



2006 National Conference on Planned Giving

October 11-14, 2006 • Gaylord Opryland™ Resort • Nashville, TN

The Art and Science of Charitable Bequests

October 12, 2006

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I. Introduction

This paper brings together data and knowledge from a number of sources to

- show the current known and estimated amounts of bequest giving, using various methods;
- illustrate some of the recent demographic and giving trends that are influencing how much is being given through bequests (and where data are available, through charitable trusts and annuities); and
- propose options for planned giving officers and programs for realistically setting expectations for their organizations' "share" of the oft-predicted "transfer of wealth."

The data sources used include *Giving USA*, IRS reports from estate tax returns, split interest trusts, and charitable annuities, American Council of Gift Annuities reports about annuities, and survey responses from individual nonprofit organizations and the records analyzed for them by The Sharpe Group.

Overall, the conclusions are that:

- The *Giving USA* estimates are a conservative but reasonable estimate of "the truth" about the amount transferred to date in charitable bequests;
- Trusts and charitable gift annuities play a role but are not currently a significant percentage of total charitable giving (although they may be for given organizations, they play a relatively small role in the picture of the entire U.S.); and
- Charities should be focusing on "old fashioned" fundraising to engage more people in charitable giving in general and bring more people to the point of creating estate plans that include charitable bequests (and other planned gift instruments, where appropriate).

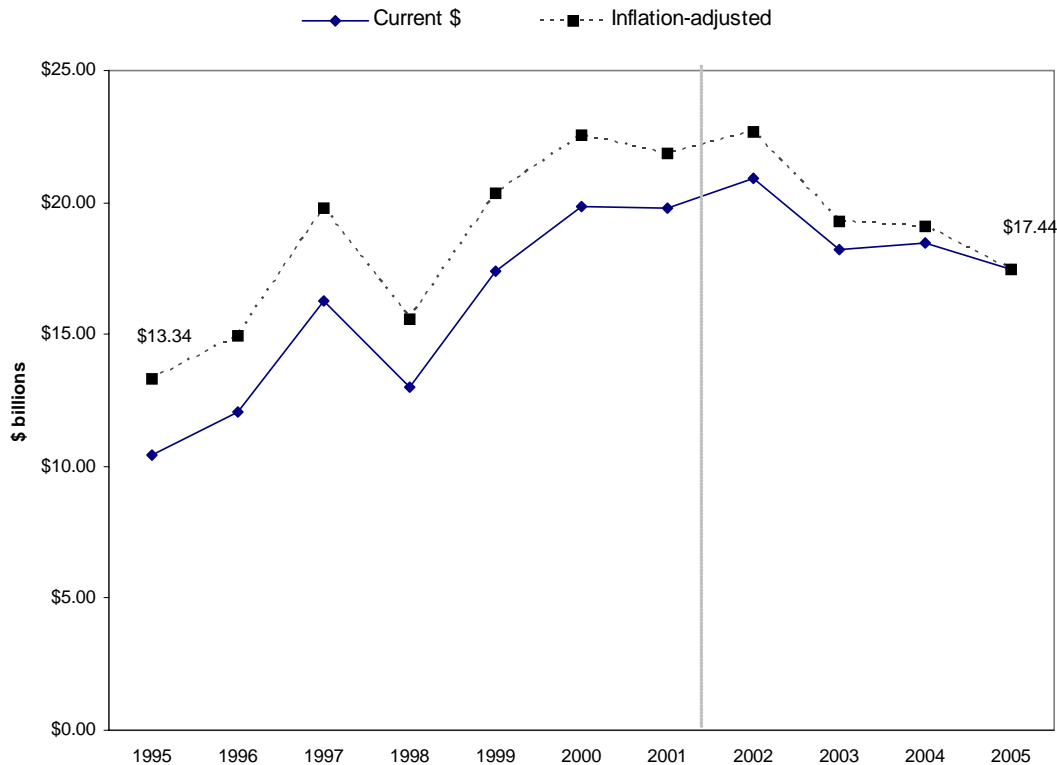
II. Quantifying charitable bequests

Giving USA seeks to report an annual estimate for total contributions made by charitable bequest. The *Giving USA* charitable bequest figure, which is based on IRS records of amounts claimed as charitable gift deductions on estate tax returns, does not include most transfers to charities through other types of matured planned gifts. The estimate of individual giving does, however, include the claimed deductions (at discounted values) of funds given to create annuities and trusts to benefit charities, but the values at maturity are not reported in *Giving USA*.

In addition to developing estimates of amounts claimed on tax returns by individuals and estates, *Giving USA* surveys charities about their charitable receipts. While *Giving USA* requests that charities complete the survey without including transfers to fund annuities and trusts, it is likely that some do include those amounts for the *Giving USA* survey. This paper includes the tax-return based estimates, discusses the survey results, and shows an alternative method based on macro variables. There are differences in reporting for the IRS, for *Giving USA*, and for other surveys that cannot be resolved within the context of this work. Some require changes at the IRS; some require a longer *Giving USA* survey (which means fewer responses); and others may require different programs for fundraising software or accounting software systems.

Based on the tax return information through 2004 and an estimate for 2005, and other components of the estimates to be discussed below, *Giving USA 2006* shows a decline in recent years of the amounts received at charities through charitable bequests.¹

Giving USA estimate of charitable bequests, 1995-2005

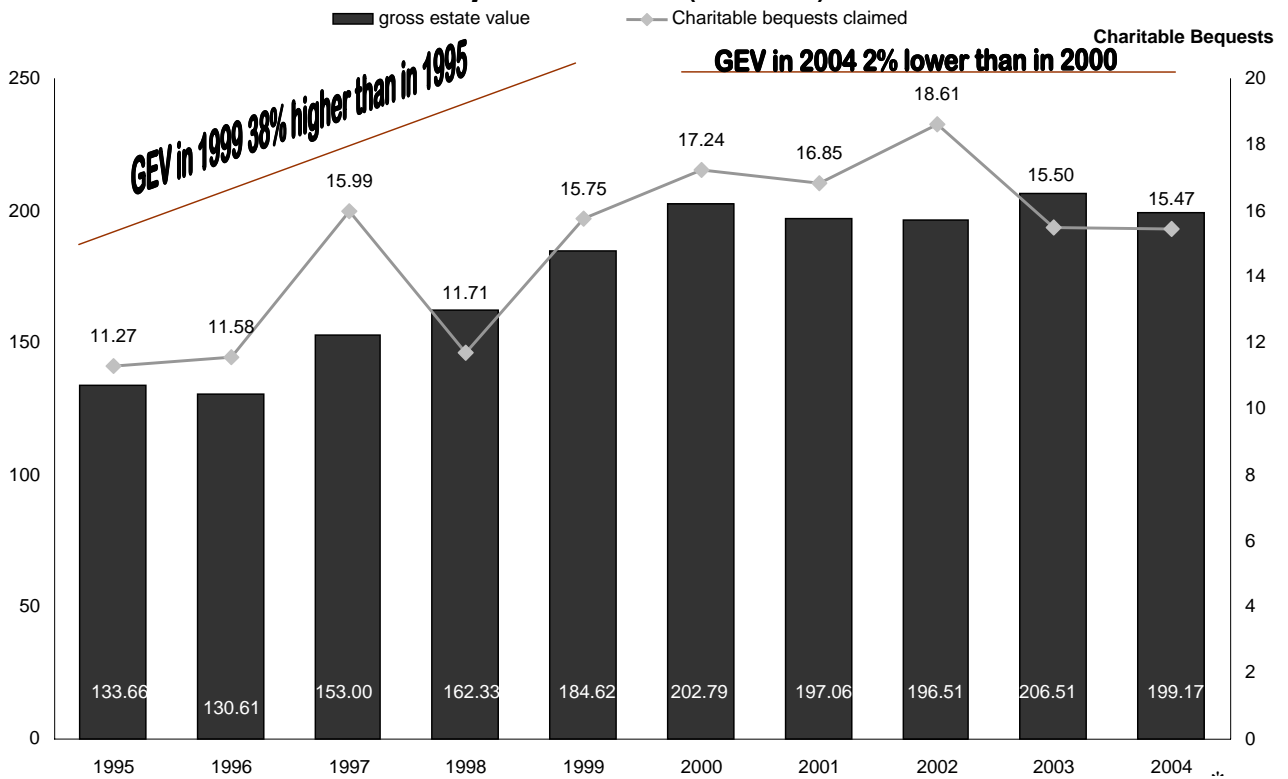


A part of the decline in amounts reported on estate tax returns is expected, as fewer estates are required to file estate tax returns since the implementation of the gradual “repeal” of the estate tax that passed in 2001 and began in 2002. The drop in charitable bequests and the change in estate tax filing requirements occurred about the same time. That does not mean, however, that other than the lower number of estates filing, one caused the other. In fact, a number of phenomena in the economy, in health care, in life-expectancies, and in other dimensions of 21st century life have contributed toward the recently observed decline in the total amount of charitable bequests. One of the challenges facing planned giving officers now is to assemble a complex mental “map” of the planned giving environment and “chart a path” through some fairly foreign territory.

An important component in the decline is the fact that aggregate gross estate values have slowed their rate of growth since 2000 – at a time when the numbers of deaths in America has also been unexpectedly declining. Not surprisingly, the amount claimed for charitable bequest deductions has slowed its rate of growth, as well. Yet both are still climbing overall, just at a slower rate than was observed from 1995 to 2000. Figure 2 shows the aggregate gross estate value (GEV) in billions of dollars for estates of \$1 million or more (\$1.5 million in 2004) and in the charitable bequests from estates at that level since 1995. Because this focuses on estates that had not yet been exempted from federal estate tax filing thresholds, it shows the effect of lower assets and lower death rates, rather than changes in the estate tax filing threshold.

For Estates with GEV > \$1 million, GEV and Charitable Bequests, 1995-2004
\$ in billions on both Y-axes

Adjusted for inflation (2005 = 100)

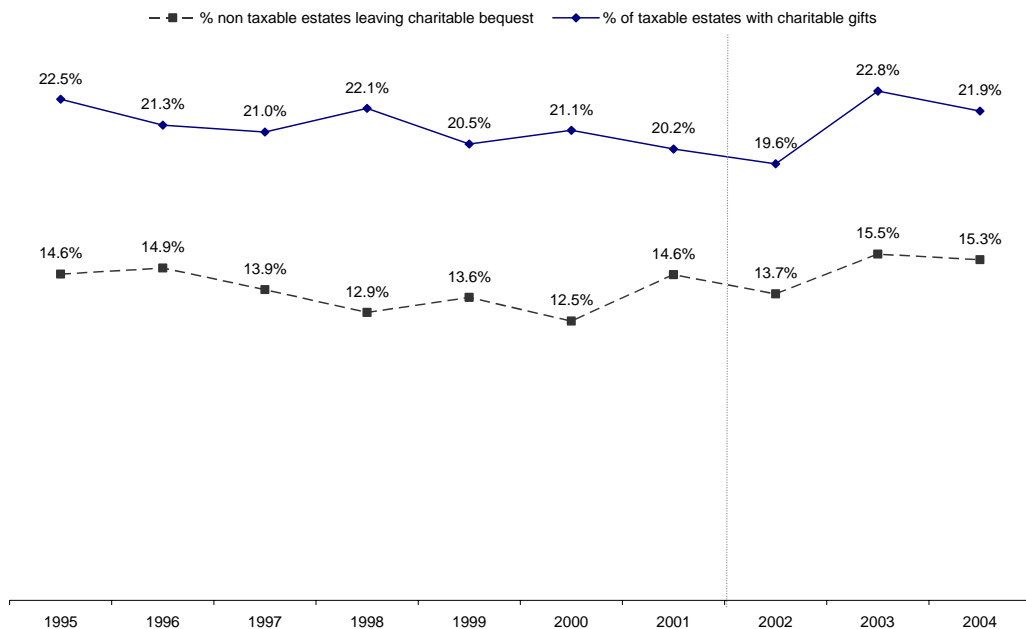


* The prior years in the IRS data all include the bracket for \$1.0 million to \$2.5 million. For 2004, the bracket is from \$1.5 million to \$2.5 million. There are no available data at the national level that permit comparisons over time of estates with \$1.5 million or more in GEV.

The rapid rates of growth in gross estate values from 1996 to 2000 reflected market forces such as growth in both the stock market and real estate values, which simultaneously increased the number of estates required to file and increased the sum of all estates' gross estate value. Since 2000, there have been slow rates of growth—and even declines—in the stock market and in real estate prices in some markets. Adjusted for inflation, aggregated gross estate values of \$184.62 billion in 1999 were 38 percent higher than the total value of \$133.66 billion in 1995 (again, looking only at estates with a gross estate value of \$1 million or more). The decline since 2000 shows inflation-adjusted values of \$199.17 billion in 2004, which is 2 percent less than the \$202.79 billion (adjusted for inflation) found for estates valued at \$1 million or more in 2000. Charitable bequests from the \$1 million+ estates in 1999 were \$15.75 billion, or 40 percent more than the 1995 inflation-adjusted amount of \$11.27 from \$1million+ estates. In 2004, charitable bequests from \$1.5 million+ estates were \$15.47 billion, or 10 percent less than the \$17.24 billion claimed in charitable bequest deductions by \$1 million+ estates in 2000.

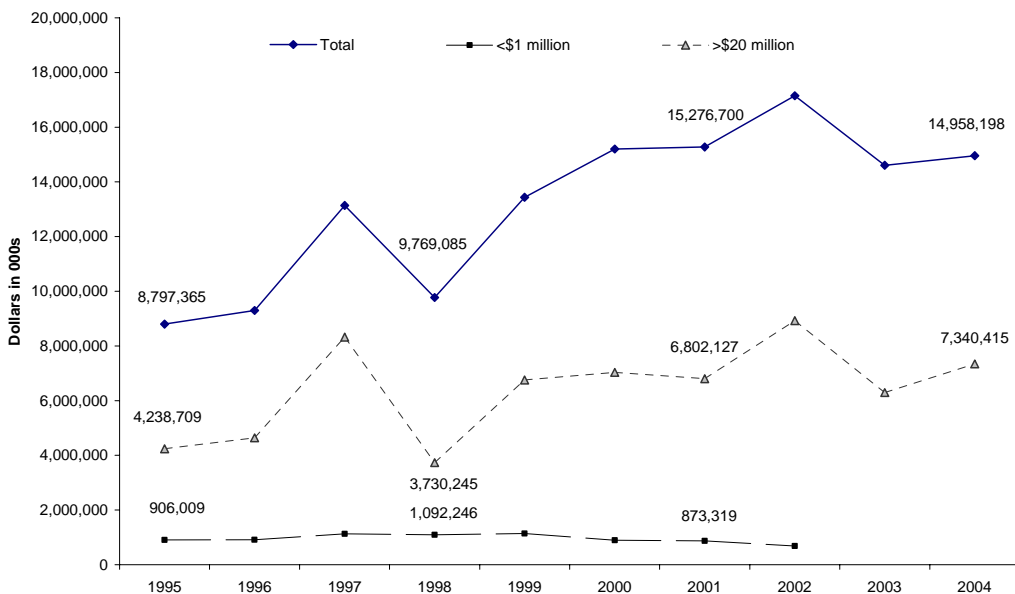
Even as the aggregate gross estate values declined in 2002 and again in 2004, we do NOT find a drop in the percentage of estates claiming charitable bequests. **In fact, since the 2001 commencement of the “gradual repeal” of the estate tax, we have seen a rising percentage of estates claiming deductions for charitable bequests.** The increase has been apparent in both non-taxable estates and taxable estates, from 2002 through the most recent data available, for 2004. Non-taxable filing estates have estate tax returns but owe no tax because of deductions, including bequests to survivors and charitable bequests. Other estates have a gross estate value that is below the federal estate tax filing threshold and are also non-taxable estates but there are no data about them available at the national level. The figure illustrates the trends in the percentage of estates claiming a charitable bequest deduction from 1995 through 2004 for estates of \$1 million or more (except 2004, when the threshold was \$1.5 million).

Percentage of estates claiming charitable bequest deduction by tax status of estate

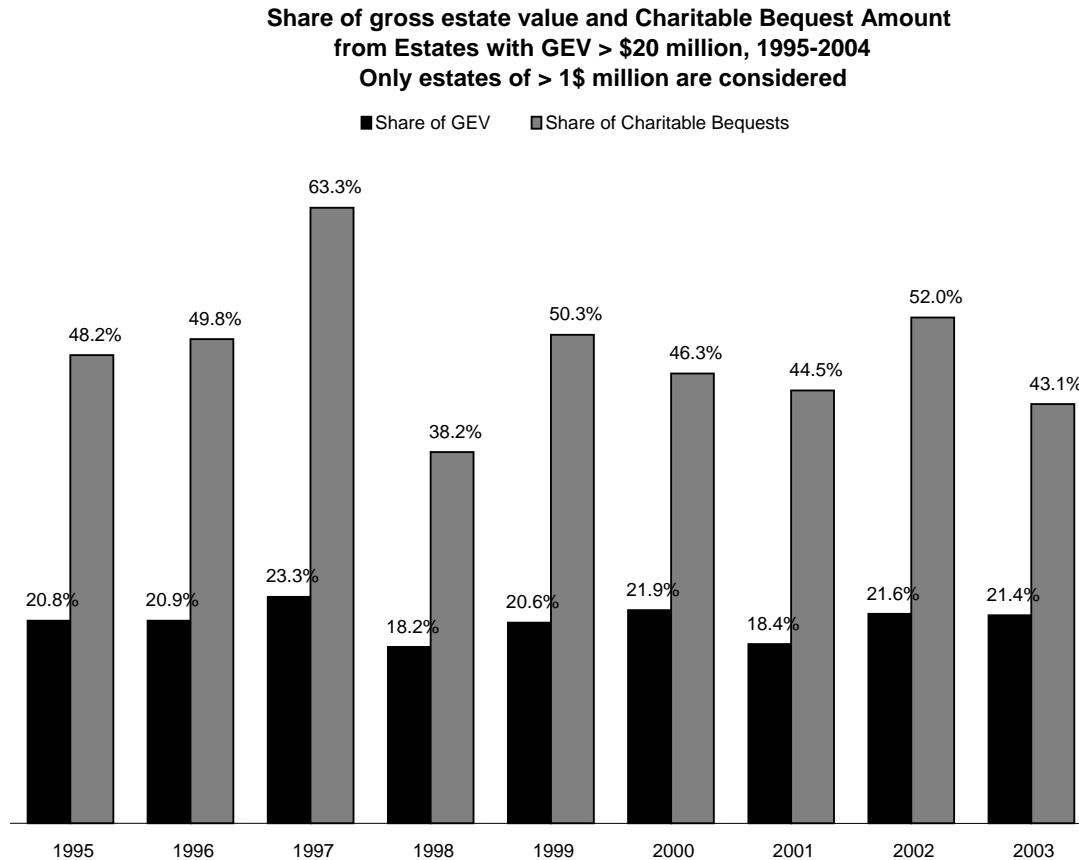


The total in charitable bequests has shown a slowed rate of growth since 2000. It is not because a lower percentage of estates are using the deduction for charitable gifts. It appears to be because the very largest estates (\$20 million or more in GEV) are leaving lower amounts, on average, to charity than they were in 2000. This change is likely to be from lower GEV. Typically, from 300 to 350 estates with gross estate value of \$20 million or more account for 40 percent or more of the IRS value reported for claimed charitable bequests. The figure below shows the total reported by the IRS for claimed deductions for charitable bequests along with the amount of that total that is reported on returns for estates with a GEV of \$20 million or more. For those years where data are available for estates with GEV less than \$1 million, the charitable bequests claimed by the smaller estates is less than 15 percent of the total for charitable bequests per the IRS.

Charitable Bequests Claimed, Total, Estates <\$1 million and Estates > \$20 million



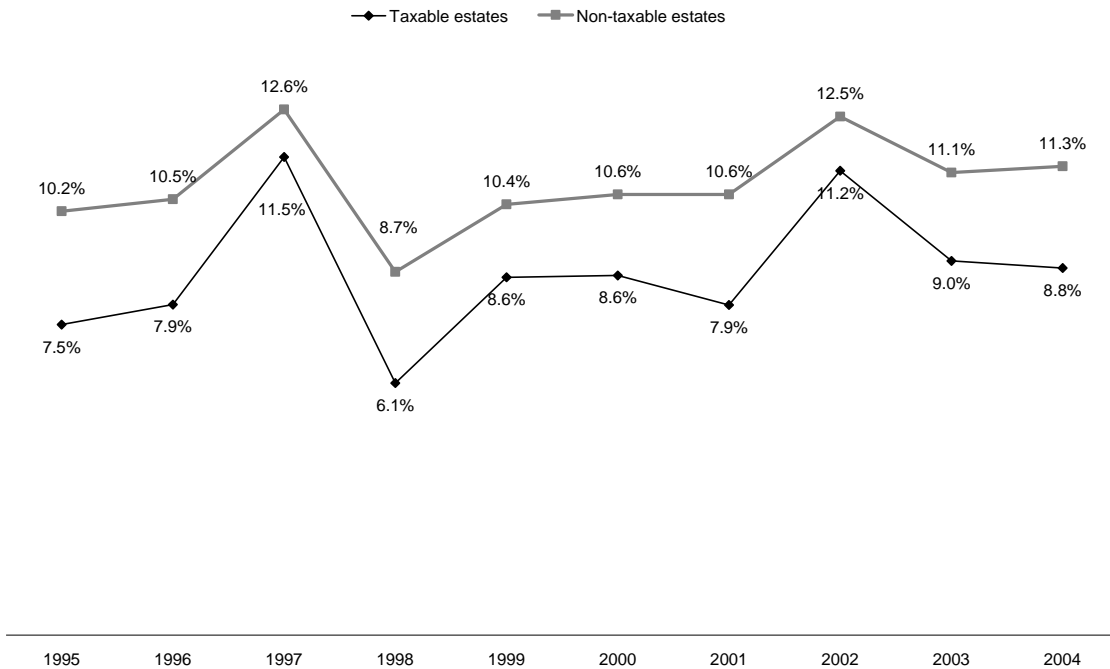
The figure below shows share of gross estate value from estates over \$1 million that was reported by the largest estates (those over \$20 million) and compares that share with the share of charitable bequests from estates over \$20 million. The largest estates regularly have about 20 percent of aggregate estate value and claim 40 percent or more of the total dollars claimed for charitable bequest deductions.



The gradual repeal of the estate tax appears to have had less of an impact on the amount given through charitable bequests than has the slow-down of economic growth, including stock market prices and real estate values. The high percentage of all charitable bequests that comes from the largest estates – those with value of \$20 million or more – means that charitable bequest giving fluctuates with the estates of a relatively small number of individuals.

Charitable bequests are rising as a percentage of the gross estate value after bequests to surviving spouses, as well. This has been occurring in taxable and non-taxable estates. The trend is “counter-cyclical” with estate value – that is, the share of estates going to charitable bequests increases as estate values decrease. The next figure shows the charitable bequest amounts as a percentage of gross estate value after subtracting bequests to surviving spouses for both taxable and non-taxable estates.

**Charitable Bequests as a Share of Gross Estate Value minus Bequests to surviving spouses,
1995-2004**



Among estate tax returns, 18 percent of all estates claimed charitable bequests in 2004. This compares with 67 percent of households that make charitable contributions annually in life. Among the wealthiest households, nearly 100 percent make charitable contributions in life. Among taxable estates, where a relatively low percentage of estates have surviving spouses, only 22 percent had charitable bequest deductions. The percentage of estates claiming charitable contribution deductions increases to 50 percent for the wealthiest taxable estates (gross estate value of \$20 million or more). Estate tax return data provide nearly complete information about other types of planned gifts that may be realized by charities, such as charitable remainder trusts and life insurance policy payouts from policies owned by the deceased at the time of death. Trusts, certain two life gift annuities, and applicable life insurance policies are counted in the estate, the amount that goes to charity is then deducted from the estate and shows up in the IRS deduction figures. Single life gift annuities are not in the estate because it is an interest that terminates by contract at death and nothing is left.

III. How Are *Giving USA* Bequest Totals Determined

Giving USA uses two types of estimates to generate a single figure for charitable bequests. The initial estimate is later revised when the IRS releases its findings from analysis of estate tax returns for the year. A survey is conducted for *Giving USA* but it is not the source of the bequest estimate. Instead, the results of the Council for Aid to Education survey are used to project an estimated amount of charitable bequests from estates that file estate tax returns. To that estimate is added another figure for charitable bequests from estates below the federal filing threshold.

Under current federal estate law, only about 63,000 decedents annually – or less than 3 percent of adult deaths – are required to file an estate tax return. Claimed charitable bequests vary by the number of decedents somewhat, but the largest determinants are the sizes of the estates and what are sometime unusually large charitable bequests from some estates. Thus, the estate of David Packard in the late 1990s pushed up charitable bequests in that period, and the estates of Bill Daniel, William Hewlett, Walter Annenberg, Susan Buffett, and Joan Kroc, among others who made bequests of a billion or more, will be reflected in more recent data.

Despite fluctuations due to individual estates, over time, there has been a strong relationship in the amount reported by the Council for Aid to Education and the amount that appears later in IRS analyses of estate tax returns. Over

time, the CAE bequest amount has averaged 15.1 percent of total charitable bequests reported by the IRS. Thus, to estimate charitable bequests claimed by estate tax returns before the IRS data are available, *Giving USA* takes the CAE figure for the year and divides it by the factor 0.151.

To that estimate for filing estates is added another estimate for charitable bequests below the federal estate tax filing threshold. This estimate relies on data about the number of adult deaths (by age, for ages 55 and above) and takes into account the percentage thought to leave a charitable bequest, an average for net worth (based on age), and an average percentage of net worth left to charity (based on IRS data provided to *Giving USA*, also stratified by age). When the results of the following method are tallied, 6 percent of the total is estimated from estates of people aged 55 to 64; 19 percent is from estates of people aged 65 to 74, and 74 percent is from estates of people aged 75 or more.

Data sources for the estimate of charitable bequests for non-filing estates are:

- The National Center for Health Statistics (part of CDC) for the number of deaths of people aged 55 and above.
- The Statistics of Income division (SOI) of the Internal Revenue Service report about fiduciary returns for the percentage of all estates leaving charitable bequests. The percentage used is deliberately a very conservative amount, as it reflects only estates where the executor makes a charitable gift from the estate while the estate is still open. There were 389,116 fiduciary returns for decedents' estates in 2004 (equal to about 17 percent of adult decedents for that year). There were approximately 18,000 estates as donors according to the fiduciary returns, or 4.6 percent of the open estates for 2004. Estate tax returns filed for the same year (which are not necessarily for the same decedents) show that 11,600 estates claimed a deduction for a charitable bequest. *Giving USA* chooses to use the most conservative estimate, that 4.6 percent of all decedents age 55 or more make a charitable bequest. The National Committee on Planned Giving found that 8 percent of adults reported that they had a charitable bequest in a will, but not every estate that names a charity is able to fulfill the charitable bequest after bequests to survivors and settling other claims.
- The Survey of Consumer Finances provides data about average household net worth.
- The U.S. Department of the Treasury has analyzed estate tax returns and provides the percentage of gross estate value that is donated to charity based those returns, by age group.

The table below shows the calculations for charitable bequests from individual decedents aged 55 to 64. The same approach was used for decedents aged 65 to 74 and for those aged 75 and above. The results of the three steps were then summed.

Table	
Example of estimating method, charitable estates below filing threshold	
Sample for decedents aged 55 – 64 in 2004	
Calculation method applied to three age ranges to generate total estimate of charitable bequest from estates below the federal estate tax filing threshold	
	267,461 deaths of adults aged 55 to 64, CDC
X	<u>.046</u> percentage of estate fiduciary returns with charitable bequest deduction, 2004, SOI
=	12,303 leaving a charitable bequest
and	
	\$776,829 average net worth of households headed by someone 55 to 64 in 2004, SCF
X	<u>.022</u> reported by Treas. as percentage of net worth left to charity by this age
	\$ 17,090 average amount left to charity by donor decedent aged 55 to 64
So, \$17,090 x 12,303 decedents aged 55 to 64 making a charitable bequest = \$210.3 million in charitable bequests from this age group.	

For 2004, the three age-based estimates sum to \$3.502 billion. That is added to the now-known amount of \$14.958 billion claimed on estate tax returns, to yield a total for 2004 (as revised in *Giving USA 2006*) of \$18.46 billion. For 2005, the estimate of \$3.6 billion for estates below the federal threshold results in a per-estate bequest total of about \$38,000, which is at the low end of the experience among organizations receiving bequests from non-filing estates.

IV. Validating the Giving USA estimate with alternative estimating approaches

It has been argued that *Giving USA* underestimated bequest giving. If so, it because of too-low estimates for charitable bequests from estates below the federal estate tax filing threshold. The core of the *Giving USA* estimate is the amount reported by the IRS for deductions claimed on estate tax returns, data for which appear above.

There are three possible ways to evaluate how close the total *Giving USA* estimate is to “the truth” of charitable bequests.

1. Using survey result from *Giving USA* surveys ‘disaggregated’ by subsector, which is collected by *Giving USA* but not published;
2. Using “macro” level approaches for estimating charitable bequests based on what households report their charitable intent to be in estate plans (NCPG results); or
3. Summing values from other studies that report charitable bequests, such as the Council for Aid to Education, Association for Healthcare Philanthropy, United Way of America, United Jewish Communities, the American Council of Gift Annuities, and other organizations as data are released.

This section will report Method 1. Method 2 is covered later in this paper. Method 3 is considered incomplete, as there are no umbrella groups routinely collecting and reporting national data for organizations in the subsectors for the arts, human services organizations, environmental, or international affairs.

A. *Giving USA* survey

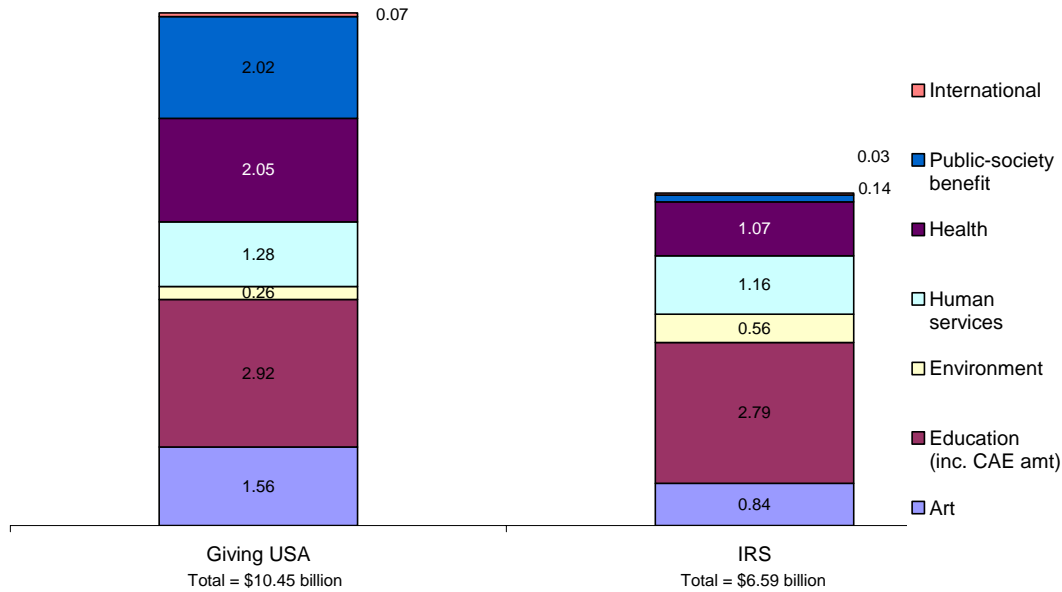
Method 1 reports results when *Giving USA* asks organizations to provide data about charitable bequests on the annual *Giving USA* survey. The survey data can be used to estimate a total amount received in charitable bequests.

1. Survey results

Giving USA’s survey goes to all organizations raising \$20 million or more through charitable gifts of any type. It is sent to a random sample of organizations raising less than \$20 million. Response rates have varied over time, and the margins of error can sometimes be quite large. This method is not optimal for estimating total bequest giving over time but it can be useful for comparing the combination of the CAE-based estimate and the non-filing estate estimate that make up the published *Giving USA* total with what organizations seem to be realizing.

The next figure compares one year of estimates using the *Giving USA* survey results with the same year of reported charitable bequests by type of recipient, based on data provided by the U.S. Department of the Treasury after analysis of IRS returns for estates. This comparison excludes bequests to religion and to foundations. Neither type of organization is surveyed by *Giving USA*.

Comparison of 2004 charitable bequests: *Giving USA* survey estimate and IRS report from estate tax returns, before religion and foundations



As expected, the *Giving USA* estimate is higher. This is expected because *Giving USA* surveys organizations that receive charitable bequests from estates of all sizes, so the results include charitable bequests from non-filing estates. The *Giving USA* estimate is greater in most subsectors, except in environment. The *Giving USA* survey does not capture a complete sample of institutions of higher education (colleges and universities) because *Giving USA* relies on the Council for Aid to Education (CAE) for data about giving to higher education, and the CAE estimate is included in the *Giving USA* total here.

2. Setting the “upper bound” of charitable bequest contributions to religion using the most liberal assumptions possible

The biggest unknown amount in studying charitable bequests is charitable bequests to religious congregations. There is no consistent source of data that aggregates findings at the congregational, denominational or national level. However, even without definite data, we can set some parameters based on studies of bequest giving generally. Note that gifts to religion include contributions to a congregation, parish, diocese, religious order (but not separately incorporated hospitals or universities operated by that order), governing body of a religious faith (e.g., a synod, a Baptist association) or the foundation created by a religious denomination (e.g, the Presbyterian Foundation). Bequests to faith-based social service agencies such as Catholic Charities or Lutheran Family Services, to faith-based international aid agencies such as Heifer International, World Vision, or Brothers Brother Foundation, or to faith-based hospitals or schools are counted in the appropriate subsector and not as gifts to religion.

The table below shows one approach for estimating charitable bequests giving to religious congregations. This approach uses the largest possible assumptions to set an “upper bound” on the likely amount of charitable bequests in a year to religion.

Table		
Assumptions and sources of data:		
Households that give to religion	45 %	COPPS
<u>Decedents with estate plan</u>	<u>50%</u>	<u>NCPG</u>
Decedents with religion charitable bequest	22.5%	
Percentage of income given to religion in life = percentage of net worth given to religion after death	2. %	COPPS
Average net worth	\$400,000	SCF
Calculations:		
Number of adult deaths, all ages	2.3 million	CDC
	x 50%	with estate plan
	1.15 million	with estate plan
	x 45%	with bequest to religion =
Highest possible number of estates	518,000	giving to religion
	x 0.02	net worth is donated to
		religion, on average
	\$ 400,000	average net worth
Highest possible amount going to religion	\$4.14 billion	for non-filing estates

This “upper bound” amount is based on average net worth and does not include the filing estates. The estimate of \$4.14 billion is deliberately the maximum thought possible from non-filing estates. It is added to the known amount of \$1.26 billion in religious charitable bequests reported by filing estates to create a combined upper bound of \$5.40 billion.

3. Setting the “lower bound” of charitable bequest contributions to religion using the most stringent assumptions possible, excluding religious bequests from filing estates

The next step after setting an upper bound is to set a lower bound. This can be done by looking at religious charitable bequests claimed by filing estates. Among the wealthiest households, giving to religion is at one of the lowest amounts, lowest shares of income, and lowest participation rate for all Americans.ⁱⁱ Using the percentages giving to religion from filing estates will generate a very low estimate for charitable bequests to religion.

Among filing estates, gifts to religion are less than 0.70 percent of gross estate value (for all estates, not just those giving to religion). Ten percent of filing estates included a bequest to religion.ⁱⁱⁱ The gifts to religion from filing estates in 2004 were \$1.26 billion. The assumption that every donor with an estate plan who gives to religion in life therefore gives to religion after death, and gives at the same percentage (2% of wealth) is extremely optimistic.

The following table shows the calculation of a lower bound of estimated charitable bequests to religion. “reality” is likely to be between the upper bound based on the most liberal assumptions and the lower bound, based on the most stringent or conservative assumptions.

Table	
Number of adult deaths	2.3 million
Charitable bequest donors as an	
<u>Estimated percentage of all decedents</u>	<u>4.6%</u>
Decedents with estate plan	105,800
x percentage of those with estate plan giving to religion	10% (IRS results for filing estates)
x percentage of net worth given to religion	0.7% (IRS results for filing estates)
<u>x average net worth per estate</u>	<u>\$400,000</u>
= charitable bequests to religion from non-filing estates	\$0.029 billion (\$29 million)

With a reported \$1.26 billion in charitable bequests to religion claimed by filing estates for 2004, an additional estimate of \$29 million yields \$1.29 billion total in charitable bequests to religion. This is likely to be a low estimate, just as the alternative above is likely to be too high. Still, with an upper bound set by the most liberal assumptions possible and a lower bound set by the most conservative assumptions possible, the available data suggest that the sum of charitable bequests to religion from non-filing estates falls between \$29 million (\$0.029 billion) and \$4.14 billion.

4. Using upper and lower bounds of religious giving estimates to augment the survey results from Giving USA about bequest giving

To compare with the IRS data, the *Giving USA* survey results need to be supplemented with estimates for giving by bequest to religious organizations and to foundations, as neither type of recipient is surveyed by *Giving USA*.

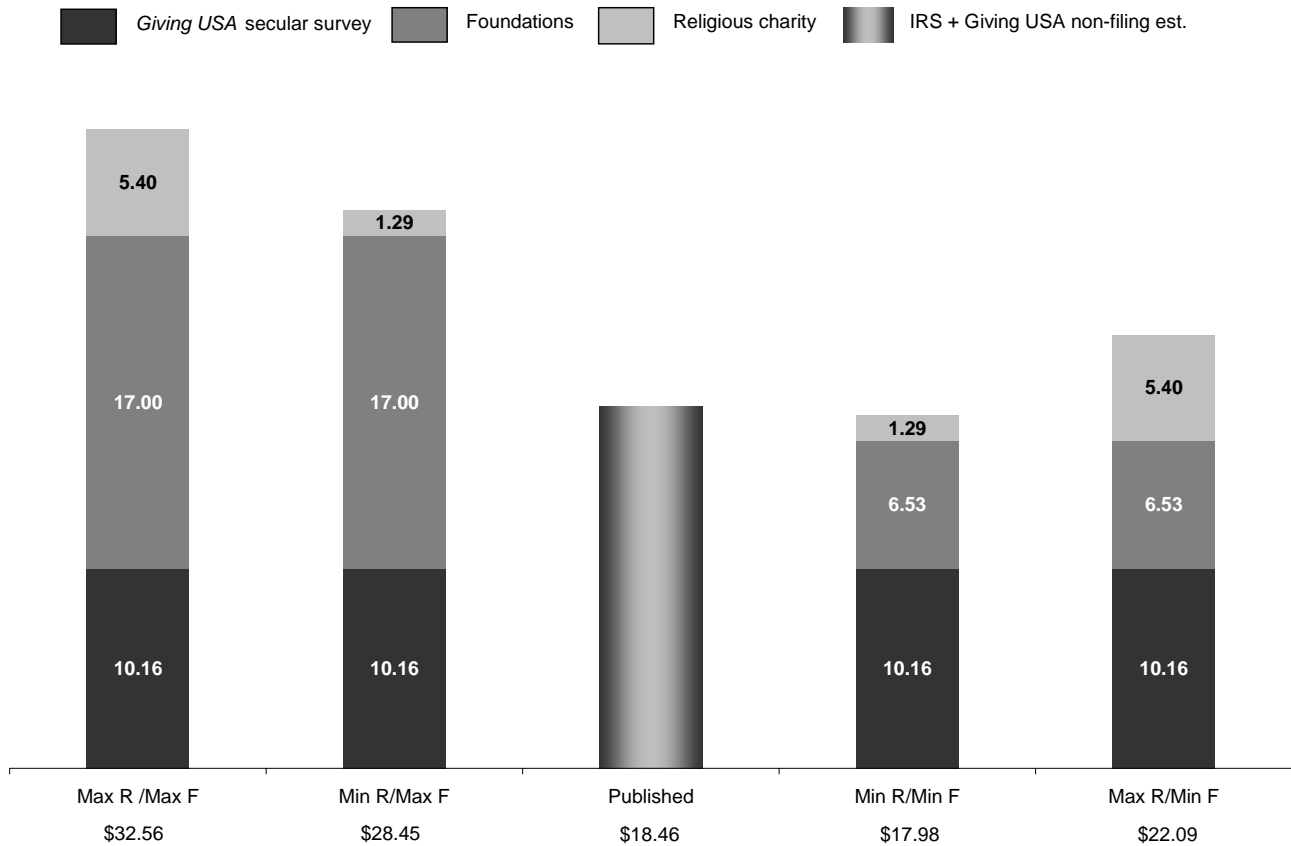
The survey method arrived at an estimate of \$10.16 billion, before including religion bequests or bequests to foundations. The religious giving estimate is estimated to be \$1.29 billion at the lower bound and \$5.4 billion at the upper bound, which uses very liberal assumptions. The foundation giving estimate is at least \$6.53 (the amount found on estate tax returns) and less than \$17 billion (the total amount of \$20 billion reported by the Foundation Center as new gifts to independent, community, and operating foundations less gifts to foundations known to be from living individuals or from other foundations, based on the Center on Philanthropy’s Million Dollar List).

Using the results of the *Giving USA* survey for 2004 and adding the minimum and maximum estimates of charitable bequests to religion and to foundations, we find that total charitable bequests for that year, according to this alternative method 1, range from \$17.98 billion to \$32.56 billion. The higher figure is based on very liberal assumptions about charitable bequests to religion (that all decedents with an estate plan who give to religion in life give 2 percent of net worth to religion after death) and for bequests to foundations (that all foundation giving not proven on one particular incomplete list to be from living donors or from other foundations was from bequests).

From Survey		10.16	Religious giving	
			Maximum	Minimum
Foundation	17.00	Maximum	32.56	28.45
giving	6.53	Minimum	22.09	17.98

The published *Giving USA* estimate for 2004 is \$18.46 billion. For estates below the filing threshold, *Giving USA* does not have data to separate secular and religious giving. The figure below compares the published estimate with the maximum and minimum estimates developed using alternative method a, including two approaches for estimating giving to religion.

Comparison of five methods of estimating charitable bequests



In the figure above, Max R = \$5.4 billion, or the maximum estimate of charitable bequests for religious organizations. Max F = \$17 billion, or the maximum for bequests to foundations. Min R = \$1.29 billion, or the minimum estimate of charitable bequests for religious organizations using the method above, and Min F = \$6.53, the minimum amount (based on Treasury Department data) for charitable bequests to foundations from filing estates.

5. Selecting among the possible results

The real amount in charitable bequests is ultimately not able to be known, but readers are likely to agree that the minimum for religion (\$1.29 billion) is too low and that the maximum for foundations (\$17 billion) is too high. That makes the two columns on the left, both of which use Max F, too high. The two columns on the right, both of which use Min R is also likely to be incorrect.

The middle column is the published figure, which includes values from estate tax returns (per the U.S. Treasury Department) plus an additional amount for charitable bequests from nonfiling estates that is based on the number of deaths per age group and assumptions from documented sources about the net worth and bequest contributions by decedents in those age ranges. The estimate for the published figure does not specify the distribution of giving by secular, foundation, and religious organizations.

6. Accounting for Charitable Remainder Trusts and Charitable Gift Annuities

High wealth households use other means of creating charitable gifts in life, beyond bequests. Some authors have asserted that *inter vivos* gifts to trusts and annuities are a possible substitute for estate gifts through charitable bequest. There is no doubt that more people are using these instruments – and that their use increases at times when the stock market is strong (and slows when the stock market shows slow rates of growth). Formation of CRUTs and CRATs was documented at high levels in the late 1990s. There are some data available about charitable annuities collected by the American Council of Gift Annuities. No data exist at a national level to show us the amount contributed to form trusts. What we have is aggregate data of the fiduciary returns filed, asset values, and liabilities.

The American Council of Gift Annuities' 2004 study shows that 829 different charities in 2004 reported an average of \$645,000. Using arithmetic, this is \$534.7 million for these organizations. Knowing that more entities are issuing annuities, we may feel comfortable guessing that between \$600 million and \$1 billion is donated in the form of a charitable gift annuity. The Internal Revenue Service has begun annual reports compiling data from fiduciary returns filed by Charitable Remainder Annuity Trusts (CRATs), Charitable Remainder Unitrusts (CRUTs), Charitable Lead Trusts, and Pooled Income Funds. For 2004, tax returns were filed by more than 120,000 trusts. The book value exceeded \$97 billion, but there are no data about how much was transferred to charitable organizations to fund these trusts nor about the remainder value that could be taken as individual income tax deductions (after discounting). The Foundation Center reports a total of about \$20 billion a year in gifts to foundations, and about \$6 billion of that in 2004 was through bequests. That leaves lifetime gifts to independent, community, and operating foundations at about \$14 billion a year, before counting the transfer recently announced by Warren Buffett.

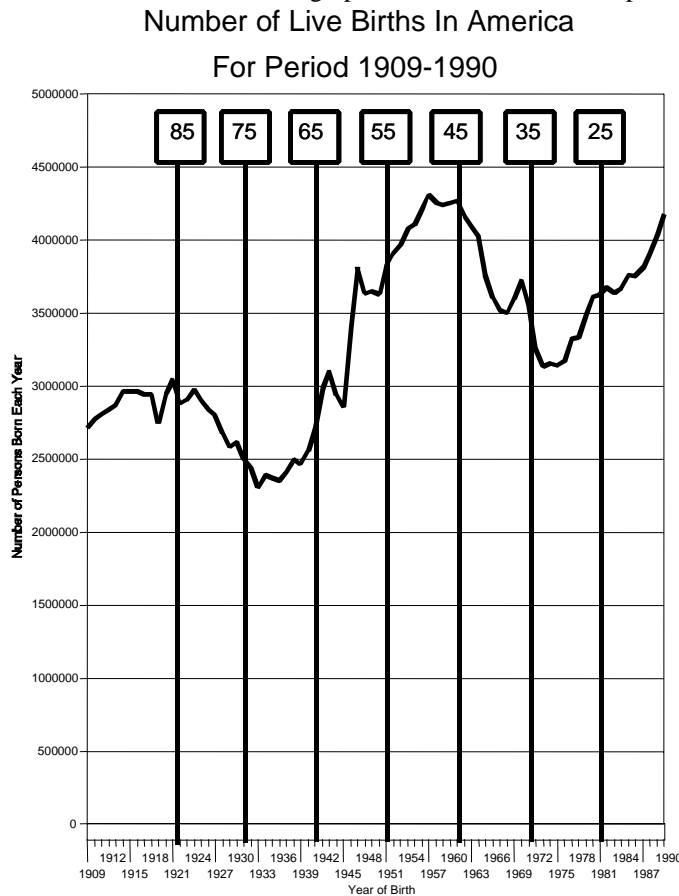
To put these planned giving data in context, there were more than 3 million income tax returns filed in by households or individuals with income of \$200,000 or more. The total number of returns for charitable trusts is just over 4 percent of the number of the highest income households in the U.S., and less than 1 percent of the number of households with income of \$100,000 or more. Yet among the highest income households, with 2004 income of \$200,000 or more, 90 percent claimed a charitable deduction on an income tax return.

B. Macro Model

Alternative method 2 of estimating charitable bequest giving uses data at the macro level. This section reviews several demographic trends that are part of Method 2.

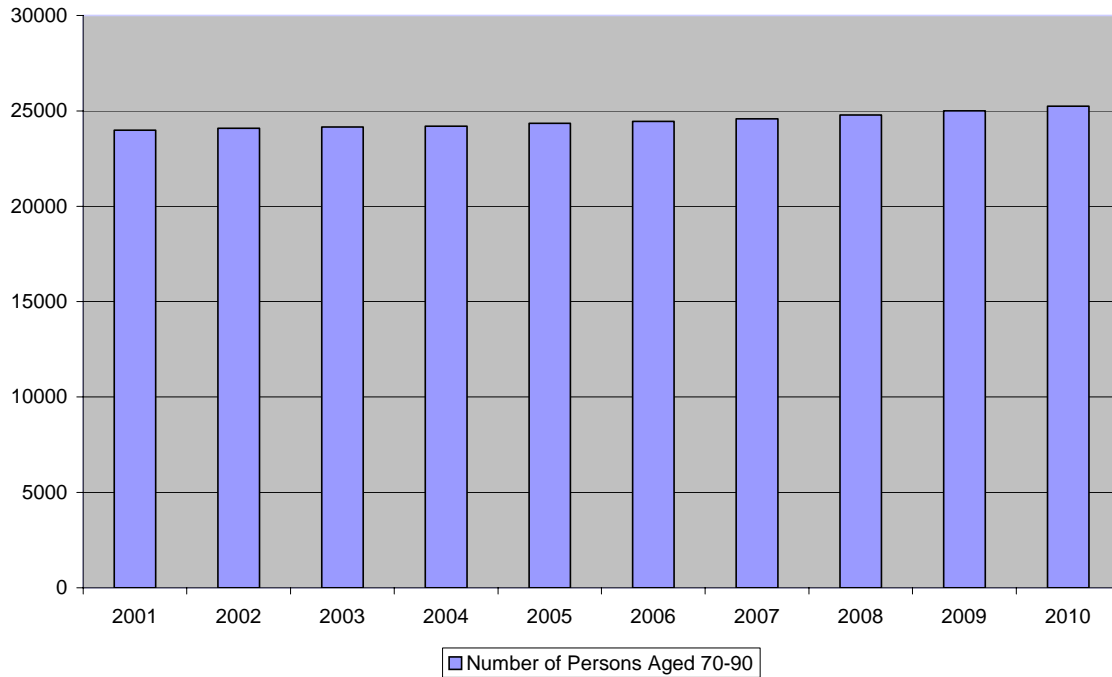
1. Demographic Trends Unfavorable to Wealth Transfer in Near Term

Many have been aware for a decade or more that demographic shifts will have an impact on bequest income.



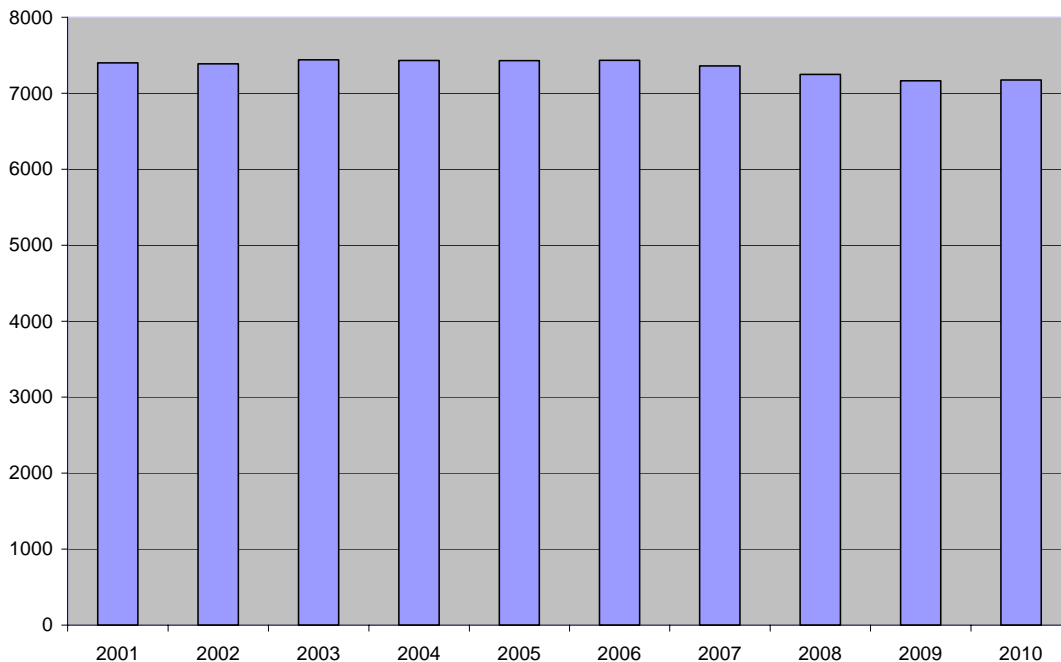
Lower infant mortality rates and longer life expectancy have served to lessen the impact of reduced birth rates in the first third of the 20th century. Nevertheless for the first time in many years, there is no growth projected by the census bureau in the 70 to 90 age group that is critical to success in planned giving. (*see census.gov for additional information*). The figure on the next page shows projections for this age group.

Trend in Persons Alive in America Aged 70-90



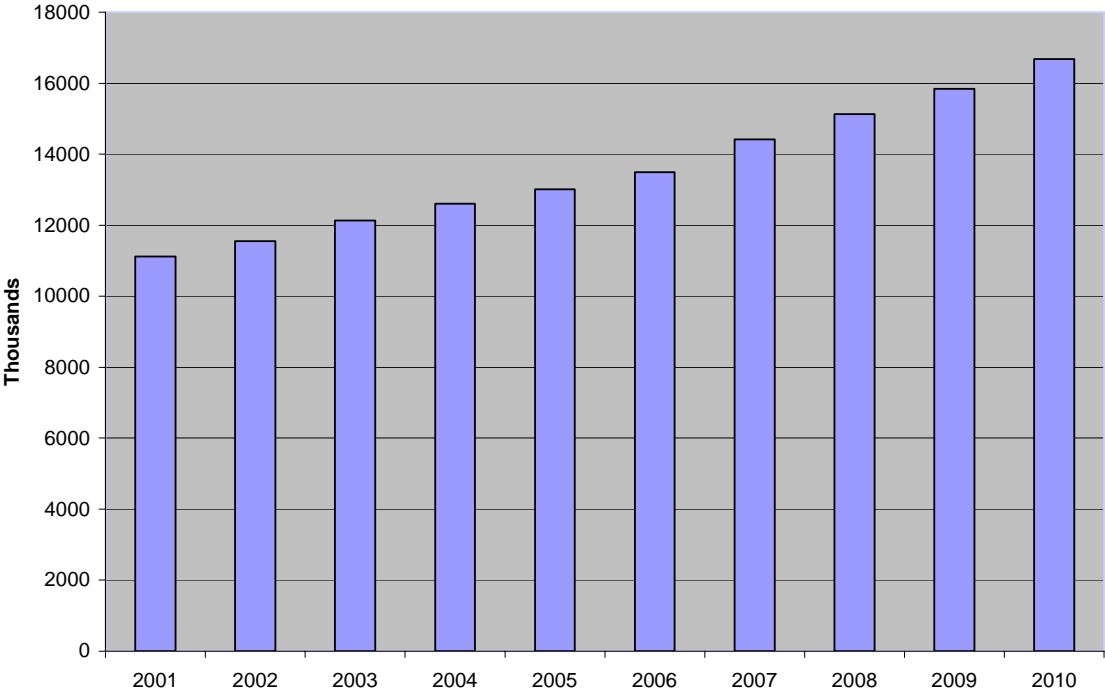
According to the American Council on Gift Annuities (ACGA), the average age of gift annuitants is just over 78. The number of persons in the 75 to 79 age range will actually be declining during the next five years.

Trend in Persons Alive in America Aged 75-79



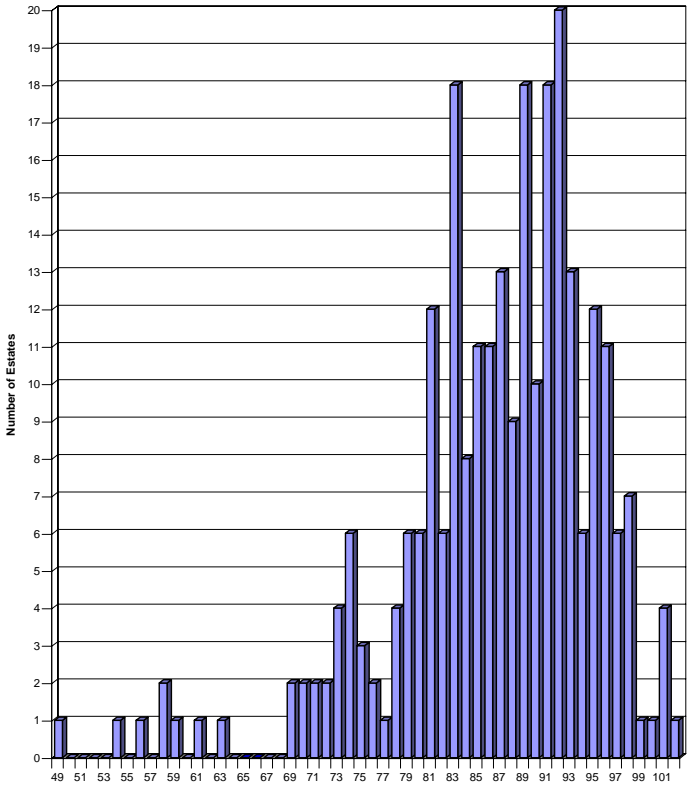
Most of the growth is in the “young” old.

Trend in Persons Alive in America Aged 60-64



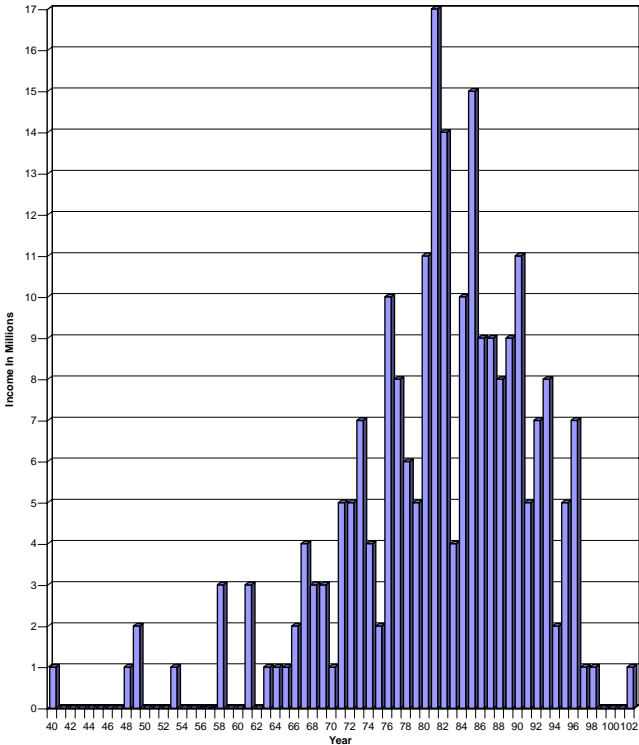
In the case of charitable bequests, numerous studies reveal that most persons who leave bequests to charity die in the 75-90 age range. Note the data from one of the top planned giving programs in America for over 300 estates.

Age At Death for Bequest Donors



Insofar as influencing these bequests, these same persons made their will that left funds to charity on average about five years prior to death.

Age At Will for Bequest Donors

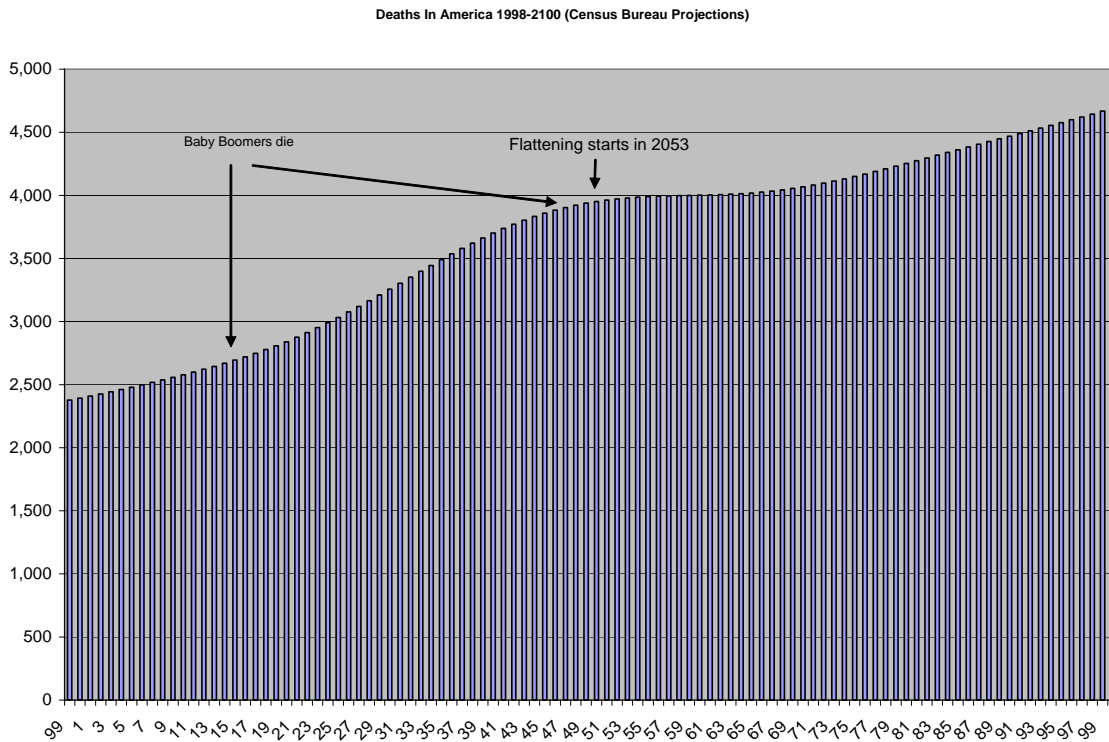


These figures do not vary much from organization to organization.

It will be ten years before there is renewed growth in the 80 and older age range.

In the meantime, there will be downward pressure on bequests due to reduced death rates, with 2004 seeing the largest drop in deaths in more than 70 years.^{iv}

Death rates in America will not rise significantly until baby boomers begin to die.



Wealth transfer is heavily based on assets passed at death FROM Baby Boomers, not TO Baby Boomers. Wealth transfer projections end in 2053 when the death rates finally level off with passing of the bulk of the Baby Boomers.

2. The Sharpe Model of Bequest Projection™

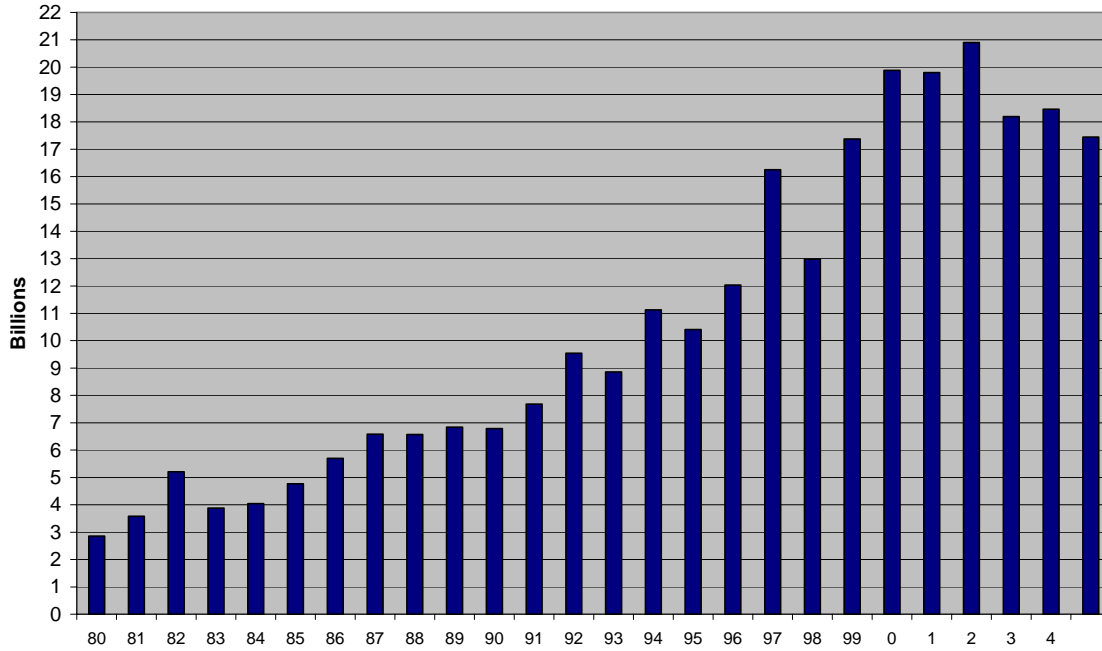
The Sharpe Model of Bequest Projection™ relies on macro numbers that take into account somewhat different variables than the *Giving USA* model. It pays no attention to whether or not estates are taxable.

Table	
<u>Simplified model. (conservative)</u>	
Number of deaths	2,400,000
Percent Including Charitable Bequests	8% (based on NCPG survey)
Total estates leaving bequests	192,000
Average bequests per estate	4
Number of Bequests	768,000
Average Bequest	25,000
Total bequest income	\$19.2 billion
<u>Simplified model. (liberal)</u>	
Number of deaths	2,400,000
Percent Including Charitable Bequests	8% (based on NCPG survey)
Total estates leaving bequests	192,000
Average bequests per estate	5
Number of Bequests	768,000
Average Bequest	35,000
Total bequest income	\$33.6 billion

Average bequest is based on formula that takes into account inflation rates and stock market changes.

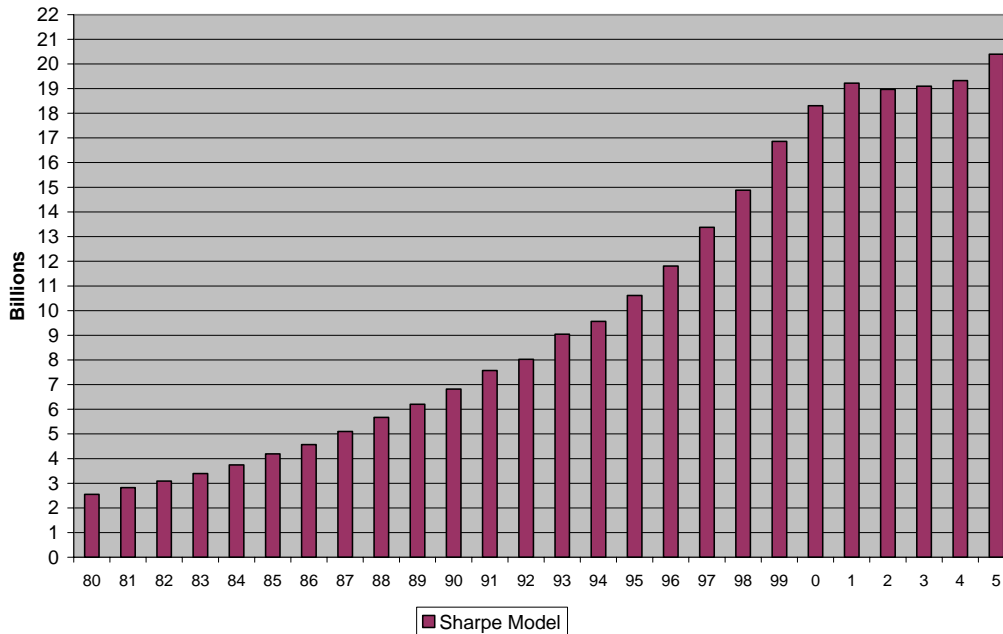
3. Compare The Sharpe Model with Giving USA

**Bequest Income Reported by GIVING USA
in Current Dollars**



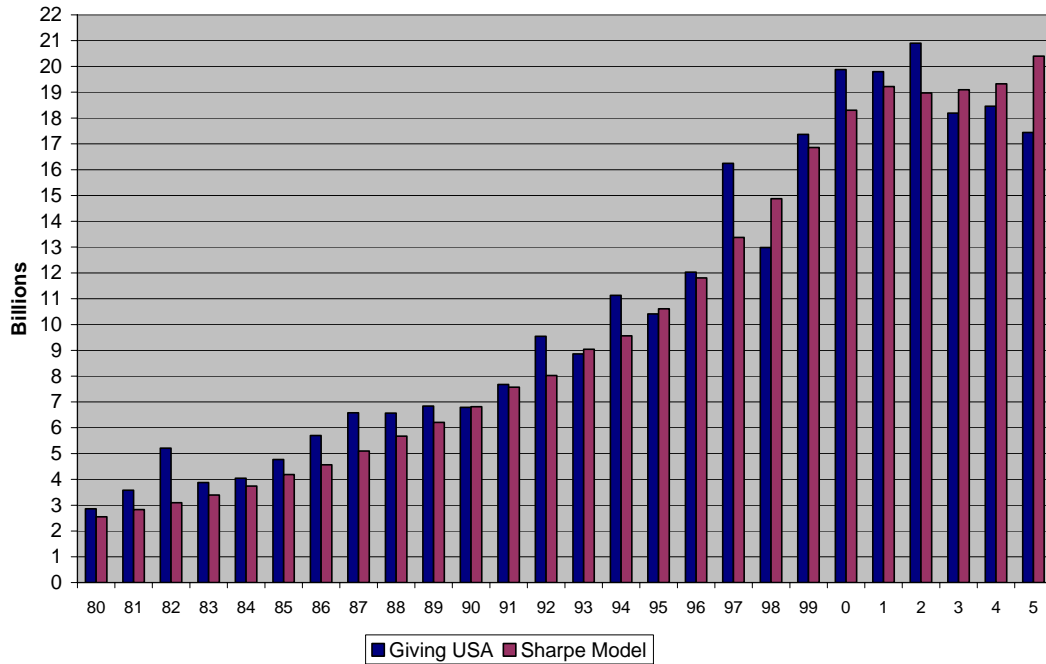
The Sharpe Model when applied backwards closely resembles the *Giving USA* figures. In modeling backwards, Sharpe uses actual equity market changes for those years and actual rates of inflation to estimate average size of bequests. The percentage leaving bequests is assumed at 8% and number of bequests per estate is assumed at 4.

**Sharpe Bequest Model Applied Retroactively Based on Changes in
Death Rates, the Dow and Inflation**



In fact the Sharpe Model estimates lower bequests numbers than *Giving USA* until the last few years when less IRS data has been available. In 19 of 23 years between 1980 and 2002, the Sharpe Model estimates lower bequests than *Giving USA*, primarily because it does not account for years when there are the very large and unusual bequests. For past three years the Sharpe Model indicates somewhat higher bequests.

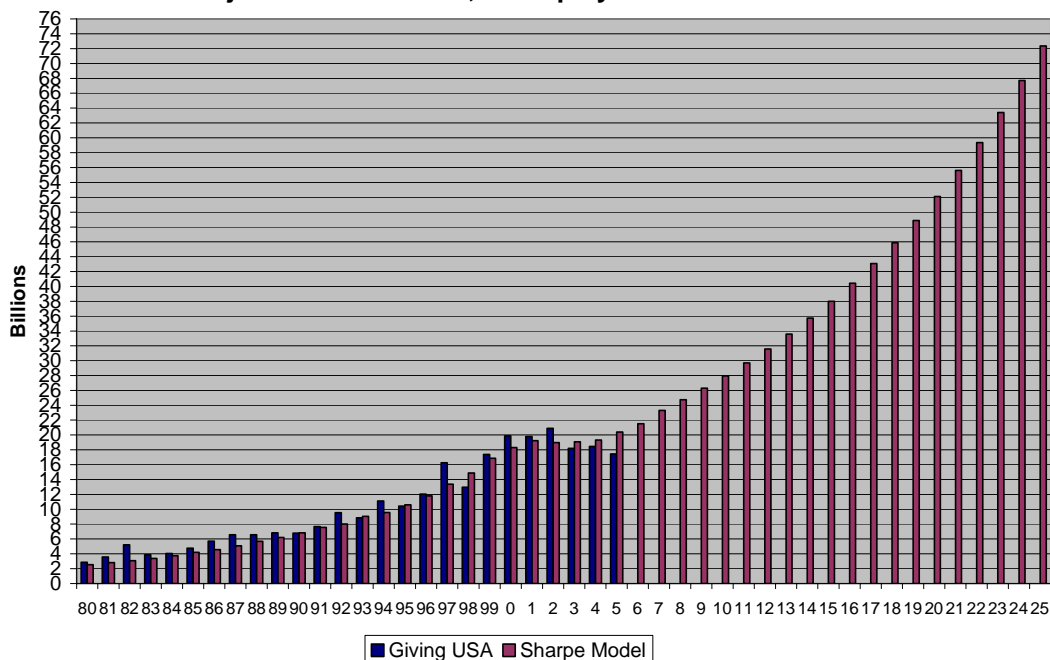
**Bequest Income Reported by GIVING USA
Compared to Sharpe Estimator Model Applied Retroactively**



The Sharpe Model:

- relies more heavily on macro economic and demographic trends and does not rely on surveys, industry reports, or IRS data. In the past IRS data was a good surrogate for trends in inflation and wealth creation.
- relies on broader indicators of changes in bequest size based on broader equity markets and actual inflation rates.
- projects steady growth in bequests if we assume current death rate projections, 6% growth in equity markets and 3% inflation. Factors related to percentage of decedents leaving bequests and number of bequests are kept constant.

**Bequest Income Reported by GIVING USA
Compared to Sharpe Estimator Model Based
Projected Death Rates, 6% Equity Growth and 3% Inflation**



V. How can these numbers be increased?

A. Charities need to focus on areas that can be influenced.

Fund raising efforts are not likely to increase number of deaths.

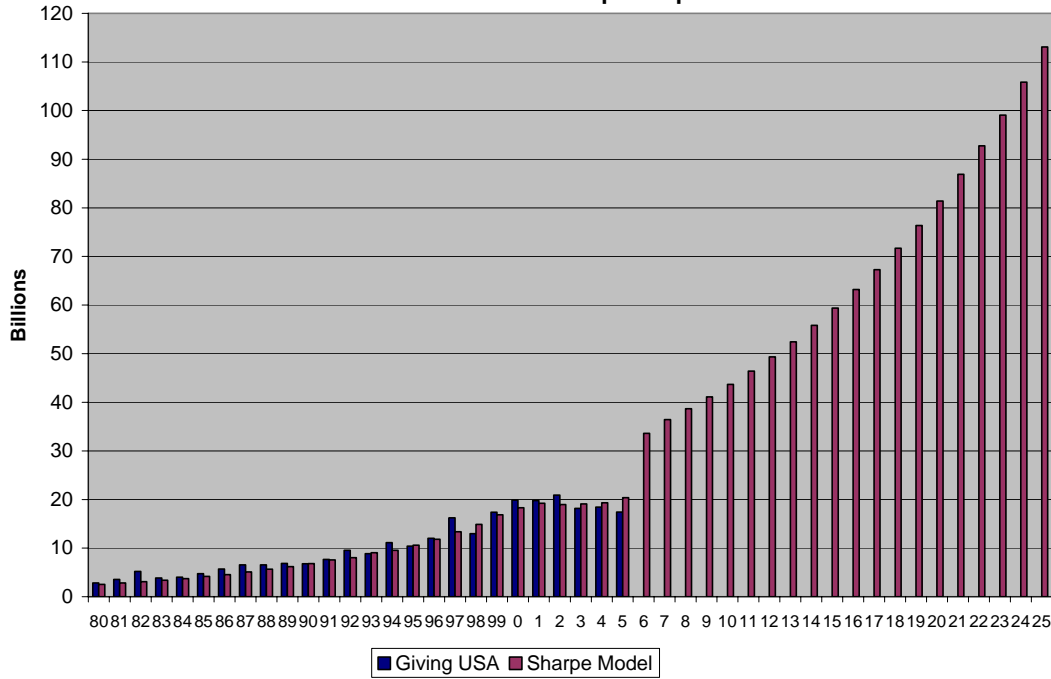
Percent leaving bequests may be influenced somewhat.

It may be possible to increase number of bequests per estate.

Average size of bequests overall may be somewhat subject to influence.

B. Note what the Sharpe Model would indicate is possible if the percentage of persons leaving bequests was increased by 25% to 10% and the number of bequests per estate increased to 5.

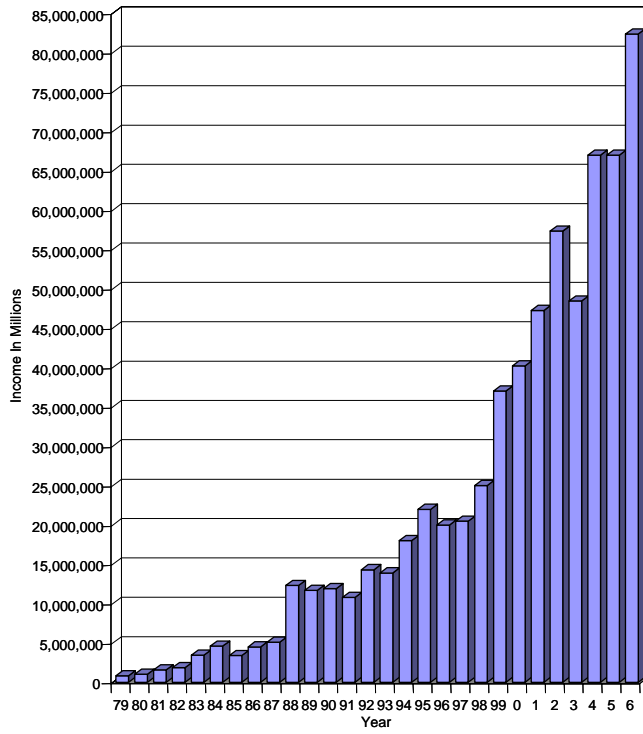
Sharpe Estimator Model Based on Projected Death Rates, 6% Equity Growth and 3% Inflation But With Increase in Percentage of Estates to 10% and 5 Bequests per Estate



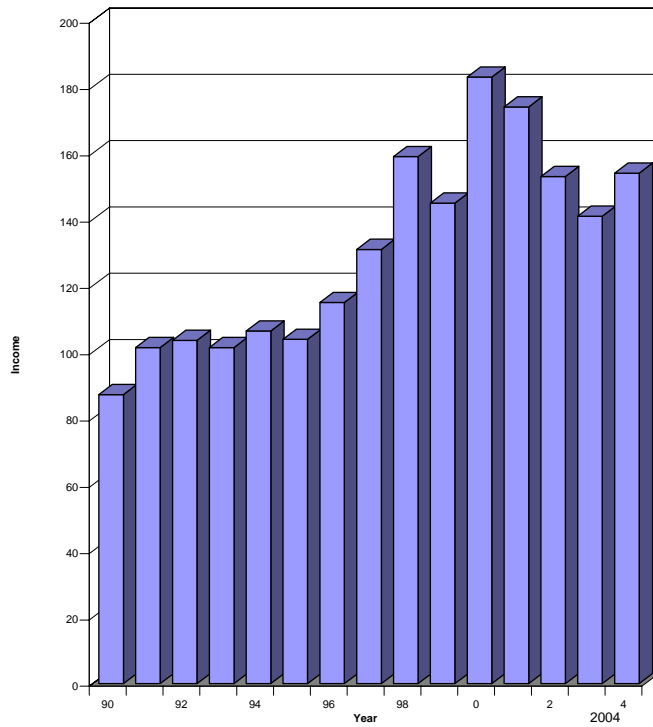
One could also conclude that on an individual program basis, growth will depend on obtaining a larger “market share” in the estates of those persons among the constituency that are, in fact, going to leave funds to charity.

Note the difference in performance in past years of two similar national organizations. One has taken efforts to carefully build relationships with bequest donors and the other has neglected bequest development efforts and focused almost entirely on gift annuities and charitable trusts mainly through efforts to cultivate advisors.

Bequest Income 1978-2006



National Charity Bequest Income



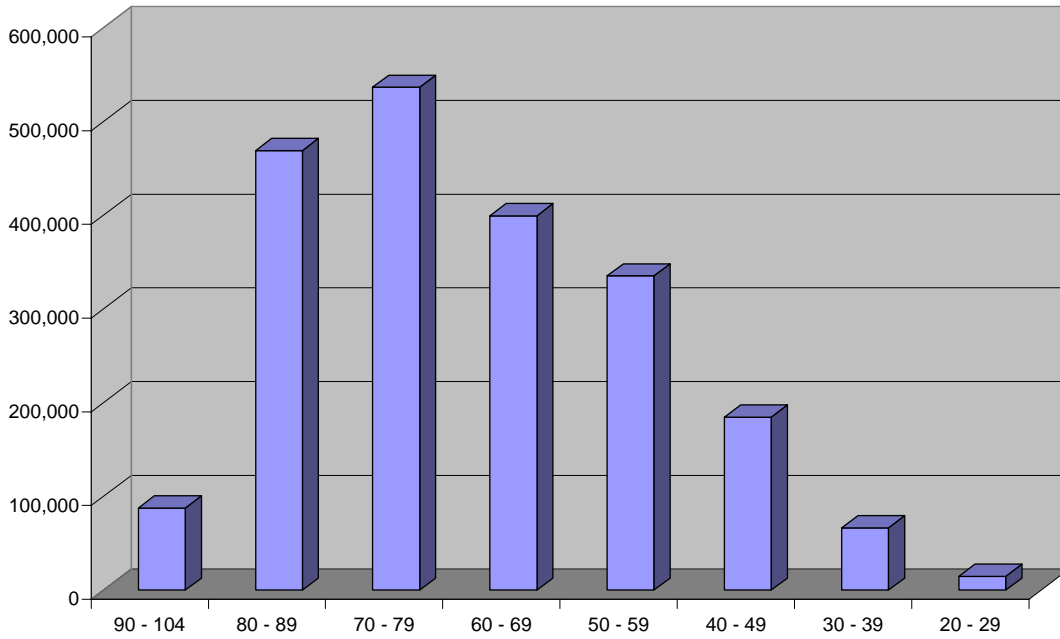
VI. Growth in Planned Gift Development Efforts

- A. There has been a large increase in for profit and nonprofit entities engaged in various aspects of planned gift development.
1. In 1986, there were approximately 13 planned giving councils with 400 members.
 2. Today, there has been a nearly thirty-fold increase in membership to 11,000 members and ten-fold increase in councils to a total of 130.
- B. During the same time the amount of planned gift income has tripled.
1. Until recently, most programs were experiencing at least moderate growth.
 2. Over the past five years, there has been little or no growth in funds received from estates while during that time more and more organizations have entered the field.
 3. Note that the American Council on Gift Annuities reported that the number of organizations issuing gift annuities has doubled over the past ten years and increased by one-third over the past five years.
See acga-web.org.
- 1994 - 2,000 issuers
1999 - 3,000 issuers
2004 - 4,000 issuers
- Recall that the number of persons in America in the key gift annuity age range of 75-85 is static or declining.

VII. Suggested Action Steps to Succeed in Coming Years

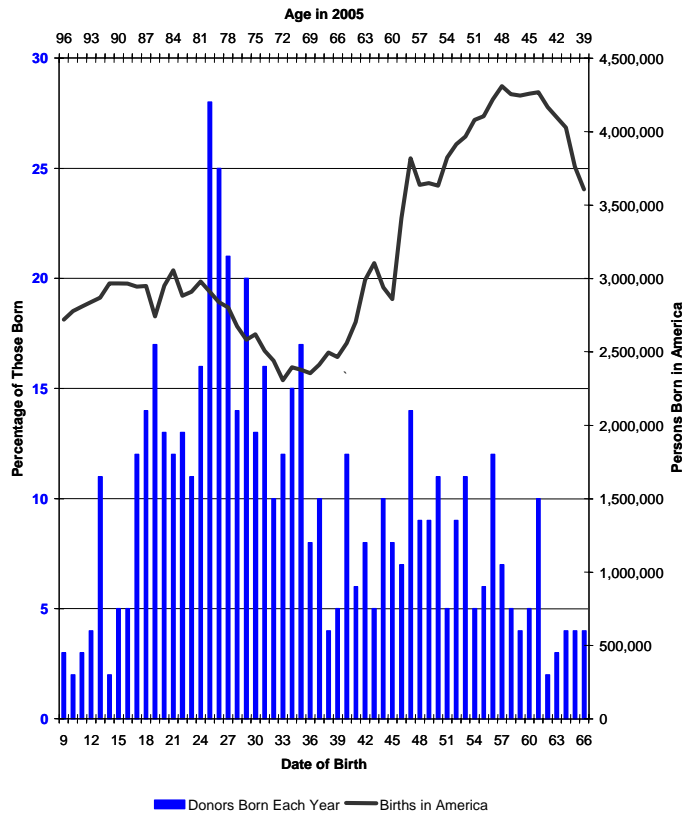
- A. Some charities are experiencing continued growth in bequests and other planned gifts.
1. Double digit increases over the past decade.
 2. This will continue for some.
- B. Take steps to nurture the age group that is the prime source of bequests and other planned gifts.
1. Acquire more donors in the appropriate age ranges if possible.
 2. Retain the ones you have through improved acknowledgement and recognition efforts.
 3. Emphasize bequests and gift annuities with this group.
- C. Do all possible to acquire and retain donors among the ranks of the “new old” in the 60+ age range, a smaller contingent for many. This will be the role of others on staff in most cases.
1. Early indications are that this group is not as generous as the generation that preceded them and the baby boomers who will follow them.
 2. Note age distribution of donors by ten year segments to one organization.

Age Distribution of Two Year Recency Donors



3. But see the “hole” in the bequest expectancy group for those in their 60s.

Age Distribution of Bequest Expectancy Donors



4. The persons in this age group who are charitable have tremendous resources because of fewer numbers splitting a larger “pie.”
- D. Work with leading edge of baby boomers to encourage gifts that will come to fruition beginning in ten years to help plug the possible hole.
1. Oldest baby boomers are too young for “death gifts.”
 2. Bequest marketing is still appropriate to find those with greatest donative intent for outright gifts.
 3. Build bridges to retirement with term of years trusts and other methods.
 4. Encourage donors to make outright and deferred gifts using assets from retirement plans.
 - a. Pension Protection Act of 2006 offers opportunities.
 - b. Significant gifts are also possible from younger persons age 59 1/2 and older.
- E. Encourage older donors to consider gifts that are completed during lifetime.
1. More will exhaust their assets prior to death resulting in more “dry” estates.
 2. They can enjoy current tax benefits for amounts that might have been left from non-taxable estates.
 3. Making irrevocable gifts during lifetime can help protect assets.
 4. Gift annuities help counter fear of outliving one’s resources.

VIII. Conclusion

Various approaches to estimating charitable giving from all sizes of estates show that the actual value is between \$19 and \$25 billion a year currently. Even with estimates for life time giving through annuities and formation of foundations, the transfer of wealth now underway is in the range of \$30 billion annually.

With lower birth rates that occurred in the 1930s current longer life expectancies, the current stock market and real estate market, charities should expect the immediate future for realized bequests to show relatively slow growth.

The way to increase charitable giving through bequest is to practice exceptional fundraising with current donors, commit the organization to outstanding stewardship, and cooperate as a sector, with all charities working together to increase the number of people leaving money to charity through an estate plan.

The current transfer of wealth is not a rising tide that is lifting all boats – The current transfer of wealth is not a rising tide that is lifting all boats – it is, however, a growing source of gift dollars for charities that consistently and carefully devote appropriate efforts to maximizing their share.

ⁱ *Giving USA* Foundation. (2006). *Giving USA 2006*. (Glenview, IL: Author).

ⁱⁱ Center on Philanthropy Panel Study, giving in 2002, survey in 2003, released 2006, www.philanthropy.iupui.edu.

ⁱⁱⁱ Based on U.S. Dept. of the Treasury analysis of charitable bequests from estates, mimeo, March 2006.

^{iv} Associated Press, U.S. reports drastic declines in death rates, April 26, 2006.