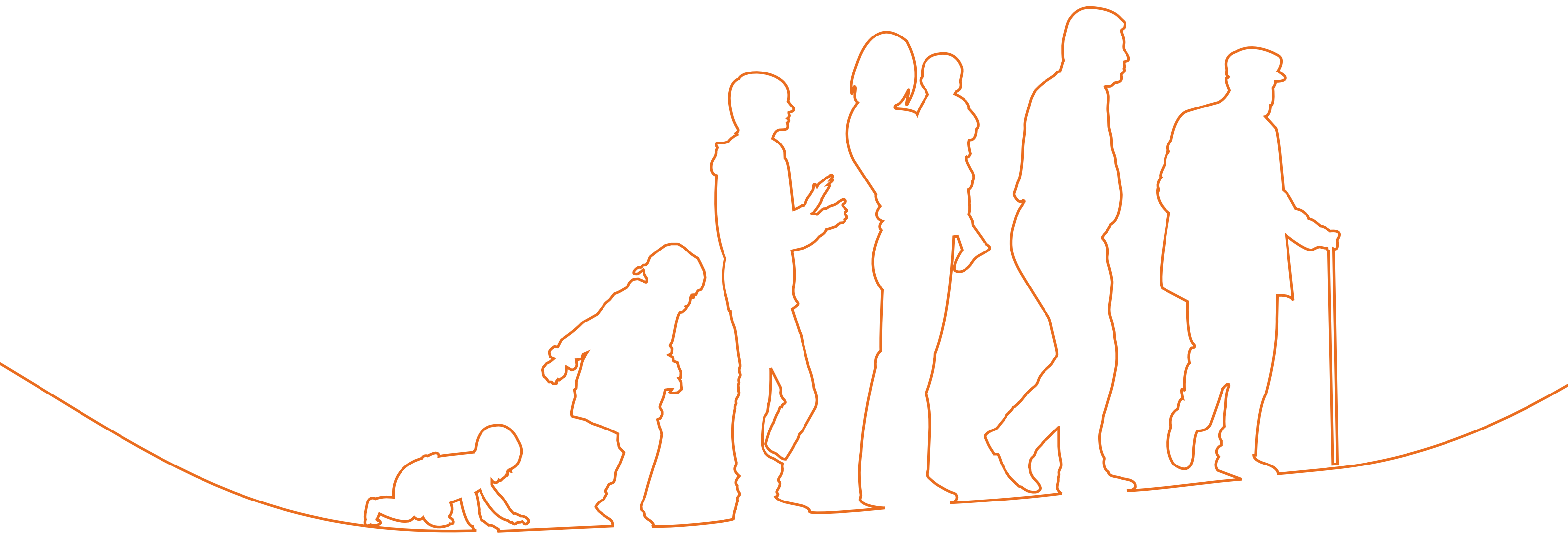
MIND THE GAP

The growing generational divide in charitable giving: a research paper

September 2012



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Foreword

The charity sector is currently facing a very uncertain future. The crisis that has rocked the economy, both in the UK and overseas, has hit charities hard. During the economic downturn, charities have seen a rapid increase in demand for their services at the same time that the money to pay for them has fallen away. There is now a real threat that many of these organisations may be in jeopardy, leaving some of the most vulnerable people in society without support.

While charitable giving by individuals has always played an important part in supporting this vital work – accounting for around 40 per cent of the total income of the sector in 2009/10 – the generosity of citizens will, perhaps, become even more essential in the coming years, as charities can no longer rely on Government and other sources of funding.

Yet this new report reveals that there could be trouble ahead, as our younger generations fail to keep up with their forebears in the generosity stakes. Professor Sarah Smith's excellent research, which builds on the 'New State of Donation' study, shows that the UK's older people – particularly those over the age of 60 – are increasingly taking the lion's share of responsibility when it comes to giving and are now six times more generous than the under-30s.

Those that were born during the Second World War and the 'Baby Boomers' who followed, seem to have shown remarkable philanthropic commitment throughout their lifetimes, but as the donations from these generations begin to tail off, we must look to the nation's younger citizens who currently seem less likely to sustain these levels of giving.

If we peer into the not-so-distant future, I believe we are facing a donation deficit – a generational gap in charitable giving that must be addressed now if charities are to survive and thrive.

Action must be taken now to:

- Ensure young people grow up giving
  Young people should be provided with consistent, high-quality opportunities to engage with charities and giving throughout their childhoods and into early adulthood. The Government should make giving a central part of the National Curriculum and young people should be actively encouraged to engage with charity through work experience, university community volunteering schemes and graduate recruitment programmes.

- Encourage young people to get 'on board'
  Twelve per cent of the adult population is 18-24, yet just 0.5 per cent of trustees are from this age group. The Government and charities must work together to find creative ways to harness the passions and perspective of the next generation.

- Bring Gift Aid into the Digital Age
  As people increasingly live their lives and give online, it is critical that Gift Aid goes digital. The creation of a single, universal Gift Aid declaration would allow the internet generations to maximise their donations and ensure that Gift Aid is fit for the future of giving.

- **Create a strong culture of workplace giving**
  The workplace can play a vital role in getting people giving. The Government must drive forward reform of Payroll Giving and new 'norms' of workplace giving should be embedded within companies by business leaders and young entrepreneurs.

- **Introduce Living Legacies**
  Giving among the generous 'Baby Boomers' is starting to tail off, but in the US 'Living Legacies' have been successful in raising charitable funds from this generation. Introducing these to the UK would allow more people to give during their lifetimes, see the impact of their generosity, and unlock vital funding to charities.

We are keen to work with the Government, charities, business leaders and individuals to drive forward these changes in order to secure a stronger future for our society.

John Low
Chief Executive
Charities Aid Foundation

Overview

The last three decades have seen a growing generational divide in charitable giving in the UK.

- More than half of all donations to charity (52 per cent) now come from the over-60s, compared to just over one-third (35 per cent) thirty years ago.
- The over-60s are now more than twice as likely to give to charity as the under-30s. In the most recent year of our data (2010), we observe 32 per cent of the over-60s having given in the past fortnight, compared to 16 per cent of the under-30s. This compares to 29 per cent and 23 per cent respectively for the two age groups in 1980.
- Older people are typically more generous than younger, giving more as a share of their total spending. This 'generosity gap' has widened over the past three decades. The over-60s are now more than six times more generous than the under-30s compared to less than three times more generous, thirty years ago.
- These changes arise from fundamental generational shifts in giving behaviour. An earlier trend of increasing participation across cohorts has been reversed, while an earlier trend of increasing generosity across – and within – cohorts has been replaced by much flatter profiles.

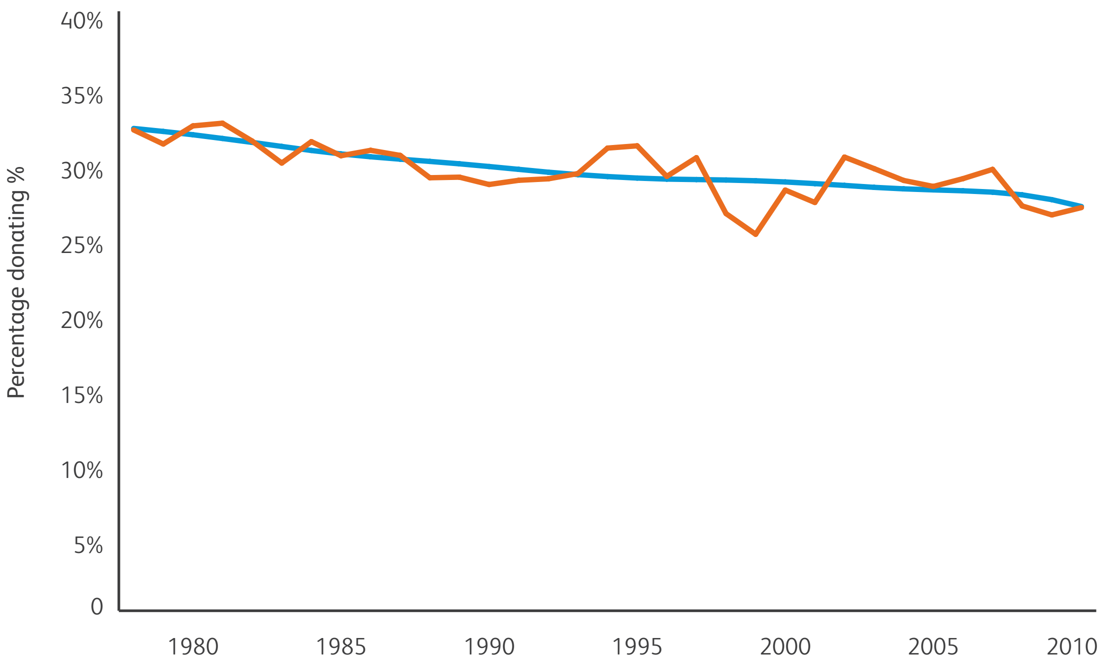
This paper presents detailed analysis of charitable giving in the UK by age and date-of-birth cohort using more than three decades of data – from 1978 – 2010 (see Appendix for details on the data source). The aim is to document the main age and cohort patterns in giving and to gain a better understanding of the generational changes in giving that are taking place.

The context – long-term trends in charitable giving in the UK

As has been extensively documented elsewhere[1], there has been a long-term decline in the proportion of households giving to charity. Figure 1 shows the proportion of households giving to charity each year since 1978, updated to 2010. The red line shows the observed participation rate (the proportion of households that gave some money to charity over the past two weeks), which varies year-to-year[2], while the blue line shows the smoothed estimate of the underlying trend in giving.

The participation rate declined from 32 per cent in 1978 to 27 per cent in 2010. The Millennium year appeared to mark a turning point in participation – halting what had before then been an almost continuous decline. The Millennium saw a permanent reform to Gift Aid which meant that all donations made by tax-payers were in theory eligible for tax relief (abolishing the minimum eligibility threshold). There were also a number of specific (and temporary) Millennium appeals, such as the Children's Promise scheme. While the evidence here is not conclusive, it does point to some effect of these measures, although there is little evidence of any sustained increase since 2000.

Figure 1: Percentage of households giving to charity, by year

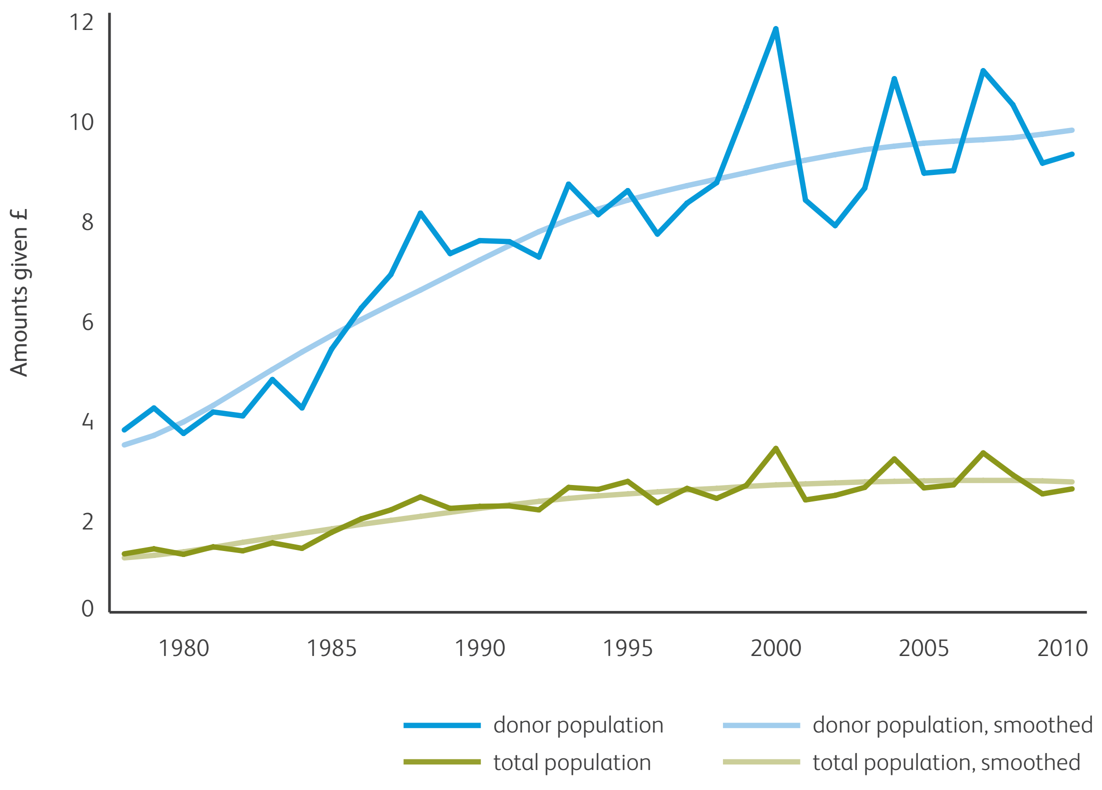


[1] Cowley, E., MacKenzie, T., Pharoah, C. and Smith, S. (2011) The new state of donation: Three decades of household giving to charity, CGAP/CMPO
[2] Some of this variation is genuine; some is due to sampling variation.

Over the same period, the amount of money that donors give to charity has increased. This is illustrated in Figure 2 which shows the average (mean) weekly donation among the donor population in blue. The figures are all in real terms (2012 prices). Over the period as a whole, the mean donation has nearly trebled, growing from £3.65 in 1978 to £9.17 in 2010. Again, the level of donations was particularly high in the Millennium year, but this did not mark a permanent shift.

Figure 2 also shows the average (mean) weekly donation among the total population in green, ie, averaging across both donors and non-donors. This has also increased over the period as a whole – more than doubling in real terms from £1.17 in 1978 to £2.47 in 2010. However, focusing on the past decade, the level of donations has been relatively flat. There has been almost no growth in the real level of donations since 2000.

Figure 2: Average weekly giving among the total population and donor population



These long-term trends in participation and donations are potentially a concern for practitioners and policy-makers. Looking at age and cohort patterns in giving can help provide insights into what might be driving these overall trends – and, more importantly, some insights into the prospects for the future.

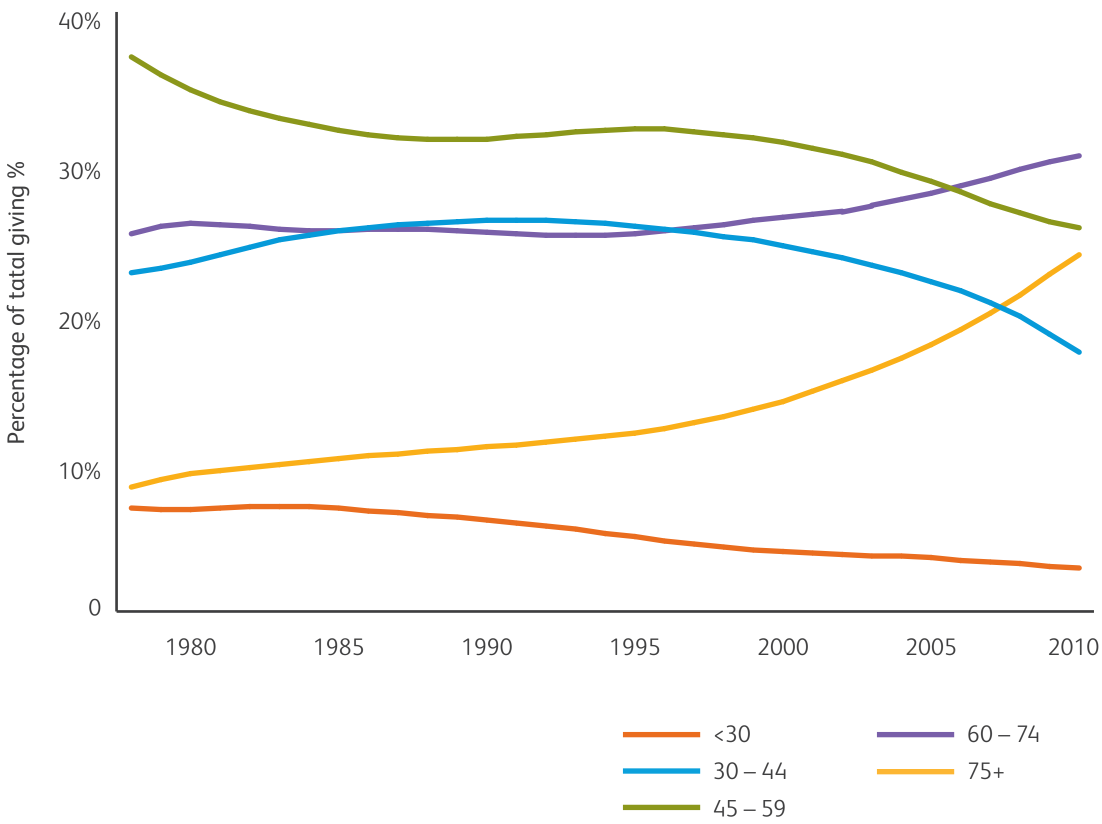
An ageing donor population

A growing share of donations comes now from older donors (defined as aged 60+). In 2010 more than half of giving (52 per cent) came from this age group, compared to just over a third (35 per cent) thirty years earlier.

Figure 3 provides more detail on the share of total giving coming from different age groups, in each year from 1978 – 2010. All of the age groups under 60 contributed a smaller share of total donations in 2010 compared to 1978, while the opposite is true among the over-60s. For example – and as a marked contrast – the share coming from the under-30s fell from 8 per cent in 1980 to 3 per cent in 2010, while the share coming from the over-75s grew from 9 per cent in 1980 to 21 per cent in 2010.

Of course, there are underlying demographic and socio-economic trends that would lead us to expect an ageing of the donor population. First, there is the ageing of the population as a whole which means there are relatively more over-60s. Second, recent cohorts of pensioners are typically enjoying higher standards of living than their predecessors. However, contrasting changes in the share of giving with changes in the share of total spending suggests that the donor population has been ageing faster. While there has been growth in the over-60s' share of total spending – from 22 per cent in 1978 to 26 per cent in 2010 – this has been much less than the growth in their share of total donations.

Figure 3: Share of total donations, by age group



Age profiles of giving

Looking at age profiles of participation and donations at different points in time can help to shed further light on the ageing of the donor population.

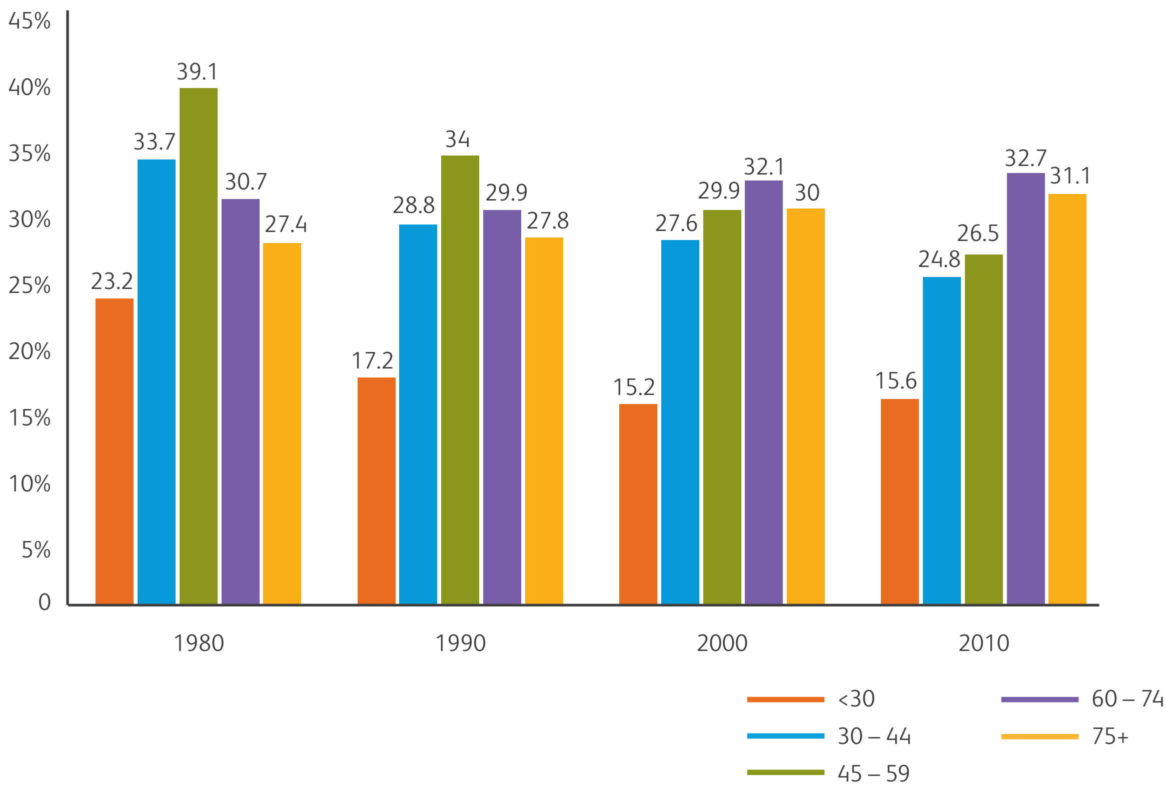
Participation

Figure 4 shows participation rates (the percentage of households who give anything to charity) by age groups, at different points in time. This clearly indicates that the drop in participation in Figure 1 has not been uniform across the population but has been driven by declining participation among the under-60s.

Since 1980, the participation rate among the under-30s has fallen from 23 per cent to 15 per cent. Most of this decline occurred between 1980 and 1990 – more recently, the percentage giving among this age group has been relatively flat. There have been steady falls in participation among the 30-44 age group (from 34 per cent to 25 per cent) and the 45-59 age group (from 39 per cent to 27 per cent). By contrast, the 60-74 age group experienced a small increase in partcipation from 31 per cent to 33 per cent and the 75+ age group a slightly larger increase from 27 per cent to 31 per cent.

The overall effect of these changes is a change in the participation age profile from a 'hump' shape in 1980 – the highest participation rate is among those those aged 40-59 – to more of a 'slope' in 2010 – the highest participation rate is among those aged 60-74.

Figure 4: Percentage of households giving – by age group



Generosity

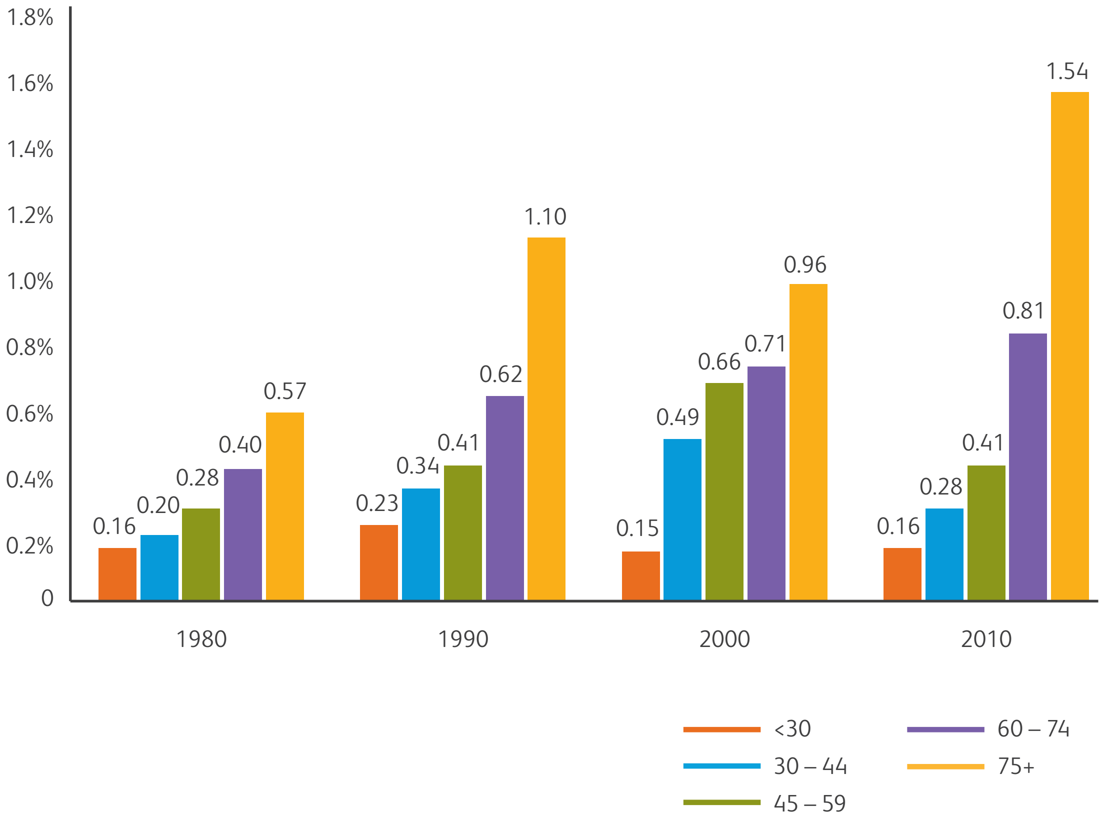
Figure 5 presents the level of generosity (measured by giving as a share of total spending) for the age groups, at different points in time.

In each of the years shown, generosity rises with age – older households give more as a share of their total spending than younger households.

Comparing the youngest households (under-30s) with older households, the generosity gap has progressively widened over time – for example, the over-75s now give ten times more (as a proportion of their total spending) than the under-30s, compared to three and a half times more in 1980.

Comparing the beginning and the end of the period, there has also been a widening of the generosity gap between older (60+) households and middle-aged households (30-59). However, interestingly the Millennium year saw an increase in generosity among 'middle age' (30-59) households.

Figure 5: Levels of generosity (giving as as percentage of total spending) – by age group



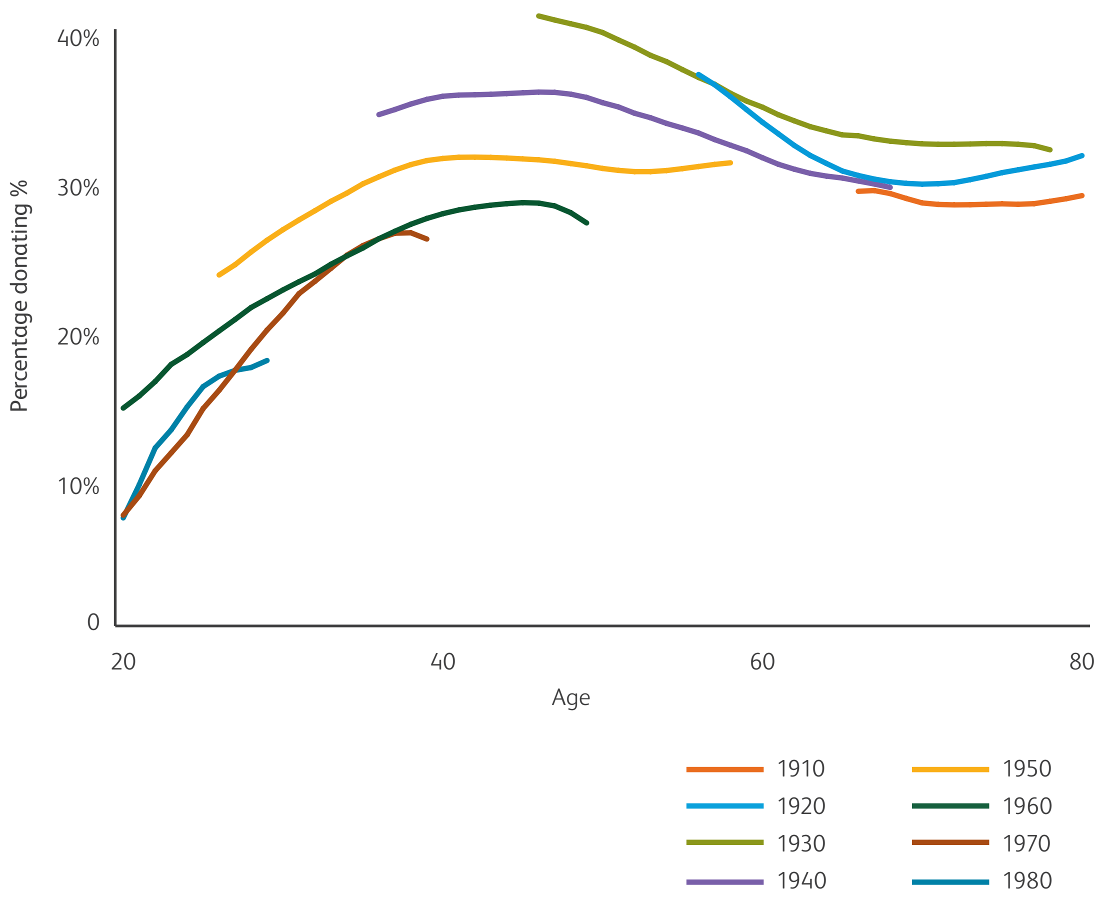
Giving by date-of-birth cohorts

Differences in giving behaviour within age groups over time may reflect persistent generational patterns in giving – ie, systematic differences in levels of participation and generosity across date-of-birth cohorts. Identifying persistent cohort differences can help to shed light on how levels of giving are likely to evolve in the future as cohorts age.

Participation

Figure 6 plots profiles in participation for different cohorts, defined by their date-of-birth. In order to achieve reasonable sample sizes, five birth years are pooled, although for simplicity only the first year is reported. Thus, the '1910 cohort' refers to individuals born between 1910 and 1914, the '1920 cohort' refers to individuals born between 1920 and 1924 and so on. 'Age' refers to the mean age of the cohort in a particular year. The average age of the 1910-1914 cohort is 66 in 1978 and 90 in 2010; the profiles are truncated at age 80 because of sample sizes.

Figure 6: Participation (percentage giving to charity), by date-of-birth cohort



The picture of giving by cohort yields a number of interesting insights:

1 Within date-of-birth cohorts, the age profile in giving typically has a 'hump' shape. People are more likely to give as they get older – until they hit their 50s. After this, participation starts to decline. This pattern is fairly stable for all of the cohorts shown here. The 'slope-shaped' age profile shown for 2010 in Figure 4 therefore reflects changing levels of participation across cohorts – ie, shifts up and down in age profiles across successive generations.

2 Among older date-of-birth cohorts, there was a trend towards higher levels of participation across generations. More of the 1930 cohort gave at all ages observed than the 1920 cohort. The 1920 cohort, in turn, were more likely to give than the 1910 cohort.

3 The 1940 cohort marked the reversal of this trend and participation began to fall at most ages for each successive date-of-birth cohort. Fewer of the 1970 cohort gave compared to the 1960 cohort, who were less likely to give than the 1950 cohort, who were less likely to give than the 1940 cohort, who were less likely to give than the 1930 cohort.

4 There is evidence that this systematic decline is slowing. The profile for the 1980 cohort does not lie below that of the 1970 cohort at all ages. The same is also true for the 1985 cohort (not shown). This corresponds to the relatively more stable levels of participation among the under-30s since 1990 (shown in Figure 4).

5 The shape of the age profile among the youngest cohorts shows a steeper increase in giving with age. The 1970 cohort were less likely to give than the 1960 cohort when they were in their 20s but had caught up by the time they reached their late 30s. When the shape of age profiles changes, it makes it harder to predict what will happen in the future since we can no longer simply assume that younger cohorts will follow the same path as they age as the older cohorts. This does, however, suggest more grounds for optimism for the future.

Generosity

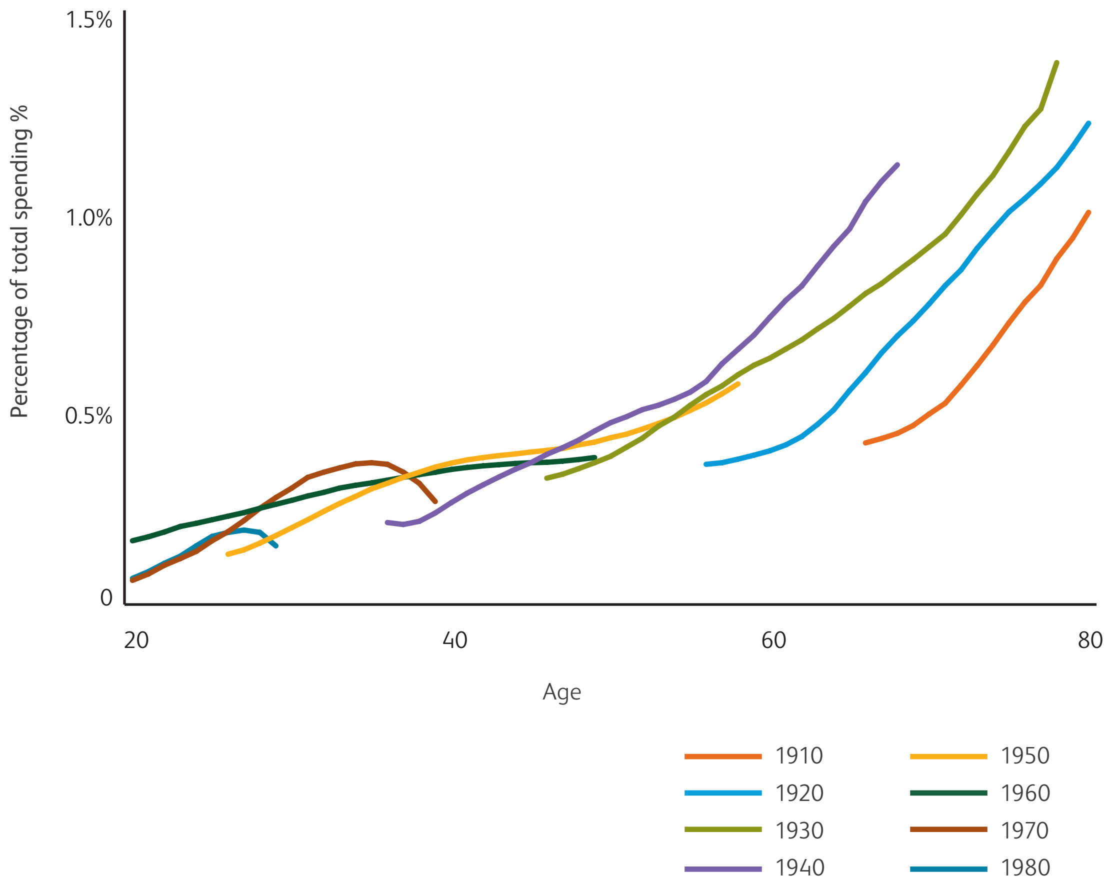
Figure 7 plots profiles in generosity (giving as share of total spending) for the same date-of-birth cohorts. As with participation, the cohort analysis yields interesting insights into changing behaviour across generations.

1 Cohorts born 1910 – 1940 had rapidly rising levels of generosity as they got older. They gave more as a share of their total spending when they were in their 60s and 70s than they did when they were in their 40s and 50s.

2 Up until the 1940 cohort, successive generations were also more generous than their predecessors. The 1940 generation gave more as a share of their total spending compared to the 1930 generation, who were more generous than the 1920 generation and so on. Comparing this to cohort patterns in participation, rising generosity across generations persisted longer than rising participation.

3 The 1950 cohort marks a break with the past in terms of both the age and generational patterns of generosity. Generosity no longer rises so steeply with age – the profiles for subsequent cohorts are much flatter. There is also no longer a trend towards higher levels of generosity across successive date-of-birth cohorts. The level of generosity is fairly similar for the 1960 cohort as it was for the 1950 cohort; the 1970 and 1980 cohorts were actually less generous at younger ages than the 1960 cohort, although as with participation there is some indication that these younger cohorts are converging as they get older.

Figure 7: Generosity (giving as a percentage share of total spending), by date-of-birth cohort



Looking forward

In the last three decades the UK donor population has been ageing, and at a faster rate than the population as a whole. The cohort analysis shows that this ageing process has been driven by distinctive generational giving behaviours.

First, successive cohorts born before 1950 had increasingly higher levels of participation and/or generosity than their predecessors – and became increasingly generous as they themselves aged. Second, cohorts since the 1950s cohort are no longer giving more than their predecessors: participation has been in decline and generosity is no longer increasing.

The 1940 cohort is likely to drive further donor population ageing because the level of giving among this cohort is higher than that among younger generations. The bigger concern is what happens when the more generous older cohorts die out. If giving behaviour does not change among younger generations then participation and generosity both look set to fall.

There is perhaps some room for optimism. Younger generations, born in the 1970s and 1980s, appear to be catching up with their predecessors. While their giving was typically below that of older cohorts when they were in their 20s, it has increased faster with age. The fact that the age profiles of giving within cohort can – and do – change means that different generations do not simply follow their predecessors along the same trajectory as they get older. This makes it harder to predict the future, but also provides some hope that the gloomiest predictions may not come to pass.

The analysis presented here reveals distinctive generational patterns in giving. The next step is is to try to understand why there are such differences and whether they can be changed. For example, the cohorts may have unique generational experiences (eg beliefs about the role of the state and not-for-profit organisations), differing demographic or socio-economic characteristics (eg, wealth or patterns of child-rearing) or, perhaps, they may be differentially targeted by charity fundraising and marketing strategies. What this paper has higlighted is the potential importance of this debate for future levels of giving.

Appendix: The Living Costs and Food Survey

A key challenge in measuring levels of charitable giving accurately is that estimates of levels of giving are typically sensitive to the particular survey methodologies used. This paper analyses household-level data on charitable donations from the Living Costs and Food (LCF) survey over the period 1978 – 2008. The LCF survey is the UK's largest detailed survey of household expenditure and has existed since 1957, although much of the information of interest is only available on a consistent basis since 1978. The LCF survey is the only survey to have collected household-level information on charitable donations on a consistent basis over such a long period, allowing us to analyse long-term trends in giving.

The survey samples nearly 6,500 households annually, on a rolling basis over the year. The final sample, which pools data from 33 waves of the survey, includes information on 216,818 households. All individuals in participating households are asked to record all items of expenditure in a diary over a two-week period. The diary entries for individual goods are aggregated across household members for the two-week period and then averaged to give weekly spending amounts for the household. In addition, household members are interviewed about income sources and other types of regular, less frequent spending, such as direct debits and deductions from salaries. This information is then combined with the diary data to give total weekly household expenditure for over 300 goods and services, including gifts to charity. The survey also collects detailed information on household income and on the characteristics of household members.

In the LCF survey the following items are used to prompt individuals about their 'charitable gifts': *Animal charity, Big Issue, blind box, cancer league, candles (church), charity collection, carol singers, donation to charity, Gold Heart (charity), Marie Curie memorial foundation, missionary box, mothers' union collection, NSPCC, Oxfam, poppy (charity), Red Cross donation, rugby life line, Salvation Army, school fund, sponsor money, Sunday School collection*

Notably, this list does not include spending on goods that give (or may give) a return to the donor, for example, purchasing tickets for charity events, raffle tickets or spending in charity shops. This is an important source of difference with the annual surveys of individual giving commissioned by NCVO/CAF and published as UK Giving[3].

Following the design of the LCF survey, this report focuses on charitable giving at the household level. This is appropriate to the extent that household resources and expenditure tend to be pooled, and individual spending decisions depend typically on the needs and preferences of all members of a household.

It is important to note that the information on donations from the LCF almost certainly understates both average donations across the whole population and the skewness of the distribution for the reason that the LCF survey does not sample major donors. The very biggest donation observed in the thirty years of data is just under £2,000 – clearly smaller than many major donations which are made in practice. The fact that the LCF survey fails to capture large donations should not be particularly surprising – major donors are relatively few in number and are unlikely to be included in a population-wide survey; large donations may also not be covered

[3] For further discussion of the main differences between the LCF and UK Giving see Cowley, E., MacKenzie, T., Pharoah, C. and Smith, S. (2011) The new state of donation: Three decades of household giving to charity, CGAP/CMPO

in the two-week survey period. This report is therefore about trends in giving among the general household population, excluding what is happening among the population of major donors.

We are therefore confident that the LCF survey can be used reliably to look at long-term trends in giving over time. Analysis of these data allows us to gain unique insights into what has happened to giving – and why – over the past three decades.

This research was conducted by Professor Sarah Smith,
Department of Economics and CMPO, University of Bristol.

The report was commissioned by the Charities Aid Foundation (CAF).

CAF promotes charitable giving and provides financial services
and social finance for not-for-profit organisations.

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