Return from Fantasy Island

How should revocable estate gifts be counted?



1. To <u>raise more</u> <u>money</u> for important causes by identifying and rewarding the right behaviors



2. To justify investment in planned giving fundraising

To <u>generate large</u> <u>numbers</u> that will impress an unsophisticated audience

3.

Estate giving has the lowest fundraising cost per dollar raised (highest "efficiency")

\$ raised via channel/\$ spent on channel v. direct mail, events, major gifts, corporations/foundations, annual gifts, etc. So, why don't organizations invest more in estate giving fundraising?





The agency problem

The interests of the representative [the agent] differ from the interests of the represented person or entity [the principal]



The agency problem

Will marketing planned giving help me if...

- average time at one institution is 5 years or less?
- compensation decisions are made annually?

If you are counting to justify investment in planned giving fundraising, then I am a counting agnostic

If you are counting to justify investment in planned giving fundraising, then if it works, just do it

Counting to generate large numbers that will impress an unsophisticated audience

Misunderstanding

- Time value of money
- Timing of death
- The revocable nature of the gift
- Assets not controlled by the will
- Valuing contingent gifts
- Generating v. uncovering planned gifts

Counting to generate large numbers that will impress an unsophisticated audience

Millioni

My first job in planned giving...

Campaigns seeking disclosures v. generating gifts



Misunderstanding risk of death

When does a \$228 annual gift "count" as \$1,000,000?

\$1,000,000 policy age 31 female \$228/year level premium.





To raise more money for important causes by identifying and rewarding the right behaviors, it helps to know what a planned revocable gift is actually worth

What is the planned revocable gift worth?

Certainty of gift today Documentation **Understanding assets** 0 not controlled by will **Certainty of gift tomorrow** Likelihood of revocation Likelihood of gift size • changing **Spillover effects Current** giving Conversion to irrevocable gifts

What information do we have?

Certainty of gift today

- Documentation
- Understanding assets not controlled by will

Certainty of gift tomorrow

- Likelihood of revocation
- Likelihood of gift size changing

Spillover effects

- Current giving
- Conversion to irrevocable gifts



Reported wills are often unused

Distributed estates where decedent reported having a signed and witnessed will (n=7,150)



No will found

Will probated

Onprobated will: nothing much of value

- Unprobated will: estate otherwise distributed
- \equiv Unprobated will: trust distributed
- Outprobated will: other

What information do we have?

Certainty of gift today

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 - LIKEIINOOD OT revocation
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10-Year Retention of Charitable Estate Component



What information do we have?

Certainty of gift today

- Documentation
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- Certainty of gift tomorrow
 - Likelihood of revocation
 - Likelihood of gift size changing
- Spillover effects
 - Current giving
 - Conversion to irrevocable gifts



After making their plan, charitable estate donors grew their estates 50%-100% faster than did others with same initial wealth



James, R. N., III. (2010). Charitable estate planning and subsequent wealth accumulation: Why percentage gifts may be worth more than we thought. <u>International</u> <u>Journal of Educational</u> <u>Advancement</u>, 10(1), 24-32

The NCPG (2000) study showed Fiction that 90% of planned bequest donors don't change their plans

It showed that **IF** charity stayed in, Fact plan changes decreased total charitable amount 10% of the time

> Among those (avg. age of 58) WITH a charitable plan, 10% chose "Amount Decreased" when asked about their overall plan, "Has the amount of the charitable bequest ever increased or decreased?"

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Giving Before and After Adding Charitable Beneficiary to Estate Plan

9,439 observations from a nationally representative longitudinal study



Approaches to counting

- 1. Dollars in the door
- 2. Face value + separate category
- 3. Face value + separate category + min. age
- 4. Present value as if irrevocable
- 5. Updating present value with revocation adjustments
- 6. Don't (Instead, count fundraiser behavior only)



Dollars in the door

- Simple
- Real
- Highly variable
- Typically unrelated to current effort and activities



Face value + separate category



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- Simple
- Transparent communication with donors
- Value is too high
 - No time value of money / age adjustment
 - No risk of revocation adjustment
- Incentivizes working with financially inappropriate ages
- Incentivizes "count it and forget it" donor abandonment

Why traditional counting doesn't work

Planned giving fundraising measures the BEGINNING step of a process to generate money



Traditional fundraising measures the **ENDING** step of a process to generate money



Australian data from: Baker, Christopher (October, 2013) *Encouraging Charitable Bequests by Australians*, Asia-Pacific Centre for Social Investment & Philanthropy - Swinburne University

Most realized charitable plans (in red) added within 5 years of death



Last "no charity" 0-2 years pre-death Last "no charity" 2-5 years pre-death
Last "no charity" 5+ years pre-death Always reported charity in plan

Plans destabilize when

1. Death feels near

- Final pre-death survey
- Decline in self-reported health
- Diagnosis with cancer
- Diagnosis with heart disease
- Diagnosis with stroke
- Becoming a widow or widower

2. Family structure changes

- Divorce
- First child
- First grandchild
- Becoming a widow or widower

Face value + separate category + age minimums

- Simple
- Mostly transparent communication with donors
- Value is too high
 - Almost no time value of money / age adjustment
 - No adjustment for risk of revocation
- Incentivizes working with somewhat less financially inappropriate ages
- Incentivizes "count it and forget it" donor abandonment

Present value as if irrevocable

- IRS remainder interest tables
- Donor communication issues
- Value is still too high
 - No adjustment for risk of revocation
- Still incentivizes "count it and forget it"

Adjusting for risk of revocation

- The value of an irrevocable gift is an *upper bound* for the value of a revocable gift, converging as death approaches
- Discounting for risk of revocation by "double discounting" or choosing a higher interest rate generates features similar to directly estimating the annual risk of revocation and remaining life expectancy

Double discounting*

- 1. Multiply estimated gift amount by the IRS remainder value factor to adjust for age.
- 2. Multiply by the same factor again to incorporate risk of revocation.

\$100k revocable gift (2% AFR) age 70 = \$58,156 [*IRS Remainder 0.76260 x .76260 = .58156*] Reconfirmed by personal visit at 77 = \$68,345 Reconfirmed by personal visit at 85 = \$78,778

* This concept was invented by Mick Koster at Carnegie Mellon University

Present Value of Future Gift



-Remainder @ 2%

Remainder @ 2% w/99% annual retention

Remainder @ 2% w/97% annual retention

Remainder @ 2% with double discounting

— Remainder @ 8%

Updating present value with revocation adjustments

- With either "double discounting" or higher rate, credit the change in value for each personal visit reconfirmation using constant rate
 - Ex: Value of \$100,000 estate gift using 8% discount rate at age 60=\$25,308, 67=\$34,749, 73=\$44,494, 79=\$55,071, 85=\$65,412
 Each reconfirmation

≈\$10,000 credit

Updating present value with revocation adjustments

- Defensible value
- Standard IRS tables
- Incentivizes working with correct age, interest, and capacity
- Prevents "count it and forget it"
- Back office only (not for donor communication)

Don't count gifts (Just count fundraiser activity)

- Avoids "count it and forget it"
- Recognizes donor sensitivity in reporting or documenting
- May capture effort rather than successful effort
- May need to be combined with capacity and age to avoid less efficient effort
- Doesn't fit with traditional fundraising outcome metrics
- May not generate exciting news

How should revocable planned estate gifts be counted?

The right answer is what works for your situation. This depends upon the outcome you want to generate and your organizational environment.

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