of the mind, right? most charitable bequests that are actually transferred at the end of life were added in the last three to five years of life. We've got to stay top of the mind because here's the thing people don't realize.

You get left out of that final plan, not because they don't like you anymore, but because you just didn't happen to come to the top of the mind. Look, I'm an estate planning attorney. This is not the 19th century. If you come in to do an updated estate plan, we have these things called word processors.

We're going to build that plan from the ground up using the latest statutes and court cases and regulations. I've got automated systems that are designed to extract your, assets, your family, your goals, and we're going to build a plan from there. I speak for a lot of estate planning councils, and I can tell you majority practice is not for me to charge you my hourly rate to read through that old will document, even if you happen to have brought it in, because we're getting ready to revoke it.

It doesn't really matter what's in that will document. So we are not getting out the quill pen to add a codicil onto our existing will document. Not how it works. lots of reasons why we don't take that approach anymore. What that means is you don't get automatic carryover. And if you're not top of the mind, you're going to get left out.

Heather Shanahan: my parents just went through an update of their whole plan and that was such a frustration from my dad. Like we're starting over again, but you're just validating. That's how it works. And, reframing the donor

conversation too, because what you thought 10 years ago may not be where your head is now.

So continuing to stay relevant. That's great advice. This has been time well spent. Thank you so much for your research and just really what you do for the charitable and planned giving community at large anyway. You're really so thoughtful and your research is fascinating.

Dr. Russell James:

I appreciate that. And hey, let me, do a quick plug.

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Heather Shanahan: That's absolutely amazing. So thank you. And one parting question we like to ask our guests, given the title of our podcast Mission and Markets, Mission Impact, what does that mean to you?

Dr. Russell James: It means this. When you are fundraising, don't ask people for money. Ask people to do good works. That happened to cost money. Understanding that simple mind shift, we're not there to take money. We're not there to ask for money. We're there to help the donor to accomplish that personally meaningful philanthropic goal or goals that they have.

We're gonna help them define it and then we're gonna help them accomplish that. That's what we do. We are helping them to do good works. That happened to cost money.

Heather Shanahan: That's great. And I think people fail to plan sometimes, and if you were anywhere close to philanthropically minded, make those decisions while you're alive instead of leaving it up to somebody else to figure out, well, what would Aunt Sally have wanted to do with this? It's, it, again, the planning piece is so key.

Dr. Russell James: Absolutely. Yeah, start out with the, gift and a will so you can plan it with fun money. I'm not gonna be using this anyway, but then start thinking about, why wouldn't I fund some of that today while I could see the impact while I'm

Heather Shanahan: Sure. That too. Yeah, absolutely. Well, Dr. James, thank you. Thank you, thank you. really great to spend time with you today. We appreciate your insight and, I hope you enjoy the rest of your semester.

Dr. Russell James: Very good. Thank you so much. It's great to be here with you today.

Heather Shanahan: Thank you.

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