Invested in your mission

COUNTING REVOCABLE GIFTS: RETURN FROM FANTASY ISLAND

PG CALC WEBINAR

JANUARY 26, 2017

Russell James, J.D., Ph.D., CFP®
Professor of Personal Financial Planning
Texas Tech University
Lubbock, TX 79409
(806) 787-5931
russell.james@ttu.edu

I. INTRODUCTION – WHY COUNT?

As we look at the issue of how should revocable estate gifts be counted, I've titled this paper "Return from Fantasy Island." The reason I chose that title is that when one examines the world of how charities and non-profits count revocable estate gifts and revocable plan gifts, in many cases these practices bear very little connection to reality. I would like to suggest that there are some effective ways that we can interject a higher level of reality into the way that counting is done so that organizations can get better results.

Let's first deal with the first question, and that is simply “Why count?” Is there a justification for counting gifts when we don't have certainty? Most planned gifts are revocable gifts. A gift in a will, for example, is completely revocable. The person can change their mind at any time. Often with the more complex irrevocable instruments such as a charitable remainder trust, even though the gift itself is irrevocable, the particular recipient of that gift may be changeable. Thus, although a gift will be going to a 501(c)(3) non-profit organization, it is still changeable in the sense that that gift can be removed from our particular non-profit organization.

Is there a justification to attempt to count these things? They are revocable. There is disagreement on what they are worth. We know that they are worth something, but gaining precision can be a real challenge. Further, the ideal way to count may depend upon the motivation for counting. So what might those motivations be? The first motivation is fairly straightforward. It's the idea that we want to raise more money. If our goal is to raise more money for an organization, how can that be served by counting revocable gifts? It can be served by counting revocable gifts if by more accurately counting those gifts we are able to identify and reward the right behaviors. That is, we are able to identify and encourage behaviors that lead to the organization receiving more money to support its important cause or causes.

So that's one justification as to why we should count planned gifts because when done correctly it can help to generate more dollars in the door. But there are other justifications for counting planned gifts such as, for example, using counting as a way to justify investment in planned giving fundraising.

Nonprofit organizations can face a challenge in justifying money being spent on marketing planned giving when the money will not be coming into the organization for some time. If we don't have a way to successfully measure results, and attach dollar figures to those results, then it can be difficult to get funding in order to engage in planned gift marketing. To the extent that we're able to use a measurement - a dollar level measurement - it can be helpful in justifying investments into planned giving because it can show success in actual financial terms.

Finally, a third reason for counting is simply to generate very large numbers that will impress an unsophisticated audience. Planned giving, in particular revocable planned gifts, are excellent ways of generating numbers that are very large. Now, those numbers may have very little connection to actual justifiable estimates. They may have very little connection to dollars that can actually be spent, or even little connection to the actual present value of a future expectation, but sometimes we just want big numbers. If you want big numbers, planned revocable gifts can often be a source of those lovely big numbers.

For example, if you are an educational organization, and you want to have a billion-dollar campaign because everybody has billion-dollar campaigns, but you find it difficult to actually raise a billion dollars (because getting people to actually give that much money may be completely impracticable), one of the ways that you can address that issue is to consider using lots of this "funny money" counting where we count dollars of gifts that are contingent or are many many years down the road or are completely revocable.

Thus there are different justifications for why different organizations may want to engage in counting revocable estate gifts, and it's important to understand this justification. It is important to start with the reason why, because the reason why you want to count will then have a lot to do with the methodology that you choose for counting.

II. CONFUSION IN COUNTING

As we start getting into the different ways that revocable plan gifts can be counted, I want to let you know that I am very open to all different forms of counting depending upon what the goal is. If the goal of counting is to justify investment in planned giving fundraising, then I'm what you would call a counting agnostic. I don't particularly care how you count, if it is effective for your organization in encouraging your organization to invest more heavily in planned giving fundraising (because ultimately investing in planned giving fundraising is the most efficient way for your organization to generate more dollars for the cause or causes that your organization represents in the long term). If the goal is to justify investment in planned giving fund raising then whatever counting causes that to happen, "just do it." If it works to get funding for planned giving fundraising it's likely good for the organization. Thus, I will not be throwing rocks at how different organizations count as long as the purpose of the counting is not accuracy, but rather the purpose of the counting is to justify to others why it's a good idea to invest in planned giving fundraising.

Many times what counting planned giving can be used for is to generate large numbers that will impress an unsophisticated audience. For example, we're having that billion-dollar campaign and we are meeting goals regardless of what percentage of that goal is actual real dollars in the door. The reason that revocable planned gifts can generate these large numbers is that often times the audience you're communicating with misunderstands one or more fundamental concepts. They might misunderstand time value of money, such as how the value of $10,000 that you're going to get in sixty years is very much less than the value of $10,000 that you're going to get next week. They might misunderstand the timing of death or the revocable nature of the gift, especially if we gloss over the reality that these things can be changed and instead simply assume or make an argument that we don't really need to worry about changes taking place.

When does a $228 annual gift count as $1 million? You can buy a life insurance policy for $228 a year for a million dollars for a 31 year-old female. So the value of a million dollar revocable gift from a 31 year-old healthy female for one year is $228. If she changes it the year after that, then that's all the actuarial value that was received. Most people don't understand this massive difference in magnitude. It sounds really impressive to say we have generated a planned gift of a million dollars. It sounds less impressive to say we generated a gift that this year is actuarially worth $228 and next year if it stays in the plan - but we don't know if it will - will also be worth perhaps $229. That is much less impressive than a million dollars. That misunderstanding is what leads to the ability to talk about large numbers that have a relatively small real value. But, if all you care about is generating big dollar figures then maybe you don't need to worry about that.

There could also be a misunderstanding of assets that are not controlled by the will. The organization may be in the will, perhaps even having a copy of it. This generates the expectation of a big gift. This expectation may not be justified because a will, in most cases, controls no assets. The will acts as a backup document to control only those assets that are not owned as joint ownership with right of survivorship, or do not have a beneficiary designation on them such as a life insurance or an IRA or retirement account, or do not have a transfer on death or pay on death designation such as with a bank account or a stock market account or in the majority of states now even as a transfer on death designation on real estate.

There is also a difficulty in understanding how to value contingent gifts. For example, the organization is in the will but only after the surviving spouse, or it is in the will but only if the person is predeceased by another relative. Finally, there's the issue of understanding the difference between actually generating a planned gift versus simply uncovering preexisting planned gifts.

All of those are issues that make it difficult for an unsophisticated audience to be able to accurately understand and justify what these numbers mean. Because of that we can generate very large numbers that don't necessarily have much meaning.

Let me give you an example from my own experience. My first job in planned giving immediately after I graduated from law school was as an assistant director of planned giving for a small residential college. I was brought in as Assistant Director of Planned Giving because in this small shop the Director of Planned Giving was planning to retire. We had a year of overlap where I would learn the ropes before he retired. One of the favorite strategies of my predecessor was to report very large numbers. And the way that he would report these very large numbers was to report two numbers. One number was the face value of gifts that were planned to go to the organization, i.e., the dollars that donors he had worked with had committed in their revocable estate plans to go to the organization. And then he would report another number called “contingent gifts.” Contingent gifts were gifts that may or may not come to the organization depending upon the order of death. That was always quite a large number as well. It was very exciting to be able to report to the board, we have raised what appears to be X dollars of gifts planned to go to the organization and in addition to that, many millions of dollars as contingent gifts.

However, in this case what “contingent gifts” meant was fairly extreme. As the fundraiser was working with families who had gone through the estate planning seminar given in churches that supported the college, in many cases people would complete their estate planning process and they wouldn't leave a gift to the college. This was fine as we were providing a free service. But, in those cases he would ask, "Now what would happen if everyone you've listed here, your children and your grandchildren, if all of those people died before you did. If that happened, would you want to leave anything to the college?" And typically what you would get is a response of, "Oh well, yes, I guess if none of those people were alive, then I could just leave it to the college." And so through that methodology, we could then count the entire estate of the person as a “contingent gift.” But, what is the value of that kind of a contingent gift? Well, I would suggest to you that the value of that kind of contingent gift (what I like to refer to as the nuclear war gift because that's what would have to happen in order for all of those people to predecease the person who we're working with) is somewhat less than the value of a lottery ticket. There is a possibility of a big payoff. The actual likelihood of that possibility is so small as to be essentially zero but there is still a possibility. This is an example of how you can use planned giving to generate large numbers that will impress an unsophisticated audience. This actually has nothing to do with raising real dollars that are really going to come to the organization as a result of the efforts, but it is certainly a great way to generate those sorts of dollars.

There is also a need to understand the difference between a campaign designed to generate gifts and a campaign designed to seek disclosures. The simple reality is if a person has written a gift to your organization in their estate plan, and what you accomplish is to discover that they have written that gift, you haven't actually raised any money for the organization. Of course, perhaps you can turn that into money because now that you know this, the organization can treat them better, but fundamentally you have not created a gift where there was no gift before.

If you define fund raising as generating a charitable gift that would not have happened but for your efforts, then if all you do is to identify a preexisting plan, that's not fundraising. Can that lead to good things that you can then apply fundraising techniques to? Yes, it can. Can that be beneficial to show how important this field of effort is? Yes, it can. Can it help you reach your campaign goals? Yes, it can. The issue here is that there is a difference between actually generating gifts as a result of your efforts and simply achieving disclosure of preexisting gifts.

If you engage in planned giving marketing that shifts people's attitudes about leaving a gift to your organization, you are generating dollars that weren't there before. If you help somebody through the process of completing an estate gift, you are generating dollars that weren't there before. If you stay in contact with people so that your organization is at the top of their minds when they go through late life changes to their estate plan, you are creating dollars that wouldn't be there otherwise. But, if you're simply collecting information - that's not generating gifts. The problem is in most counting approaches there's no distinction between those two things, but there is a distinction in terms of what is actually generating dollars for the cause.

Ultimately, if the goal is actually to raise more money for important causes by identifying and rewarding the right behaviors, then we need to avoid using funny numbers. We need to avoid using fantasy numbers if the reason we're using those numbers is to identify and reward the right behaviors that actually generate dollars for the causes. Instead, we want to know what a planned revocable gift is actually worth. But, what does that mean? It turns out, that's a pretty complicated question to answer. That's a question that we can't answer with extraordinary precision because there are many levels of uncertainty.

What is the planned revocable gift worth? Issue number one is, what is the current certainty of the gift. If the donor were to die immediately, how confident are we that our organization would receive dollars from that person? Beyond our certainty of the gift today, there is the certainty of the gift tomorrow. What's the likelihood that the gift could be revoked? What's the likelihood of the gift size changing if it's not completely revoked?

And then finally understanding the worth of a revocable planned gift also suggests that we know something about spillover effects. What are the effects on current giving? If a person puts our organization in their will, what does that suggest for current giving? What is the effect of converting that revocable gift to an irrevocable gift?

a) Documentation

There are a lot of issues surrounding trying to understand the value of a planned revocable gift, but we actually have some information about each of these. The first issue is documentation. What is the certainty of the gift if the donor were to die today? Is it enough to simply take the donor at his or her word? Or do we expect some legal documentation? Different organizations have different levels of expectations for documentation before they will count the gift.

My view on requiring documentation is that it is nonsense. Further, it's counterproductive nonsense. These are revocable gifts. The amount of documentation is irrelevant. I can give you the entire will document. In fact, I can even give you the original will document itself and as soon as I have delivered that to you, I can go out, and I can execute a brand new will that makes that document irrelevant. I can, in fact, give you a copy of the will that has already been superseded by another will that I am not showing you. I think of it this way. Do you want to nail your jello to a wall with a thumb tack or with a heavy spike? Does it matter? It's still jello that you’re nailing to the wall. It's still a revocable gift. It doesn't make any difference how much you document it. It's still a revocable gift.

The other problem with the documentation process is not only is it a bit pointless, because it's a revocable gift, but it can also be a bit uncomfortable. A person is treating your organization like a family member when he or she puts you in his or her will. This is a very deep sort of personal relationship. From a neurocognitive perspective, these are family-like social relationships that people are forming and responding to with the organization. Now suppose you had an aunt and at a family reunion your aunt said, "Honey I just want to let you know, not that it'll happen any time soon, but I just want to let you know that I've remembered you in my will." Would you respond to that by saying, "Well thank you so much for that. I really appreciate you thinking of me. Just so I can help to plan my financial future, would you mind sending me a copy of the will document and giving me an estimate as to how much I should expect to receive when that event occurs?" Would we find that to be offensive? That doesn't fit into our normal sort of family or friendship relationships. It is a bit aversive right? So what we're trying to do in the documenting process can violate some of those norms, and I would suggest it has limited value because these are revocable gifts.

b) Asset titling

The second issue that comes up is a misunderstanding of what assets are controlled by the will. It's not simply a misunderstanding that the document you are looking at is revocable. In fact, the document that you're looking at may have already been revoked. You don't know. But, the separate issue is to understand that if you're looking at a will document, you're looking at a document that may not control anything. In a nationally representative 20-year longitudinal study of adults over the age of 50 in the United States, including over 7,000 individuals who have been part of that study who have since died and who in their last survey prior to death indicated that they had a signed and witnessed will, in only 38% of the cases did the will document control anything. So what's going on here? Typically, the will document does not control any assets because a will controls only those assets that are solely titled in the name of the decedent that do not have any joint ownership, beneficiary designations, transfer on death, or pay on death designations. Those circumstances are not only rare but they're becoming more and more rare with the growth in what are called non-probate transfers.

c) Revocation

There's also the issue of likelihood of revocation. We do have some information on this. Once again it comes from a nationally representative survey of adults over the age of 50 that's been tracking the same adults, year after year, for more than 20-years. Because of this longitudinal tracking, we can look at the retention rates of having a charitable component in an estate plan. That is, among those who said they had a charitable component in their will, who are still answering the question in a later year, what percentage still say they have a charitable component in their estate plan. The ten-year retention rate has been remarkably consistent across many ten-year periods at 55%. This does not capture revocations where one charity is replaced by another charity. This is simply people who have some charity and then they have no charity.

That's the bad news. The good news is that this isn't necessarily your donors. These are just general national trends. If you have someone who is so committed to your organization that they have actually come forward and let you know that you are in their plans, they are likely to have a higher level of retention than this. If you engage in substantial relationship building and maintenance and donor cultivation and stewardship you may get much better results than this, but this is one piece of information that we have.

At a minimum, this lets us know that the potential for revoking, removing or essentially forgetting the charitable component is substantial. It's not something that we can just ignore. It is something that takes place a good deal. In fact, we might expect this more often if we understand how the estate planning process really works. The estate planning process does not begin with the old will. As an estate planning attorney, and as I talk with other estate planning attorneys, the typical estate planning process does not even involve the old will. If a person comes in for estate planning we begin with, what do they own, how is it titled, and what would they like to see happen. Unless we have a person who has capacity issues, that is if there is some question about their current ability to make a will, as an estate planning attorney, I don't care what's in the old will. It is irrelevant. I do not want to spend my time or charge my client for looking at this old will and trying to interpret it, because it doesn't matter at all. What matters is: what do they own? How is it titled? And what do they want to have happen to it? Consequently, it is unlikely that the estate planning process will involve looking at that old will to see what charities were in it and asking if they still want those charities in their estate plan.

d) Spillover effects

There's also the issue of spillover effect on current giving. From the same national study, we see a rather dramatic increase in current giving that occurs in the years following the addition of a charitable component to the estate plan. This is a before and after comparison. We cannot say precisely that this is a cause and effect relationship, but this at least suggests that we don't appear to have evidence of a negative spillover on current giving.

III. SIX APPROACHES TO COUNTING

Now let's switch gears and look at the different approaches to counting. What are the different ways that we can count? Let’s look at six different approaches to counting revocable planned gifts and discuss some benefits and disadvantages of each of these six methods. The six methods are (1) Dollars in the door, (2) Face value plus a separate category, (3) Face value plus a separate category plus a minimum age, (4) Present value as if it was an irrevocable gift, (5) Updating present value with revocation adjustments, and (6) Don't count dollars, count fundraiser behavior only.

a) Dollars in the door

First, “Dollars in the door” just means, “How many dollars did you get this month or this year from estate gifts?” This has some great advantages. It’s really simple. You don't need to project anything; you just look at the bank account. It's very real; there is no funny money here. There are some downsides. It is highly variable. The reality of estate giving is that it moves in dramatic swings. We'll have really good years that are phenomenally good, and that will be followed by or preceded by really bad years that are phenomenally bad, and it has nothing to do with the organization or the fundraising behavior, it's just the lumpy nature of this kind of giving.

This lumpiness is true not only at the organizational level. It is true at the national level. I have the opportunity to serve on the methodology committee for Giving USA, and I specifically focus on the number that's generated for bequests gifts. One of the frustrations that we have is that we'll have dramatic shifts in the bequests dollars that can happen from year to year because we'll have for example, Joan Kroc die, and all of a sudden we've got multiple billions of dollars being transferred all at once. Given this, how can we get better at predicting bequests dollars? The fundamental answer is that we can't. The numbers are just lumpy. Whether we look at national level numbers or organizational level numbers, they are highly skewed, being dramatically influenced by the super wealthy. This is true in every data set that I have ever examined on charitable estate giving. Not only in the U.S. but even in data from other countries.

The bottom line reason why this approach is not that useful (aside from the fact that the numbers are going to go dramatically up and dramatically down) is that “dollars in the door” is typically unrelated to current efforts and activities. If you're being measured by dollars that come in the door from estate gifts, then frankly it doesn't really matter what you do. You might as well just take a vacation and collect a paycheck, because you're not going to be able to drive this number – at least not for a long period of time. If you do really good work, and you do it the right way, and you target the right ages, you'll start to be able to shift this number somewhat in about three to five years. But that is a very long period of time to be able to connect your efforts to actual results. If we want to use this information to reward appropriate behavior, it's not particularly useful.

b) Face value in a separate category

Another approach is to count revocable gifts at face value and use a separate category. So, if someone indicates that they have written you into their estate plan for a million-dollar gift, you count that as a million dollars. You count that as a million dollars regardless of what age they are. It's just face value - what we might call future value. We don't project the likelihood that their estate might go up or might go down, or that the gift might disappear altogether. We don't worry about any of that; we just count it at face value. But, we will put it into a different category, a category of revocable gifts.

This is the current suggested approach for CASE, the Council for Advancement Support of Education. Thus, it is an approach that many institutions of higher education use. One big advantage is that you can communicate transparently with donors. You can say to a donor, "Thank you very much for that million-dollar gift that you have put in your will now counts as a million dollars in the revocable gift category of our campaign, and you have now gotten us that much closer to our campaign goals." Very simple, very easy. Now of course, we know that the value is way too high, because there's no consideration of the time value of money.

Even if we are absolutely certain to receive a million-dollar gift, the fact that we're not getting it today, but we're going to get it in 38 years makes a difference. A million dollars you get in 38 years is not worth a million dollars today. In this approach, there is no adjustment for the time value of money. There is no adjustment for the donor being age 40, age 60, or age 95. Additionally, there is no consideration of the risk of revocation, other than the fact that it is in a different reporting category.

Unfortunately, this can incentivize working with financially inappropriate ages. A $100,000 gift that won't come in for 50 years counts the same as a $100,000 gift that will come in about five years. They are both $100,000 gifts. This can incentivize working with financially inappropriate ages, meaning that you can spend your time with people who are too young. In the example we looked at before, a 31-year-old female signing a million-dollar revocable gift will, on average, be worth the life insurance policy equivalent of $238 in the following year. A 98-year-old person, who signs a million-dollar revocable gift, depending upon the risk of death, may be worth $250,000 or more. A quarter of a million dollars is quite a bit different than $238, but in this counting system, they both count the same. They both count at the face value of $1,000,000. This can incentivize working with the wrong ages. It can make a fundraiser avoid the hard work of focusing on much older donors, even though financially that makes sense.

Finally, this kind of counting incentivizes what I call, “count it and forget it.” “Count it and forget it” is a form of donor abandonment where the only thing we care about is the initial commitment. It's almost as if we don't care about the dollars, we just care about the initial commitment.

Normal fundraising counting measures the ending step of a process to generate money. Planned giving fundraising counting measures the beginning step of a process to generate money. People who are used to traditional fundraising measurements tend to think of measurements as the end of the process. A fundraiser goes through this long development, cultivation, and solicitation process, and at the end of that long process the money is generated. But, when we measure revocable planned giving commitments, what we measure is how many people take the beginning step of the process. If we don't understand and incorporate the reality that what we are measuring is not the ending step of the process but it is merely the beginning step of a process that doesn't count until the end of life, then we will have a tendency to engage in donor abandonment. That is, we will have a tendency to engage in “count it and forget it,” because once that person has indicated they've taken the beginning step (i.e., "I have you in my will for a gift."), that's the last thing we can count from that person.

This creates an incentive structure that encourages donor abandonment. It's an incentive structure that goes against what we know about the tendency of people to modify their gifts and the timing of those decisions. Using data from a nationally representative sample of probate records in Australia, 76% of the dollars transferred to charity were transferred by wills signed in the 80s, 90s, or older.

If we are not focused on maintaining that relationship, if we have a counting system that does not generate rewards to fundraisers for relationship maintenance, then we're missing the boat. The problem is that we are simply counting how many relationships we can start rather than how many relationships we can maintain to actually generate dollars. And this is important because when it comes to wills, only one will counts. The only will that counts is the last one you sign before you die. Everything else is irrelevant. The only thing that counts is the final will and those wills that transfer dollars to charities are signed in the 80s and 90s. In U.S. data, most realized charitable plans were added within five years of death. What this adds to the Australian data is not only do we see that people are signing the wills that actually control their assets at a much older age, but we see that when it comes to the charitable component, they are changing the charitable component as death approaches.

So if we get into an incentive structure that says, "What we really care about is how many times you can get people to take the beginning step of a process to generate money," then you're incentivizing the wrong thing. You're incentivizing starting a lot of relationships but not maintaining those relationships to the point that they actually generate dollars.

There's another approach which is just a slightly modified approach from the CASE approach and that is to count no gift intentions for people who are below a specific age minimum. And so essentially this is the same model where we remove the most egregious cases.

c) Value as irrevocable

A different approach is to count the gifts as if they were irrevocable. This is easy to do. Simply use the IRS tables reporting the remainder interest value (https://www.irs.gov/retirement-plans/actuarial-tables) with the current interest rates.

However, you can have donor communication issues from this. If a donor says, "I want to let you know I have named your organization in my will for a million dollar gift," and your response is, "Thank you very much. We really appreciate that and we are crediting you with $142,000 towards our campaign," then the donor may think, "What do you mean $142,000? I said I'm leaving you a million-dollar gift. What's the deal?" Consequently, if you use this approach it makes sense to use it for internal reporting but not external reporting. Externally, we can simply count face value, but internally we reward behavior and evaluating outcomes using a valuation that considers age and the time value of money.

This value is more accurate than counting face value. We are finally taking into account that this is a future value and then adjusting it back to be a present value. We are taking into account the age of the donor and the number of years we expect to wait to receive this gift, but we're still not taking into account adjustments for the risk of revocation. Consequently, we know that this value is too high, because this is the value if the donor could not revoke the gift. But, of course, we know that the opposite is true and the donor absolutely could revoke the gift.

d) Updating valuation incorporating risk of revocation

The final approach actually adjusts for this risk of revocation. We know that the value of an irrevocable gift is an upper bound for the value of a revocable gift. Those two values converge as death approaches. Clearly the value of a revocable gift of a million dollars is worth no more than the value of an irrevocable gift from the same person. Thus, the irrevocable gift value from the IRS tables is actually quite useful because it gives us an upper bound. We know that what we're trying to value is worth no more than the IRS tables remainder interest. We can then take this number and discount that value for a risk of revocation. There are different ways we can do that. We can discount it for a risk of revocation by directly working on a calculation that estimates the risk of revocation or we can get similar features by simply adjusting the interest rate that we use with the same IRS tables.

In a direct approach, for example, we can look at a model that incorporates an annual retention rate of 99%, 97% or 95%. Such a valuation is less than the valuation without a risk of revocation, but that difference becomes less and less as the person ages. The idea is that if there's a chance every year that the donor could revoke the gift. A younger donor might have 45 years of chances to drop the charitable component. A very old donor might have, on average, only five years to make the decision to drop the charitable component.

You can directly calculate retention rates and create your own table, but you don't have to. You can actually get a similar result using the standard IRS tables. The only difference is you make the calculation using a higher interest rate. For example, if the current section 7520 rate is around 2%, by bumping the rate to 8% rate we get a valuation that mirrors having an annual retention rate of around 95%. This makes it an easy way to access a valuation that incorporates the risk of revocation and how that risk varies over the life course.

But, the key to implementing this approach is to use what I call an “updating present value,” incorporating these adjustments for revocation. In this approach, the organization credits the change in the value at each gift reconfirmation (keeping the interest rate the same throughout). Suppose you have a donor who indicates she has made a gift in her will of $100,000 to your organization. Using the previous example, with current interest rates around 2% we value this gift using an 8% rate as a method to incorporate the risk of revocation. If the initial report was made when the donor was age 60, we would give credit to the fundraiser of a little over $25,000. But, now, instead of “count it and forget it,” we stay in contact with that person. We keep connecting with that person. A few years later we double-check with the donor, saying, "We really appreciate this gift that you've made in your will. We have you listed as a member of our legacy society, and your willingness to share that information motivates other people to make these kinds of gifts to the organization. I just wanted to double-check on the accuracy of that information with you. Is the organization still in your plans? And is the amount, I have it listed here as $100,000, is that correct?" Suppose that reconfirmation is made when the donor is no longer age 60, but now they are age 67. You would then give the fundraiser $10,000 of credit for that reconfirmation. Why? Because you update the present value of that gift. When the donor was 60, that gift was worth about $25,000. Now that this donor is 67, that gift is worth about $35,000. If the fundraiser returns now in 6 years and reconfirms, you give the fundraiser another $10,000 of credit. Why? Because that same gift at age 73 has a present value of $10,000 more than it did at age 67. Similarly, the same gift at age 79 has a value of a little more than $10,000 more than it did at age 73. The same gift at age 85 has a value $10,000 greater than it did at age 79.

The key to this system is that it rewards relationship maintenance. It recognizes the reality that first disclosure at age 60 is not the end of the process, it's the beginning of the process, and it rewards the behavior that encourages maintaining those relationships. Now, of course, you wouldn't want to necessarily reconfirm a gift every single year. But you want to maintain the relationship every year. It is critical to focus on this maintenance because if we focus only on that first gift intention and we don't count the later ones, then we will lose the actual dollars to other organizations that are valuing relationship maintenance. All we will have done is to go out and start a bunch of relationships, but not finish any of them, because we aren't rewarding our fundraisers for finishing any of them.

This is a system that rewards fundraisers for maintaining relationships in addition to rewarding them for starting a relationship or starting a revocable gift process. When you update the present value with revocation adjustments, what does that give you? It gives you a defensible value. It's not a perfect value. There are arguments of precision one way or the other, but it is a defensible value. We are incorporating the person's age. We are incorporating the time value of money. We are incorporating the risk of revocation. You don't have to create your own tables. You don't have to do your own analysis. You can just use the standard IRS tables, and pick a higher interest rate. You pick an interest rate that incentivizes the work that you want to see done. It incentivizes the behavior you want your fundraisers to engage in. It incentivizes working with the correct age, the correct level of interest, and the correct capacity to make gifts.

This approach should be back office only. We do not communicate this to donors. This is something we use internally to incentivize the right behavior. If we're communicating anything to donors we're communicating full face value. This is not for donors; it is how we measure our activity and success.

e) Don't count

The final methodology is, simply, don't count. We have looked at a lot of approaches on how we should count revocable gifts. However, I think it is fundamentally acceptable, and perhaps even superior, to take an approach that says we don't count revocable gifts. This may seem odd, but maybe the best approach is to simply count fundraiser activity. In other words, count how much you are getting out to see people, getting meetings, connecting with and talking with donors on these issues.

If you count fundraiser activity, it at least avoids the approach of "count it and forget it." It avoids the behavior of donor abandonment. It's also nice because it recognizes donor sensitivity in reporting or documenting. If a donor doesn't want to document an intention, that's fine. We don't worry about that. We just want to be in front of them. We just want to stay connected to them. The down side to this is that it may capture effort rather than successful effort. A person could be out doing a lot of activity, meeting a lot of people, but we don't know if he is actually being successful. We just know that he is giving a lot of effort.

Some of this could be helped by adding some guidelines to make sure the effort is reasonably targeted. For example, you might combine this with some financial capacity measurements or age restrictions to avoid less efficient effort.

IV. CONCLUSION

In attempting to answer the question, "How should revocable planned gifts be counted," I think the right answer is what works for your situation. This depends upon the outcome you want and your organizational environment. It's not the case that one system is always the right answer. What do you want to do? What works for your situation? What outcome are you trying to generate?

Are you in a situation where you actually want to guide fundraiser behavior to generate long-term maximum benefit for the organization? In that case, I'd suggest using one of the last two approaches. Are you in a situation where that's not your role? Instead, your role is to help the organization as much as you can from the middle of the organization so maybe you just need to generate big numbers so that you can get more investment in planned giving and that is going to be the best for the organization, then that's fine. It depends upon what outcome you want to generate; it depends upon the political or organizational environment that you're faced with.