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The legacy of the recession – a report on recent trends in charitable bequests

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Introduction

Legacy gifts are such a crucial source of funding to many charitable activities that it is vital to keep a watching brief on their value in a changing economic environment. In the UK the value of all charitable legacies has now reached worth around £2 billion per year, representing about 12.5% of the value of all private giving to charities. Some charities depend heavily on the income they can raise from legacy gifts, while others are increasingly hoping that legacies and other private giving will help them weather any forthcoming public spending cuts. The result of this is that the recessionary environment is prompting more charities to seek an income from legacies just as market trends have undermined the asset and property values to which legacies are linked.

A growing body of national and international evidence now shows that the economic downturn has had a significant negative impact on the value of charities' legacy income. Following the overview of issues and challenges for legacy fundraising in the current economic environment which was published last year (Pharoah and Harrow, 2009), this report presents new data on charitable legacy trends and analyses the implications for charitable causes.

The report has three main sections, beginning by presenting recent figures for charities legacy incomes, then scoping the medium-term outlook for trends, and finally discussing some of the challenges and opportunities of the current environment.

Trends in legacy values

A picture of the toll which the recession has taken on charitable legacy values is now emerging. Although there is no single source of information on all charitable legacy giving, figures from various sources are consistently reporting falling values.

Top charity legacy earners

New research reported below on 20 leading legacy-earning charities, who together attract more than two-fifths (42%) of all charitable legacies, shows that there was a real annual fall of 3% in their legacy values in 2008-09.

Recent annual accounts data shows that 12 of the top 20 charity legacy earners reported by Remember a Charity last year (Press Release, 10.08.09) experienced a real fall in legacy income in 2008/09.*

Table 2 below compares the legacy incomes of the top charity legacy earners in 2007/08 with their legacy incomes in 2008/09. The figures show there was a combined loss of £24 million, an overall real drop of 3%.

Table 1: Legacy incomes of top 20 leading charity legacy-earners, 2007/08 and 2008/09

	£ million	A/c Year	£ million	A/c Year
Cancer Research UK	147.9	Mar-08	156.7	Mar-09
Royal National Lifeboat Institution	94.5	Dec-07	94.5	Dec-08
Royal Society for the Prevention of Cruelty to Animals	63.1	Dec-07	65.8	Dec-08
The National Trust	57.8	Feb-08	42.8	Feb-09
British Heart Foundation	49.8	Mar-08	50.3	Mar-09
Macmillan Cancer Support	40.9	Dec-07	45.4	Dec-08
The Salvation Army Trust	40.8	Mar-08	43.24	Mar-09
The Guide Dogs for the Blind Association	39.1	Dec-07	36.04	Dec-08
PDSA	36.4	Dec-07	37.03	Dec-08
Royal National Institute of the Blind	33.6	Mar-08	31.7	Mar-09
Royal Society for the Protection of Birds	27.0	Mar-08	26.6	Mar-09
Barnardo's	24.3	Mar-08	22.7	Mar-09
Marie Curie Cancer Care	22.9	Mar-08	25.8	Mar-09
Cats Protection	20.0	Dec-07	20.7	Dec-08
The British Red Cross Society	19.9	Dec-07	26.7	Dec-08
Arthritis Research Campaign	19.9	Jul-08	16.7	Jul-09
NSPCC	17.1	Mar-08	20.7	Mar-09
Save the Children (UK)	15.3	Mar-08	15.6	Mar-09
The Donkey Sanctuary	14.6	Sep-07	16.6	Sep-08
The Blue Cross (Incorporating Our Dumb Friends League)	14.1	Dec-07	12.98	Dec-08

The annual results for this group of top legacy-earners are consistent with those for charities in the wider Legacy Foresight consortium. The LF recent quarterly monitoring showed an average drop of 3.4% in December 2009 in legacy income compared with the same period in the previous year. (Legacy Foresight , Q1, 2010)

* (or their most recent accounting year).

Causes

There was a mixed picture of results for the different causes represented by the large legacy-earning charities in Table 1. The environment charities were the largest legacy income loser at a real loss of £19 million. This was followed by the two charities for the blind at £8 million, the two health charities at £5.6 million, the two general social welfare charities at £3.3 million and the five animal rescue charities at £1.4 million. Together these losses totalled £37.3 million. Legacy income to the three largest cancer charities, CRUK, Macmillan Cancer Support and Marie Curie Cancer Care continued to rise, seeing an overall real increase of £7.2 million, and the major international legacy-earning charities saw a real increase of £5.6 million in legacy income. Legacies to the main children's charities only just kept pace with inflation.

Residual legacies

Residual charitable legacies, those which constitute a percentage of estate values rather than a fixed amount, are highly sensitive to market conditions and fluctuations. They have largely accounted for the five-fold increase in the value of charitable legacies over the last two decades (Pharoah, 2008). It is not surprising therefore to find that their value has fallen more steeply than that of cash legacies. Legacy Foresight reporting that the value of residual legacies fell by 5.5% in 2009 compared with the overall average of 3.4%. However, despite the decline in value, residual legacies remain vitally important to charities.

Inheritance Tax Relief (IHT)

Another indicator of a fall in the value of charitable legacies is annual government tax data on the costs of Inheritance Tax Relief (HMRC, 2009). Government tax relief figures include a much wider range of charitable legacy recipients than those included in the figures above, such as universities and churches. The data shows that there were real terms falls in the costs of IHT in 2007/08 and 2008/09. Estimates also suggest that there may be a further real fall in 2009/10. (These estimates might change when HMRC publishes more up-to-date revised figures).

HMRC figures for 2007/08 and 2008/09 were actually revised downwards from their original estimates for these years as the recession hit harder than was expected. The IHT data is set out in Table 2, and indicates that the drop in 2008/09 was sharp, an absolute fall of 29%.

Table 2: Trends in Inheritance Tax Relief on charitable legacies

Tax year	Cost of IHT £ million
2004/05	440
2005/06	420
2006/07	410
2007/08	410
2008/09*	290
2009/10*	290

*provisional figures

International picture

International trends re-inforce the picture that is emerging from recent evidence of the impact of the recession on the value of UK charitable legacies. Charitable bequests represent 7% of all charitable giving in the US, and their value fell by a real 6.4% in 2008. In a survey of its members who fundraise for over 2000 healthcare institutions in the US and Canada, the Association for Healthcare Philanthropy found 50% had downgraded their fundraising targets and far fewer major gifts were secured.

Looking to the medium-term

Many charities are concerned about the outlook for legacies. Data on trends provide us with some perspectives for assessing what might happen in the future. Few crystal-ball gazers are willing to make confident long-term predictions in today's financial environment, although the market recovery which took place in 2008/09 is continuing into 2010. There is little published charity data for 2009/2010 as yet, so what indications can be drawn from other medium-term economic indicators likely to affect legacy values?

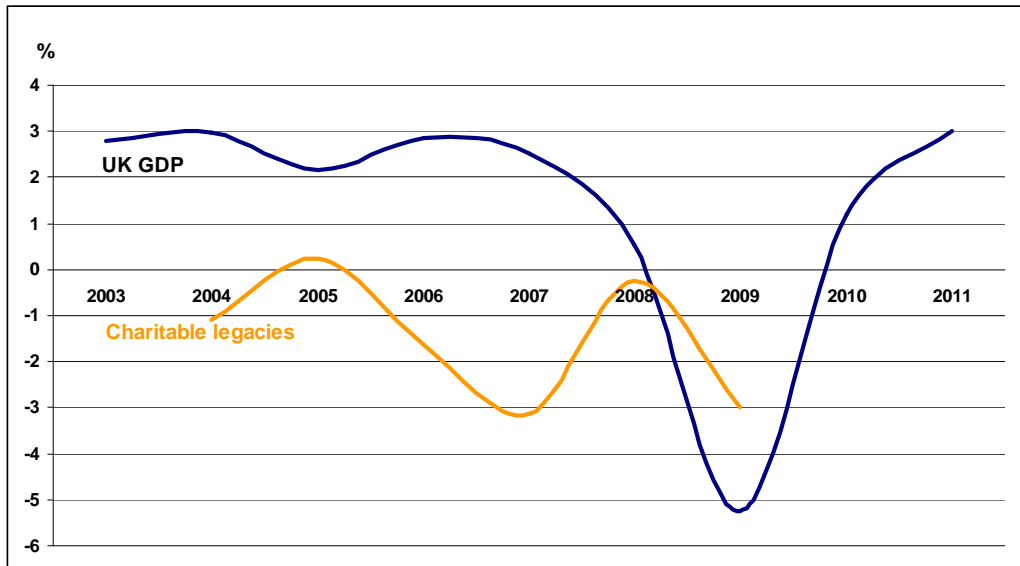
The relationship between trends in the value of charitable legacies and in the wider economy can be seen through comparing annual change in charitable legacy income with that in UK GDP (Gross Domestic Product). One problem in this kind of analysis is that the overall value of charitable legacies can fluctuate considerably because of large one-off or sporadic legacies to specific institutions, and this can distort the picture of trends experienced by charities who earn regular legacy incomes. Therefore to get a clearer picture of likely trends for charities who depend on a regular annual income from charitable bequests, Figure 1 below compares the annual percentage change in GDP with that in legacy incomes amongst a panel of over 300 charities with a legacy income in each year from 2003-2008. The graph shows two important results, set out in the next two sections.

GDP and charitable legacy trends

Firstly, the trend-lines show that the 'shape' of annual GDP growth and of the value of regular charity legacy incomes are broadly related, though not identical, and that there is a time-lag for changes in GDP growth to show in charities' legacy incomes.

A rise in growth rate in GDP in 2003-04 saw a rise a year later for charities' legacy income. A fall in GDP growth rate in 2004-05 saw a fall a year later for charities' legacy income. After a small decline in GDP growth rate in 2006/07, there was little change for charities' legacy income in 2007/08. Following this, however, the marked fall in annual GDP growth rate in 2007-08 saw a fall a year later for charities' legacy income in 2008-09.

Figure 1: Trends in percentage annual growth in UK GDP and charitable legacies 2003- 2010



Source: Analysis, Cathy Pharoah, based on data extracted from Charity Market Monitor 2009, selected charity annual accounts 2008 and 2009, tradingeconomics.com and HM Treasury Forecast for the UK economy March 2010.

If this general pattern were to continue, then the likelihood is that legacy income will continue to show a fall in 2010 (as noted above, HMRC predictions of tax costs suggest that no significant rise in IHT relief is expected for 2009/10), and then begin a recovery in 2011. The Bank of England predicts that the UK economy has only just started along the road to recovery, returning to growth from the beginning of 2010 and reaching an annual rate of about 3.75% by the end of 2011.

Trends in house prices are another important indicator as to what might happen to charitable legacies, and the emerging picture for housing remains uncertain. The first quarter of 2010 has seen some building societies reporting growing sales volumes and an annual house price rate rise of 9% (Nationwide, March 2010), though confidence that there will be any return to the substantial and sustained growth of the last decade or so is low. (This is Money, April 2010).

Negative long-term growth rates

The second significant result from Figure 1 is that for most of the period shown, growth in regular charity legacy income was, after adjusting for inflation, negative. Between 2003 and 2008 total legacy income to this group of charities only rose by an absolute 2% per annum. This result suggests that throughout much of the decade since 2000, many charities have been struggling to maintain legacy income, although individual charities may have performed well. The reason for this may be that the decade has been characterised by two spells of economic uncertainty, after the dotcom collapse and 9/11, and then from the middle of 2007. Overall charitable legacy value has been kept up by some organisations' receiving one-off or sporadic valuable legacies.

Growing the legacy market

One key implication of the data on the impact of the recession on charities' legacy incomes is the importance for charities of developing the legacy market. Charities may need to attract higher numbers of legacies simply to maintain the level of their funding from this source. This is a significant challenge, as growth has been slow to date. HMRC data on estates above the IHT threshold shows that the number of estates with a charitable legacy was 2044 in 20023/03 and 2,066 in 2006/07. (Annual figures show fluctuation, so the data should be treated with some caution). What are the challenges and opportunities for legacy fundraising?

Challenges

Specific challenges for fundraising in the charity legacy market which the recessionary environment might exacerbate have been identified (Pharoah and Harrow, 2009). Issues include the more difficult choices which donors might face in balancing future family and charity needs if the expected value of estates is reduced; the reputational risks to charities where legal challenges are mounted by families (highlighted by large charities as the RSPCA appeals against the High Court ruling in favour of the Gill family over a £2 million legacy); the increasing trend for early inheritances to be passed to younger family members during the donor's lifetime, to help with housing and education costs, and how this affects the appropriate timing for legacy solicitation.

Opportunities

There are plenty of reasons to believe that in spite of the current environment of economic constraint, the number of people making charitable legacies could be increased.

One simple reason is that the number of people making charitable bequests is low. While around three-fifths of the population give to charity every month (NCVO/CAF, 2009), new research on UK charitable bequests shows that just 6% of deaths result in a charitable bequest. (Atkinson et al, 2009).

This research also shows that just 1 in 10 of small estates leave a charitable bequest, and that although we are in an era of significant inter-generational wealth transfer, just 4 in 10 of large estates do so.

There is also considerable regional variation in the likelihood of making a charitable bequest, with probabilities highest in the South West, followed by the South East and, but low in London. These patterns only partly reflect the distribution of tax-paying estates. Tax data from the HMRC shows that the highest numbers are in the South East, followed by London and then the South West (HMRC, Table 12.10). Some of the variation is related to whether a will has been made at all, and whether estates consist largely of property.

One message from such evidence is that legacy fundraising in the UK continues to be confined to a small population of wealthy donors. There is huge scope to reach out to potential legacy donors who own medium-sized and smaller estates, whether located in wealthy or less wealthy areas of the UK. For all types of potential legacy donor, however, an increase in the making of charitable bequests is likely to go hand in hand with more organised planning of future finances, including charitable giving. Potential donors may need encouragement and support in both.

This is even more likely to be the case in a recession when many people will be reviewing their finances, looking at matters such as the best balance between savings and income, the most effective use of assets such as property, and between making lifetime or deferred gifts to families and favourite causes. Many people will not seek professional financial advice, however, and strategies to interest potential donors will need to bear this in mind. The examples and influence of close peers, friends, other family members and social networks might be one route to encouraging charitable legacy-making.

The data on lifetime giving also reveals the potential to appeal to those who make many donations to charities in their daily lives but do not link this with legacy giving opportunities. Perhaps such donors need encouragement to value their capacity to make a small charitable bequest as much as their capacity to make regular donations. There is some Australian evidence that those who have made charitable bequests were more likely also to be major lifetime donors (CPNS, QUT, 2008). This study also showed that those who have made charitable bequests were much more likely to think that charitable bequests were easy to do, compared with those who had not. If effective ways of making links between the large population of lifetime givers and the very small population of legacy givers could be found, such as through case studies and examples, this might encourage new legacy donors.

The implications for charities of changing public preferences between lifetime and legacy giving needs further research. There are many examples of wealthy people choosing to give their fortunes away to both families and charities during their lifetimes, but there is little objective UK evidence on how much is involved and how this might be affecting the value of estates. Choices are influenced partly by tax considerations, but it has been pointed out that the tax advantages of lifetime giving accrue mainly to those with liquid assets to give and not to those whose wealth is represented mainly in their home ownership (IFS, 2008). Donor advantages for charitable lifetime gifts are limited, although this has been under discussion by government and charities for some time.

Values, attitudes and motivation

Making a legacy gift may not mean the same to donors as their lifetime giving. It may not link to the preferences and choices of lifetime giving in any continuous way, though this might be the case for some donors. Legacy giving is not only a much more complex financial decision, but also a much deeper personal decision. For example, some research has explored the possibility that in thinking about their legacy and the future *'people will demonstrate more altruism towards future generations than towards needy contemporaries'* (Wade-Benzoni, 2006).

How might recession be affecting motivation towards making charitable bequests? There is little information on this in the UK, but two recent studies of the attitudes and values of charitable bequesters carried out in the US and Australia provide up-to-date insights into motivations. (Center on Philanthropy, 2009, CPNS, 2008). The US study found that charitable bequesters were more likely to believe that those who have more should help those with less, and also that charities were a more effective way of helping than government or the private sector. These findings reveals that beliefs in fairness, and that charities will make good use of money left in legacies, are important motivators. They may mean that charities should strongly emphasise impact and effectiveness when they seek the bequests that may be donors' last and most important gifts. This may be particularly important where recession is making donors' choices about balancing family and charity needs more difficult.

The research carried out in Australia had remarkably similar findings. Those who had made charitable bequests were far more likely to believe that charitable bequests perform a useful function for society than those who had not, and that they had been successful in helping those in need. Other factors found to be important were beliefs in the charitable cause or organisation which would benefit, perceptions of organisational performance, and a desire to help those in need into the future. Within the current environment of economic and global challenge, many people may be increasingly concerned about the world being created for the next generation, and encouraged to think about how they might influence it.

Legacies in the current environment

Legacy giving is a searching commitment and can demand serious thought, but it is one of the most effective ways of building a future financial foundation for valued charitable causes. The impact of the recessionary economic environment on legacy income means that charities' will need more charitable bequests to provide sustained future support for their work.

In spite of the harsher financial environment, there is huge scope for more donors to make charitable legacies. But family and household structures are shifting rapidly, as are patterns of wealth, longevity and cultural diversity. Such factors not only influence the value and likelihood of charitable bequesting, but also the most meaningful and effective ways of encouraging it. Charities will not only need to reach out to wider populations of potential donors, but to respond to changes in the meanings and motivations of legacy giving in a changing social as well as economic times.

* Note: Not all charities have the same accounting years.

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