The untapped potential of planned giving (part 2)

In a series of articles for *F&P*, Lawrence Jackson explores the potential for far greater investment in planned giving in Australia.

The intention of this series is to assist the Australian philanthropic sector to explore the potential to significantly expand giving to Australian charities from estate-based activities, or what the Americans and Canadians call 'planned giving'.

In part 1, I compared our local practices with those abroad in order to identify learnings and opportunities for local innovation, adaption and growth.

I found a wide disparity in the sophistication of our bequest marketing activities in comparison with the UK, as well as much broader planned giving practices in the US and Canada. These were characterised by larger investment and greater giving options and structures. This begs the question: what does this say about our local practices and what can be learnt from more diverse and extensive international experience?

WHAT IS PLANNED GIVING?

The term 'planned giving' originated in North America to describe fundraising practices involving certain types of gifts made from diverse asset classes such as cash, shares and property, or a combination of these, often as part of an estate planning process with gifts in wills or bequests being the most common.

Its origin in the US was largely tax driven, resulting in the creation of unique and often complex deferred giving vehicles such as: charitable gift annuities (donation of assets for a partial tax deduction and future stream of income); charitable remainder trusts (donation of assets to a trust that pays a fixed income to the donor each year with any funds remaining transferred to the charity on death); and pooled income funds (charitable mutual funds that pay dividends to both the charity and donor).

This, in turn, has led to other countries, such as Canada, the UK and Australia, approaching planned giving in a variety of ways, depending on their respective legislative, economic and cultural situations.

EVOLVING PRACTICES

It is important to note the dramatic way in which these practices have evolved over the past 60 to 70 years in the US and Canada.

In earlier years, planned giving was limited to only the wealthiest donors and the largest and most sophisticated charities and institutions. It was predominantly tax-driven and relied on philanthropic trust-type structures.

Today almost everyone can give via some form of planned giving vehicle, such as bequests, living trusts, retirement plans and donor advised funds (DAFs). Charities of all sizes can now participate and pursue planned gifts in some shape or form.

Some elements of this have developed in Australia in recent decades, especially in the adoption of bequest marketing activities by charities, the rapid take-up of private ancillary funds (PAFs), the emergence of giving circles, the collective giving movement and perhaps even workplace payroll giving programs (although the latter are immediate and not deferred ways of giving).

THE CRITICAL IMPORTANCE OF PLANNED GIVING

In part 1, planned giving was shown to be of critical importance to the not-for-profit sector due to its exceedingly high relative effectiveness as a fundraising tool – the highest by a country mile of any comparative method – and the vast philanthropic income growth potential in light of the US$59 trillion (AU$87 trillion) global intergenerational transfer of wealth, including US$6.3 trillion (AU$9 trillion) in charitable bequests, which Boston College called, *the greatest wealth transfer in US history*. This transfer is currently underway and will continue for the next 30 years.

Planned donors give six times more dollars as highlighted in the 2016 *Giving Australia* report and bequests produce the highest return on investment (ROI) of any fundraising method ($53.73 return on $1 spent, or 5,683%), as revealed in the *AskRight Return on Fundraising Investment Report* of 2015.

Although, note that this cannot happen in isolation of an individual giving program that provides the critical lead generation and bequest development pipeline required. (One of the challenges of this type of ROI analysis is to accurately measure and account for the cross dependencies between programs.)

It still, however, seems to be one of the greatest paradoxes of Australian fundraising that the most effective, proven method attracts the lowest relative level of investment from boards and not-for-profit leaders.

Why is this so and how much potential philanthropic funding is being left on the table?

AUSTRALIA'S UNIQUE SITUATION

Perhaps the most important factor to consider is the significant differences that exist between the US and Australia, primarily as a result of very different tax regimes, which has had a strong bearing on donor motivation, professional financial advisor/investment industry involvement, and planned giving vehicle creation and management.

Despite these differences, there still appear to be vast opportunities to better leverage planned giving opportunities in Australia that accord with Australia's unique social and economic situation, which I characterise as follows: a wealthy, resource-rich nation with a well-established and generous tradition of both charitable giving and bequests; a unique retirement income system based on the age pension, compulsory employer superannuation guarantee and voluntary private savings; a well-established and sophisticated charities and not-for-profit sector and fundraising practices; increasing life spans combined with a rapidly ageing population; and Australia's lack of death duties (with the exception of the superannuation death benefits tax).

HOW DO WE SHIFT THE LOCAL PLANNED GIVING PARADIGM?

This is clearly a complex and multifaceted question, but here are my starting suggestions for how the Australian philanthropic and fundraising sector, and individual charities, can approach this at both macro and micro levels:

Educate boards and not-for-profit leaders about the importance of planned giving as the critical third leg of the fundraising stool (alongside the annual fund and major giving program).

Redress the dramatic imbalance in the relative focus and investment given to bequest development and planned giving relative to other far lower returning and in some ways more competitive and congested areas of fundraising.

Expand our knowledge and understanding of Australian estate-based giving practices and motivations, to be at least on par with leading countries, and fund greater sector analysis and academic research such as the recent Legacy foresight research entitled *Australian Gifts in Wills 2040,* commissioned by Fundraising Institute Australia as well as the research undertaken by leading academics at key institutions such as Queensland University of Technology, Swinburne University and others.

Build on great initiatives such as Include a Charity and ensure continued support and sponsorship of legacy marketing and planned giving development initiatives such as specialist training programs, conferences, user groups, forums, online resources and specialist tools such as UK-style legacy notification services.

Develop a sector approach to advocate for the major policy legislative changes required to support the introduction of new giving structures and vehicles. The Prime Minister's Community Business Partnership, under the leadership of David Gonski AC from 1999 to 2007, was able to persuade the Howard government to reform giving structures of the day, leading to the introduction of prescribed private funds (PPFs), now evolved and called private ancillary funds (PAFs), which have been a spectacular and unqualified success, with over 1,400 PAFs created, growing at 8% per annum with a combined asset endowment value of AU$8.3 billion and annual distributions of over AU$450 million per annum, according to Koda Capital's 2018 report, *A Snapshot of Australian Giving*.

POTENTIAL PROGRAM INNOVATION AREAS

Local planned giving income growth may be best realised by innovations in the following program areas:

Gifts in wills The potential to significantly expand and grow giving via gifts in wills, already the most common and frequent planned giving vehicle in Australia (which according to the *Smee and Ford Legacy Trends* report appears to be happening in the UK but not in Australia).

Individual investment giving funds The careful design and introduction of personal and flexible ways for individuals to give at relatively low financial entry points, similar to the tremendous uptake and growth of DAFs in the US, Canada and UK over the last decade. Australia already has a version of this in philanthropic sub funds, which are growing rapidly off a small base but are largely under the radar and would seem to require much greater sector focus and much better marketing and promotion.

Remainder trusts A local adaptation of the US and Canadian charitable remainder trust concept designed to meet the needs of increased life expectancy and Australia's accumulation investment management system. Philanthropy Australia is to be commended for its leadership of what it termed the Living Legacy Trust Structure, although ultimate success in this area is likely to require a much louder voice and far wider sector involvement and advocacy, as has been the case with the game changing PPF/PAF initiative.

Superannuation fund-related annuity giving vehicles The establishment of a Future Fund type structure that provides an initial tax deduction as well as regular annuity payment to overcome the fear of running out of money over an individual's lifetime.

Leftover superannuation Remove the current complications in donating the not insignificant residual superannuation balances to charities. Philanthropy Australia has almost singlehandedly led the way on this and while unlikely to be a philanthropy game-changer, it is a worthy initiative deserving of far greater sector attention and support.

SEIZING THE OPPORTUNITY

It is clear that the opportunity is significant, the returns from planned giving development activities are enormous, and that some of the methods and tools are already in place and can be used right now (gifts in wills, PAFs and sub funds), while many are not (innovative deferred giving structures and vehicles). Overall, the philanthropy and fundraising sectors need to do both of these things with much greater foresight and intensity than at present. F&P

Lawrence Jackson

Lawrence is a long-time fundraising and philanthropy practitioner, consultant and commentator. He established fundraising and philanthropy consultancy Catalyst Management in 2006. Since then Lawrence has undertaken more than 80 bespoke projects and assignments for a wide spectrum of organisations ranging in size, age and area of focus.

Lawrence acknowledges conversations with: Professor Russel James, Texas Tech University; John King, Prolegis Lawyers; David Knowles, Koda Capital; Helen Merrick, Include a Charity/Fundraising Institute Australia; Juliana Payne, Catalyst Management; Claire Routley, Legacy Fundraising; Krystian Seibert, Swinburne University of Technology; Dave Smith, Heaton Smith Group; and Danielle Mawer, Bates Wells.