



Updated for 2020

Outlook for Australian gifts in Wills

August 2020



Overview

This note updates our forecasts for the Australian gifts in Wills sector out to 2040, drawing on the latest available bequest data and revised projections for the Australian economy.

- Overall, the number of charitable gifts in Wills is expected to be approximately 1.7 times higher in 2040 compared to 2019, thanks to the impacts of a long-term upward trend in the number of deaths and an increasing proportion of deaths attributable to child-free women – a demographic that is more likely to bequeath gifts to charities.
- The economic impacts of the COVID-19 pandemic are likely to result in falling average values of gifts in Wills in 2020 and 2021.
- However, anticipated long-term growth in house prices and share prices means that we would expect the average real value of gifts in Wills (after adjusting for inflation) to recover and be around 1.3 times higher in 2040 compared to 2019.
- Overall, we anticipate real income from gifts in Wills to grow at a trend rate of 3.7% p.a. over the forecast period – reaching around 2.2 times higher in 2040, compared to 2019.
- This represents a slightly less optimistic outlook when compared to last year's forecasts, with expected growth in charitable bequests between 2018 and 2040 declining from 1.9 times to 1.6 times – and the expected growth in real income over the same period declining from 2.3 times to 2.0 times.
- However, gifts in Wills remain a vital source of income for Australian charities, and if they invest in marketing now to inspire a higher proportion of Australians to leave a gift, then this growth could be significantly higher.

Introduction

This note updates our forecasts for the Australian gifts in Wills sector to 2040. Our projections are based on data covering the period 2011-2019 from the IVE Benchmarking consortium - which in 2019 accounted for \$226m of income from gifts in Wills - plus updated economic and demographic datasets.

We have focused on developments in three key drivers:

- **Demographic changes:** the primary driver of the number of gifts is the total number of deaths; however, the characteristics of those deaths can also be important, particularly the number of people dying without children.
- **Perception of charitable giving:** the underlying tendency for an individual to leave a gift in their Will can be influenced by charity marketing, media and social norms.
- **Economic outlook:** the value of gifts in Wills is strongly affected by key economic drivers such as house prices and the price of financial assets such as shares.

We review each of these drivers in turn before assessing the overall impact they are likely to have on future gifts in Wills in Australia.

This report was commissioned on behalf of Include a Charity, a social change movement that is part of Fundraising Institute Australia.



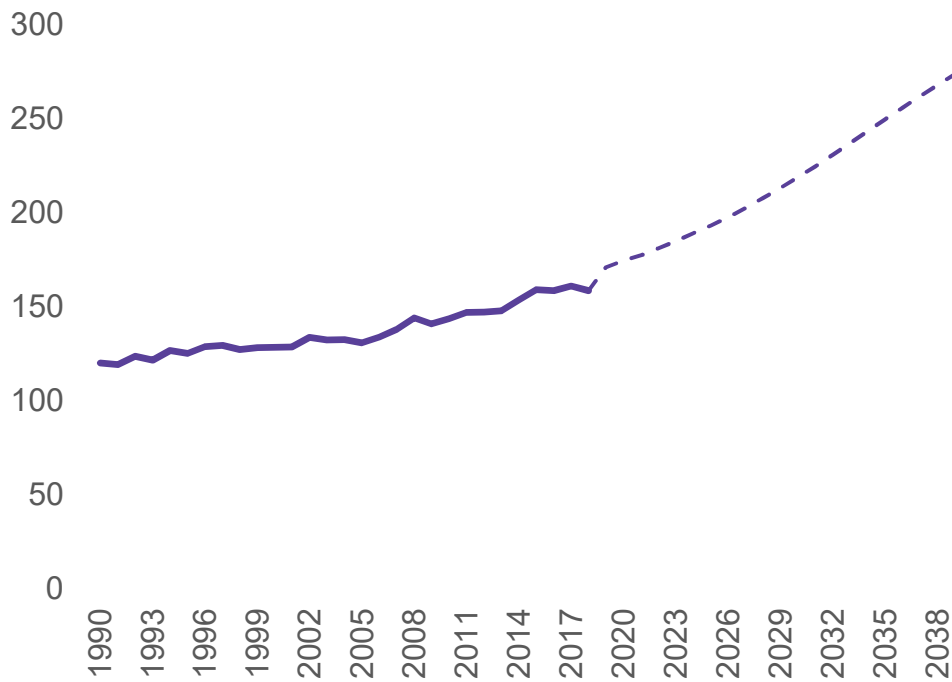
Demographic changes

Latest Australian Bureau of Statistics dataⁱ suggest that there were 158,000 deaths in Australia in 2018, representing the lowest level since 2014 and significantly lower than the ABS's original forecast of 167,000. This would be expected to add downward pressure to the number of gifts in Wills seen by charities in 2019 and 2020.

Looking forward, Australia's strict lockdown measures and tightening of border controls appear to have limited the number of deaths from the initial phase of the COVID-19 pandemic to relatively low figures in comparison to other countries around the world. Recent growth in the number of cases in Victoria have been met with increasingly strict measures to control a further spread in the disease, suggesting that, unlike many European countries, COVID-19 currently seems unlikely to have a significant impact on the overall number of deaths in Australia in 2020.

However, the Australian Bureau of Statistics' projections continue to suggest that underlying demographic factors will push the number of deaths up from the low levels seen in 2018, to grow at an average rate of 2.5% p.a. over the next 20 years.ⁱⁱ

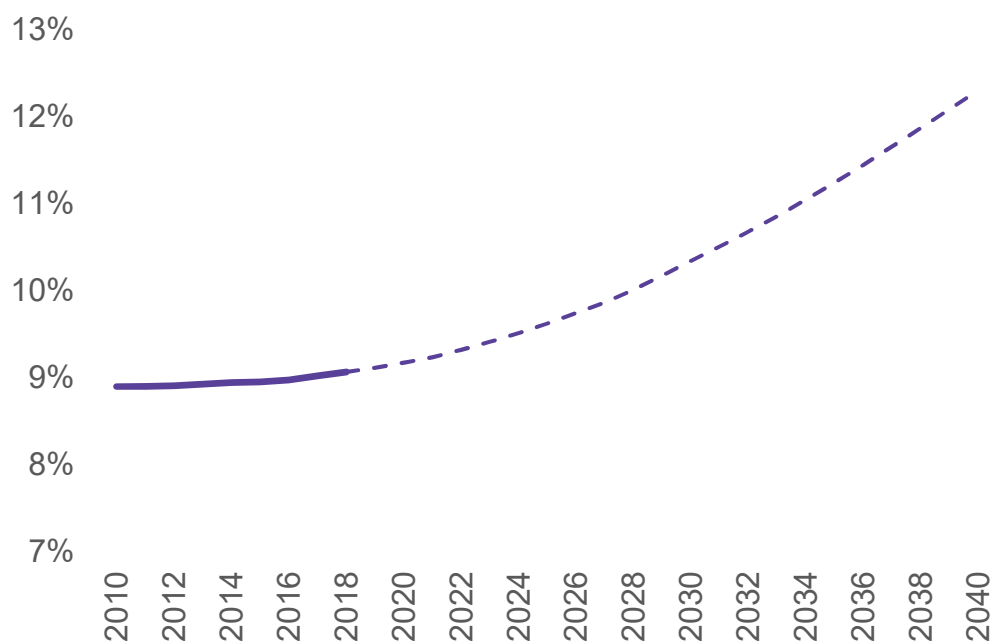
Total number of deaths in Australia, 000s



Source: Australian Bureau of Statistics

A key demographic for gifts in Wills are women without children, due to their higher tendency to leave a gift to charity when they die. We anticipate significant upward growth in the proportion of deaths attributable to this group over the next 20 years, due to the rising percentage of women born in the 1950s and 1960s who are child-freeⁱⁱⁱ; this will add further upward momentum to the projected number of gifts.

The percentage of women age 60+ dying child free

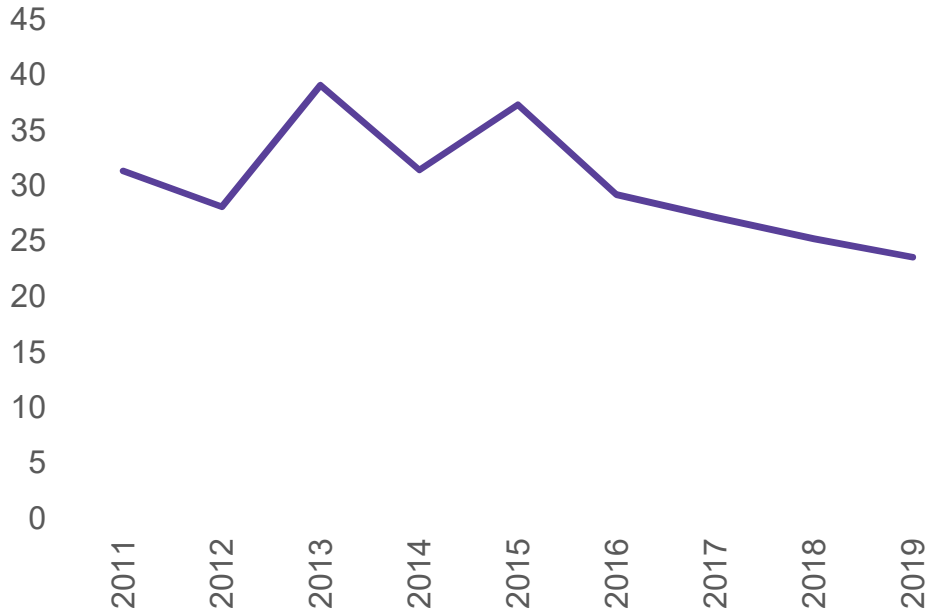


Source: Legacy Foresight and Australian Bureau of Statistics

Perception of charitable giving

Although we have a relatively limited number of data points, evidence from the sample of charities in the IVE Benchmarking consortium suggests that the underlying tendency for Australians to leave a gift in their Will when they die has not grown over recent years.

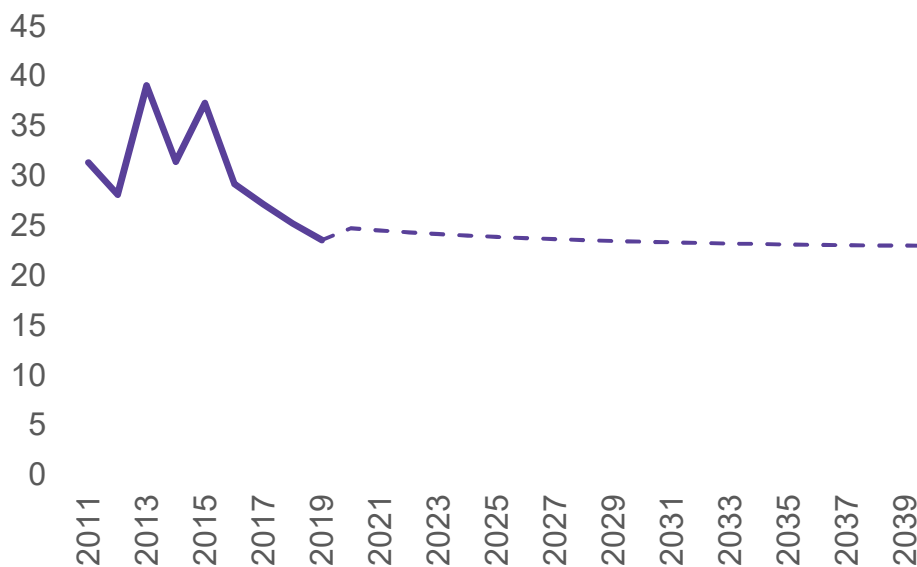
Number of gifts in Wills per 1000 deaths for IVE Benchmarking consortium members



Source: IVE Benchmarking and Australian Bureau of Statistics

In our central forecast, we have assumed that the slow-moving behavioural patterns behind these trends will continue for the foreseeable future, resulting in little change in the tendency to leave a gift in Wills over the forecast period.

Projection for number of gifts in Wills per 1000 deaths amongst IVE Benchmarking consortium members



Source: Legacy Foresight, IVE Benchmarking and Australian Bureau of Statistics

The economic outlook

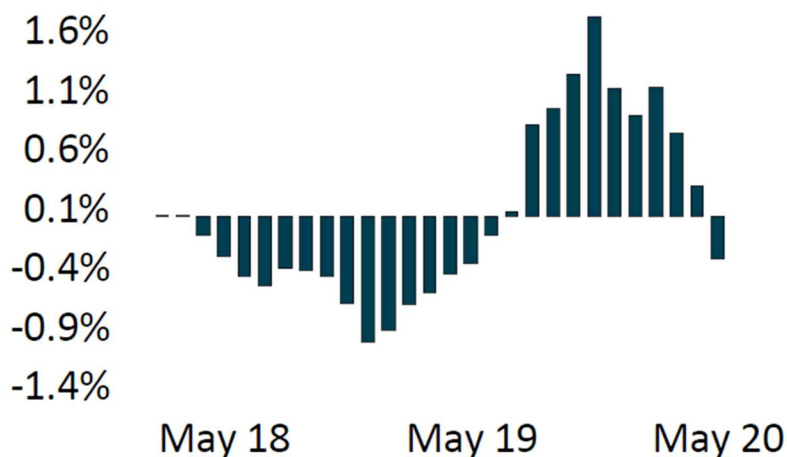
The lockdown measures introduced to control the spread of COVID-19 have taken their toll on the Australian economy, with the OECD anticipating GDP to contract by 5-6% in 2020^{iv}. We have already seen an impact on share prices, and it is anticipated that it will feed through to negative growth in house prices as the impacts of falling incomes and unemployment are fully revealed. This will put downward pressure on the average value of gifts in Wills.

We have drawn on projections from several forecasters including the OECD and Oxford Economics to develop projections for how we would expect the key drivers of charitable bequest values – house prices and share prices – to develop going forwards.

House prices

House prices fell by around 4.8% on average across the eight state capitals of Australia in 2019. This was a less severe fall than many commentators were expecting and has been followed by a rapid recovery in prices at the start of 2020, driven primarily by strong growth in Sydney, Melbourne, Hobart and Canberra.

Month-on-month changes in dwelling values for eight state capitals

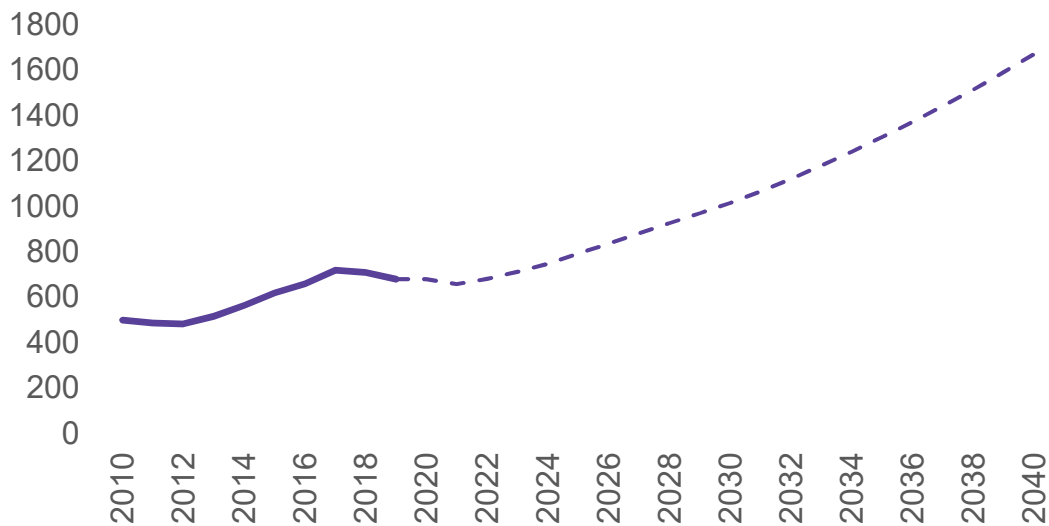


Source: Corelogic, June 2020

Given the major economic disruption caused by COVID-19, we anticipate there will be declines in house prices over the remainder of 2020 and potentially into 2021. However, it remains to be seen whether this will be enough to drive an overall fall in prices in 2020 given the rapid growth seen so far.

Over the longer term, the housing market fundamentals remain strong with the Australian economy anticipated to return to growth and ongoing shortages in housing supply compared to overall population growth. As a result, it is anticipated that house prices will continue to grow at an average rate of 4.7% p.a. over the next 20 years. This is slightly below the 4.9% p.a. growth experienced over the last 10 years but remains an extremely positive outlook.

Average dwelling price, \$'000s



Source: Legacy Foresight & Australian Bureau of Statistics

Share prices

Share prices have already fallen significantly in response to the COVID-19 pandemic, with the ASX index currently sitting around 9% below levels seen in 2019. In the near term, we anticipate significant volatility as markets respond to emerging news on the spread of the pandemic, both domestically and around the globe. In the medium term, it's likely that share price growth will be more restrained than we have seen in recent years, reflecting the impact that a more subdued global economy and ongoing potential restrictions on the international flows of goods, services and people will have on volumes of trade for Australia. However, we would expect share prices to grow at an average rate of 3.3% p.a. over the whole forecast period. This is lower than the average growth of 4.0% seen over the last 10 years but will still provide significant upward momentum to the average value of gifts in Wills over time.

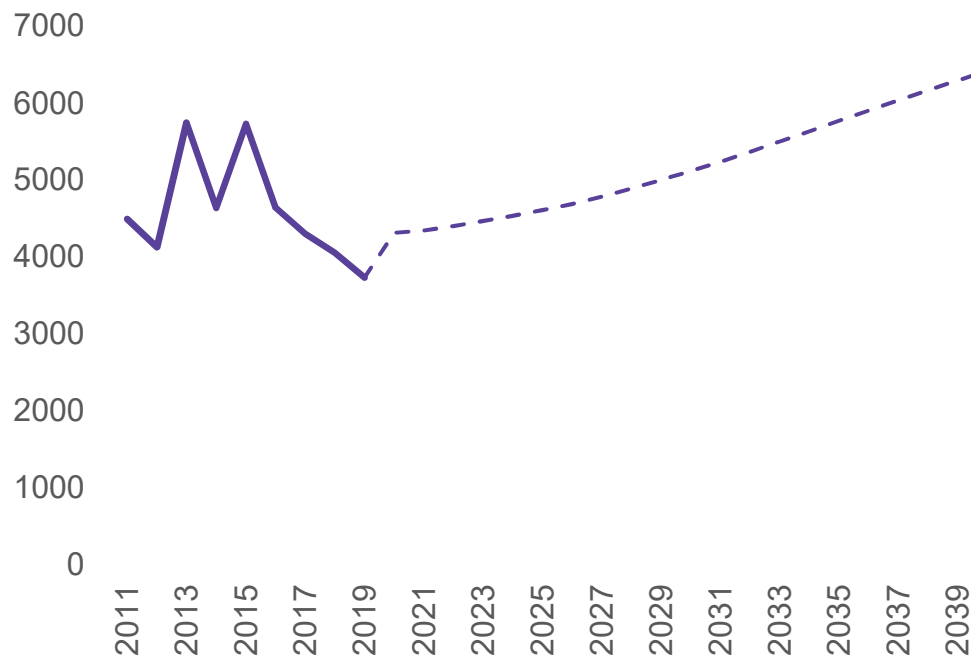
The outlook for gifts in Wills

We use our projections for key drivers of gifts in Wills to forecast future growth in the number of gifts in Wills and the average value of gifts in Wills separately. These are then combined to give an overall forecast for income from gifts in Wills for members of the IVE Benchmarking consortium.

The number of gifts in Wills

We anticipate the total number of charitable gifts in Wills for the sample of charities in the IVE Benchmarking consortium to grow by an average of around 2.2% p.a. over the forecast period. This represents a significant turnaround from the 2.2% p.a. trend *decline* seen between 2011 and 2019 and is driven by the expected changes in demographic factors such as the number of deaths and the increased number of child-free deaths. Overall, this will leave the number of charitable bequests more than 1.7 times higher in 2040 than they were in 2019.

Number of gifts in wills amongst Pareto consortium members

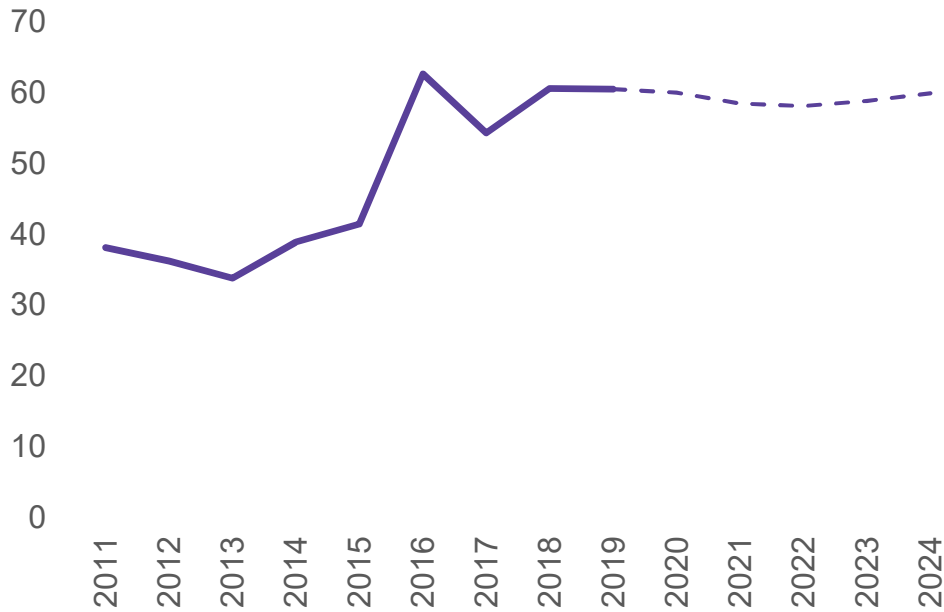


Source: Legacy Foresight & IVE Benchmarking

The average value of gifts in Wills

We anticipate that the average value of gifts in Wills could decline by around 0.6% in 2020 and a further 1.6% in 2021, reflecting the economic impact of the global pandemic.

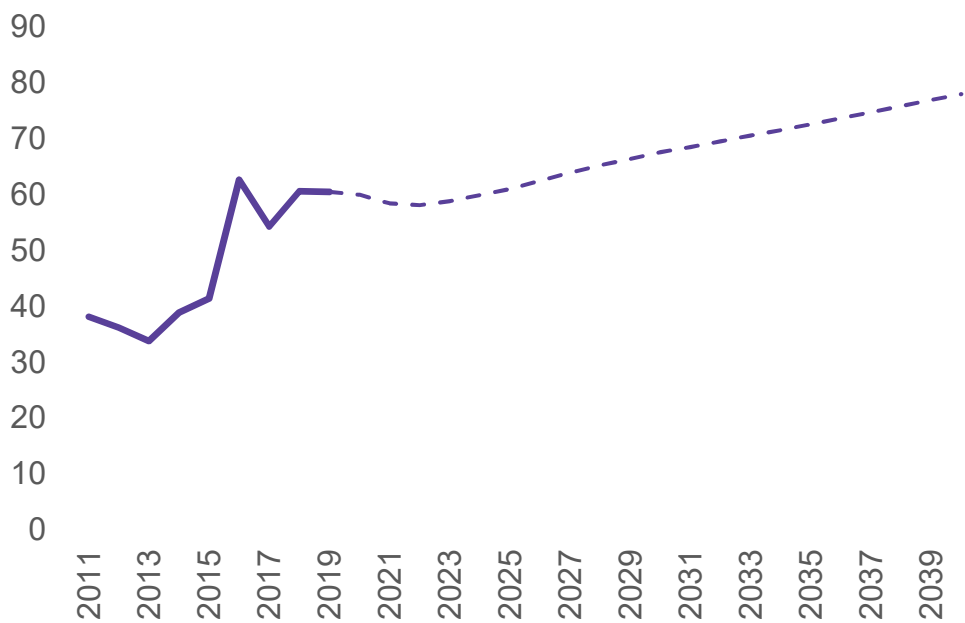
Near term changes in real average value of gifts in Wills for IVE Benchmarking consortium members, \$000s (2019 prices)



Source: Legacy Foresight & IVE Benchmarking

However, over the longer term, we would expect the real value (adjusted for inflation) of gifts in Wills to increase by an average rate of 1.5% p.a. as house prices and share prices begin to grow again. Overall, this will leave the average value of gifts in Wills nearly 30% higher in 2040 than they were in 2019.

Long-term prospects for real average value of gifts in Wills for IVE Benchmarking consortium members, \$000s (2019 prices)



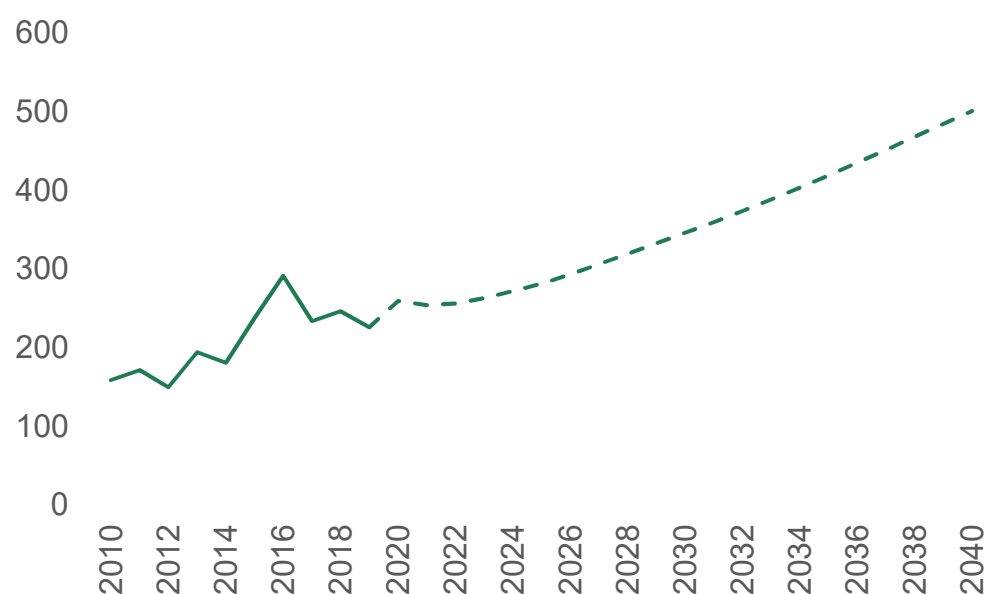
Source: Legacy Foresight & IVE Benchmarking

Total income from gifts in Wills

Despite lower average values, total income from gifts in Wills is anticipated to grow in 2020, reflecting the expected increase in the number of deaths from the low levels seen in 2018. However, it's likely that this growth will stall in 2021 as the weaker economic impact feeds through to lower average values. In addition, there is potential for delay in bequest payments due to the administrative problems caused by lockdown; albeit evidence from the UK suggests that this impact has been small, thanks to the adaptability of charities' legacy teams.

Over the longer term, we would expect real income (after adjusting for inflation) to grow by an average rate of 3.7% p.a., meaning that real incomes from gifts in Wills are forecast to be around 2.2 times higher in 2040 than they were in 2019.

Real income from gifts in Wills, \$m (2019 prices)



Source: Legacy Foresight & IVE Benchmarking

The table below summarises the trend annual growth rates seen since 2011 (the first year for which we have data from the IVE Benchmarking consortium) and for future periods. Although there is significant expected growth in gifts in Wills income in future years, it is noticeably lower than the average growth rate of 5.0% seen between 2011-2019, reflecting the more subdued prospects for average values growth going forwards.

Summary of central forecast

	Average growth in number of gifts in Wills p.a.	Average growth in real value of gifts p.a.	Average growth in real income from gifts in Wills p.a.	Average growth in current price income p.a.
2011 – 2019	-2.0%	7.1%	5.0%	7.1%
2019 – 2030	1.8%	1.8%	3.6%	5.7%
2030 -2040	2.3%	1.4%	3.7%	6.1%

Source: Legacy Foresight & IVE Benchmarking

Alternative scenarios

All forecasts are subject to significant levels of uncertainty, but the unprecedented nature of the current pandemic and the actions being taken by governments around the globe mean this is particularly true at present. Given this, we have developed two alternative scenarios to give some plausible alternative outcomes for the gifts in Wills market:

- **Pessimistic scenario:** we assume that COVID-19 proves challenging to manage at the global level resulting in a sustained period of subdued economic activity. The open nature of Australia's economy means that it is particularly exposed to risks from reduced global trade. This impacts the average value of gifts in Wills as house prices and share prices grow more slowly as household incomes and company profits are reduced.
- **Optimistic scenario:** we assume that investments in awareness raising and bequest marketing activity reverse the negative trend seen in the tendency for an individual to leave a gift in their Will. This boosts the number of gifts in Wills and drives up overall income.

The table below contrasts the overall impact on gifts in Will numbers, values and income over the next five years across the three scenarios, comparing annual levels in 2019 with our predictions for 2040.

A more pessimistic economic outlook reduces expected growth in income by around 16% between now and 2040. However, it is also plausible that, with sufficient investment to turn around the trend in the tendency to leave a charitable gift in a Will, the number of gifts could grow by nearly 90% by 2040 compared to the levels seen today, increasing income by around 20% in 2040.

Comparison of alternative scenarios to our central forecast

	Total growth in number of gifts in Wills 2019-2040	Total growth in real average value of gifts in Wills 2019-2040	Total growth in real gifts in Wills income 2019-2040
Pessimistic scenario	1.7 times higher	1.2 times higher	2.1 times higher
Central scenario	1.7 times higher	1.3 times higher	2.2 times higher
Optimistic scenario	1.9 times higher	1.3 times higher	2.4 times higher

i Deaths, Australia 2018, ABS

ii The Australian Bureau of Statistics is due to update their projections for future numbers of deaths in December this year.

iii 9% of Australian women born 1952-56 are childless, compared to 12% of women born 1952-56 and 15% of those born 1962-66

iv OECD (2020): *OECD Economic Outlook, June 2020*

This report was commissioned by Include a Charity in August 2020. Include a Charity is a social change campaign of Fundraising Institute Australia. We are a collaboration of over 100 charities in Australia. We cover a broad spectrum of causes and aspects of our community, from medical research, education, animal welfare, the environment, the arts and more www.includeacharity.com.au