

Planned giving departments need to demonstrate accountability for results in terms of gift revenue. Our challenge, of course, is that we generally don't know how much planned gift revenue is coming or when it will come in, making it very difficult to accurately measure the results of current efforts. Let's look at how using a combination of historical realized planned gifts and current calculations can generate a reasonable picture of the value of your planned gift pipeline.

### **Past History Can Predict Future Results**

Analysis of realized estate and other planned gifts can predict the types of estate gifts to expect in the future. Key questions to look at are:

- What percentage of completed estate gifts were expected in advance?
- If the donor notified you of the gift, how long was it from notification to date of death?
- What was the donor's lifetime giving pattern?

Most charities don't capture these data on completed estate gifts (although it might be a great project for an intern to audit completed estate gifts). Consider using [Bequest Manager](#) to capture these data, calculate median and average bequest amounts, and to do projections using a choice of mortality tables.

Even though the fundraising work that led to the distribution probably occurred years before, the amount of estate distributions each year are recorded and booked in the year received. While donor databases can easily tally the number of different estates by year and the total distributed, don't overlook the fact that estate distributions are often received over multiple calendar years and care should be taken when counting them.

### **Computing Average and Median Gifts**

Compute the average and median estate gifts for at least a five-year period. The range of gift sizes can skew average gift size. There may be large 7 or 8-figure gifts that make the “average” gift appear artificially high. There may be a number of small final gifts made from estates that made the bulk of their distributions in a prior year. These small gifts skew the “average” gift downward.

The median estate gift is more predictive of the typical estate gift size. The median amount is the number where half of the gifts received were above and the other half were below. The median gift over a period of 5 to 7 years best predicts the amount of the next estate gift to be expected from most donors in the future.

Let’s assume a charity has received around \$3,000,000 in realized bequests in the last five years. Some of these gifts were fairly small, under \$5,000. Other gifts were large; one was close to \$1,000,000. The average estate gift for the period was around \$70,000 while the median gift was around \$15,000.

### **Projecting the Number of Future Estate Gifts**

You may know the amount of some estate expectancies from your legacy society members, but more commonly donors won’t inform you of the anticipated amount of their gift. Use your historical average and median gifts using the methodology described above. These figures can act as place holders for the unknown amount of estate expectancies.

The next challenge to projecting the estate gift pipeline is estimating the number of estate gifts you might expect to receive in the future. Typically, the number of estate gift expectancies that are known in advance of the donor’s death represent a minority of future gifts. You may normally know about 30% of your estate gifts in advance, while 70% were unknown.

The historical proportions of known and unknown bequests can offer a rough estimate you might expect in the future. For example, suppose you have 30 members in your legacy society. There could be as many as 70 additional estate gift expectancies that remain unknown.

### **Computing the Value of Estate Gift Expectancies (What are they worth?)**

For our hypothetical charity with 30 known bequest intentions, there could be a total of 100 outstanding estate expectancies to be received in the future. We also computed an average estate gift of \$70,000 and a median estate gift of \$15,000.

The math to complete a projection of this charity's estate gift pipeline is straightforward. Using the average gift amount of \$70,000 the total value of your future estate gifts is \$7,000,000. Using the median gift amount of \$15,000, and assuming that your distribution is perfectly symmetrical, your expected annual estate gift total will be \$1,500,000.

How do you reconcile the \$5,500,000 difference between the projected average gift total versus the median gift total? The answer lies in the statistical distribution of the charity's gift amounts. Distribution refers to the variability of gift amounts in any one year. A small number of 7 figure gifts can exaggerate the projected average gift. A large number of similar sized gifts can distort the median. For example, if there are many four figure gifts the median will be depressed because there are many more small gifts than large gifts.

The solution is to look at your own historical gift distribution. A typical year may include several multi-million dollar gifts. On the other hand, if your largest average gifts are typically smaller, the average gift may overstate the value of future gifts. If you receive many small gifts from estates making their final distributions the median gift could understate the expected value of future estate gifts. Use your judgement to determine which figure – average or median – seems most predictive to your charity's experience.

### **Computing When to Expect Estate Gift Expectancies (When will they come in?)**

Estate giving by its nature is a long play. Annual estate gift totals are subject to fluctuations depending on when any particular donor dies and the size of their gift. We've given a methodology to compute the dollar value of the estate gift pipeline. The next challenge is to predict when it will come in.

One method to calculate the expected date of estate gifts is to compute the life expectancy of legacy society members. One shortcoming of this approach is that life expectancy is not a static number; the longer you live, the longer you are expected

to live. The life expectancies must be updated annually to create a realistic projection.

What about the life expectancy of the majority of estate givers you don't know about? Since you know the life expectancies of your legacy society members, your unknown estate givers are likely to share a similar age distribution. For example, if 25% of known bequests are expected in 5 years or less, apply the same estimated life expectancy to 25% of your unknown donors. If you know 55% of your legacy society members have a life expectancy of 5 to 10 years, apply the same expectancy to your unknowns. Finally, you might estimate that 20% of the balance of your unknown gifts will be realized in 10 years or more.

## Conclusion

Rely on historical analysis of realized estate gifts to establish a baseline of the amounts and range of gifts to be expected from future estate gifts. Estimate the number of people in your estate gift pipeline by extrapolating from known versus unknown estate gifts. Finally, use age data from legacy society members and the typical ages of realized estate gift donors to estimate when the estate gifts may be realized.

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