Accelerated legacy plans in the UK

Feasibility research

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Foreword

Coming from a financial background, I've felt for some time that there must be a way to write a legacy so that it can be discounted and the charity get funds today instead of having to wait years until the donor's death. With the help of specialist lawyers, Bates Wells, we have come up with a tax-efficient solution to make this happen. As well as helping charities cash flow, I am optimistic that the scheme will unlock more money for charities if donors can see that charities will benefit in their lifetimes from their donations and where the donor needs to make no immediate cash outlay.

However, the scheme needs a lead funder and I hope that this report written by New Philanthropy Capital (NPC) will help us identify one as well as making a wide range of charities and philanthropists aware of this new potential avenue for raising funds.

In the current crisis, novel ideas for raising money for charities are even more important. About £3bn a year is raised for charities in legacies, so if part of this can be time shifted forward and the pie grown then this should be a real benefit for the charity sector.

We welcome thoughts from any readers on our plan, and we are particularly interested to hear from anyone who would like to explore being involved in a pilot scheme. Do get in touch with Plum Lomax at NPC (Plum.Lomax@thinkNPC.org).

Anthony Bolton
May 2020

Introduction

Charities always need more funding to address injustice, tackle disadvantage, alleviate poverty, fight the climate crisis and so much more. The fallout from the Covid-19 pandemic demonstrates the need for this valuable work more than ever. NCVO estimates that, with charity shops shut and fundraising events cancelled, charities risk losing £4bn in 12 weeks—Cancer Research UK and Macmillan Cancer Support anticipate losing over £200m between them.[1] And yet the demand for charities' services has never been greater—a survey of over 500 charities suggested that 43% of charities expect an increase in demand for their services as a result of the crisis.[2]

The 'accelerated legacy plan' is an example of a much-needed fundraising innovation, developed by Anthony Bolton, Paul Spencer and Tom Skwarek, with advice from specialist lawyers, Bates Wells. But as with any innovative idea, it needs to be thoroughly explored, to assess its feasibility, likely appetite and possible challenges. In this report, we lay out the findings of our feasibility assessment of the plan. Our work was commissioned by Anthony Bolton and conducted in late 2019 and early 2020.

The accelerated legacy plan, investigated as part of this research, works as follows: the 'charity' receives a legacy donation from the 'donor' during their lifetime through an advance from an intermediary party, the 'funder'. We provide a detailed outline of how this works in the following section.

The plan, as it stands, differs from previous attempts to bring such a proposition to the UK, in that it does not require any legislative change. Other 'living legacy' propositions are widely used in the US, Canada and, to some degree, in Germany,[3] although the details of the schemes differ from this one.

In this feasibility analysis, we set out some initial thoughts on how such a plan would work. The research included a high-level literature review of the UK legacy sector and previous activity in the UK around living legacies. In addition, we interviewed 27 sector experts, including legacy fundraisers at charities, private client advisors, and potential donors and funders.

Reading this report in light of coronavirus

This research was conducted before the Covid-19 crisis, so naturally our interviews did not touch on what the impact of the crisis may be for the accelerated legacy plan. Regardless, we firmly believe that the current pandemic demonstrates the need for such a tool, to quickly unlock funding in a crisis.

The Charities Aid Foundation (CAF) recently called for a range of new innovations to support charities in this crisis, including the introduction of 'living legacies' to mimic those in the US. The accelerated legacy plan could similarly unlock funding for charities now, but unlike living legacies would not require a change in the law. For those who care about charities continuing to deliver their vital work for people who need it, the accelerated legacy plan could play a key part in their strategy.

At a high level, our research suggests that:

- The accelerated legacy plan is an innovative and much-needed idea to help grow the UK legacy sector. The concept of charities benefitting from legacies during a donor's lifetime is attractive, but there would need to be further investigation, mainly due to financial, cultural and regulatory concerns raised by sector experts.

- We see all three parties, charities, donors and funders, benefitting from the plan, especially charities. The main benefits to charities are:
  - Receiving income now rather than after the donor's death, enabling charities to support more beneficiaries sooner than would otherwise be possible. The accelerated legacy plan also provides certainty of income streams.
  - Claiming Gift Aid on the donation. Currently, Gift Aid cannot be claimed on existing legacy giving schemes on the market.
  - Building and growing a relationship between the donor and the charity, which could in turn prompt further giving from the donor.
  - Increasing charities' revenue through growing the number of donors who may be willing to give.
- Donors benefit as it allows them to give during their lifetime and see the impact of their generosity now, alongside keeping financial security by retaining the use and income from their assets.
- For intermediary funders, the benefits vary depending on the entity that's advancing the discounted funds to the charity from the donor. If the potential funder is a charity, such as a grant-making trust, it can benefit from the alignment of this plan with its charitable purpose. Additionally, the plan provides an opportunity to diversify a grant-making trust's investment portfolio. If the potential funder is a commercial entity, such as a life insurer, this plan provides the company with an opportunity to act in a socially responsible way and receive a return in line with the risk.

'Only 46% of people who say they've pledged actually leave us a gift, so this scheme would reduce this drop-off and reduce the risk of them changing their mind.'

Charity head of legacy marketing

This feasibility study covers the following:

- How the accelerated legacy plan is presented and communicated.
- An overview of the UK legacy sector and how the accelerated legacy plan could fit within it.
- Detailed findings as seen by each of the three types of party—charities, donors and funders—on benefits, appetite, and potential risks and barriers and how these may be overcome.

As charities struggle to survive in the face of growing demand and a tough financial climate, accelerated legacies may help unlock some of the wealth available for them. Furthermore, the UK legacy sector requires new innovations. With the right approach, this accelerated legacy plan could play a major role in helping the sector meet the growing and urgent needs of beneficiaries in unprecedented circumstances.

Understanding the accelerated legacy plan

Definitions used throughout the research

Charity: The recipient of a donation made by the donor. In the context of this research, a charitable organisation recognised as charitable by HMRC, or with the relevant regulatory body if outside of England and Wales.

Donor: An individual making a legacy donation. In the context of this research, a high net worth donor with the envisaged characteristics outlined on page nine.

Funder: An intermediary party that discounts the legacy donation to the present time and advances the funds to the donor to be donated to the charity. In the context of this research, a funder could be a charity (e.g. a grant-making trust) or a commercial entity (e.g. an insurance company or an investment manager).

Background

The accelerated legacy plan would allow legacy donors to give to charities during their lifetime through an advance from an intermediary funder. Donors would therefore retain the use of their own assets (and income from them) until their death, while seeing the charity benefit from their accelerated donation during their lifetime. The donation given to the charity would be discounted from the stated gift amount, to be repaid only at the donor's death from the donor's estate. The donor is obligated to repay the stated gift amount either before the donor's death or after death from the donor's estate in accordance with a loan agreement.

The plan could unlock a portion of the current legacy sector (worth around £3bn annually[4]) and greatly benefit the charitable sector. Legacies given earlier could be far more beneficial, as they allow the charity to invest more in prevention and early treatment of issues. Regardless of what issue a charity is tackling, it is more cost-effective for beneficiaries to receive help earlier. Donors can provide a gift to the charity without having to run down their assets immediately, and they will see the impact of their donation in their lifetime. Furthermore, the plan could grow the number of donors who may consider giving legacies. Currently only 6% of people in the UK leave a legacy in their will, but research shows that up to 35% would consider leaving one.[5]

For intermediary funders, what they see as the primary benefit may vary depending on what kind of organisation they are. If the potential funder is a charity, such as a grant-making trust, it can benefit from the alignment of this plan with their charitable purpose. If the potential funder is a commercial entity, such as a life insurer, this plan provides an opportunity to act in a socially responsible way and receive an appropriate return for its risk—an increasing area of interest that's being driven by clients.

The benefits and potential risks for each party are covered in more detail from page 16 onwards.

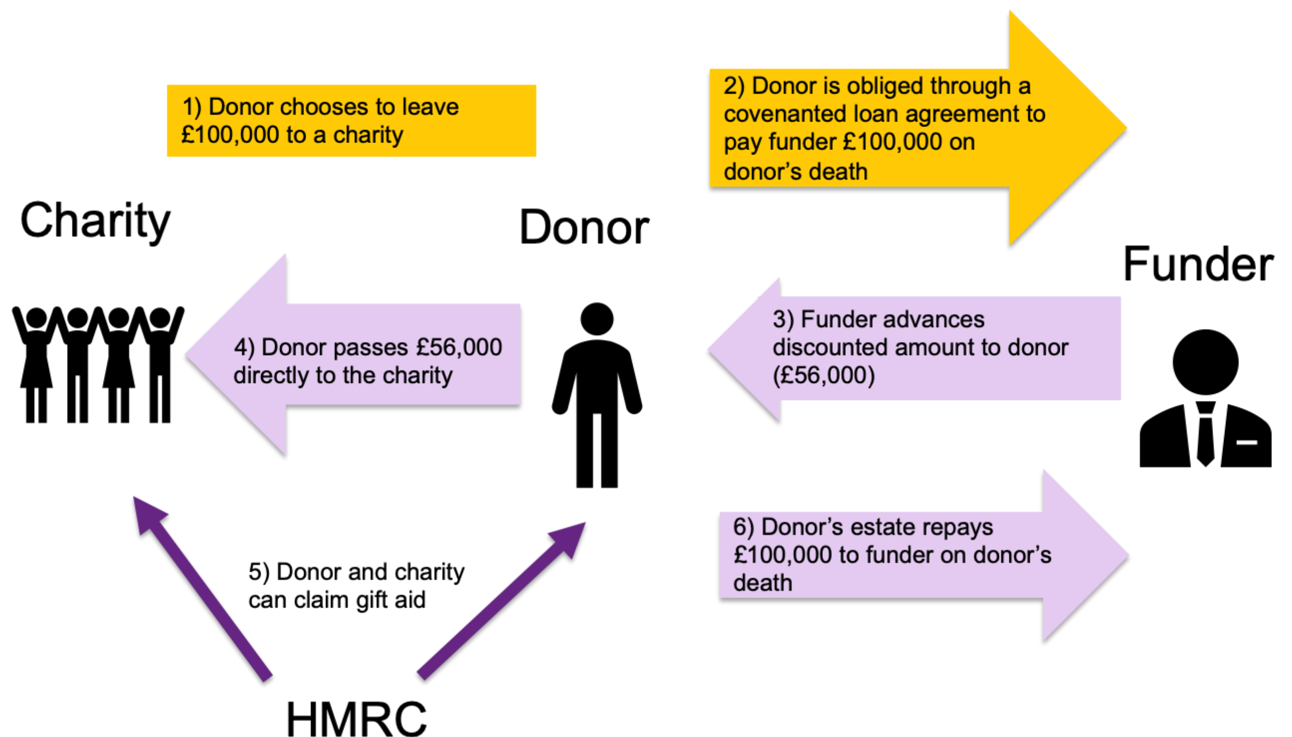
How the accelerated legacy plan would work

Whilst the exact details of the costs involved and the party that incurs the respective costs are still to be worked out, the plan is envisaged to work as follows:

1. Donor decides on legacy amount to give to a particular charity—say, £100,000.

2. Donor executes a loan agreement in favour of the funder, with an obligation to pay the agreed amount (£100,000) on or before the donor's death. The administration costs are included in the cost of setting up the loan agreement—i.e. at no further cost to the donor.
3. Funder advances a discounted value (say, £56,000[i]) of that agreed amount to the donor. The funder incurs the cost of setting up the loan agreement or arranging a pool of donors (see below).
4. The donor passes this amount straight to the charity.
5. Both the charity and the donor claim Gift Aid relief as relevant from HMRC.
6. The donor, during his or her lifetime, or the donor's estate after death, repays the agreed amount (say, £100,000) to the funder. As the loan agreement is a debt, it takes priority (with other debts) to be paid over other gifts until the donor's estate runs out. There is a risk that the donor's estate will not have sufficient assets to repay the loan upon the donor's death. This risk can be mitigated by pooling donors' loan agreements; this will be covered in detail in the section below.

Figure 1: Example of an accelerated legacy plan's proposed steps



Key aspects of the accelerated legacy plan

Three critical aspects of this plan are the understanding of the time value of money, the donor pool composition and the ultimate responsibility for promoting the plan.

Time value of money

Money has the potential to grow in value over time. For example, if invested conservatively (say, in 20 year government bonds yielding 2%) it would earn interest. £90,000 today will be worth £100,000 in, say, 5 years' time

[i] £56,000 is the present value of a £100,000 legacy at time of a donor's expected death. Calculation based on a 75 year old donor, expected to live until 89 (14 more years), the current 20 year Gilt Yield of 1.15% and a credit margin aligned with the risks taken by the funder—taking overall discount rate to 4%.

(based on a 2% interest rate). Likewise, £56,000 today will be worth £100,000 in 14 years' time based on a 4% interest rate, as in the example above. Conversely, a £100,000 legacy in five years would be worth less today (i.e. £90,000). This is why the sum gifted to the charity today is discounted from its future value at the time of the donor's death. The actual discount rate applied would depend on:

- the long-term interest rate (i.e. UK 20 year Gilt Yield);
- the life expectancy of the donor;
- a fixed spread over the UK gilt to reflect the credit risk of the donor pool; and
- the cost of setting up the loan agreement.

For the purposes of this research, we have assumed a discount rate of 4% but this rate would need to be explored with potential funders as part of a second phase of discussions.

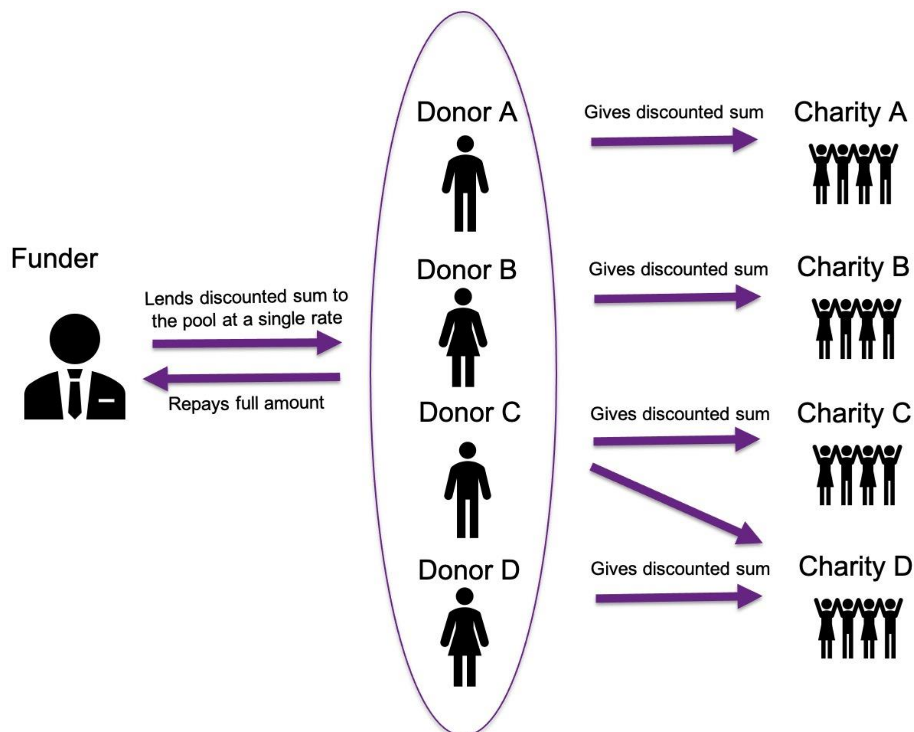
Pool of donors

There are risks for a funder in lending a sum of money to the donor to gift to the charity during his or her lifetime. The donor's life expectancy is always uncertain, and there is a risk that the donor's estate will not have sufficient assets to repay the loan upon the donor's death.

Therefore, to reduce the risk for the funder, the plan is likely to use a pool of donors with similar characteristics (see page nine), where the risk is spread across many loans. The funder would enter into contracts with each of the multiple donors within the pool, setting the discount rate for each donor taking their relative credit risk and life expectancy into account This would balance out higher-risk and lower-risk donors and set a weighted average discount rate for the funder reflecting the collective risks of all the donors in the pool.

Each donor could direct their gift to a charity of their own choice and each donor could select their own amount to give, provided most are in a similar range, as shown in Figure 2 below.

Figure 2: Pool of donors



The table below illustrates the benefit of having a pool of donors, balancing the risks of having donors of different ages within the same pool. It assumes a pool of ten donors, with each donor gifting £100,000.

Assuming 4% discount rate	Funder would lend and receive	Charities in total would receive (excluding gift aid)
If all 10 donors were aged 70 and gave £100,000 each	£1,000,000	£468,258
If all 10 donors were aged 80 and gave £100,000 each	£1,000,000	£662,778
10 donors of varying ages (between 70 and 80) giving £100,000 each	£1,000,000	£560,266

Characteristics of eligible donors

We think donors should have the following characteristics to be eligible to take part in an accelerated legacy plan:

- aged over 70;
- willing to provide a £50,000-£100,000+ donation on death—it is possible that they will have already committed to a legacy but would be willing to convert the legacy into a gift via this plan. The plan is also likely to appeal to individuals who have not yet committed to a legacy;
- high net worth individuals—the donation would probably need to represent less than 5% of a donor's net assets; and
- unlikely to have their own charitable trust or foundation.

Broadly, the stakeholders we spoke to agreed with these characteristics. The precise donor profile would need to be explored with donors and potential funders as part of a second phase of discussions. One of our interviewees suggested that aged 60+ could also work.

This instrument is not a traditional loan

Throughout the report, there are references to this plan involving the donor borrowing money from a funder. However, it is worth noting that there are some key differences between this instrument and a traditional loan:

- this instrument has neither financial covenants nor security;
- the only time the lenders can call for repayment is upon death;
- this instrument has no amortisation (i.e. where the principal of the loan is repaid on a schedule over the life of the loan);
- there are no interest payments during the donor's lifetime as the interest on the instrument is 'rolled up'; and
- this instrument is far longer than a traditional personal loan from a bank.

Promotion of accelerated legacy plans

It is not clear at this stage who would be responsible for promoting such a plan. For example, it could be:

- Charities themselves, run by either the legacy fundraising teams or by the major donor teams—presenting an alternative giving option to donors.
- The funder, in collaboration with private client advisors, with charities merely being passive recipients.

The route to market is important to explore in more detail; charities have suggested various challenges in promoting such a scheme, and we discuss this on pages 19-20.

Methodology

We conducted this research from November 2019 to March 2020 to understand the feasibility of the accelerated legacy plan from the perspectives of all parties involved. Specifically, we were trying to understand:

- Could the accelerated legacy plan work in the UK?
- Would it address existing problems in the legacy sector?
- What is the appetite for the plan from donors, charities and funders?
- How does the plan fit into broader trends in the sector?
- What are the practical barriers and risks to be aware of in running the plan?

To answer these questions, we ran a high-level literature review and interviewed sector experts.

1. A high-level literature review

We reviewed the literature on the UK legacy sector and previous activity around living legacies to understand:

- How big is the UK legacy sector?
- What motivates people to give a legacy donation?
- How big is the pool of potential donors?
- What similar plans have been attempted in the past and what were the barriers to their uptake?

We reviewed past work by a range of sector bodies including Legacy Voice, Smee & Ford, Legacy Fundraising and Legacy Foresight, as well as academic papers on legacy giving in the UK. Through desk research, we identified key stakeholders, learned about the barriers encountered by previous initiatives and honed our interview questions for the different stakeholder groups.

2. Interviews with sector experts

Next, we tested the feasibility of the plan with 27 sector experts who were each sent a concept note outlining the background (more details of these interviewees are in the appendix). We interviewed:

- 11 charities, of different sizes and in different sectors, who receive legacies and may engage with the plan.
- Five private client advisors, including wealth and asset managers who advise donors on philanthropy, tax and charity law.
- Five giving experts from sector bodies and infrastructure organisations, such as Legacy Voice, Philanthropy Impact and Legacy Fundraising.
- Three philanthropists as potential donors, sourced from NPC's clients and networks.
- Three potential funders who might act as the intermediary investor in this arrangement. We spoke to two foundations and the life insurance company, Aviva.

We compiled an intermediary summary of our findings in February 2020. Following the discussion of findings and the areas still to investigate, we refocused on potential funders and senior charity fundraisers. One potential limitation of this study is that we were only able to speak to three senior managers at the funders we had in mind.

Context of the legacy sector

Overview

Legacy income is hugely important for charities in the UK. Income from legacies recently reached £3bn annually, compared to a total of just over £11.4bn of charitable giving in 2018, which demonstrates how important legacy income is to charities. Legacy income has grown by up to 50% over the last five years and is expected to increase over the longer term.[6] As the 'baby boomer' generation ages, we could see the largest inter-generational asset transfer in UK history. It is estimated that by 2050 the legacy market in the UK will be worth £5.16bn at today's prices.[7] However, the Covid-19 pandemic has significantly impacted the legacy sector in the short term—charities' legacy income is now anticipated to decline by up to 27% in 2020 due to the worsened economic outlook, a higher number of deaths and worse-than-expected administrative challenges.[8]

Despite the positive long-term growth projections of the legacy sector, it remains the case that less than 10% of people leave a legacy in their will, and overall charitable giving in the UK was static prior to the onset of the coronavirus crisis.[9] From issues as varied as homelessness and environmental breakdown, the challenges charities face are not getting any easier. Charities desperately require funding sooner rather than later in order to try and tackle problems in their early stages, rather than spending far more trying to treat the symptoms of a problem which has already manifested itself.

There is an urgent need for new ideas to grow the legacy market now. This accelerated legacy plan is one idea for growing the amount charities receive, and helping charities receive the money sooner.

What are legacies?

There are two types of legacies which people leave in their wills. **Residuary legacies** are a proportion of an individual's estate which is left over after all other gifts have been distributed. **Pecuniary legacies** are fixed sums of money which someone leaves to an individual or organisation. The accelerated legacy plan could be appropriate for those intending to give either pecuniary or residuary legacies.

Residuary legacies are given more often and tend to be larger. They make up 90% of the total number of the ~120,000 legacies given annually, and the median legacy size is around £30,000.[10]

Pecuniary legacies make up around 10% of the total amount of legacy income (around £300m). Pecuniary legacies also tend to be smaller than residuary legacies, and the average gift is around £3,000-£4,000 now.[11]

Why do people give a legacy?

To maximise the uptake of the accelerated legacy plan, it is important to understand the main reasons people leave legacies (although the plan isn't limited to those already considering legacies). One of the main drivers behind the evolution of this plan is that some people die with more assets than they expected to have, and whether such a plan might enable donors to commit a relatively small donation compared to their overall assets that would be paid out of their estate.

As residuary gifts make up the vast majority of legacy money given, the biggest single factor influencing the total size of legacy income every year is the performance of the wider economy. The size of residuary gifts rise and fall in relation to asset prices the gifts are dependent on, often the donor's house.[12]

For the purposes of this review, we are more interested in the intrinsic factors which can influence giving and make individuals more likely to participate in this scheme. Claire Routley groups these motivations into five drivers,[13] and an individual's likelihood of wanting to engage in the accelerated legacy plan will vary depending on which is the dominant driver:

1. **Looking back**: People look back on their lives as a way of processing their deaths, considering where they have and have not had the impact they desire. They look at their lives in an autobiographical way, with the legacy being the 'final chapter'. Therefore, being able to see the impact of this legacy through the accelerated legacy plan could be very appealing and a good way of helping them to build up this picture.
2. **Looking forward**: The legacy gift is seen as an extension of their life, a chance to make a statement about their values that lives on beyond themselves. This motivation is rooted in a desire for 'symbolic immortality' after one's death, and the immediate impact of the gift becomes secondary to this. For people motivated this way, the accelerated legacy plan may seem less appealing.
3. **Social influence**: People are more likely to leave a gift if they see others doing so. Research by the Cabinet Office and Co-Operative Legal Services showed that people making a will were more likely to make a legacy gift to a charity when prompted with 'Many of our customers like to leave a gift to charity in their will. Are there any charitable causes that you're passionate about?'. They also found that stories of living donors were more effective at influencing more gifts. There is therefore good reason to think that a well-publicised accelerated legacy plan may encourage giving over time.
4. **Use of the gift**: Studies in the US have shown that the majority of donors are motivated at least in part by the ultimate use of the gift by the charity. As a result, the organisational factors of the charity receiving the gift, such as professionalism, performance and communications, all have an impact on the likelihood of the person to leave a gift.[14] For some of these people, being able to see the charity benefit whilst they are still alive could increase their likelihood to give.
5. **Tax implications**: In 2012, the UK government introduced an inheritance tax discount of 10% for estates where 10% or more was given to charity. Data from the Office of National Statistics shows that 1,558 estates benefited from the reduction in 2014-15. In fact, studies have shown that inheritance tax breaks lead to a significant jump in charitable giving.[15] For people for whom charitable giving is motivated in large part by a desire to reduce tax on their estate as a whole, the accelerated legacy plan may seem less appealing. However, the tax implications on the size of the gifts to which this plan is applying are unlikely to be large enough to act as a major motivation for giving.

Most donors will not fit neatly into one box but will straddle two or three. Broadly though, we can see that the accelerated legacy plan would likely appeal to three of the five of main reasons why people give.

Who leaves a legacy?

- In the UK, most people start thinking about leaving a legacy when they are in their 50s, with charities most likely to target potential donors who are in their mid to late 60s.
- Predictably, those who are wealthier are more likely to give than those less well-off.
- People who self-identify as religious tend to give more bequests than those who do not.
- Women tend to give legacies more often than men do, but interestingly studies show that both **intend** to give legacies at around the same rate. This may indicate that women's greater longevity accounts for their

generosity, with many men not getting around to making the bequest.[16] For these individuals, the accelerated legacy plan could be a good way to tackle this issue.

Where do people hear about gift options?

Donors hear about gift options for their legacies in different ways, but there are three most common ways:

- 34% hear through a charity from its published materials.
- 21% hear through a financial advisor.
- 20% hear through word of mouth.[17]

Of course, for the target audience of the accelerated legacy plan, it is likely that the proportion hearing about legacies from their financial advisor will be higher. We will return to each of these when discussing the next steps for the plan.

What stops people leaving a legacy?

- **Children**: The most common factor for someone **not** leaving a legacy is having more dependents and close relatives. Childless people are five times more likely to include a charitable dimension in their will than those with grandchildren.[18]
- **Inconvenience of what is perceived to be a complex process**: The complexity of making a will is often seen as a barrier by many. So, simplifying the accelerated legacy programme as much as possible will be key to making it a success.
- **Insensitive marketing**: A commonly cited reason for not leaving a legacy to a charity is that the person did not like the materials they received from the charity. Legacy marketing has to be pitched carefully to make sure it captures the attention without offending the target audience.
- **Insufficient funds to make a difference**: The potential costs and complexity of making a will means donors worry their gift won't make a difference.[19]

How many potential donors are there?

The estimate is that for a donor to be considered low-risk enough to be eligible for this plan, the donation would need to represent less than 5% of a donor's net assets. Given the sums involved (i.e. making a donation of around £50,000-£100,000+), we therefore suspect that eligible donors will need at least £5m of assets. Broadly, the funders we spoke to agreed with these estimates, but this would need to be explored further.

Exact data is difficult to come across, but we estimate there are around 10,000-20,000 households (of all ages) in the UK within this wealth bracket.[20] Further research shows that only 10-12% of high net worth Individuals (>£10m in assets) engage in philanthropy.[21] As mentioned earlier, currently only 6% of people in the UK leave a legacy, but research shows that up to 35% would consider leaving one.[22] Again, this suggests that the potential pool of donors to whom this programme would be of interest may be small to begin with, but it has plenty of potential to grow if it proves effective.

Comparable planned giving plans

The legacy sector is slow moving and risk averse. However, with an aging population and the changing demographics of donors in the next 20 years,[23] it is imperative to explore alternative sources of legacy giving. Most charity fundraisers we spoke to have a renewed focus on looking for new donation opportunities and assessing which ones will work. The accelerated legacy plan could be an opportunity to help the legacy sector unlock a new philanthropic funding stream.

There is a clear appetite for innovation in the legacy giving sector. Most interviewees concluded that this plan is a way to bring something new to the debate. A potential funder described the plan as novel and innovative. One giving expert remarked that this plan is a fresh concept and would be good to trial, but with a caveat: 'not right now.'

'The charity sector needs new sources of money because our prediction is that non-legacy giving will have halved over the next 20 years.'

Giving expert

The majority of our interviewees were not aware of any similar plans in the UK, but a few suggested the following planned giving plans in North America to be most comparable:

- **Charitable remainder trust (CRT)**: This involves a donor placing a major gift of cash or property into a charitable trust. The trust then pays a fixed amount of income each year to a designated beneficiary—this can be a non-profit entity or the donor themselves.[24] A central idea of a CRT is to reduce taxes. This is done by first donating assets into the trust and then having it pay the beneficiary for a stated period of time. Once this timeframe expires, the remainder of the estate is transferred to the charities deemed as beneficiaries. Conversely, the accelerated legacy plan proposed in this study involves charities receiving funds in present time value. These funds are directly donated to the selected beneficiary without setting up a trust. Taxes are still payable by the donor on their estate.
- **Charitable gift annuities**: This is a lifelong contract between a donor and a charity,[25] whereby the donor transfers cash or property to the charity in exchange for a partial tax deduction and a lifetime stream of annual income from the charity. An example of this is the George Washington University Match Gift Fund.[26]
- **Lifetime legacies (not an existing way of giving but this concept was explored in the UK in 2011)**: Modelled on CRT but slightly different, it would involve creating a 'Lifetime Legacy', a standard form of deed, which states that it will donate capital for charitable purposes. The entire capital would be transferred into a Lifetime Legacy. It would be exempt from capital gains tax and inheritance tax. The discounted present value of the gift would be calculated using annuity tables based on the life expectancy of the donor and an assumed investment policy. The capital would be held in trust during the donor's lifetime and all income would be paid to the donor. The donor would pay income tax on this income, subject to deductions. On the donor's death, the capital assets would pass to the charity, including all the income they generate after the donor's death. At that point, the capital and any accumulated capital gains would be transferred to the charity without tax being payable. The proportion of the estate that falls to the charity through the Lifetime Legacy would be exempt from inheritance tax and the rest of the estate is taxed in the normal way.[27]

The concepts above require a change in UK legislation, whereas the accelerated legacy plan does not. Also, according to the accelerated legacy plan proposed in this research, the estate of the donor is taxed as per normal and the only tax benefit is the Gift Aid claimed on the donation from donor to charity.

Almost all of our interviewees found the accelerated legacy concept to be new. Comparisons were made with other giving plans, as that noted by a charity below. But existing planned giving plans are designed primarily to be tax efficient, with only a secondary motivation to do good. The accelerated legacy plan reverses this—tax implications are not the primary driver, although Gift Aid would be applicable on the donation, provided that all the normal Gift Aid conditions are met.

'If this only works with cash gifts, then the donor could just give us a 'Lifetime Legacy', which we do see occasionally. Essentially, they just make a donation in lieu of a later legacy, and get the benefit of seeing the social impact created.'

Charity head of fundraising

This comment also suggests that the key point of the scheme was not fully understood—i.e. that it would be beneficial for individuals with assets that are tied up during their lifetime and thus find it hard to give prior to their death. Later in this report, we address the importance of a thorough understanding of the plan by all parties if it is to be adopted.

What did the charities say?

Benefits to charities

Increased revenue

There are three main ways that the accelerated legacy plan could grow the income available to charities.

- **Through Gift Aid**: The ability to claim Gift Aid on the donation was cited as a major benefit by the charities we spoke to. Currently, Gift Aid cannot be claimed on existing legacies, but under this proposed scheme, the situation would be different and could be claimed by donor and charity alike. Gift Aid can bring in 25% additional income for charities. Were the accelerated legacy plan to be in use for only 5% of the total pecuniary legacies transferred from donors to charities through legacies in the UK last year, with Gift Aid applicable, this would bring at least £3.5m in additional revenue for charities across the UK.
- **Growing the number of gifts over time**: Our interviewees mentioned the value of **building a relationship between the donor and the charity, which could prompt further giving**. Not all legacy donors are known to charities, but a plan such as this would enable charities to build and grow a relationship with a known donor. This would be especially valuable if the donor is younger and the charity has longer to develop this relationship. This was echoed by a philanthropist we interviewed, who saw the potential to deepen their relationship with the charities they give to. One charity legacy manager was more sceptical, thinking that the plan would simply be a one-off transaction and would remove the opportunity to steward the donor. However, they seemed more positive once we informed them that the plan left open the possibility of multiple donations, so this will be an important aspect to emphasise to charity audiences.
- **Growing the number of donors who may be willing to give**: In conversations with wealth managers and philanthropists, we heard how many potential donors, even high net worth individuals, were reluctant to give as they would be losing the security their assets gave. As mentioned earlier, 90% of all high net worth individuals in the UK don't engage in philanthropy. There is significant potential, therefore, to grow this pool of donors and thus grow the resources available to charities.

'I would give away more (now) but have been more careful about keeping some aside, so this kind of scheme would allow me to give away more.'

Philanthropist

Allows charities to invest in prevention

The fact that the money flowing through the accelerated legacy plan is available now is of huge benefit. It allows charities to unlock the potential of future generosity now and opens a new target market of slightly younger and much richer legacy donors. In theory, charities could invest this funding in preventing problems, which is far more cost-effective than treating the problem further down the line—clearly some charities already do focus on prevention, but perhaps this scheme could enable more charities to do the same. As a private client advisor told us, '*a cause today might not be a cause tomorrow.'* Giving under this scheme ensures an immediate effect, whereas leaving a traditional legacy runs the risk that the money might no longer be as aligned with the donor's wishes as and when the donor eventually dies.

'A scheme like this would help encourage donations as it shows an inspiring example of people taking action before death, and you can pin exciting developments to this person's actions.'

Giving expert

Consistent income streams

Another benefit is the ability to forecast major income. Legacy income is currently very difficult to predict because it depends on when a donor is going to pass away and what the value of their assets will be. The accelerated legacy plan removes that uncertainty because charities will know how much they are getting and when. Certainty comes from receiving the money now, rather than waiting for many years after the donor makes their pledge.

The head of legacy marketing at one charity told us that only half of people who say they have made a pledge to the charity actually leave them a gift in the end, so this plan would reduce the drop-off level and reduce the risk of legacy donors changing their minds.

'Only 46% of people who say they've pledged actually leave us a gift, so this scheme would reduce this drop-off and reduce the risk of them changing their mind.'

Charity head of legacy marketing

Encouraging broader shifts in legacy giving

For some charities, the lasting benefit may come not from the accelerated legacy plan itself, but from the cultural shifts in legacy donation that occur around it and because of it. A common theme in interviews was that the plan may not be appropriate for all organisations for various reasons. However, even when interviewees were sceptical about its overall uptake, many were enthusiastic about its introduction because they recognised the need for innovation in charity donations in general, and in legacy donations in particular.

Having more options available to donors is likely to increase giving. One charity fundraiser described legacy giving as akin to pearl diving; there is no 'one size fits all.' Given this, they said there ought to be a wider variety of ways to leave a legacy. This was partly because the charity sector needs new sources of money and partly because it was good for donors to have more choice available to them. Fundraisers were seen as 'business officers' who ought to be looking at new options for donations and assessing them to see which ones would work.

Implementing the accelerated legacy plan would be a good first step towards a wider 'menu' of legacy options to choose from. This could encourage other legacy options, which together could lead to a wider understanding of the importance of legacy income to the charity sector. By encouraging a wider conversation about legacies, the accelerated legacy plan could indirectly benefit many more organisations than those who directly participate in it.

'If it was wrapped up with a wider education scheme about systemic vs sticking-plaster grant-making, then that might be more valuable than the money they would make.'

Philanthropist

Appetite for the proposed accelerated legacy plan

Appetite is likely to increase with use

It is likely that as more donors, funders and charities trial accelerated legacy plans, confidence in it will grow and it will become more common. One option is to market specifically to 'baby boomers'. One charity fundraiser told us

that 'baby boomers', who are roughly aged 60 and older, are interacting more with technology and are more well-travelled than the older 'war babies'. They are also more likely to have children of house-buying age for whom they will want to retain some of their assets to help them on to the property ladder. A method to release these assets would therefore be valuable.

By contrast, 'war babies' are typically more risk-averse and would probably prefer to leave a traditional legacy. However, some caution was recommended on being too specific with age-targeted advertising:

'If it was advertised as being 70+, there might be concern from some donors; it looks a bit 'ambulance-chasing', like you're going to die and we want your money.'

Charity legacy fundraiser

Appetite could vary by charity issue area

A few interviewees suggested that this plan might appeal to charities tackling a problem that is urgent and immediate, and therefore require funds now. One example was environmental charities; the sense of urgency around the climate emergency could make people try to unlock their estate and see their money have an impact now. Another example was charities conducting medical research, where donors might like to contribute to accelerating that research and see a benefit while they are alive.

To our interviewees, the plan seemed best suited to charities who need money now, want to have an early impact, or are trying to prevent issues in order to save money in the long term. From this perspective, one way to pilot the plan and test its uptake might be to implement it on a charity's issue-specific campaign, and then roll it out as a standard product if successful.

Risk appetite within legacy fundraising

Several interviewees argued that the attractiveness of this plan lies with charities' leadership: their risk appetite, needs and motivations. As mentioned earlier, charity legacy fundraisers tend to be quite risk-averse, and this plan may struggle for uptake among certain charities as it runs contrary to their current processes or simply sits outside their comfort zone.

Potential for confused messaging

Most charity legacy fundraisers encourage donors to give residuary legacies—using the language of taking care of one's family first and then leaving the remainder to charity. For typical legacy donations, residuary legacies are usually worth much more than pecuniary legacies, and this plan could confuse that message by encouraging donors to give in a different form to how they currently give.

Although the legacy plan intends to draw in residuary donors, pecuniary donors and individuals who do not currently give, some charities were concerned that this might confuse the messaging around their pre-existing legacy streams. To maximise uptake, it will be important to demonstrate how this plan can fit alongside, and potentially significantly increase charity's existing legacy income.

Big or small charities?

A giving expert we spoke to recognised that smaller charities without significant reserves and charities struggling financially or having cash-flow problems would perhaps be the most receptive to this plan—a much greater number of organisations as a result of Covid-19. They would benefit immediately from receiving money now—there would be no use in having money pledged to them in 15 years' time if there is no guarantee that the charity will still exist by then.

The giving expert questioned whether large, established charities would have as much use for the plan, since they already have a steady inflow of money and know that they will need money tomorrow as well as money today. However, other interviewees estimated that, for the plan to work, the charities would have to be large, already have good skills around legacy fundraising, and have more sophisticated major donor plans. These charities may be more willing to accept the risks associated with launching a new plan.

However, once the plan has been shown to work for larger charities, it could be rolled out to smaller charities with a strong community basis, as these would perhaps be better able to craft and maintain relationships with their donors.

Potential barriers to uptake

Complexity

We have had some feedback that the perceived complexity of the plan may be an initial barrier to its uptake. Charities are concerned about the difficulty in explaining the discount rate to colleagues, trustees and the public, who may not understand why the charity is not receiving the larger legacy.

Having donors already behind the plan would boost legitimacy, but there may be a 'chicken and egg' situation if the only way to legitimise it is for donors to engage, but donors aren't willing to try it unless it's been shown to be legitimate. The key to success is showing it to be straightforward to implement.

Potential for misunderstanding

Charities' perceptions of the mechanics of the plan need to be acknowledged. Not every charity we spoke to felt they would have the internal skills and capacity necessary to manage the plan—a period of 'upskilling' before rolling out the plan may be needed.

It was suggested that there would be competition between existing traditional legacy teams and new accelerated legacy teams, especially if the latter team was accused of raising only half the money it could be raising. Another charity interviewee was initially interested but had not understood the discount rate. They were less enthusiastic about the plan once we had explained it to them.

As these objections are based on a misunderstanding, they demonstrate how the plan would need to be accompanied by a clear, easy-to-grasp explanation to encourage its use.

Potential for poor optics

There was a concern from some charities around the optics of the plan. Trust in charities is volatile; a 2019 report by nfpSynergy[28] found that the last time public trust in charities was above 65% was in 2013, taking particular hits in 2015 and 2018 after negative media coverage. However charities are deeply pessimistic that they are losing the public's trust, as found in NPC's recent survey of the charitable sector, where only 5% of charities said they did not think public trust was declining. Hence, charities are understandably risk-averse about bad press stories.

The 'Daily Mail test' was a recurrent theme of interviews—charity fundraisers were concerned with how bad the headline would look if the plan was portrayed in a negative way by the press. For example, one way to look at this plan is as a loan arrangement between the donor and the intermediary funder. It may reflect poorly on the charity if they are seen to be encouraging donors going into debt to support giving.

'It could be seen as, 'Can't afford a donation? Don't worry, you can borrow money from this guy under this scheme.''

Giving expert

We have explained elsewhere in this report how this is unlikely to be an issue—a donation as part of this plan would need to represent a very low proportion (probably less than 5%) of a donor's wealth to mitigate this kind of risk.

There is further concern around the perceptions of engaging in convoluted wealth transfer plans with a small pool of donors which may attract negative press, especially if they are abused by either the donor or the funder.

On the donor side, a private client advisor was concerned about the donor giving away all their money and 'leaving the funder high and dry', as well as the cost of putting in arrangements to prevent this from happening.

'I think one of the issues is that legacy giving isn't accessible. This doesn't make legacy giving more accessible. People think they're not rich enough to leave a legacy. But people can leave any amount.'

Charity head of fundraising

On the funder side, a philanthropist we spoke to said this scheme was similar to the equity release market, which has been mis-sold, and that children and dependents may feel as if they are missing out on money. Many interviewees brought up the need for safeguarding and ensuring that money was distributed appropriately.

One charity worker asked if this plan would be open to people giving smaller amounts, between £1,000 and £10,000. The initial idea is that there would need to be a minimum donation requirement to participate in the scheme—perhaps £50,000, but this needs to be explored further.

'We are not an authority on investment advice, and we do not want to be seen as that … as it only takes one wrong thing for it to be a PR disaster.'

Charity fundraiser

These potential optics issues mean charities may be reluctant to promote accelerated legacy plans directly, but they also highlight the critical need for a very clear explanation of how the plan would work. If the plan was promoted by advisors or accountants, with all the necessary compliance and regulation in place, charities would then merely signpost interested individuals to those people. These requirements around the plan are highlighted in the recommendations section on page 29.

Risks to charities

Fear of reduced income for charities compared to a traditional legacy

Some charities thought there would be a risk of receiving lower income in some circumstances by using the accelerated legacy plan.

Firstly, if a donor died soon after a donation through the use of this plan, the charity would receive less money than they would otherwise have done. That is, a 'normal' legacy gift would have been more beneficial to the charity as it would not have been discounted. Although money received sooner is usually valued more highly for charities, this remains a risk in some cases. However, the plan would take into account the risk of people dying sooner than expected through the actuarial pricing and determinant of the discount rate. Pooling funders would also minimise this risk.

The second concern is that the growth of the donor's assets may outstrip the discount rate, and charities may lose out significantly in real terms by accepting a smaller, fixed gift now rather than the much larger one later. If high net worth individuals were instead giving 5% or 10% of their estate as a residuary legacy, that would grow in

value significantly over time and so could be worth much more in the future. Charities feel they might potentially lose out on significant sums of money by not waiting for a traditional legacy.

Over time, the risk of this is likely to be balanced to some extent by some donors living longer, and some assets performing less well; however, it is a risk to be conscious of. Overall, we believe that charities are under increasing pressure to gather as many donations as possible now to deliver services to individuals, rather than taking a view on financial markets and hoping for a higher donation in the future.

The risk is also likely to be somewhat mitigated by the idea that donors may review their giving and leave a legacy in their will as well as giving through this plan—as we believe a relationship will be built between the donor and the charity.

Danger of family contesting the will

Another concern was that the donation could be contested by the donor's surviving family members—a few charity legacy managers noted that family members would perhaps not be best pleased to see a debt in their loved one's estate. On the other hand, a private client advisor told us that they believed the possibility of challenging this aspect of the will should not be a major concern. Even so, the fact that many charities perceived this as a risk suggests that lack of knowledge about how the plan would work may be a barrier to its uptake. This point would need to be clarified when rolling out the plan, both to charities and ideally also to family members of the donor.

'I don't think it'll go as far as contesting the will; the legal position would be clear as the money would have been used. It's rather a reputational issue for the scheme. You wouldn't want this to be put into place and then fall into disrepute because people didn't understand what the scheme was.'

Private client advisor

What did the donors say?

Benefits to the donor

Financial security

One major benefit of the accelerated legacy plan is that it allows donors to give whilst retaining financial security. As mentioned earlier, this can be an obstacle to giving for even the highest net worth donors, who may be reluctant to give away significant sums in case they or their dependants need access to those finances. However, this plan would allow them to make a gift and let their estate repay the funder on death, when their estate is distributed (i.e. property sold etc.). This benefit should be emphasised to potential donors, especially if the plan is to be marketed wider than to just high net worth individuals.

Donors can see the impact of their gift now

There are many donors who would jump at the chance to see the impact of a gift now. These are donors motivated by a 'use of the gift' mentality, as mentioned earlier.

Among higher-end donors, one charity fundraising director told us that some donors will want to make a high-level contribution to a cause, while others are much more hands-on. For the latter group, part of the joy of giving is being part of the decision-making process and making sure all their giving is linked up so they are having a sector-wide impact. They take a more systemic focus and therefore could find this plan very appealing.

'You could have the same product but advertise it in different ways. For example, explain how it makes financial sense for the cause to people who want to do it quietly, and show the immediate benefit now to people who want to declare it.'

Private client advisor

Donors receive a tax benefit from Gift Aid

Finally, as the charities do, the donor can also receive a tax benefit from leaving a gift to a charity which receives Gift Aid. This may not be the key driver motivating individuals to take part in the plan, but this benefit may be an extra 'bonus' which can help encourage donors to leave more through this route.

Appetite for the proposed accelerated legacy plan

Emotionally motivated vs impact motivated donors

As we discussed in the context section, research has shown that the motivations for donors who want to give during their lifetime are very different to those who want to give in a legacy. A sector expert we spoke to was sceptical of whether there would be an appetite from legacy donors to give whilst they are still alive. Most of the people who have tangible motivations around seeing the impact of a gift on a charity already give, and they are also more likely to be thinking rationally and in a detail-oriented way, wanting tangible examples of where the money goes.

By contrast, many legacy givers tend to have more emotional motivations around continuity and remembrance and the cause they want to support, which this plan would not appeal to. Although not all legacy donors are motivated in this way, it is an influence for a significant proportion of people. The challenge will be to marry emotional motivations (surrounding immortality, personal values and the impact of one's life) to a seemingly complex financial product.

'When you put donors in MRI scanners and discuss giving now vs giving in the future, completely different parts of the brain are being engaged.'

Sector body

One philanthropist was sceptical about how many wealthy donors they knew who think strategically about their giving, and also about how many will be eager to provide funds today rather than wait until death. Instead, from their perspective, donors are 'remarkably whimsical' in their giving.

'People need to be driven by the level of desire to provide funding now. If you see the example of someone whose child has died of an illness, and they want to set up a charity to research that illness—in that case you are desperate for funds today and there is a very strong driver … I think there would have to be a strong motivation and not just the standard motivations for a donor.'

Philanthropist

Potential barriers to uptake

Donors' knowledge

The philanthropists we interviewed suggested that some of the popularity of the plan depends on how well potential donors understand the concept of the time value of money, so explaining this is important. If the gap between the legacy amount (e.g. £100,000) and the discounted value (e.g. £56,000) is perceived to be too great, it may dissuade people from participating in the plan. Many we spoke to worried that whilst a donor could grasp mathematically how the discount works, there may still be an emotional block—it still 'feels' as though the charity is receiving less money.

'The discount rate would put people off; people just do NOT understand the present value of money. It may be a vanishingly small amount of people willing to take it on.'

Philanthropist

Inflexibility of the plan

Some sector experts have highlighted that the inflexibility of the plan could put off donors. Donors may not want to be tied to giving their legacy to a specific charity, especially in light of possible mismanagement or organisational scandals.

In addition, some interviewees were concerned about the donor being 'locked in' to the plan and unable to amend it. For example, to give their donation to a different charity or to reduce the donation in order to help their children with an issue that suddenly arises. The disadvantage of irrevocability is that donors might pledge a smaller amount than they otherwise would because of uncertainty about the future.

Risks to donors

Shifts in attitudes towards giving

One risk may be a political shift in attitudes towards giving and the potential for governments to limit the take-up of such a plan. A philanthropist we interviewed noted that the current Conservative government is likely to be more amenable to the plan as it encourages high net worth individuals to do their bit for society while also using the financial sector. However, a shift in attitudes that may accompany a change in government may mean that the plan is not promoted as wholeheartedly or with any accompanying incentives.

Regulation involved

As mentioned earlier, there were concerns around the reputational risk to charities by our interviewees, but one private client advisor mentioned that there was an additional reputational risk to donors as well. Donors can currently give money away, and they can currently ask to borrow money, but asking to borrow money in order to give it away may require more regulations to be followed.

The need for sufficiently rigorous monitoring of the plan was a recurrent concern as highlighted in the quote below. However, the founders of the plan always envisaged that the plan would be fully transparent, and should always use fully licensed financial and legal professionals to engage with their clients.

‘[The plan is] a bit opaque; when there’s debt involved, you’d want there to be a bit more transparency and regulation. You’re putting a financial machine on something that, at the underlying level, is not that sophisticated.’

Philanthropist

What did the funders say?

The findings in this section are based on three interviews. We would have liked to speak with more potential funders. The findings in this section need to be explored further, with a range of funders, in the next phase.

Benefits to funders

From the funders' perspective, the benefits of the accelerated legacy plan are three-fold. The primary benefit is social impact. If the funder is a charity, such as a grant-making trust, then this plan aligns with their charitable purpose, thus advancing their social impact.

With commercial entities, there is increasing pressure for them to act in a more socially responsible way in all aspects of their business practices. Insurance companies and investment managers are seeing increasing interest from clients to enhance the Environmental, Social and Governance (ESG) alignment of their investments and have a positive impact while generating financial returns. The accelerated legacy plan caters to these trends.

'To a limited extent, the more directly you can deliver things that align very closely with our charitable purpose and charitable objects, the broader we can be in financial risk and return. And that'll be the case for most charities.'

Grant-making trust

Secondary benefits are related to diversification. If the funder is a charity, this plan provides an opportunity to diversify its investment portfolio. If the funder is a commercial entity, this plan provides a new fixed income product—diversifying its product base.

Lastly, this plan offers technical benefits to the funder, subject to how the pooled fund is managed. A funder can obtain a fair return in line with the risk of lending—making this a worthwhile investment. The funder also has the ability to set a discount rate that reflects the costs it will incur as part of setting up this fund, such as transaction and administrative costs. Furthermore, if the donor dies earlier than expected, the funder will be repaid by the donor's estate earlier than anticipated, though this is likely to be offset by the pooled structure.

Appetite for the proposed accelerated legacy plan

An innovative idea for funders

The novelty factor of the plan is attractive to some funders we spoke to. Two interviewees mentioned that the idea of applying a financial product concept into a traditional sector, such as legacies, is unorthodox but very innovative. Although most funders we spoke to liked the concept of the plan, they emphasised that it is pivotal to further investigate the financial return versus the risk.

'I love ideas like this, I think it's a brilliant idea—I love ideas that take thinking from elsewhere and apply it to novel situations.'

Grant-making trust

Adding value to social impact

As mentioned in the benefits section above, the primary benefit of the accelerated legacy plan for funders is the contribution to their social impact. This makes it crucial to demonstrate the real, tangible impact of this plan for its beneficiaries.

Like the majority of charities and donors we spoke to, most funders were positive about the concept. Increasing the flow of funds to the charity sector would increase the social impact of the funder involved. It will be crucial to the success of the plan to align thinking within different teams within potential funders, so that both the financial benefits and the social impact can be viewed together, as has taken place within the development of Social Impact Bonds and other impact investing structures.

'… we have lots of competing demands on our money, so we would have to be really confident this [scheme] would make change. It is unlikely we would do this as we get much more social impact from other sources of giving.'

Grant-making trust

Charities' and donors' demand must be clearly demonstrated

The appetite for this plan would be further strengthened by evident demand from charities. Charity demand is likely to prompt funders to address and respond to the gap in the current legacy market in the UK. An interviewee noted that for larger, more sophisticated charities, the accelerated legacy plan could be appealing as they want to get money in now to tackle issues. Similarly, understanding precisely the size of the donor market and demonstrating that there is demand by donors for the uptake of this plan will drive the appetite of funders.

Potential barriers to uptake

Low demand from charities and donors

Funders questioned whether it would be sensible to set up a vehicle that might not receive continual donations. They were concerned around the complexity of the plan limiting its uptake with donors and charities, therefore making the setup of the pooled fund structure redundant. This is a key concern.

Two funders expressed that there are many hoops to jump through to consider this as a business development priority. A charity funder would need to weigh up the drive do social good with the risk factors involved. A commercial entity's appetite would be driven by market demand and the ability to scale up and drive economies of scale.

The nuances in how different funders operate pose an additional challenge in marketing this plan. This can be overcome with how the plan is packaged and presented to different potential funders. It was clear from our conversation with the corporate that the concept would need to be explored with a variety of funders, to better understand their strategic priorities.

Technical and client expertise required to manage the pool of investments

Most interviewees mentioned that for this proposition to be successful, funders need to have in depth actuarial knowledge. From an actuarial perspective, the underlying donor pool needs to be carefully evaluated for factors such as mortality and longevity risk. They would also need to understand how a pooled fund structure would work. Risks such as duration, market conditions and default rates are important to consider (this is in addition to the

factors that are already outlined as part of the discount rate). The funder also needs to be clear about its profit motivations.

Interviewees also questioned whether the concept was convoluted. They expressed concerns around complicating the concept of giving by using this plan. For example, as shown in the quote below, someone asked why the donor can't just borrow the money from a bank or another alternative source.

'Also, another consideration is if I was a donor and had more than £1m of assets, I could just go to the bank and get a loan of £100k, why go through all the hassle for this scheme?'

Corporate

In response to this quote, the idea of the plan is that it would be more straightforward for a donor to enter into this loan agreement with a funder, compared to a personal loan from a bank—with the associated annual interest, financial covenants, security and repayment schedule over a far shorter time period (see page nine for more on the differences between this plan and a traditional loan).

Risks to funders

Reputational risk includes risk of 'abuse' and bad ethics

For funders, reputational risk was a big concern. Even though the loan is a legal agreement and is a debt repayable from the donor's estate, most funders highlighted the reputational risk this loan agreement carries—both from the perspective of the donor's family disputing the loan agreement just after the donor's death and also from the perspectives explained below.

For grant-making trusts, the risk stems from their charitable status. A grant-making trust we spoke to compared the contractual relationship the accelerated legacy plan proposes, between the funder and donor, to their experience of having a contract with a beneficiary organisation (as part of an impact investment). This was to illustrate that, as a charity, they feel uncomfortable with enforcing a contract if the beneficiary organisation fails to adhere to the agreed repayment schedule—mainly due to them being a charity and they don't wish to receive negative press.

' … one of the challenges that exists with (contractual relationships) is the enforcement, it has reputational consequences. Whether we're going to be bold enough to take enforcement action when somebody's not paying … you have to think about doing these things that make (us) feel uncomfortable.'

Grant-making trust

The corporate drew parallels with equity release mortgages. For example, in the equity release market we see a huge focus and emphasis on protecting the individuals' resources. The market is heavily regulated and strictly controlled by the Financial Conduct Authority (FCA) to ensure the risk of abuse is minimised. In this case, entering another market where the donor could be seen as 'vulnerable' poses a risk to them as a funder.

The interviewee acknowledged that a way to mitigate this reputational risk is to have an independent party involved—for example, independent financial advisors (IFAs) or administrators who hold the relationship with the donor pool. A donor, advised by his / her IFA, would reduce the liability of the decision. Even with the mitigation of this risk, there were concerns around who has oversight of this plan and the contractual legal side of things.

Critical to this proposition would be to ensure that the plan is run with the highest standards of ethics and individual concern.

Financial risks

In addition to donor mortality and longevity risks, the most obvious financial risk for the funder is not being able to recover the funds from the donor's estate. Although all these financial risks could be mitigated with the pooling structure and actuarial calculations, default risk is an expected concern that will be addressed in line with the risk tolerance of prospective funders.

Pooling of donors mitigates the risk to some extent but doesn't eliminate it. More investigation is needed to understand the requirement of the size and make-up of the donor's underlying assets. It is likely that they will be a mix of fixed and liquid assets; therefore, a technical understanding of asset correlations will drive the overall risk of the pooled fund, and subsequently the overall feasibility of the accelerated legacy plan.

Additionally, there are hidden financial costs that—if overlooked—might pose a feasibility issue. For the funder, these hidden costs could be, for example, administration costs and set up costs, which will have a cost drag on the economic efficiency of the plan. From the pooled fund perspective, a hidden cost could be the transaction costs and turnover within the fund. From the legal perspective, it could be the cost of enforcement of the loan agreement—who would bear this? All of these are vital to consider in the next steps of the feasibility study process alongside a viable discount rate.

Potential funder profile

As mentioned earlier, in the context of this research we believe that a funder could be a charity (e.g. a grant-making trust), or a commercial entity (e.g. an insurance company and / or an investment manager). From speaking with potential funders, most suggested that the funder should have actuarial and asset management knowledge. Actuarial knowledge would allow the funder to price the risk of a donor's mortality and longevity risks. Asset management knowledge would help with structuring the pooled fund and understanding factors including, but not limited to, default risk, duration, fixed income market, the donor's underlying assets and the correlation of those assets.

Conclusion

The accelerated legacy plan has the potential to push forward legacy giving in the UK. This research was carried out before the current coronavirus pandemic, but in its wake, the need to unlock extra funding for charities to use now has never been clearer.

Even before the crisis, half of our interviewees were either fully or tentatively supportive of the idea for the programme. Even those who expressed scepticism about the specifics of the programme were often enthusiastic about its potential to provoke conversation around legacy giving in the UK. Many agreed that the legacy market needs new tools to encourage different forms of giving.

However, the programme will have to overcome a range of barriers to widespread uptake. These include regulatory and financial barriers, but more commonly raised by interviewees were cultural concerns. The legacy sector tends to be more risk-averse than the rest of the charity sector, and there were several concerns that people raised. Concerns were around misunderstandings of the programme, potential optics issues, and donors not finding the vehicle appealing for a range of reasons. These issues will have been compounded by the coronavirus crisis, and because of this current climate it may be harder to promote the scheme to charities and funders when they are focused on tackling immediate issues from this crisis.

Recommendations

For the scheme to keep moving forward while the current pandemic subsides, we suggest the following:

1. **Target interested parties**: It's necessary to identify and speak with relevant stakeholders who would be involved in taking the scheme forward. This would involve a group of donors who are enthusiastic about the scheme, and a funder who is willing to take it forward. We welcome any interested parties to contact us.
2. **Pilot the programme**: The programme's efficacy would need to be proven before it can become more widespread. A pilot could work in different ways:
   - One way would be to introduce the programme to charities by starting with a specific project, rather than the entirety of a charity's work. If a charity told donors that raising a certain amount of money now would help a particular project, and invited them to give using this programme, it might work. Potentially, such a pitch would be more effective at persuading people to give now rather than on their deaths; putting forward a concrete plan for how the money will be used might stir donors to act while they can, be part of the solution and see the benefit for themselves.
   - Another option would be to target a specific group of donors to whom the programme may be most understandable and appealing—for example, high net worth 'baby boomers' who have a background in finance or business.
3. **Launch a marketing campaign**: There is plenty of potential in the programme, but these cultural barriers we came up against indicate that for take-up to ever become widespread, then the accompanying messaging and a clear explanation are going to be key. This would have to include:
   - Accessible language and explanation, including visual elements and explanations.
   - A demonstration that the plan could be quite straightforward to implement.
   - Segmenting the target markets to think about the specific benefits to emphasise to each audience in any marketing materials.

- Guidelines around safeguarding to prevent the possibility of abuse.
- Publicising and celebrating donors who are using it to establish norms around giving.

The UK legacy sector requires new innovations and, now more than ever, charities require more funding. With the right approach and accompanying information, the accelerated legacy plan could be an innovative new way to help the sector gain extra income, invest in preventative services and support those in need.

Appendix 1: Interview participants

NPC conducted 27 interviews with a range of sector experts (full details about our methodology are outlined on page ten). Interview participants worked for the following organisations:

- Aviva
- Barrow Cadbury Trust
- Battersea Dogs & Cats Home
- BDB Pitmans LLP
- Beat
- Cancer Research UK
- Client Earth
- Coutts
- David Carrington
- Disasters Emergency Committee
- EY
- Girlguiding
- John Stone, Stone Family Foundation
- Legacy Fundraising
- Legacy Voice
- London Wildlife Trust
- Maurice Turnor Gardner
- Nesta
- nfpSynergy
- Paddy Walker, J Leon Group
- Philanthropy Impact
- RSPCA
- SeeAbility
- Shelter
- Social & Environmental Finance
- St Mungo's
- Withers

Interview notes and transcriptions were coded based on research questions agreed with Anthony Bolton and emerging themes.

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