

Swinburne Business School

## Asia-Pacific Centre for Social Investment & Philanthropy

### Executive Summary

### Encouraging Charitable Bequests by Australians

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## **Background**

Principal funding support for this research has been made available by the Fred P. Archer Charitable Trust, for which The Trust Company is Trustee. The Trust was established by Fred P. Archer prior to his death in 1977 after spending 54 years in Papua New Guinea. The funding was made available as part of the Engaged Philanthropy approach championed by The Trust Company, part of Perpetual.

Additional funding support has been made available by the Include a Charity campaign, a consortium of Australian charitable organisations with an interest in encouraging charitable bequests by Australians and in disseminating evidence, ideas and best practices to support Australian charities in this endeavour.

The funding, the encouragement and the support of both The Trust Company and Include a Charity have contributed to the collection and analysis of information on the bequest practices of Australians that is unprecedented in relation to both its depth and its scale. The result is a robust and substantive body of data from which it is possible to make evidence-based observations and recommendations.

Through the analysis of the information captured, this project seeks to:

- provide an unprecedented evidentiary base for policy reflection and development by government and regulatory bodies with an interest in encouraging charitable giving in Australia
- inform the Australian public and provide adult Australians with an improved information base upon which to factor their own will-making choices
- similarly inform interested accountants, financial advisers, solicitors and other advisory professionals involved in helping individual Australians to prepare their wills
- provide the not-for-profit sector in Australia with insights into how they might encourage Australians collectively to include a charity in their will
- expand the knowledge base of fundraisers to enable them to refine their approaches to market segmentation and the encouragement of individuals.

## **The Asia-Pacific Centre for Social Investment and Philanthropy**

The Asia-Pacific Centre for Social Investment and Philanthropy (ACSIP) is committed to promoting and advancing social investment and philanthropy in Australia and throughout the Asia-Pacific Region.

ACSIP, at the Swinburne Centre for Social Impact, is itself part of the wider cross-university collaboration known as the Centre for Social Impact (CSI), in the Swinburne Business School. Established in 2001 as an educational unit focusing on philanthropy, ACSIP launched one of the first post-graduate courses specialising in grant making and philanthropic giving. As part of the offerings of Swinburne Business School, ACSIP provides a Graduate Certificate and a Masters program in Social Investment and Philanthropy and maintains an integrated research capability.

By contributing to the development and dissemination of new data and knowledge in this arena, ACSIP strives to facilitate a complementary relationship between the teaching, community engagement and research programs of the Centre.

<http://www.swinburne.edu.au/business/philanthropy/>

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## ***Executive Summary***

At the heart of this project is the quest to provide a robust evidentiary base for the development of policy and practices aimed at encouraging charitable bequests by Australians.

In doing so, this project seeks to provide an understanding of:

- charitable bequest giving practices by contemporary Australians
- the inheritance practices that help shape charitable bequest giving.

Through the analysis of the information captured, this project seeks to:

- inform the Australian public and provide adult Australians with an improved information base upon which to factor their own will-making choices
- similarly inform interested accountants, financial advisers, solicitors and other advisory professionals involved in helping individual Australians to prepare their wills
- provide the not for profit sector in Australia with insights into how they might encourage Australians collectively to include a charity in their will
- expand the knowledge base of fundraisers to enable refinement of approaches to market segmentation and the encouragement of individuals towards charitable giving
- provide an unprecedented evidentiary base for policy reflection and development by government and regulatory bodies with an interest in encouraging charitable giving in Australia.

As a research project, this initiative also seeks to contribute to national and international understanding of charitable bequest giving and philanthropy more broadly, especially in the Australian context.

### **What we already know**

This report includes an overview of a range of theoretical and research-based insights that inform our understanding of charitable bequest giving, as summarised below:

#### *Inheritance, Bequests and Giving*

Classic sociological theory established obligations to family are particularly powerful in inheritance practices.

Gifts are “‘total’ social phenomena” governed by the complex interaction of societal norms and a dynamic network of obligations of giving, receiving and reciprocating.

The obligations that are met in the act of estate transmission are laden with moral meaning and with both conscious and unconscious motives.

#### *Attitudes to Bequests*

In many Western nations it is commonplace for will-makers to leave their estate to their spouse, and for that person to leave the family estate to the children in equal share.

While the pattern of equal distribution is the prevailing norm in Australia, individual are prepared to deviate from this norm in response to circumstance.

Attitudinal shifts in older Australians reflect moves away from self-sacrifice and towards a shared understanding that the assets of the ageing are theirs to use as they see fit.

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### *Behaviour and Charitable Bequests*

People tend to respond to queries about charitable giving with a 'socially desirable' response; more how they think they 'should' behave than how they actually do.

Social influence has been shown to affect charitable giving behaviour. This has been recently demonstrated in trials with will-writers in the UK where compared to a control group, individuals who were 'nudged' to include a charitable bequest were three times more likely to do so.

Making a decision to include a charitable bequest is often associated with self-reflection on life history and mortality, and the desire to be remembered beyond the grave.

### *Economics of Charitable Bequests*

Day to day charitable giving is made from income; charitable bequests are made from capital.

US research into charitable bequests finds:

- on average as the value of estates increases, so does the proportion given to charity
- charitable bequest giving is sensitive to wealth and to tax
- the presence of a spouse and children diminishes the likelihood of a charitable bequest.

### *Charitable Bequests in Australia*

A major Government commissioned study examining giving in Australia estimated in 2005 that 58% of adult Australians have a will, and 7.5% of those include a charity.

A study of 1,000 Australian donors found that the biggest influences over the decision to leave a charitable bequest are believing the family is adequately provided for; or not having a family.

A study of Victorian probate files processed in 2006 found:

- 5.4% of all probated estates, and 7% of all 'final estates' included a charitable bequest
- family inheritance norms are very strong; Australians leave their estate first to their spouse, who then leaves all to the children in equal share.

## **Results**

The total dataset is made up of a sample of not less than 5% of the files that each jurisdiction processed in the calendar year 2012 (with the exception that in Queensland the files accessed were processed in 2010).

### *File Types*

<b>3793</b>	total valid probated files
373	intestate estates
738	first estates (willed estate, with surviving spouse)
2661	final estates (willed estate, without surviving spouse)

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### *Intestate Estates*

- 10%** of all estates in the study
- 6%** of the net value of all estates

The four distinctive features of intestate estates as identified in the earlier study of Victorian probate files (Baker and Gilding 2011) also hold for this larger national sample. Compared to willed estates, those who died intestate, were:

1. Younger
2. Less wealthy
3. More likely to not have children
4. More likely to be male.

### *Age*

The average age of the owners of estates in this study was:

- **81.4 years**

Nearly 30% of individuals included in this study were 90 years or older at the time of their death.

Less than 10% were less than 60.

### *Country of Birth*

Just short of three quarters (74%) of all estates belonged to individuals born in Australia.

### *Charitable Bequests*

From the full set of probate files:

- **6.5%** made some form of charitable bequest
- **1.4%** included a contingent bequest

### *Overview of Probate Files and Charitable Bequests*

An overview of the data relating to probate files and charitable bequests made with a break down by jurisdiction is provided as Table 7.

**Table 7:** Overview of probate files, file type and charitable bequests, with breakdown by State and Territory

	<i>ACT</i>	<i>NSW</i>	<i>NT</i>	<i>Qld</i>	<i>SA</i>	<i>Tas</i>	<i>VIC</i>	<i>WA</i>	<i>Total</i>
files	53	1375	13	738	264	118	899	333	<b>3793</b>
intestate	3	127	1	72	16	13	94	47	<b>373</b>
first	10	264	6	142	50	22	179	65	<b>738</b>
final	40	975	6	523	193	83	620	221	<b>2661</b>
bequests	2	92	1	64	21	3	51	15	<b>249</b>
% bequests	3.8	6.7	7.7	8.7	8.0	2.5	5.7	4.5	<b>6.5%</b>
Contingent bequests	-	25	-	7	2	4	7	9	<b>54</b>
% contingent		1.8		0.9	0.8	3.3	0.8	2.7	<b>1.4%</b>

### ***Charitable Bequests from Final Estates***

Of the 2661 final estates (with a will and without a surviving spouse):

- **7.6%** made some form of charitable bequest
- **1.3%** included a contingent bequest

### ***Final Estates and net value:***

Charitable bequests from final estates account for 97% of the \$ value of all charitable bequests in this study.

Approximately 60% of the final estates with recorded financial values had a net value of less than \$500,000; and a further 26% had net value of between \$500,000 and \$1m.

At the high end of the capacity spectrum, those estates with net worth of **more than \$2 million**, accounted for:

- **5%** of all final estates, by number
- **34%** of the total \$ value of final estates
- **56%** of all charitable dollars bequeathed

*Participation rates:*

- There is a broad pattern of participation in charitable bequests increasing in line with increasing estate values.

*Proportional giving:*

- While the highest value estates did gift a higher proportion of their value to charity, across the sample as a whole there was no statistically significant relationship between the value of estates and the proportion of those estates directed to charitable bequests.

*The presence of children:*

Estates without a surviving child are far more likely to make a charitable bequest, than are those with children. Statistical analysis also indicates a significant association between the size of a charitable bequest and having no surviving children.

Nevertheless

- **70%** of final estates with no children did not include a charitable bequest.

*Beneficiaries from Final Estates:*

Where children survive the will-maker they are overwhelmingly the primary beneficiaries of contemporary final estates in Australia.

For final estates with surviving children:

- **7 out of 10** the children were the primary beneficiaries in equal share nevertheless
- **3 out of 10** will-makers did not follow this prevailing norm.

*Charitable beneficiaries:*

For all will-makers who did include a charitable bequest

- **47%** gave to a single charitable beneficiary
- **53%** shared their bequest amongst multiple charitable beneficiaries.

Against a framework the Australian Taxation Office (ATO) general categories of Deductible Gift Recipients:

- Human Welfare organisations were the major category of charitable beneficiary, with
  - 61% of all charitable organisation inclusions
  - 56% of all charitable dollars bequeathed.
- Education and Other (including the Arts) both fared poorly.
- The Environment received very few bequests (3) and these were low in value.

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### *Will Gap:*

This study included an analysis of the gap between the year in which a final will was made, and the year of death of the will-maker. On average the gap was significantly smaller for those who left a charitable bequest:

- **10 yrs** no bequest
- **5.6 yrs** included a charitable bequest.

Statistical analysis showed this relationship to be significant; however it also revealed the size of the effect to be small.

### *Will preparation and charitable bequests:*

The wills examined were overwhelmingly prepared with the assistance of professional advisers:

- **5%** Will Kit
- **12%** Self-prepared
- **83%** Adviser / lawyer.

The predominance of advised wills made no difference to charitable bequest inclusions. Analysis indicated that there is no statistical relationship between the form in which a will is prepared and the likelihood of including a charitable bequest.

### *Specified Vs. Residual charitable bequests:*

Charitable bequests made as a specified \$ value gift were on average significantly lower in value than those made as a residual of the estate:

- **\$7,000** median value of specified charitable bequests
- **\$200,000** median value of residual bequests.

Testing confirmed the statistical association between the form in which a charitable gifts are specified and the value of charitable bequests. The effect size of this difference was shown to be large.



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## ***Avenues for action***

### **Encouraging charitable bequests**

The time is right to be seeking to encourage charitable bequests.

This nation is one of many with an unprecedented demographic wave known as baby boomers. The large scale of this cohort is unprecedented, and it is a contributor to and beneficiary of an era of unprecedented wealth.

The first of the baby boomers were born in 1946. Based on current estimates, this generation will begin to pass on in large numbers in the late 2030s and continue for two decades or more. Consequently, there is lead time available. Many baby boomers will end their lives with unspent accumulated wealth. Even a small increase in the proportion of individuals leaving a charitable bequest will result in a significantly increased flow of charitable funds.

For a practical and insightful approach to encouraging giving in general, see Seares and Edwards (2010) report for Lotterywest, on the future of giving in Western Australia.

In relation to charitable bequest giving there is no one single solution, no one right answer. What is required is a multiplicity of strategies and initiatives to inform, to influence and to encourage the inclusion of a charitable bequest from their estate.

That process has begun in Australia with the establishment of the *Include a Charity* campaign, where some 140 Australian charities with an interest in charitable bequests have come together in an effort to encourage more charitable bequest giving. This is a very positive development as over the coming years the challenge is for charitable organisations, fundraisers, donors, professional advisors and policy makers to work together to identify and implement a multiplicity of influencing strategies.

The avenues identified below are a contribution to the required debates, plans and actions. They are born of the information and data explored and presented in this report. It is the hope and indeed the expectation of all involved in the production of this report that its readers will be enabled and inspired to develop a whole new set of initiatives to encourage charitable bequests.

The avenues for influence explored below address areas for influencing charitable bequeathing behaviour as suggested by the content of this report.

Seares, M & Edwards, S 2010, *A Rising Tide? Exploring the Future of Giving in Western Australia*, The University of Western Australia, Perth.

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**1. Market focus** *Who are the most likely prospects?*

The findings of this report highlight that charitable bequests are made more frequently from:

- high value estates
- final estates (willed estates without a surviving spouse)
- childless estates.

Recent demographic analysis in the United States (James 2013) confirms that both single person and childless estates are on the increase in that country.

With the ageing of the population the kinds of estates most likely to include a charitable bequest will also be on the increase. While this study does not include demographic analysis for Australia of the kind undertaken by James for the US, anecdotal evidence would suggest that in Australia too, the potential for increased charitable bequest giving will be boosted over the coming decades via a combination of:

- increases in capacity
  - ongoing increases in private wealth and consequently increases in the value of estates
- increases in propensity
  - increases in the proportions of Australians in those cohorts most likely to include a charitable bequest.

**2. Rational encouragement** *What are the facts?*

The results from this study of Australian estate transmission practices indicate that where there is sufficient cause to do so, many will-makers exercise testamentary freedom to some degree.

In the sample addressed by this study, some 29% of final estates (willed estates without a surviving spouse) did not follow the prevailing norm of equal distribution of their estate to their children.

This suggests that there is real opportunity for charitable organisations and their fundraisers to seek to influence donor behaviour towards including a charitable bequest by providing rational information to guide decision making. This includes, but is not limited to:

- needs of those who the organisation assists
- the sound stewardship by the organisation of bequeathed funds
- the special purposes that bequeathed funds are committed to
- the longer term difference that bequeathed funds contribute to.

**3. Social encouragement** *What is my legacy?*

Probate data does not in itself provide evidence as to the motivations of those who do or do not include a charitable bequest.

The information covered in this report nevertheless has highlighted the social context in which making estate transition decisions take place, including charitable bequest decisions.

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- ❖ Estate transmission is a form of gift giving like no other. It is made only once-in-a-lifetime.
  - ❖ The obligations that are both met and (re)created in the act of estate transmission are likely to be especially laden with moral meaning and with conscious and unconscious motives.
  - ❖ Social influence has been shown to affect charitable giving behaviour.
  - ❖ The power of social influence in the context of charitable bequest decision making has been recently demonstrated in trials with will-writers in the UK where compared to a control group, individuals who were ‘nudged’ to include a charitable bequest were three times more likely to do so.
  - ❖ Making a decision to include a charitable bequest is often associated with self-reflection on life history and mortality, and the desire to be remembered beyond the grave.

#### **4. Advisory encouragement      ‘How to’ leave a charitable bequest?**

Australian research (Madden 2004; Madden & Newton 2006) has highlighted the potential influence on charitable bequest decision making by those who provide financial and legal advice to will-makers.

*Include a Charity* in Australia has also recognised the importance of solicitors and trustees in the will-making process and their potential to encourage charitable bequests. The evidence from this study suggests that while the potential is real, the role of will advisers has not contributed to greater charitable bequest inclusion amongst the sampled estates:

- those who are advised by professionals in the writing of their will are no more likely to include a charitable bequest than those who use a will-kit or simply write their own
- those who leave a charitable bequest in the form of a residual % leave larger bequests than those who leave a specified dollar amount.

The review of individual files also indicated that for many, the specification of a residual % of their estate is more likely to result in their intentions and the spirit of their will being more fully met. This is perhaps best demonstrated by looking at an example:

*This is the example of a will-maker who had left the bulk of her estate to her children, and a specified amount of \$1000 to each of two charities. She passed on some 20 years after finalising her will. So, whereas at the time of writing the will, \$1000 was – and was intended to be – a significant sum, 20 years later the buying power of \$1000 was considerably diminished, and the relative share of the estate was similarly dwarfed.*

The option of electing to gift a percentage of the residue of a will-maker’s estate also provides a form of protection against fears associated with the costs of funding a long life. If the value of the will-maker’s assets decreases over time, so too does the value of charitable bequest decrease commensurately.

The data from this study supports the provision of easily accessible guidance on practical issues, including:

- why, where and how to access support in preparing a will
- appropriate wording of a bequest clause in wills
- the relative strengths and weaknesses of including a charitable bequest in the form of a specified amount or a residual %
- how best to have a conversation with family members about including a charitable bequest
- when and under what circumstances it might be better to give now rather than in the form of a bequest.

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## 5. Taxation incentives

### *What are the financial advantages?*

Probate data provides no insights into the extent to which a will-maker had contributed charitable dollars during their life time. What the data in this study does show is:

- less than one in five (18.3%) of the highest value final estates make some form of monetary charitable bequest
- the share of higher value estates directed to charitable bequests is not statistically different to the share gifted by lower value estates.

The historical overview provided in this report and the experience of other countries highlight that like most behaviour, charitable giving is influenced by incentives. In Australia, there is a complete absence of tangible incentives. Significantly, there is no taxation incentive to include a charitable bequest from an Australian estate.

Research in the US has found that taxation incentives do influence charitable bequest giving and anecdotal evidence suggests that taxation incentives also influenced charitable bequest giving in Australia's past. In the view of the author of this report, in principle the largest and most powerful lever available for encouraging charitable bequest giving in Australia is the taxation system; via the operation of an estate tax on large estates, with incentives for charitable giving.

It does have to be recognised that the (re)introduction of an estate tax in Australia would at best politically difficult for a government of any persuasion. Nevertheless, the 2009 Henry Report on Australia's future tax system provides support for an assessment that a tax on estates would meet the public policy tests of 'social equity' and 'economic efficiency'. It may well struggle with meeting the third public policy test of 'politically feasible', but that does not take away from the evidence that an estate tax would be the most efficacious means of boosting charitable bequests in Australia.

The findings of this report support the sentiment expressed in Recommendation 25 of the 2009 Henry Report on Australia's future tax system:

While no recommendation is made on the possible introduction of a tax on bequests, the Government should promote further study and community discussion of the options.

Henry, K 2009, *Australia's future tax system: Report to the Treasurer*, page 37.

The Coalition parties elected to office in Australia in September 2013 are on record as planning to 'encourage a culture of philanthropy and giving' (Liberal Party Media Release, 15 June 2013). An estate tax of the nature that applies in the United Kingdom would function to meet this policy objective and to assist in meeting the challenges of a growing budget deficit.

The essence of the UK model includes:

- leaving the overwhelming majority of estates exempt from estate tax
- having the tax become applicable at a high net value
- making charitable bequests tax deductible
- providing for reduction in estate tax payable based on charitable donations made during the estate holder's lifetime.

The final element above would help incidentally to encourage and reward *inter vivos* giving, as well as charitable bequest giving.

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Those who make significant charitable deductions during their lifetime would receive taxation concessions on their estate. Those whose *inter vivos* charitable donations were less significant, would have the opportunity of accessing estate tax concessions by making a charitable bequest from their estate.

An Australian approach would need to ensure that protective measures are put in place for concessionary treatment for family farms and for businesses.

The design of taxation systems is not within the scope of this study. The findings of this study however do support the recommendations of the Henry Report that the Government promote further study of the taxation options.

The findings of this study could also be used to help inform the second part of the Henry Report recommendation for community discussion of the options.

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At the heart of this research project has been the quest to provide a robust evidentiary base for the development of policy and practices aimed at encouraging charitable bequest giving. This is entirely consistent with The Trust Company's *Engage Philanthropy* initiatives and those of Include a Charity.

In some circumstances, the data provides a clear line of sight in relation to strategies and initiatives that can be taken to encouraging charitable bequests by Australians. The next step in this process will be to work closely with multiple partners, from practitioners to policy makers:

- to address the range of encouragement processes that are proving successful
- to address those have been tried in other countries
- to adapt and adopt the most relevant of these according to the social, cultural, legal and economic circumstances in Australia
- to engage the community
- to use the foundations laid by this data to further contribute to the development of new initiatives to encourage bequests.

Perhaps most importantly of all, this report provides a basis for members of our community to engage directly in conversations around estate transmission and the decision to include a charitable bequest or otherwise.

The avenues for action explored above are based on the evidence in this report and are directed at informing and assisting any and all who are currently and/or potentially involved in encouraging charitable bequests by Australians.

You don't have to be rich or famous to make a difference. You just have to make a simple decision. Whoever you are, whatever your situation, you can help create a better world by including a charity in your will. *Include a Charity*

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A copy of the full report “Encouraging Charitable Bequests by Australians” is available at:

[www.swinburne.edu.au/business/philanthropy/research/reports.htm](http://www.swinburne.edu.au/business/philanthropy/research/reports.htm)

