

Valuing and Reporting Bequest Expectancies: Is a New Approach Required?

By Ken Ramsay, President, Legacy Leaders

I once stood in front of a high-powered Foundation Board and explained that my company secured bequest commitments for non-profits organizations. One prominent member of the board, an owner of a professional sports teams, looked me in the eye and said, “Wait a minute. You mean we are going to spend all this money on a campaign and all we are going to get is a bunch of promises!” I knew that my prospects of getting a campaign were on the line. I responded by saying, “a bequest promise to an accountant is not worth anything. It doesn’t go on a balance sheet but to a fund raiser, it is like gold. It all depends on what we do with it.” I got the campaign but the question lingers, what are bequest expectancies worth?

In 2005 the National Committee on Planned Giving (NCPG) completed an important piece of work, *Guidelines for Reporting and Counting Planned Gifts*. In 2004 NCPG had published a companion guideline titled, *Valuation Standards for Charitable Planned Gifts*. Together, they represent comprehensive standards for valuing and reporting our planned giving “business.” However, are they truly reflective of our business? Do they go far enough? In Canada, the Canadian Association of Gift Planners (CAGP) has endorsed neither. The Council for Advancement and Support of Education (CASE) and its equivalent, the Canadian Council for the Advancement of Education (CCAEE) have both not endorsed these guidelines and have defined valuing and reporting planned gifts very narrowly. Careful review of their arguments reveals not only a narrow context, but also an almost inappropriate approach. Neither the Association of Fundraising Professionals (AFP) nor the Association for Healthcare Philanthropy (AHP) has taken a position on these guidelines. Let’s take a careful look at this issue because there are serious consequences to how we value and report bequest expectancies.

There are actually two valuing and reporting standards at play here and the two are often confused. One is strict financial reporting, governed by accepted accounting standards, FASB in the United States and AcSB in Canada, and government regulators, specifically the IRS and the CRA. The other is fundraising reporting which is actually a marketing question and a key measurement of the planned giving business. These reporting standards are defined by the fundraising industry itself (see previous paragraph.) The companion guidelines by NCPG were huge strides for the planned giving business. “Valuation Standards for Charitable Planned Gifts” proposes formulae for not only valuing the revocable bequest, but also factoring in the probability of receipt that includes suggested relationship parameters to use. Adoption of these guidelines by a non-profit would allow that organization to put a justifiable dollar amount on most bequest expectancies.

“Guidelines for Reporting and Counting Charitable Gifts” deals with internal reporting and suggests that non-profits adopt a policy of treating bequest expectancies as a separate and distinct category of fundraising as a ‘revocable’ gift goal and report results separately under this category. Adoption of both of these guidelines would change the face of our planned giving business, but in this article, I want to push the envelope quite a bit further. I think there are some more huge strides to be made.

We must begin by looking at our business as a whole. Bequest revenue in the United States and Canada totals more than \$20 billion annually. This revenue has been increasing at a 10% annual growth factor for the last 10 years. Various researchers suggest that the potential for bequest revenue is conservatively, 2 to 3 times this amount. We have a \$50 billion a year potential business and we have no way of accounting for known future revenue. The NCPG “2000 Survey of Donors” suggested that bequests make up almost 90% of planned gifts. We estimate the percentage to be higher in Canada. Consequently, we do not adequately report the vast majority of our business. This consequence has grave results:

- Current financial accounting of bequest expectancies does not reflect the true results of our business.
- It does not reflect the results of business activity.
- It withholds vital information to stakeholders.
- It limits necessary feedback to senior management and governance bodies.
- Most importantly, it misdirects our activities and resources away from developing assets that make up almost 90% our revenue with potential for much more.

There is a simple fact that must be stated: If a confirmed bequest intention that could be worth “gold”, could be accounted for on the balance sheet, our planned giving business would radically change. We must now ask the question, why can it not be put on the balance sheet?

There are limitations that we must work within. IRS and CRA have clear regulations on reporting from a tax point-of-view and there is no latitude in reporting standards. However, we are not talking about reporting in this area. Instead, this really is a balance sheet discussion.

At present, it seems that reporting bequest expectancies is guided by fundraising associations that are not qualified nor sophisticated enough to comment on this peculiarity of the planned giving business – the revocable, deferred gift. We have a \$20 billion a year business reported in the crudest form of business accounting, that is, as a simple cash business, an approach more suitable to accounting for the results of a lemonade stand. There is something terribly wrong here. Surprisingly, there is much latitude within accepted accounting standards to do a much better job of reporting the business of bequest expectancies.

The revised treatment of *Goodwill and Other Intangible Assets*, Statement 142 of the FASB, seems to apply to the circumstance of bequest expectancies. This Statement reflects a change made in 2001, which recommends a recalculation and scrutiny of intangible assets annually as opposed to the former Opinion 17, which laid out a rigid amortization schedule. Reconfirmation of bequest expectancies annually could easily be done as part of the restatement of expectancies on the balance sheet. Standards for discounting are already well-recognized. Furthermore, to amortize the current expense used to secure future revenue over the deferred period is already an accepted accounting standard. Why do we not apply it to the bequest solicitation business? We have many tools within FASB and AcSB to do a much better job of reporting our business. Why are we not pursuing them? If we were reporting the business of a publicly traded company and were understating intangible assets such as hard bequest expectancies, we would be in breach of the accounting standards. Challenging the approach by reporting our business differently is required to shift the perception of planned giving in the fundraising arena.

Legacy Leaders has recently been working with a securitization company to investigate the feasibility of creating negotiable securities with the present value of bequest expectancies. Some refinement still has to be made but the opinion is that the process is eminently doable. The key fact comes from the NCPG 1992 / 2000 research, that over 90% of individuals never change the provision of their charitable bequest. Consequently, there is a phenomenon of guaranteed future income in the scale of \$20 billion annually that can be securitized and is not. In fact, bequest expectancies are easily ratable as high grade securities discounted at LIBOR (London Interbank Offered Rate), the most advantageous rate. There is a willing market for such securities and securitization of bequest expectancies would turn them into a current cash gift. A full discussion of this opportunity is beyond the scope of this article; however, its availability emphasizes the inaccuracy of our accounting practices which totally discredit bequest expectancies in every way.

NCPG made great strides with its publications of valuing and reporting planned gifts. However, I believe we can and should push the envelope much further. We must make the leap into valuing and reporting our business according to the accounting standards that are available to us. Such changes would radically reshape our business and cause the reallocation of resources necessary to fully develop the untapped potential of gifts of assets simply for the betterment of our organizations, institutions and society in general.

I once sat down with the Planned Giving Officer of a large university in Ohio and asked him how his business was. He said that he was “under the gun” to produce 35 gifts a year and he had only 32 and the year ended in the next month. I said that the goal did not seem a problem because he could easily get several bequest commitments in a day if he tried. He replied that he was not allowed to count bequest expectancies. I asked how we could not count 90% of our business and he simply stated that those were the rules.

Whose rules? Who makes these rules? The answer is that fundraising associations make these rules: associations, for the most part, made up of individuals with no knowledge of the planned giving business and even less motivation to find out about it. Why do we, the planned giving industry, put up with this inequity? Why do we put up with such unprofessional, unsophisticated behavior? There is more potential in the growth of gifts of assets than any other type of fundraising. It is time to speak out and push the planned giving industry into the future with bold, new steps. It is time to assemble our brightest minds to begin to redefine our business in a way that is clear and accurate. We have much to do!