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Counting Revocable Gifts: Return From Fantasy Island



Date: January 26, 2017
Time: 1:00 – 2:30 Eastern Time
Presenter: Russell James, J.D., Ph.D., CFP®
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Return from Fantasy Island



**Return from
Fantasy Island**

How should revocable estate gifts be counted?

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Why Count?




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Why Count?

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

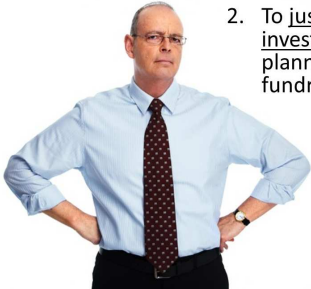


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Why Count?

2. To justify investment in planned giving fundraising



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Why Count

Why count?

3. To generate large numbers that will impress an unsophisticated audience




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Efficiency

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.

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Why Not?


So, why don't organizations invest more in estate giving fundraising?



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The Agency Problem




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

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The Agency Problem



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?

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A Counting Agnostic

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

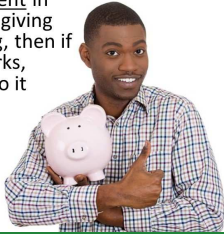


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If It Works...

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

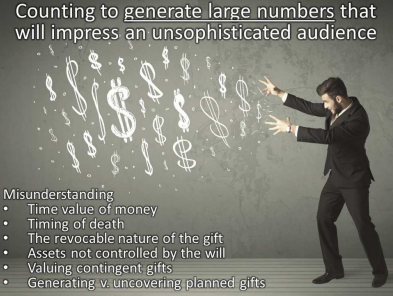


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Big Numbers

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

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Big Numbers

Counting to generate large numbers that will impress an unsophisticated audience



My first job in planned giving...

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New Gifts or New Disclosures?

Campaigns seeking disclosures v. generating gifts




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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.



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Rewarding Right Activities



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

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What Is It Worth?

What is the planned revocable gift worth?

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




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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)




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Dollars in the Door

Dollars in the door


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



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Face Value + Separate Category



- 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

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Why It Doesn't Work

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

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When They Signed the Will

Age at Will Signing

(by share of total charitable bequest \$ transferred)

| Age Group | Share of Total Charitable Bequest |
|-----------|-----------------------------------|
| 80s+ | 76% |
| 70s | 13% |
| pre-70 | 11% |

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

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When They Added the Charitable Component


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

Estates


\$ Gifted

Legend: Red = Last "no charity" 0-2 years pre-death; Black = Last "no charity" 2-5 years pre-death; Grey = Last "no charity" 5+ years pre-death; Light Red = Always reported charity in plan

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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*

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Face Value + Separate Category + Min. Age

+ 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

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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"



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Getting Real with Revocation

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 choosing a higher interest rate generates features similar to directly estimating the annual risk of revocation and remaining life expectancy

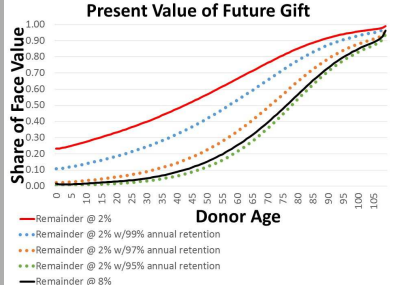


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Incorporating Revocation

Present Value of Future Gift




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Updating Value

Updating present value with revocation adjustments

- Simply use a higher interest rate with standard IRS remainder interest table
- Credit the change in value for each reconfirmation at 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



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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)
- Pick the interest rate that matches the behavior you want to generate



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Or, Just Don't Count...

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



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And the Answer Is...

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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How should revocable estate gifts be counted?

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Questions and Answers



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Still Have a Question?

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