Legacy Market Briefing 2022

26 October 2022

Public

After a difficult two years during the pandemic, the most recent year has not been without incident. This year has presented new challenges, with the war in Ukraine and, to some degree linked, a dramatic increase in the cost of living across the UK. More recently, we have seen extraordinary events politically and we are now balanced on the precipice of a recession and a potential housing market crash.

So, what does this mean for legacies? In the last few years, we have noted the resilience of legacies as an income stream, but will that be continued as we enter this new period of economic uncertainty?

Once again, the pace of change this year has demonstrated the need for up-to-date high-quality data. The Legacy Monitor provides just that; quarterly legacy performance data covering 82 of the biggest legacy brands and £1.7bn of legacy income, accounting for almost half the UK legacy market. This is combined with big picture economic and social trends to create an in-depth analysis of the British legacy sector.

This report shares top-line findings from the Legacy Monitor and our analysis for UK legacy giving now and in the coming years, highlighting key trends and implications for fundraisers. We want to thank our Consortium members for allowing us to share these insights to benefit the sector.

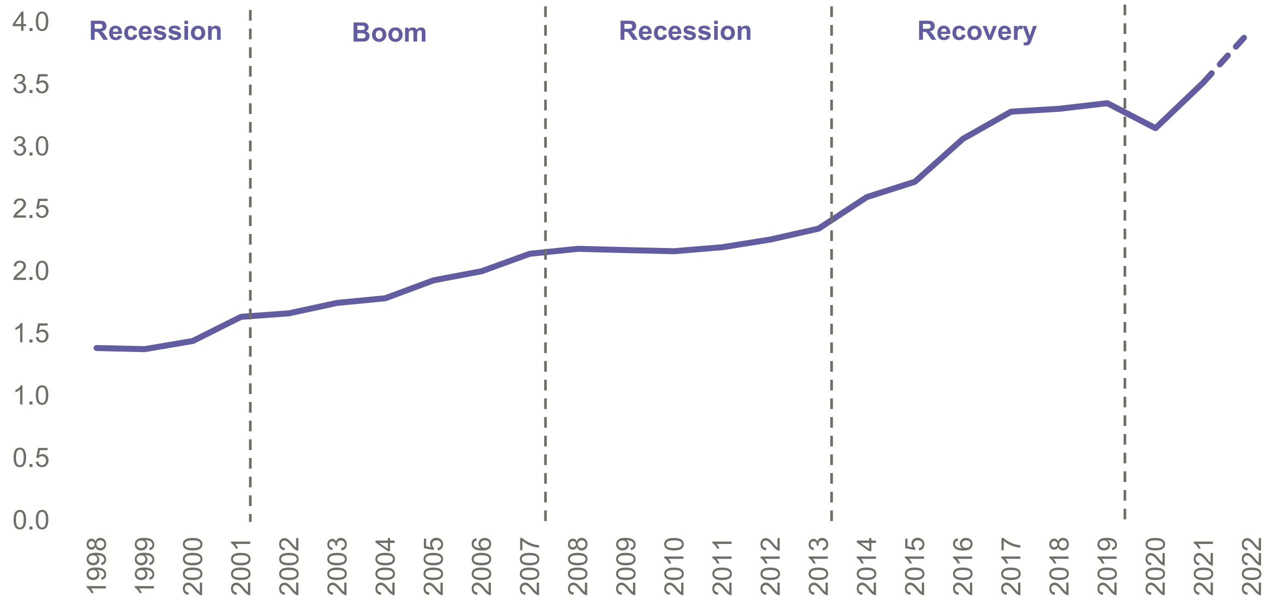
Legacies have historically proven resilient when times are tough

Over the past three decades, total UK legacy income has grown from £0.8bn in 1991 to £3.5bn in 2021 – an impressive annual growth rate of 4.4% p.a[4]. By the end of 2022, we forecast that legacy income will reach a record £4bn, an increase of 14% on 2021.

After taking into account inflation, income is up by 2.6% p.a., which represents a doubling in the real value of gifts in wills to UK charities over 30 years.

Legacy incomes fluctuate in line with the economy – during periods of growth we tend to see legacy incomes rising rapidly and when the economy struggles, legacy income growth tends to slow. However, despite having faced recessions, global financial crises, house price crashes and years of government austerity, legacy income has proven relatively resilient – income has fallen in just 6 years out of the last 30 years. This was highlighted during the recent pandemic when many of our Consortium members found themselves dependent on legacy incomes at a time when many other income sources were drying-up.

UK cash legacy income, £bn



Source: Legacy Foresight market model

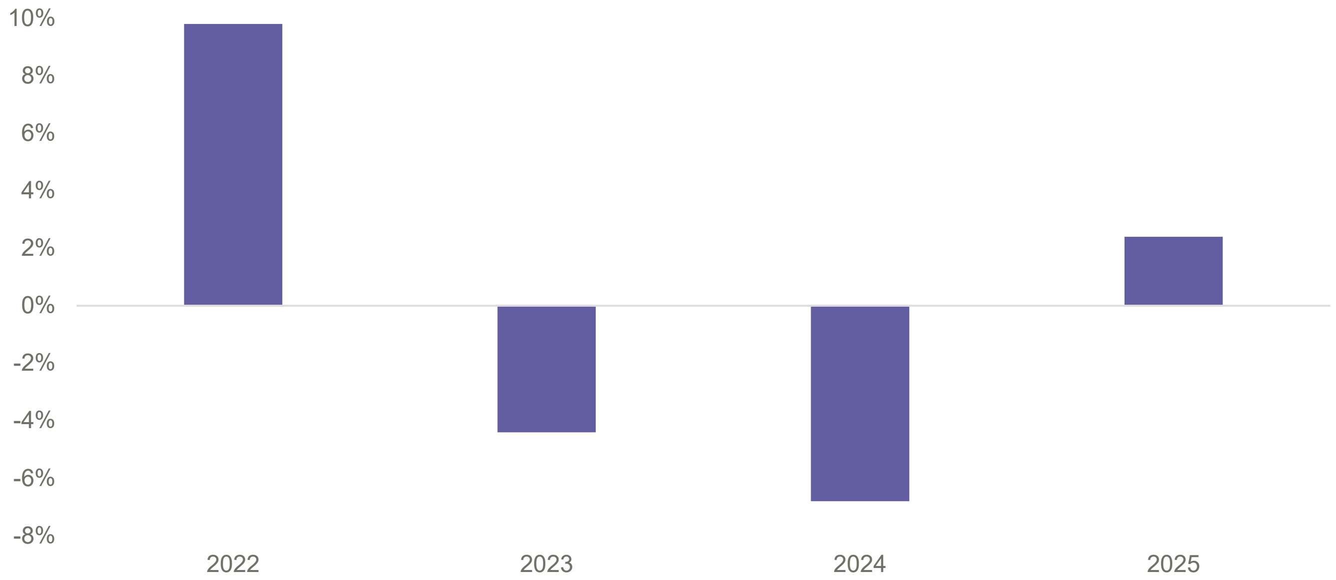
However, do we expect this resilience to last in the face of the economic and political turmoil currently gripping the country?

The biggest risk in the near-term is likely to be falling house prices

Around one third of the average charitable estate for Legacy Monitor clients is made up of property. As such, it's no surprise that we see the biggest risk to legacy incomes in the near term coming from falling house prices. If house prices fall, then the average value of residual gifts (expressed as a % of the total value of an estate) is likely to decline.

With household budgets being squeezed and interest rates expected to rise it is now expected that house prices could fall by as much as 12-13% between 2022 and 2024. This is likely to put downward pressure on average residual values over this period.

Forecast UK house price growth, %



Source: Oxford Economics

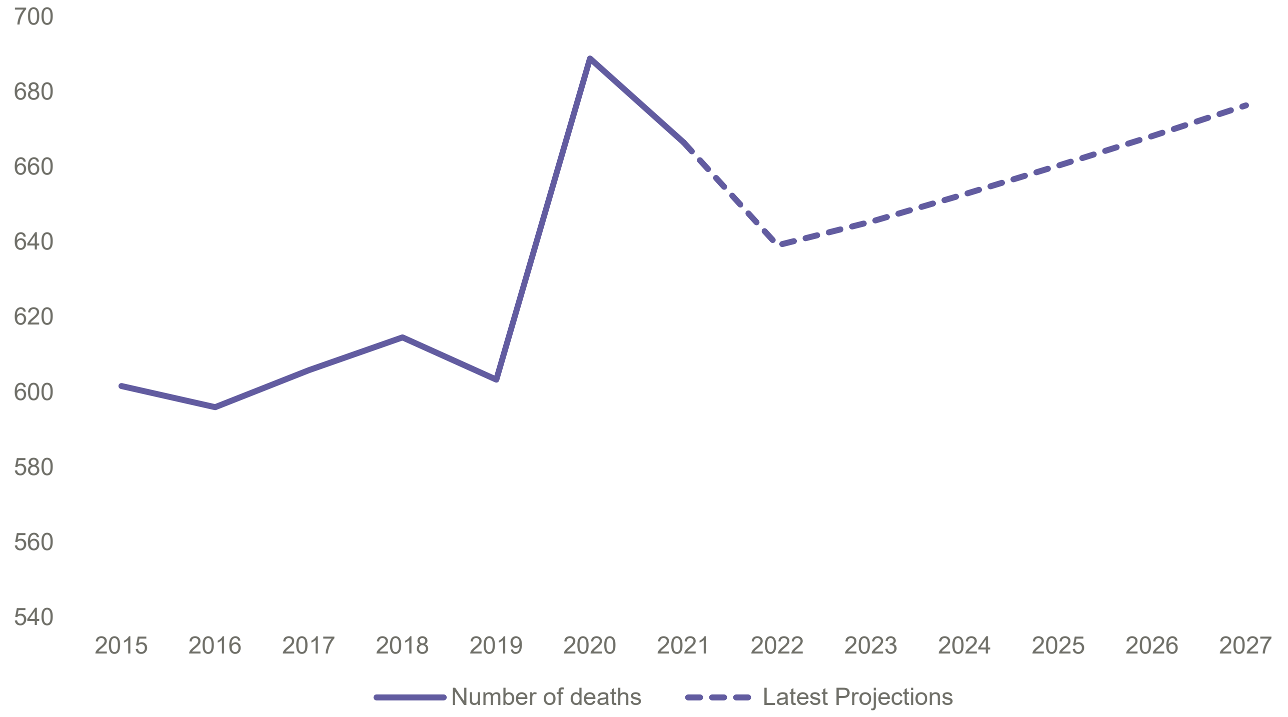
We believe that the average value of residual gifts will fall by around 3% between 2022 and 2024[4], but this fall could be higher if we see more substantial falls in house prices and share prices.

However rising deaths will support an increased number of gifts

Deaths are a key driver of legacy income – put simply, more deaths in any given year should in theory lead to more bequests, so looking at death trends is a key element of any legacy market analysis.

The ONS recently released their latest death projections (updates are released every two years). We are now expecting to see almost 700,000 annual deaths by 2030. To put this into context: in 2030, we are expecting to see 100,000 more deaths than we were seeing pre-pandemic, which is more than the extra deaths we saw each year during the pandemic. So, in just 8 years' time, we'll be seeing an additional 'pandemic' of deaths each year.

UK deaths, 000s



Source: Office for National Statistics, Legacy Foresight

Over the five years from 2023-2027 we expect this growth in the number of deaths to lead to an increase in the average number of bequests received by UK charities - bequest numbers in this period will be around 11%[4] higher than over the previous five years.

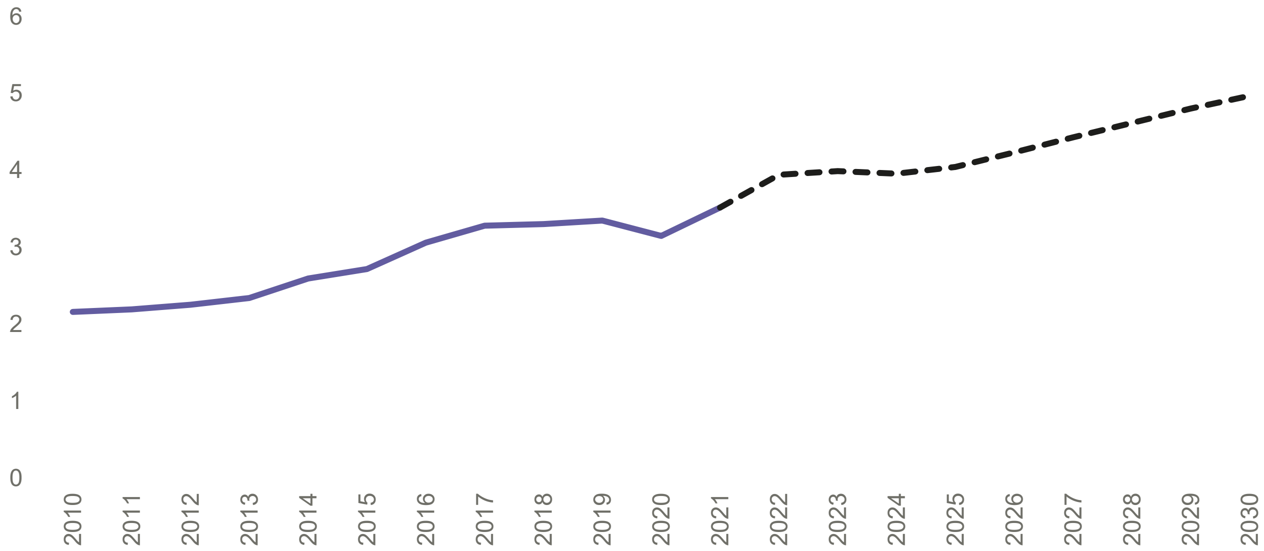
The other factor impacting bequest numbers in the short term is the potential bounce back of bequests that are still 'stuck' in the system as a result of issues in the estate administration process that started in 2019. While problems in the administration process have mostly been resolved, and bequests are back to the levels we would expect to see based on the number of deaths, we still haven't seen the catch up of the missing bequests. We believe that the equivalent of more than £300m of legacy income[2] is still stuck in the system and the timing and extent of this recovery is a significant source of uncertainty for the legacy market over the next few years.

Legacy incomes are likely to remain broadly static

The gathering economic storm clouds mean that our legacy market outlook is more subdued than it has been in previous years, however, we don't expect significant reductions in legacy incomes. Legacy income is likely to remain broadly static for a few years before returning to growth.

The growth in the number of gifts driven by the expected increase in the number of deaths, is likely to largely offset the impact of reduced average values. This will leave legacy income at around £4bn from 2022-2024 but return to growth in 2025 and rise to £4.4b by 2027.[4]

Total UK legacy income, £bn



Source: Legacy Foresight market model October 2022

It is good news for charities that legacy incomes are likely to hold up, even in the face of such a challenging economic environment. However, with charities facing rapidly rising costs, the real value of these legacies – effectively the amount of services or charity activities they will be able to support - is likely to decline in the near term.

Given the squeeze on household budgets that we are seeing, it is possible that other sources of charity income may well be more adversely affected than legacy income so we expect legacies to retain their position as a resilient source of income over this uncertain period.

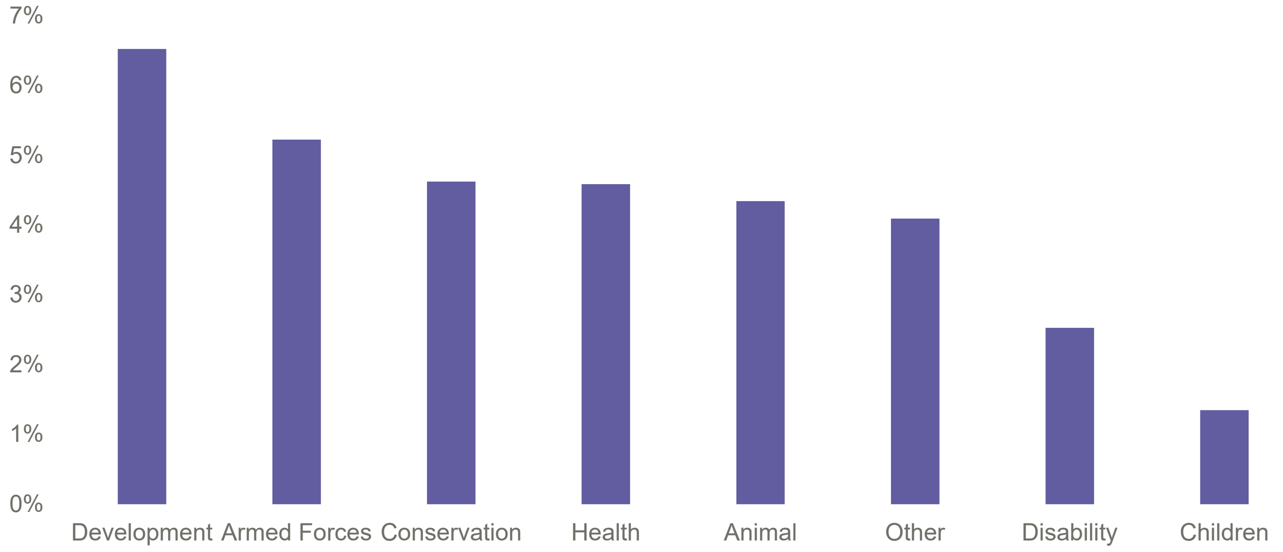
Legacy Foresight will continue to monitor developments relating to the cost-of-living crisis, the UK political situation and estate administration processes over the coming months and will provide updates to the sector on the potential impact on the UK legacy market.

But trends vary significantly by charity size, age and sector

The experience of individual charities can vary significantly from that of the overall market and in these difficult times it will be important to consider this. Income in any one year can be heavily influenced by individual large gifts and charities of different size, age and sector can have very different experiences. For example[5]:

- Medium (£1-10m legacy income) and large (£10-25m legacy income) legacy charities are reporting the fastest growth rates over the last 10 years, of 6.0% p.a. and 4.5% p.a. respectively
- Charities founded in Victorian times or earlier now account for 30% of the legacy market; those founded in the first half of the twentieth century represent 31%; charities founded in the 1950s and 1960s account for 15%, while contemporary charities (founded after 1970) now account for the remaining 24%
- Newer charities are seeing the fastest growth rates, albeit from a low base. The average contemporary charity in the top 1,000 legacy charity group receives just £1.2m p.a. in legacy income, but that income is growing by 6.3% p.a.
- The fastest growing sectors are international development (6.5% p.a.), armed forces (5.2% p.a.) and conservation and health (4.6% p.a.) charities. Meanwhile children and disability sectors are the slowest growing, at 1.3% p.a. and 2.5% p.a. respectively

Legacy income growth by sector, 2010/11-2020/21, % p.a.



Source: Top 1,000 legacy charities drawn from the Charity Commission Register of Charities 2020/21

Charities need to keep informed and remember the bigger picture

As we navigate through this challenging environment, it will be more important than ever for you to analyse your performance against your peers and the overall market to try and understand whether fluctuations in income are likely to be temporary shocks or part of a wider trend. This will be key in helping you to maximise your legacy fundraising potential and to communicate with senior stakeholders within your organisation.

And, while the next few years may see legacy income grow less quickly than we have seen historically, the future is still rosy - looking further ahead, our market projections are still very positive. Thanks to the size, wealth, and lifestyles of the baby boomer generation, we predict that incomes will double in real terms by 2050.

More about Legacy Monitor

Legacy Monitor is a consortium programme to benchmark, analyse and forecast trends in legacy giving. Performance data drawn directly from our members' legacy management systems are combined with big picture economic and social trends to create an in-depth analysis of the British legacy sector.

Since our first benchmarking project in 2002, the Legacy Monitor Consortium has grown to 82 charities, representing almost half of all UK legacy income. This year, our members received £1.7bn in legacy income and 57,475 bequests.[1]

The wide range of members ensures that all sectors, ages and sizes of charity are well represented. From super-brands to rising stars, our Consortium covers over half of all UK legacy income.

Legacy Monitor will help you to:

- Keep up to speed with the latest trends
- Assess your performance against the market and your closest peers
- Develop your legacy fundraising strategy and plans
- Produce income forecasts and targets
- Raise internal awareness of the drivers of legacy giving
- Network with fellow legacy professionals
- Shape collaborations with other charities

Legacy Monitor operates on an annual cycle, January – December. New members are invited to join each autumn. If you'd like to find out more, get in touch with Caroline Waters c.waters@legacyforesight.co.uk

About Legacy Foresight

Legacy Foresight has been at the forefront of the UK legacy and in-memory markets for almost 30 years, providing data, insight and forecasts that have helped shape the legacy sector.

Since its first project in 1994 it has worked with over 200 charities, including the top 20 UK fundraising brands and a growing number of international clients.

In addition to the Legacy Monitor, Legacy Foresight provides bespoke legacy income forecasting services to over 40 charities, projecting legacy income and donor numbers to aid financial planning and risk management.

Legacy Foresight is part of the Legacy Futures group of gifts in Wills and In Memory giving consultancies, alongside Legacy Voice and Legacy Link. The group is dedicated to helping charities worldwide harness the transformative power of legacy giving.

Appendix: Key legacy statistics

The size and shape of the legacy market

- In 2021 total UK legacy income was worth £3.5bn, coming from 129,000 bequests[4]
- In 2021 the average residual bequest value (including 'other' bequests) across the sector was £54,500, while the average pecuniary bequest was worth £4,050[4]
- 93% of legacy income comes from residual and 'other' bequests[4]
- For our Consortium, 56% of income comes from just 8% of bequests[1]
- The top 1,000 legacy charities in England & Wales account for over 70% of all legacy income. The rest goes to a myriad of smaller charities, churches and community groups, plus charities based in Scotland and Northern Ireland[5]
- The top 10 legacy charities account for over 24% of all legacy income and these include household brands such as CRUK, RNLI, BHF and Macmillan[5]
- For the top 1,000 legacy charities, legacies represent 26% of fundraised income and 13% of total income[5]
- Health is the largest legacy sector, accounting for 39% of the total. Other important sectors are animal charities (15%), international development (8%), conservation (7%), and disability (6%). Meanwhile, legacy super-brand RNLI accounts for a further 6%[5]

Wills at probate and charitable bequests

- Taken together, around 40%[2] of all UK deaths lead to a will at probate – this is the prime target audience for charities when it comes to legacy fundraising
- 89% of wills at probate were from England & Wales, 8% from Scotland and 3% from Northern Ireland[2]
- 15% of wills at probate are now charitable, up from 13% in the late 1990s[3, 4]
- On average, there are 3.3 charitable gifts per will. 37% of charitable wills contain just one bequest; 21% contain two [3]
- Notwithstanding the recent disruption, the number of charitable bequests has risen by almost 50% over the past 3 decades – from 75,000 in 1990 to 129,000 in 2021[4]
- Over the next ten years we expect to see bequest numbers grow to 141,000 in 2030 – around 18% up on 2018 (the year before the administrative delays began)[4]
- The average time for a residual bequest between last will and a charity receiving the income is just under 9 years[1]

Key sources

[1] Legacy Monitor Consortium 2021/22
[2] HMCTS, English Family Courts, Department of Justice Northern Ireland, Scottish Courts
[3] Smee & Ford
[4] Legacy Foresight market model
[5] Top 1,000 legacy charities drawn from the Charity Commission Register of Charities 2020/21