Encouraging generosity: The demographics of charitable estate planning

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It’s kind of a BIG DEAL

Why this new data is so important
The entire “lifetime” movie
(tracking same people from mid-life to post-mortem)
The entire “lifetime” movie

• Matches sequence of lifetime responses with post-mortem distributions for over 10,000 decedents
• Identifies timing of plan changes
• Large, federally-funded, longitudinal, in-person, well-compensated, nationally representative, study on health and retirement issues
Warning!

This might not be pretty
U.S. population aged 55+ with a will or trust

- 1998: 62% (n=18,987)
- 2000: 60% (n=18,142)
- 2002: 58% (n=17,353)
- 2004: 56% (n=17,464)
- 2006: 54% (n=17,033)
- 2008: 52% (n=16,464)
- 2010: 54% (n=18,370)
- 2012: Projected (n=18,370)
States allowing “Transfer on Death” deeds in 1995

[Map showing states allowing Transfer on Death deeds, with Missouri highlighted.]
States allowing “Transfer on Death” deeds in 2000

- Kansas (KS)
- Missouri (MO)
- Ohio (OH)
States allowing “Transfer on Death” deeds in 2005
States allowing “Transfer on Death” deeds today
(+2013 legislative action in 6 more states)
U.S. population aged 55+ with will only or trust

Will Only
Funded Trust
Charitable estate beneficiary among U.S. population aged 55+ with a will or trust
U.S. population aged 55+ with a charitable estate beneficiary in will or trust

- 1998: 18,987 (n=18,987)
- 2000: 18,142 (n=18,142)
- 2002: 17,353 (n=17,353)
- 2004: 17,464 (n=17,464)
- 2006: 17,033 (n=17,033)
- 2008: 16,464 (n=16,464)
- 2010: 18,370 (n=18,370)
- 2012: (projected) (n=18,370)
Where's the boom?
Charitable bequests: Predicted v. Received

Estimated annually is 1/20 of 20 year estimated total from P.G. Schervish and J. J. Havens (1999) "Millionaires and the millennium: New estimates of the forthcoming wealth transfer and the prospects for a golden age of philanthropy". Bequests received are inflation-adjusted numbers from Giving USA 2013.
Charitable bequests: Predicted v. Received

Estimated annually is 1/20 of 20 year estimated total from P.G. Schervish and J. J. Havens (1999) "Millionaires and the millennium: New estimates of the forthcoming wealth transfer and the prospects for a golden age of philanthropy". Bequests received are inflation-adjusted numbers from Giving USA 2013.
Charitable bequests since 2000 have trended flat...

What's going on?
Wealthy people die old. Wealthy bequest donors die even older.
Cumulative percentage of charitable bequest dollars by donor age at death

Over 80% of charitable bequest dollars come from decedents aged 80+
The “baby bust” is driving demographics

Births
Key population not growing, YET
Coming demographic wave will impact CRT creation first, then CGA creation, then bequests realization.

CRT Creation Peak Age: 70-74
CGA Creation Peak Age: 75-79
Realized Bequest Peak Age: 88

The future is bright...
U.S. population aged 55+ charitable estate recipient among those with will/trust by family status

- Grandchildren
- Children only
- No Offspring (unmarried)
- No Offspring (married)
Percent childless women age 40-44 in U.S.
U.S. population aged 55+ inclusion of charitable recipient by education level

- Grad School
- College Grad
- Some College
- HS Grad
- <HS Grad
U.S. population share with bachelor's degree and above

- 55+ YEARS OLD
- 35 to 54 YEARS OLD
U.S. population aged 55+ charitable recipient among those with will/trust by giving/volunteering
U.S. aged 55+ giving ($500+) and volunteering
What ultimately happened to those written and witnessed will documents reported during life?
Reported wills are often unused

Distributed estates where decedent reported having a written and witnessed will (n=6,063)

- 16% Will probated
- 38% Unprobated will: nothing much of value
- 19% Unprobated will: estate otherwise distributed
- 10% Unprobated will: trust distributed
- 6% Unprobated will: other
- 11% No will found
Funded trusts more likely to work

Distributed estates where decedent reported having a funded trust (n=913)

- Funded trust exists: 75%
- No documents: 10%
- Will probated: 5%
- Unprobated will: 4%
- Otherwise divided: 2%
- Will - Nothing much of value: 4%
- Will - Unknown: 4%
Documents

• The will is only a back-up document
• Ask about titling and beneficiary designations (especially qualified plans!)
• Most wills are never used – let me explain why
• Encourage trust planning
• Consider alternate will language “a dollar amount equal to ___ percent of my adjusted federal gross estate...”
Who are these people?
Lifetime predictors of a post-mortem bequest gift
1. % years giving
2. No offspring
3. Highest giving
4. % years reporting funded trust
5. Female
6. Last reported wealth
7. Not married
8. Last reported giving
9. Growing wealth
10. % years volunteering
Bequest givers may not be your donors, but many used to be
When do plans change?
Factors predicting when charitable plans are ADDED
1. Approaching death (final pre-death survey)
2. Becoming a widow/widower
3. Diagnosed with cancer
4. Decline in self-reported health
5. Divorce
6. Diagnosed with heart problems
7. Diagnosed with a stroke
8. First grandchild
9. Increasing assets
10. Increasing charitable giving
Factors predicting when charitable plans are DROPPED
1. Decline in self-reported health
2. Approaching death (final pre-death survey)
3. Becoming a widow/widower
4. Divorce
5. Diagnosed with cancer
6. Diagnosed with heart problems
7. Diagnosed with a stroke
8. First grandchild
9. First child
10. Exiting homeownership
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
Most realized charitable plans (shown in red) added within 5 years of death

- 36% last "no" within 0-2 years of death (always "no")
- 21% last "no" within 0-2 years of death (previously varied)
- 20% last "no" within 2-5 years of death
- 13% last "no" over 5 years before death
- 10% always reported charitable plan

Total Number:

Total $:

- 40% last "no" within 0-2 years of death (always "no")
- 18% last "no" within 0-2 years of death (previously varied)
- 15% last "no" within 2-5 years of death
- 6% last "no" over 5 years before death
- 21% always reported charitable plan
Although most charitable plans were added within 5 years of death, **ONE** longer-term plan was worth **FOUR** made in the last two years.
A 5% national sample of 2012 probate records in Australia showed an estimated:

- 31% of charitable wills were signed within 2 years of death
- 60% were signed within 5 years of death

Baker, Christopher (October, 2013) *Encouraging Charitable Bequests by Australians*. Asia-Pacific Centre for Social Investment & Philanthropy - Swinburne University
Plans destabilize as death approaches

- Lifetime reports made as death approaches
- Post-mortem transfers vs. lifetime reports
- Timing of the last changes made to the final will
Most still report charitable plans 10 years later

10-Year retention of charitable estate plans

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<td>70% retention</td>
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<td>60% retention</td>
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<td>50% retention</td>
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<td>40% retention</td>
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<td>30% retention</td>
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<td>20% retention</td>
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<td>10% retention</td>
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<tr>
<td>0% retention</td>
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</table>

- **age 70+**
- **age 50-69**
So where does “Once in, Always in” come from?
Plans destabilize as death nears

We can see this only in a LIFETIME survey, not in a ONE TIME survey.
The NCPG (2000) study showed that 90% of planned bequest donors don't change their plans.

Fiction

Fact

Among those (avg. age of 58) WITH a charitable plan, 10% chose “Amount Decreased” when asked about their overall plan, “Has the amount of the charitable bequest ever increased or decreased?” It showed that IF charity stayed in, plan changes decreased total charitable amount 10% of the time.
Practice suggestions

What now?
“Count it and forget it” doesn’t work!
A bequest commitment is the beginning, not the end

Higher value in converting to irrevocable commitments: gift annuities, charitable remainder trusts, remainder interests is homes and farms.
Charitable plans signed earlier

DO produce larger gifts, IF they stay in (or they return later)
Don’t ignore your oldest supporters
Half of all charitable bequest dollars came from decedents this age and older...

Current U.S. study:  
**Age 88**

New Australian study (5% sample of national probate files):  
**Age 90**

Remember that most realized charitable bequests are added within 5 years of death.
Age at Will Signing
(by share of total charitable bequest $ transferred)

- 80s+: 76%
- 70s: 13%
- pre-70: 11%

For those 75+ with lifetime connections, stay “top of the mind” (service, service communication, mission communication, honoring/thank you, living bequest donor stories)
Charitable bequest decisions are often unstable and easily influenced.

<table>
<thead>
<tr>
<th>No reference to charity</th>
<th>Would you like to leave any money to charity in your will?</th>
<th>Many of our customers like to leave money to charity in their will. Are there any causes you’re passionate about?</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.00% Charitable plans among 1,000 testators</td>
<td>10.40% Charitable plans among 1,000 testators</td>
<td>15.40% Charitable plans among 1,000 testators</td>
</tr>
</tbody>
</table>
The score doesn’t count until the clock runs out

- Plans change every time a donor opens a new account with a TOD/POD or changes a joint account owner
- Plans become unstable as death approaches
- Stay connected! Stay communicating!
Where’s the boom?

A realistic boom is starting soon (5 years)

But, trusts do

Who are these people?

Wealthy, consistent donors with a trust (especially childless and unmarried)

When do plans change?

Approaching mortality & family changes
My favorite student evaluation from a personal finance class...

This class sucked. It was all about reality. I didn't want to know this stuff.
Encouraging generosity: The demographics of charitable estate planning

www.EncourageGenerosity.com/ACBD.pdf

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Drilling down...
Race and ethnicity in charitable planning
U.S. population aged 55+ inclusion of charitable recipient among those with will or trust by race/ethnicity

United States population aged 55+ inclusion of charitable recipient among those with will or trust by race/ethnicity.
U.S. population aged 55+ use of will or trust by race/ethnicity

- **White (NH)**
- **Black (NH)**
- **Hispanic**
U.S. population aged 55+ inclusion of charitable estate recipient by race/ethnicity

White (NH)
Black (NH)
Hispanic

Trends in use of funded trusts
U.S. population aged 55+ use of funded trust by race/ethnicity

- White (NH)
- Black (NH)
- Hispanic
U.S. population aged 55+ use of funded trust by household type

- Married Households
- Single Female HH
- Single Male HH

Data points for years 1998 to 2012p.
U.S. population aged 55+ use of funded trust by wealth

- **Top 20%**
- **60%-80%**
- **40%-60%**
- **20%-40%**
- **Bottom 20%**

U.S. population aged 55+ use of funded trust by education level

- Grad School
- College Grad
- Some College
- HS Grad
- <HS Grad
Extra details
U.S. population aged 55+ inclusion of charitable recipient among those with will or trust by household type

- Married Households
- Single Female HH
- Single Male HH
What are the best multi-item models to predict the amount of money left to charities at death?

<table>
<thead>
<tr>
<th>Items</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<tbody>
<tr>
<td>base rate</td>
<td>1,499</td>
<td>703</td>
<td>-242</td>
<td>-199</td>
<td>-826</td>
<td>-561</td>
<td>-836</td>
<td>-636</td>
<td>-567</td>
<td>346</td>
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<tr>
<td>Average $k giving</td>
<td>1,415</td>
<td>1,344</td>
<td>1,340</td>
<td>1,024</td>
<td>1,004</td>
<td>1,078</td>
<td>1,056</td>
<td>1,044</td>
<td>1,244</td>
<td>1,250</td>
</tr>
<tr>
<td>Last reported wealth $k</td>
<td></td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>No offspring exists</td>
<td>9,774</td>
<td>9,722</td>
<td>9,815</td>
<td>9,807</td>
<td>9,917</td>
<td>9,868</td>
<td>9,844</td>
<td>9,325</td>
<td></td>
<td></td>
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<tr>
<td>$k of giving in last report</td>
<td></td>
<td>336</td>
<td>341</td>
<td>317</td>
<td>301</td>
<td>293</td>
<td>286</td>
<td>286</td>
<td></td>
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</tr>
<tr>
<td>% years reporting funded trust</td>
<td></td>
<td>9,960</td>
<td>11,125</td>
<td>10,049</td>
<td>10,014</td>
<td>10,096</td>
<td>10,195</td>
<td></td>
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</tr>
<tr>
<td>Highest reported wealth $k</td>
<td></td>
<td>-2</td>
<td>-4</td>
<td>-5</td>
<td>-5</td>
<td>-5</td>
<td>-5</td>
<td></td>
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<tr>
<td>Average reported wealth $k</td>
<td></td>
<td>7</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Lowest reported wealth $k</td>
<td></td>
<td>-13</td>
<td>-13</td>
<td>-12</td>
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<tr>
<td>Highest $k year of giving</td>
<td></td>
<td>-113</td>
<td>-114</td>
<td>-114</td>
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<tr>
<td>Married</td>
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<td>-2,409</td>
</tr>
</tbody>
</table>
What is the combined effect (considering both adding and dropping) of various lifetime changes on the presence of a charitable plan existing

<table>
<thead>
<tr>
<th>rank</th>
<th>Δ factor</th>
<th>Δ in conditional probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Start (stop) giving</td>
<td>0.0798</td>
</tr>
<tr>
<td>2</td>
<td>Start (stop) volunteering</td>
<td>0.0585</td>
</tr>
<tr>
<td>3</td>
<td>Increase assets by 10k</td>
<td>0.0001</td>
</tr>
<tr>
<td>4</td>
<td>Increase annual volunteering hours by 100</td>
<td>0.0091</td>
</tr>
<tr>
<td>5</td>
<td>Being diagnosed with cancer</td>
<td>0.0728</td>
</tr>
<tr>
<td>6</td>
<td>$1k change in giving to charity</td>
<td>0.0010</td>
</tr>
<tr>
<td>7</td>
<td>Becoming a widow/widower</td>
<td>0.0572</td>
</tr>
<tr>
<td>8</td>
<td>The last survey before death</td>
<td>0.0528</td>
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