

Academic White Paper

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Charitable Sharing Accounts as the new Social Fundraising tool

The new Social Economic tool, Charitable Sharing Account

Every breathing individual in this Country has heard: “Please give to our charity, give to help our kids, our School, our Church, our pets...and so on.” In fact, the often repeated mantra has become, “Give until it hurts.” Its time we change that; Giving shouldn’t hurt, it should be a Win-Win. So let’s really work together and breathe life into a much more effective mantra, “Give so it works.”

Charities can set themselves apart, not just by the great work they do, but by attracting Donors that “stick” to them and their mission. Donors give to 3 or more different Charities each year and will switch to a different Charity without any valid reason, other than being asked? They can change that by offering Donors choices that build real relationships rather than those built on serving as the charity’s ATM machines.

Social Fundraising: Defined

According to P. Joseph Phillips Founder of Charitable Sharing Accounts

“Social Fundraising shifts the focus away from the current fundraising approach that is based on giving from current principal to a new innovative tool which encourages donors to *share* a percentage of the gains from their investment portfolio’s return, not the principal, with their favorite Charity and cause.”

Time to Change Our Thinking

“Social Fundraising using Charitable Sharing Accounts will be the new Philanthropy in coming years.” In this era of shrinking dollars and increasing needs, nonprofits must find new ways to raise dollars to address this new reality. It is time to refocus our donor recruitment efforts from their Giving capacity to their Sharing ability. Eventually Social Fundraising will morph giving to nonprofits into a mission of “Sharing” future returns.” The donations with sharing accounts are 50%-90% (see examples on page 5) larger than a normal gift, and sustainable for agreed upon years.

The Need for the Creation of a New Solution leads to Social Fundraising

After considerable research and developing an understanding of what Donors and Nonprofits are looking for, coupled with the pompous and selfish position of Donor Advised Funds there is a new uniquely crafted solution that meets the needs of Donors, nonprofits and financial institutions needs alike. Most wealthy donors understand “return on investment”, investment strategies and sharing the wealth. This is a simple, easy, yet brilliant new groundbreaking approach to nonprofit fundraising, Sharing Vs Giving.

What is happening today in the Fundraising and Nonprofit worlds

Currently the U.S. has 1.3 million nonprofits, and every one of them is seeking the same dollars from the same clients in hopes to move their mission and create a great cause. Nonprofits spend roughly 80%-90% of their time attempting to “woo” and attract Donors and dollars to their cause and mission with the same old marketing and fundraising methods. In this highly competitive market where donor dollars are in high demand and sorely needed to accomplish worthwhile projects, it is time to offer donors more than a tax write off and a thank you note. Charities have been using the same method for the last several Centuries. It’s time “Social Fundraisers” work with Donors and give them more reasons to support their work and become a “sticky” part of the organization. Donor burnout is at an all time high and Charity executive turnover is higher too.

Now, they can still support the mission and get the usual tax write-off but Charities can give them a better option. Give them a monetary return on their dollars, while at the same time allowing them to remain in control of their assets. This new innovative tool provides nonprofits with higher dollar per donation as much 96% (see examples below), as well as providing unrestricted dollars for whatever the agency needs most.

Problems nonprofits face daily and in the near future

We classified the funding of charities into the Three “G” Categories (3G); Giving, Granting and Groveling. They all start and end with the nonprofit on the bad-end of the deal, the daily task and grind on finding the money.

- Giving; This is what a donor can afford to give from discretionary funds such as money, cash, credit card donations and can also include stock shares, land, annuities, life insurance policies, etc.
- Granting; Government and large foundation funding that is typically labor intensive, highly competitive and granted by luck of the draw.
- Groveling; Using a highly emotional appeal to the Donors heart or to plead for a few dollars to support their mission.

In such a bad economy and fear of potential further disaster to come, a wonder no one wants to give, donate or answer the phone today.

One of many:

Charities must compete for dollars from the same donor pool. In today’s reality, Churches, Alumni Associations including private high schools, Universities, and Post-Grad programs, Hospitals, Community Based Organizations, Hospice and the list just goes on forever, must all compete for needed dollars. This creates too much noise and donor burn out from all of the phone calls, parties, events, e-mail and mail. Additionally, the Heart-felt messages expressing legitimate needs are too often lost in all of the noise.

Time to Raise the Money:

It takes up to roughly 80%-90% of a fundraiser or business development officers time to bring in a typical Donor. Using the same fundraising method for many centuries, the three G’s is considered the number one cause of burnout by nonprofit leaders causing costly leadership turn –over. Not only losing skilled and seasoned leadership, the organizational goals and ability to meet important needs are disrupted.

Resources and Government help:

Our own Government can't continue to fund the nonprofit world and their causes with government funds and grants. The well is drying up and will so more and more each year. (see [Government Nonprofit Funding Rescue](#))

Donor Advised Funds are the “wolf in sheeps clothing”, developed by the financial world to hold the Donors assets while not giving a care if Donors do give the funds away. Mean time, more than 90% of the yearly donated assets provided to these firms via Donor Advised Funds are not given away to Charity. The financial house sits on those assets and charge big fees to the account to do so.

Donor Exhaustion:

Donors are expressing frustration more than ever and feel burned out from the number of requests for support. They want to help but with their own limited dollars and financial goals, they are forced to make hard choices. They can give on a first come, first served basis, choose one charity to support, or choose not to give at all to stop the inundation of requests. They are growing weary of having to say, “sorry I can't give this year.” As one survey that measured donors' sentiment found; Donors are frustrated with being considered an ATM machine for charities. Due to the bad economic forecast this only exacerbates the circumstances and cautionary nature of Donors.

The need keeps growing and the dollars keep shrinking?

There is always more need than money with nonprofits. The needs are growing at the very time government and public dollars are decreasing. The major down shift in the financial markets means even less to go around. More and more, these monies are restricted for a particular purpose or program with very little available to provide dollars needed to maintain and grow an agency.

What we know:

- ❖ Nearly 1.3 Million Nonprofits are in the USA today vs 1.7 million in 2007, dropping by 400,000 nonprofit sector jobs and help for those causes.
- ❖ Total giving declined by 3.6% for the year.
- ❖ In 2009, the average individual giving was \$1,940
- ❖ \$303.75 Billion dollars was given to Charities and 83% (\$251B) of came from individuals, of which \$23.8B was in way of Bequests (so someone had to die). Corporation gave 15.6B (5.1%), Foundations (Grants, 38.4 Billion) 12.6% * ([Source](#))
- ❖ Nonprofits are having an increasingly difficult time getting in front of donors
- ❖ with traditional methods no longer working. Grants are becoming more difficult and more restrictive and scarce.
- ❖ Baby Boomers are ready to pass on \$1.7 Trillion to their heirs, and nonprofits, but are putting performance strings on the cause and mission.
- ❖ Donors have an increasing expectation that nonprofits must operate with
- ❖ efficient business practices and no longer provide just “feel good” services.
- ❖ Entrepreneurs currently have two reasons for giving: a connection with the
- ❖ cause and the tax write-off. A return on money donated creates an innovative
- ❖ third reason that will promote increased donations.
- ❖ Donors want the assurance their donations are being used wisely by credible
- ❖ agencies and a mission with objectives.
- ❖ Many of today's Donors are more sophisticated and educated in money matters.
- ❖ Most Donors have at least 3 bank/brokerage accounts, and give to an average of 3 nonprofits in a year.
- ❖ There are approximately \$10.7 Trillion dollars in US Brokerage firm's accounts
- ❖ sitting in mutual funds and other investments.
- ❖ Nonprofits are stressed in resources, tools and staff and will continue to be.
- ❖ Sharing future returns is much easier, more cost effective and rewarding than Giving from “out of pocket”.

- ❖ Donors want to remain in control of their assets, want to participate more than just once a year at “check-writing time” and to feel rewarded for helping their cause.
- ❖ Donor Advised Funds have 45 Billion that they are sitting on at over a few dozen financial firms.
- ❖ Total wealth of America is equal to \$65.9 Trillion, as of 2009.

To cultivate a Sharing philosophy, The Charitable Profit Arrangement™ created a patent pending business process formulated into this unique product. Briefly, this is how it works:

- The Charitable Profit Arrangement serves as the intermediary that coordinates and manages the entire process on behalf of the Donor and the Charity.
- The Donor contributes assets into the Charitable Profit Arrangement on behalf of the Charity. The Donor agrees in advance through contract to *SHARE* their possible investment return amount with the Charity.
- A Financial Institution is responsible for housing and holding the investment vehicles, which are always in the Donor’s name.
- Investment vehicles can be; stocks, fixed income, mutual funds, real estate, or alternative investments. The Donor has three different ways to choose the type of investment: Donor chooses, Personal financial advisor chooses or Donor can select a pre-designed portfolio.
- The Charitable Profit Arrangement is the administrator for preparation of distributing the profits to the Donor and the Nonprofit.
- Everyone WINS, with the Charitable Profit Arrangement.

How do Nonprofits Benefit from this New Social Fundraising Tool?

1. The Donor’s contributions are committed for 3 yrs, 5, or life-time, therefore the charity has the assurance of receiving dollars for that period of time. No more stress and concern about whether a donor will give again the following year.
2. This new cash flow can be used for operations and missions.
3. Nonprofit and Donor returns are paid quarterly.
4. Charitable Sharing Accounts promote a deeper connection between the donors and agencies.
5. Charitable Sharing Accounts generates 50-100% more in contributions per year.
6. Charitable Sharing Accounts is designed to generate greater returns to nonprofits from Donors contributions through a designed “profit arrangement”.
7. At death your heirs still own the account.

How would Donors Benefit with a Charitable Sharing Account?

1. No out of pocket contributions made to the Charity and the opportunity to marry any investments to their philanthropic interests.
2. Donors will contribute from money earned from their investments, rather than a reduction of their cash/principal, while receiving a tax-deduction for the amount Shared.
3. The peace of mind knowing the money is hard at work toward the mission and Cause, while generating more contribution for next quarter.
5. They are able to establish stronger connections with their charity.
6. They are able to enjoy a solid tax write off on their Shared amount, which increases the Donors effective real rate of return on the investment they had.
7. Participate in the continual gain of the Sharing Account while making larger contribution without reducing principal.

CHARITABLE SHARING ACCOUNT IN ACTION

The Dow finished at 11,577.51 on the last day of trading for 2010, marking an 11% increase for the year. The S&P 500 ended the year up 12.78%, while the Nasdaq rose 16.91% in 2010 -- the second-straight year of gains for U.S. stocks. Over the last 25 years the Dow Jones Industrial Average return has been 8.88%, 9.79%, 14.25%.

An example of a Charitable Sharing Account in use. Said investment produces 9% return, from a \$150,000 account, with just 2% Shared with nonprofit, giving the Donor 7% remaining. Total Charitable Sharing Account yields \$13,500, Donor keeps \$10,500 and nonprofit gets \$3,000 (\$1,060 more than the average donation of \$1940). Furthermore, a Donor in the 33% tax bracket would receive a real tax equivalent yield for the amount.

A Sharing Account would yield:

- \$150,000 Sharing Account with a 9% return and sharing 2%, Donor receives 7%, with a 33% tax bracket
 - \$13,500 total, \$10,500 to Donor, \$3,000 to Nonprofit
 - Tax Savings (33% X \$3,000 = \$990)
 - $\$990/\$13,500 = .62\%$ increase yield to the return
 - Equivalent Return for total return = 9.73%

The average individual donation is \$1940 and Sharing Account is \$3000. A 64% increase in a Nonprofits revenues without Donors doing anything different.

How will Nonprofits attract greater contributions from Donors?

Easy, the assets are already available currently, with Trillions of dollars sitting at Merrill Lynch, Dean Witter, Wells Fargo, Schwab, TD Ameritrade, and other financial and banking institutions. Each Nonprofit website should have an embedded “Charitable Sharing Account” applet on their site, so Donors can click on that applet and have the account set up with these financial firms. Charities should begin the implementation of this process now with their Donor base.

Conclusion and Insight:

It may be easy for someone to give away the money after they don't need any more and realize they have to give it away. “As the large over-weight man said after filling his belly with both hands, ‘you may know feed from my scraps’”, as in the worlds Billionaires today. But to Share as you accumulate is a real hero, philanthropist and the future. Despite all the Charitable methods out today, we are still tithing less than 3%, still closing down nonprofits, still giving less each year, telling all of society we need to do something different. Lets do something new and something better. A win-win solution that does not eat away at a Donor's principal. Sharing Accounts allow for everyone to participate with and donate to their favorite nonprofits without breaching their principal while receiving a tax write-off. The Charitable Sharing Accounts are substantially better than Donor Advised Funds and will be the philanthropic tool of choice.