



## Calculating Present Value of Bequests

Planned Giving Manager can help you calculate the present value of bequest intentions of a known dollar amount and other future lump sums. There are two approaches you can use:

1. Estimate the probability the donor will die each year (triggering the bequest) and factor that probability into the present value of the bequest amount.
2. Determine a life expectancy for the donor, then discount the bequest amount by the same number of years as the calculated life term.

We recommend method (1) as the more accurate approach to determining the present value of a bequest intention. This method weights the value to properly reflect the probability that the bequest might occur in any particular year. Method (2) assumes the bequest occurs at the end of the donor's life expectancy, not before or after. Either method will work best if you know the dollar amount of the bequest, but you can also make your best guess just for the purpose of the projection.

Here are the steps to follow to calculate the present value of a future bequest using either method 1 or 2.

### **Method 1**

1. Choose Program 1, *Deduction Calculations and Narratives*.
2. Select the *Actuarial Calculations* chart.
3. Enter the date on which you would like to know the present value of the asset as the *Date of Gift*. Then enter a rate in the *IRS Discount Rate* field (e.g. 6%) to be used as the present value factor over the term of years.
4. Enter the birth date(s) or current chronological age(s) of the beneficiary(ies). If entering ages, use the number of the closest birthday if you know it. This might cause you to increase or decrease one or both of the ages by 1 year. This accounts for actuarial aging done inside PGM.
5. Enter the face value of the bequest as the *Value of Transferred Property*. The cost basis does not matter here, so use the default.
6. Choose *Retained Life Estate* as the *Gift Option* and enter \$0 as the value of the depreciable portion.

7. Click on *View* to see the Actuarial Calculations chart. The "*Charitable Deduction*" amount is the present value of the bequest.

## **Method 2**

1. Choose Program 3, Life Income Projections.
2. Select the *Summary of Benefits* chart.
3. Enter the date on which you would like to know the present value of the asset as the *Date of Gift*. Then enter a rate in the *IRS Discount Rate* field (e.g. 6%) to be used as the present value factor over the term of years.
4. Enter the birth date(s) or current chronological age(s) of the beneficiary(ies). If entering ages, use the number of the closest birthday if you know it. This might cause you to increase or decrease one or both of the ages by 1 year. This accounts for actuarial aging done inside PGM.
5. Enter a Year Projection Ends that reflects the life expectancy of the income beneficiary(ies). PGM defaults to the current expectancy table. If you would like to use another expectancy, you will need to know the expectancy from your file, or change your date of gift so PGM can reference a different expectancy table.
6. Enter the face value of the bequest as the Principal Value. The cost basis does not affect this calculation, so just use the default value.
7. The income tax rates do not affect the calculation. You can leave the defaults as they are.
8. Choose *Kept Intact* under *Gift Options*.
9. Enter *No Sale*, and enter \$0 for the income, capital appreciation, and management fees under *Investment Assumptions*.
10. Do not make any choices under *Wealth Replacement*.
11. Open *Display Present Values* and choose *Yes* to the first question. Then enter a rate (e.g. 6%) to be used as the present value factor in the years until you expect the beneficiaries to be deceased. The higher the rate you enter, the lower the calculated present value will be.

12. Choose *View* to see the *Summary of Benefits* chart. The Donor Principal amount is the present value of your bequest.

In Method 2, you have assumed that the owner of the funds, which is your charity, has kept them, has not invested them for any growth, and that the value of the funds over time has been factored by the rate you entered under *Display Present Values*. The resulting calculation captures the decreasing purchasing power of the funds measured in current dollars.

If you have additional questions about this or any other topic relating to PG Calc software or services, please call Dyke Tilt, Jeff Lydenberg, Nancy Cioto or Bonnie Weinberg in PG Calc Client Services at 888-474-2252 (888-4PG-CALC).