Lifecycle, Financial and Attitudinal Characteristics
of Charitable Donors

The 1989 Survey of Consumer Finance is used to test lifecycle, financial, and attitudinal variables related to the decision of gift/non-gift to charities and the amount gifted. Both logit and tobit analyses showed age, marital status, home ownership, race, education, income, retirement plans, networth, and attitudes toward inheritance as significant variables in the amount given to charity and the likelihood of being a donor.

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Introduction

Despite a weak and uncertain economy, individuals and businesses gave approximately $124.3 billion dollars to charity in 1992 (Giving USA, 1992). This was a 2.3 percent increase from 1991 when adjusted for inflation. Although individual donations accounted for almost 89 percent of the total amount given to charity, there is surprisingly little scholarly research on individual charitable donations. More specifically there is very little information about the donor's decision to give, the amount to give and characteristics of givers versus non givers. The purpose of this study is to differentiate the lifecycle, financial and attitudinal characteristics of households that gift and do not gift money to charity. Furthermore, the dollar amount of charitable gifts will also be examined with regard to financial, lifecycle and attitudinal characteristics.

Review of Literature

The term lifecycle has taken on various meanings but is commonly used to refer to different stages throughout a culture, person, or specie's life (O'Rand & Krecker, 1990). More specifically economists have treated the lifecycle concept as a framework from which fundamental assumptions are made explicit through the investment and consumption of household income.

In Thurow's (1969) paper "The Optimum Lifetime Distribution of Consumption Expenditures," a theoretical foundation on the financial and sociodemographic factors that contribute to charitable giving is found. Financial factors that affect the savings and consumption levels of the household in different stages of the household's lifecycle are presented. Furthermore, sociodemographic factors such as the household size, expected future income and expenses are considered in Thurow's (1969) paper.

In the earliest stage of the lifecycle (25-40 years of age) households are at their lowest level in earned income due to the lack of experience in their field or lack of education (Bryant, 1990). However households in this stage also have relatively high consumption needs (Thurow, 1969). Householders are purchasing durable goods, are most likely paying a mortgage and children are typically in the home. Discretionary income is limited at this stage and the propensity to give to charities may be curbed due to limited income and high levels of consumption.

In the middle stage of the lifecycle (41-55 years of age) the earning power of the householders peaks and consumption needs level off relative to income (Thurow, 1969). In the middle stage of the lifecycle people tend to be net savers because they anticipate retirement in their future and are trying to build up their resources (Bryant, 1990). Households in this stage of the lifecycle are more likely to donate to charity because of higher levels of income and relatively lower levels of consumption.

In the last stage of the lifecycle (56+ years of age) consumption levels have declined. Persons in this stage of the lifecycle are more likely to own their own homes and their overall net worth is probably at its peak (Bryant, 1990). If persons in this stage of the lifecycle are well prepared for retirement, they are perhaps the best candidates for making charitable gifts. Another consideration that may affect the propensity for persons in the latter stage of the lifecycle to give to charity is the need to settle their estate and avoid unnecessary taxes (Davidson and Chase, 1989).

Economic Theory & Donations

The Lifecycle theory has provided a useful theoretical foundation on charitable giving; however, specific models of money transfers in economic theory

are worthy of attention as well. The economist's approach to charitable giving is largely pragmatic in its logic. The efficiency of giving behavior as well as utility maximizing behavior for the donor is the main emphasis.

In economic literature Hochman and Rodgers (1973) are perhaps the most humanitarian in their approach to charitable giving in their paper on "Utility Interdependence and Income Transfers through Charity." The authors' premise regarding charitable transfers is found in the reasoning that an "individual's welfare is not a function solely of the stock of goods he may consume but also of the welfare of others...hence, the individual's utility function does contain an interdependent component reflecting his degree of identification with others." The authors claim that traditional economic theory lacks the ability to deal with income redistribution as well as how much should optimally be redistributed. In order to accommodate redistribution of income the authors part from the traditional model of rational behavior in the market place and assume a 'benevolent and Pareto-relevant' interdependence among the individual's utility functions.

Lifecycle Variables

Several studies have been conducted on lifecycle variables and their relation to charitable giving. The relationship between age and the effect on charitable giving is perhaps the most commonly examined lifecycle variable. Overall the age of the donor has had a positive linear effect on the amount of money donated to charity (Roistacher, Morgan and Juster, 1974; Harvey and McCrohan, 1988; Drollinger, 1992).

The education level of the donor is closely correlated with the income level of the individual so it is not surprising to find that education has also been found to have a positive effect on the amount donated to charity (Roistacher and Morgan, 1974; Harvey and McCrohan 1988). Furthermore, Roistacher and Morgan (1974) found that college education was the most important variable that influenced the amount of money given to charity when income was controlled for.

Borsky and Banacki (1961) reported that large givers were more likely to have no children in the home under the age of 18. This coincides with the lifecycle assumption that those persons in the later years of life would have fewer consumption needs due to a smaller household among other things. Marital status has also been found to be a significant variable with regard to charitable giving. Married persons were found to donate the largest amount to charity (Morgan, 1974; Roistacher and Morgan 1974).

The Independent Sector, which is funded by the U.S. government, conducts a biannual study on the volunteering and giving behavior of Americans. In a 1988 survey results from a representative sample of 2,775 individuals 18 years and older was used to ascertain who gives to charity and how much they give. Descriptive statistics of frequencies and averages were used in reporting the donation amount. Personal interviews were conducted to assess the amount of charitable donations and time volunteered in 1987. Univariable analysis revealed that whites gave 1.5 percent of their annual income whereas blacks gave 0.9 percent and Hispanics 0.5 percent of their annual incomes (Independent Sector, 1988).

Data on occupational status reveal charitable donors are more likely to be business owners or professionals (Thiessen, 1968). Thiessen (1968) also found that, when income was controlled, professionals still donated more than skilled craftsmen and middle managers. Results from the Independent Sector's (1988) survey are consistent with the findings of Thiessen.

Financial Variables

The income of the household has been a widely examined variable when investigating charitable donations. Reddy (1980) puts it quite succinctly when he states "the prime requisite for giving is having." A positive relationship between the amount given to charity and income has been found (Roistacher, Morgan and Juster, 1974; Borsky and Banacki, 1961; Harvey and McCrohan, 1988; Drollinger, 1992; Ferguson, 1993).

Home ownership was found to be positively correlated with charitable donations of time and money in a survey conducted by the Independent Sector (1988). Of all those persons surveyed who gave to charity, those households that owned their home gave 2.1 percent of their income, whereas renters only gave 1.4 percent of their income.

Research on the net worth of the household and charitable donations was conducted by Johnson and Rosenfeld (1991). The authors studied the effects of tax policy and the financial characteristics on charitable giving. An affluent sample of Americans filing forms 706 was examined. Johnson and Rosenfeld (1991) found a positive relationship between charitable contributions and net worth. In another study Drollinger (1992) broke up the net worth variable into assets and debts. In a regression analysis on a representative sample of the U.S., the author found a negative relationship between debts and a positive relationship between assets and charitable contributions.

The Independent Sector (1988) survey results indicated that those persons who were not worried about having enough money in the future gave fifty percent more than the average contribution of those respondents

that worried about money in the future. The Permanent Income Hypothesis is a useful tool when assessing the discrepancy between future expectations of income and charitable donations. According to the Permanent Income Hypothesis people do not base their wealth upon current income and consumption but rather total resources and consumption over a lifetime (Friedman, 1957). Therefore it can be concluded that future expectations of income and savings would affect the propensity of an individual to donate money to charity.

Attitudinal Variables

Throughout America's history the underlying ethic of taking care of one's family's needs before others has remained strong (Bremner, 1988). Piliavin and Charng (1990) have also stated that traditionally charitable acts were limited to ones kin. Therefore attitudes toward giving to one's descendants may be a significant variable with regard to charitable giving to other causes during one's lifetime. It is possible that an inheritance stored up for descendent may have a substitution effect on the amount given to charities during one's lifetime. Or it may be a complementary component with regard to charitable giving overall.

Hypotheses

With regard to the previous literature review it is evident that several lifecycle variables have been found to be significant and/or correlated to charitable donations. Therefore the primary hypotheses of this research are that

H1: Age of the household head, being married, the education level of the household head and professional occupation status of the household head will be positively related to the amount of money donated to charity and the likelihood of being a donor.

H2: The number of children present in the home under 18 will be negatively related to the amount of money donated to charity but positively related to the likelihood of being a donor.

Due to the limited amount of research on the race and financial characteristics of charitable donors, a further investigation of these variables appears to be meaningful.

H3: White household heads, will be more apt to donate larger amounts of money to charity than non-white persons and more likely to be a donor.

H4: Home ownership, net worth, income, dollar amount in retirement plans, and savings will be positively related to the amount of money donated to charity and the likelihood of being a donor.

In reference to the previous literature on giving to one's kin versus giving to charitable causes, it is conceivable that a person may be very charitably minded, however, they are limited in their ability to give during their lifetime because they anticipate leaving a large estate to their heir's. Therefore the final hypotheses of this research project are;

H5: The importance that the household bestows to leaving an inheritance to their heirs will be negatively related to the amount of money donated to charity but positively related to the likelihood of being a donor.

H6: The expectation of the household leaving a sizeable estate to their heirs will be negatively related to the amount of money donated to charity but positively related to the likelihood of being a donor.

Methods and Procedures

The data are from the 1989 Survey of Consumer Finances. The Survey Research Center at the University of Michigan collected the data between August 1989 and March 1990 through personal interviews with the householders. Households were randomly selected via multistage probability sampling throughout all regions of the continental U.S.. The data included detailed variables regarding the financial, demographic, attitudinal and health variables of American householders. The sample size of the present study was 3,127 households. Errors due to nonresponse were adjusted through a multiple imputation method and weighting procedures. In the sample those households who gave to charity were 1,487 or approximately 48 percent of the sample and the remaining 1,640 households did not give to charity.

Operationalized Model

The dependent variable in the tobit analysis was the total dollar amount given to charity in 1988 by the household. Charitable contributions were treated as a continuous variable ranging from zero to one million dollars. A tobit analysis was employed to explain the variation in the amount of money given to charity, which included zero values. The tobit analysis employs a left censor which allows the researcher to examine zero

values along with positive values without skewing the results to the left.

The independent variables used in the tobit equation were largely derived from the lifecycle theory on consumption and savings (Thurow, 1969; Bryant, 1990). The independent variables with regard to the literature on the lifecycle theory were age of the household head, the level of education of the householder, occupational status (professional, skilled and unskilled laborers), number of children in the household under 18, and marital status (married, not married).

Race (white, non white) of the household head was included because so little research has been conducted on this variable and money donations to charity. Furthermore, a tremendous gap in the literature on the financial portfolio of charitable donors and non-donors is apparent. Although financial characteristics of the household are not made explicit in Thurow's (1969) paper on "The Optimum Lifetime Distribution of Expenditures", they are implicit in the very nature of considering the present and future assets in which a household budgets its consumption over a lifetime. The financial independent variables for the tobit equation were home ownership, net worth of the household, total dollar amount in retirement plans of the household, household income, and the household's total dollar amount in savings.

Attitudinal variables that were considered to be important in this research project were whether or not the householder thought leaving an inheritance was important and the householder's expectation of leaving a sizeable estate to their heirs. These variables were included to detect a possible substitution or complement effect with regard to leaving money to their heirs in the future and charitable donations in the present.

For the second analysis a logistic regression was used. A logistic analysis allows the researcher to examine the characteristics of those households who gave versus those households that did not give to charity. The same independent variables that were used in the tobit model were used in the logistic analysis. The dependent variable for the logistic model was whether or not the household made any contribution to charity in 1988. Charitable giving was treated as a dichotomous variable with a zero response for no or any positive value as yes.

Results

Statistics on frequencies and means were conducted on the independent and dependent variables in order to detect any misimputations and extreme outliers. Moreover the sample of 3,127 households was weighted so that is would reflect a representative U.S. sample.

Several significant variables were found in the tobit analysis which was employed to account for the amount of money donated to charity. Age of the household head, being married, and education were all significant and positively related to the dollar amount of money given to charity. Professional occupational status and the number of children present in the home were not significant (See Table 1.).

Being white, owning a home, total 1988 income, and total net worth were all found to be significant and positively related to the amount of money donated to charity. The attitudinal variables of the importance of leaving an inheritance to one's heirs was significant and negatively related to giving to charity. The variable of the expectation of leaving a large estate to one's heirs was also significant but positively related to giving to charity (See Table 1.).

Results from the logistic regression analysis revealed several significant variables that account for the likelihood of a household donating to charity. The lifecycle variables that were significant and positively related to the likelihood of giving to charity were; age, being married, and education level. Professional occupation and number of children in the home were not found to be significant. Overall the concordant measure of the logit analysis was 81.3% (see Table 2.).

Table 1.
Tobit Analysis on Money Donations to
Charity

Variable	Estimate	Pr>Chi
Intercept	-18907.953	***0.0001
Age	84.094	***0.0001
Marital	1811.927	***0.0001
Children	413.709	0.1777
Own Home	827.945	**0.0111
Occupation	-85.102	0.8174
Race	1003.622	***0.0076
Education	574.702	***0.0001
Inherit	-571.239	*0.0550
Estate	1307.072	***0.0001
Retirement	0.006	*0.0936
Savings	-0.002	0.5768
Income	0.001	**0.0463
Networth	0.002	***0.0001
Scale	5668.746	

N= 3127
*** significant at 0.01
** significant at 0.05
* significant at 0.10

Several demographic and financial variables were also found to be significant in the logit equation. Race where white was the referent, home ownership, the dollar amount of money in retirement plans, total 1988 savings, total 1988 income, and total net worth were all found to be significant and positively related to the likelihood of giving to charity. Furthermore, the attitudinal variable of leaving a sizeable estate to ones heirs was found to be significant and positively related to the likelihood of donating money to charity. The importance of leaving an inheritance to one's heirs was not found to be significant (see Table 2.).

Table 2.
Logistic Regression Analysis on the Likelihood of Households Donating to Charity.

Variable	Estimate	Pr>Chi
Intercept	-5.8975	***0.0001
Age	0.0284	***0.0001
Marital	0.5200	***0.0001
Children	0.0937	0.3575
Own Home	0.1899	*0.0820
Occupation	-0.0856	0.4780
Race	0.2734	**0.0291
Education	0.1677	***0.0001
Inherit	-0.1088	0.2758
Estate	0.2926	***0.0044
Retirement	9.1600	**0.0378
Savings	8.8400	*0.0811
Income	6.3100	***0.0022
Networth	2.4400	***0.0001

Convergence 81.3%
N= 3127
*** significant at 0.01
** significant at 0.05
* significant at 0.10

Hypotheses Results

Several of the independent variables were supported in this study via tobit and logit analyses. The results of this study support the findings of several previous studies on charitable donations. Most of the lifecycle variables were found to be significant and in the predicted direction. It is evident from this paper and earlier papers that lifecycle variables are good estimators of household donations to charitable organizations and the overall likelihood of giving to charity. Interestingly, race was found to be significant with regard to the dollar amount given to charity and the likelihood of being a donor. Further research that breaks down the race variable would be valuable and necessary to see if their are differences between all races rather than just a white non-white grouping.

A further examination of financial variables has proven to be useful in estimating household charitable donations as well. Most notably net worth, home ownership, savings and retirement plans need to be taken into consideration when conducting future research on charitable giving. These variables give the researcher information about future financial stability of the household as well as present financial well-being.

The present research has made some interesting discoveries with regard to intergenerational income transfers and current charitable donations. The importance of leaving an inheritance was negatively correlated to donating to charity which suggests a substitution effect between current donations to charity and leaving an inheritance to one's heirs. Interestingly the dollar amount and likelihood of giving to charity were positively correlated to the expectation of leaving a sizeable estate. Persons with a large estate are perhaps some of the best candidates for charitable giving because of favorable tax laws. Leaving a large estate would suggest a need to avoid estate taxes and it would be likely that these households would donate to charity to avoid any unnecessary estate taxes.

Because of the nature of secondary data, this research has been limited to descriptive questions regarding characteristics of the households that gift and do not gift to charity. More primary research on donor characteristics would be of benefit. Due to the type of analyses used categorical variables were not considered.

Implications

Findings from this research may prove to be especially useful to fundraisers, development offices, and non-profit organizations. The most fundamental discovery is that income alone is not necessarily the best measure of a person's willingness nor ability to donate to a charitable cause. Other factors such as future income, net worth, race, and attitudes toward intergenerational transfers are also important. Non-profits should strive to incorporate estate planning techniques for potential donors. Charitable remainder trusts are growing in popularity because of the dual benefits they provide the donor as well as the charitable organization. Fundraising techniques should be reevaluated when considering the profile of potential donors and the amount that could be optimally donated. Non-profits face unique problems in an age when charitable donations are deemed socially desirable yet financially formidable. Presently we are in a new phase of American philanthropy where worthiness

110

of recipients or cause have almost become secondary to the issue of financing the social responsibility.

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Endnotes
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