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Uncovering the Philanthropic Potential

Canadian Association of Gift Planners

Vancouver BC April 2008

AGENDA

- Donors defined
  - Who's giving
  - Who's not
- A new definition of philanthropy
- What are the barriers?
- A new planning paradigm
- Some planning ideas
- Closing thoughts

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Donors Defined

- $ donated by whom
  - 80/20 rule
  - Age
  - % of income
- Time donated by whom
  - Youth
  - Retired

Donor Motivation

- 94% feel compassion to those in need
- 91% want to help a cause in which they believe personally
- 69% have been personally affected by the cause (up from 65%)
- 58% believe they owe something to the community
- 31% want to fulfill their religious obligations or beliefs (down from 34%)
- 13% want an income tax credit (up from 11%)

Why **donors** don't give

- 51% want money for future needs
- 46% want to spend the money elsewhere
- 47% don't like the way the request was made
- 46% think the funds will be used inefficiently
- 36% give directly to individuals
- 26% volunteer instead
- 15% can't find an organization worth supporting
- 9% don't know where to make a contribution.

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A New Definition of Philanthropy

- Philanthropy traditionally has been defined in tax or financial terms
- Expanded to include donations of time and talent to the 'Charitable' sector
- Efforts of planner and charitable sector has been directed to those with excess financial capacity
- We are missing a significant portion of the population who don't have excess capacity

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A New Definition of Philanthropy

- What if we defined it as

  'RELATIONS OF CARE'
- How many of us do not have excess capacity?
- How many have not achieved financial independence?
- How many of us are just trying to do the best we can?

A New Definition of Philanthropy

- How can our planning with clients affirm what they have done and what they are trying to do?
- Can we spend more time uncovering what gets them excited, what they value, what their passion is?
- Can we start to direct their planning to reflect this passion?

A New Definition of Philanthropy

- A values conversation that examines their past inherited values, attitudes and preferences
- How are they currently trying to make a difference with respect to themselves, their family, friends, and community?
- What values attitudes and preferences are they trying to pass on to successive generations?

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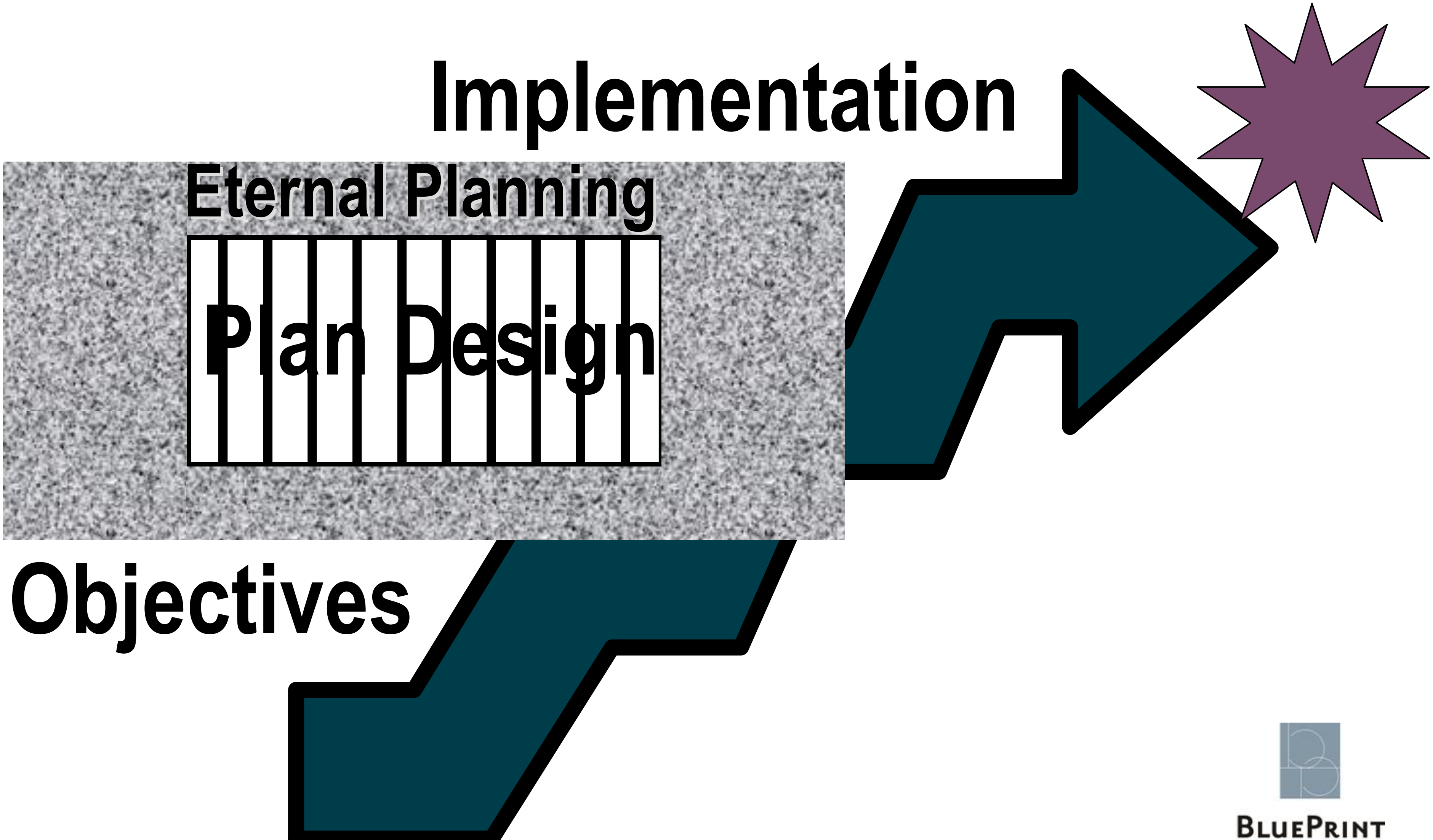
The Planning Process



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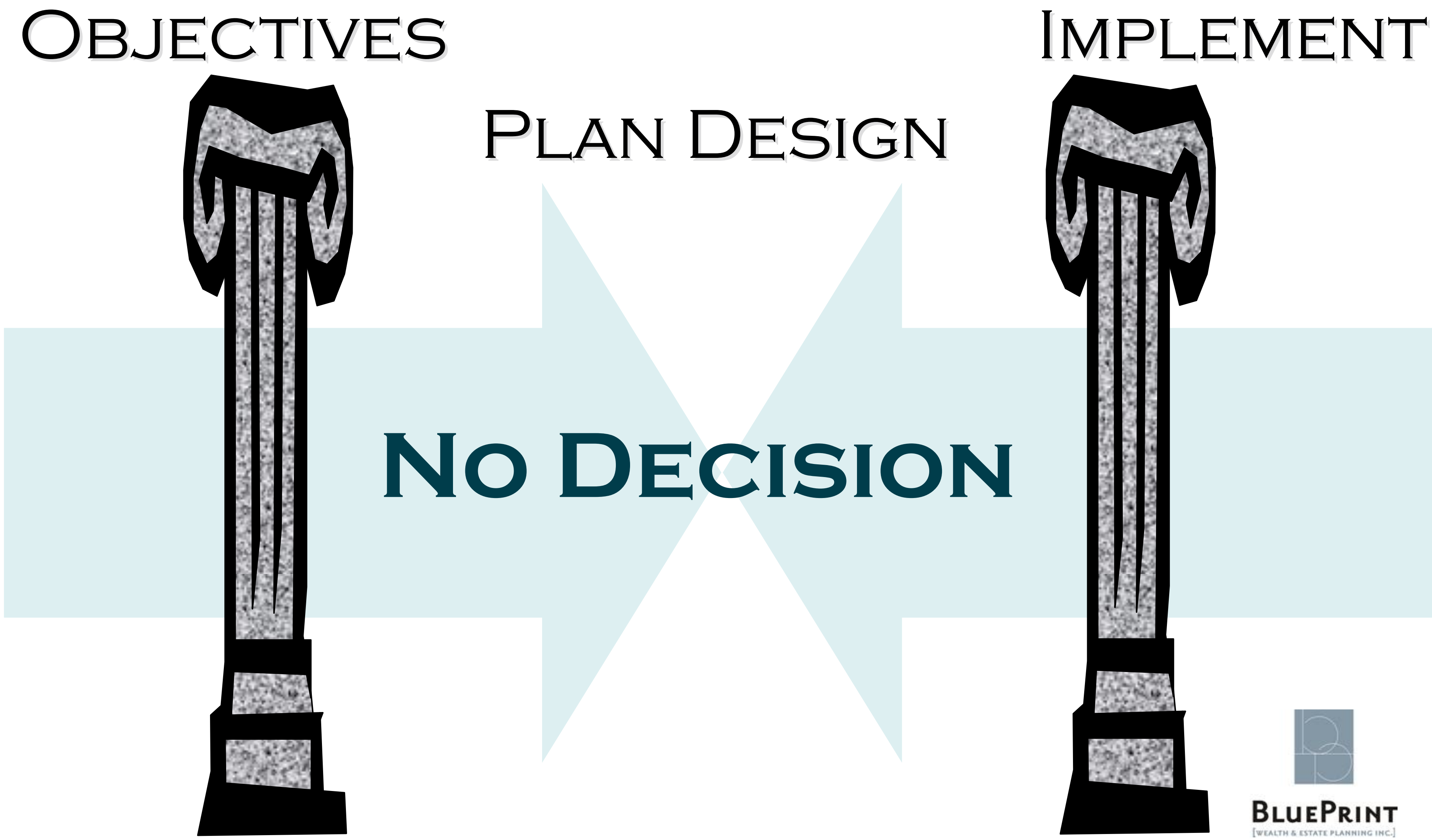
Eternal Planning



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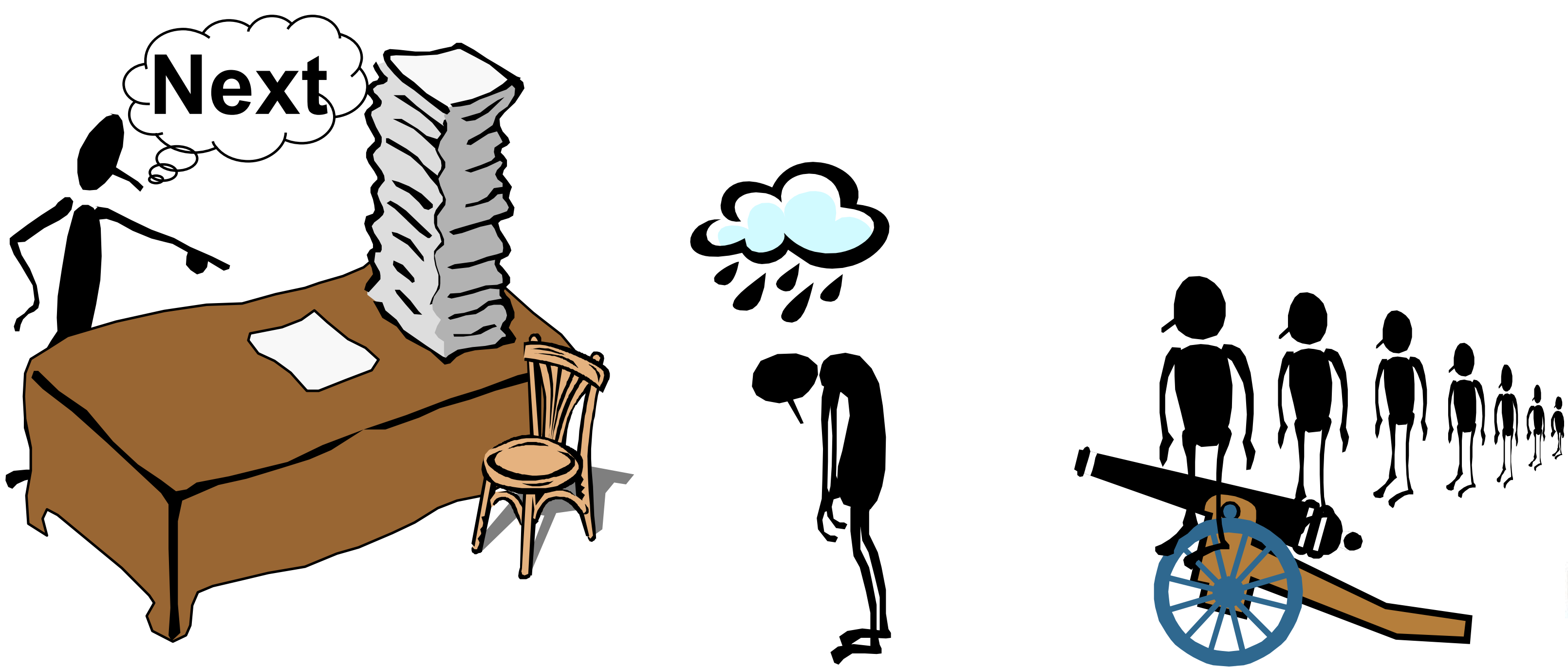
Why are Individuals Trapped in Eternal Planning?

Individuals enter the planning process reluctantly, with only a vague idea of what they can accomplish.



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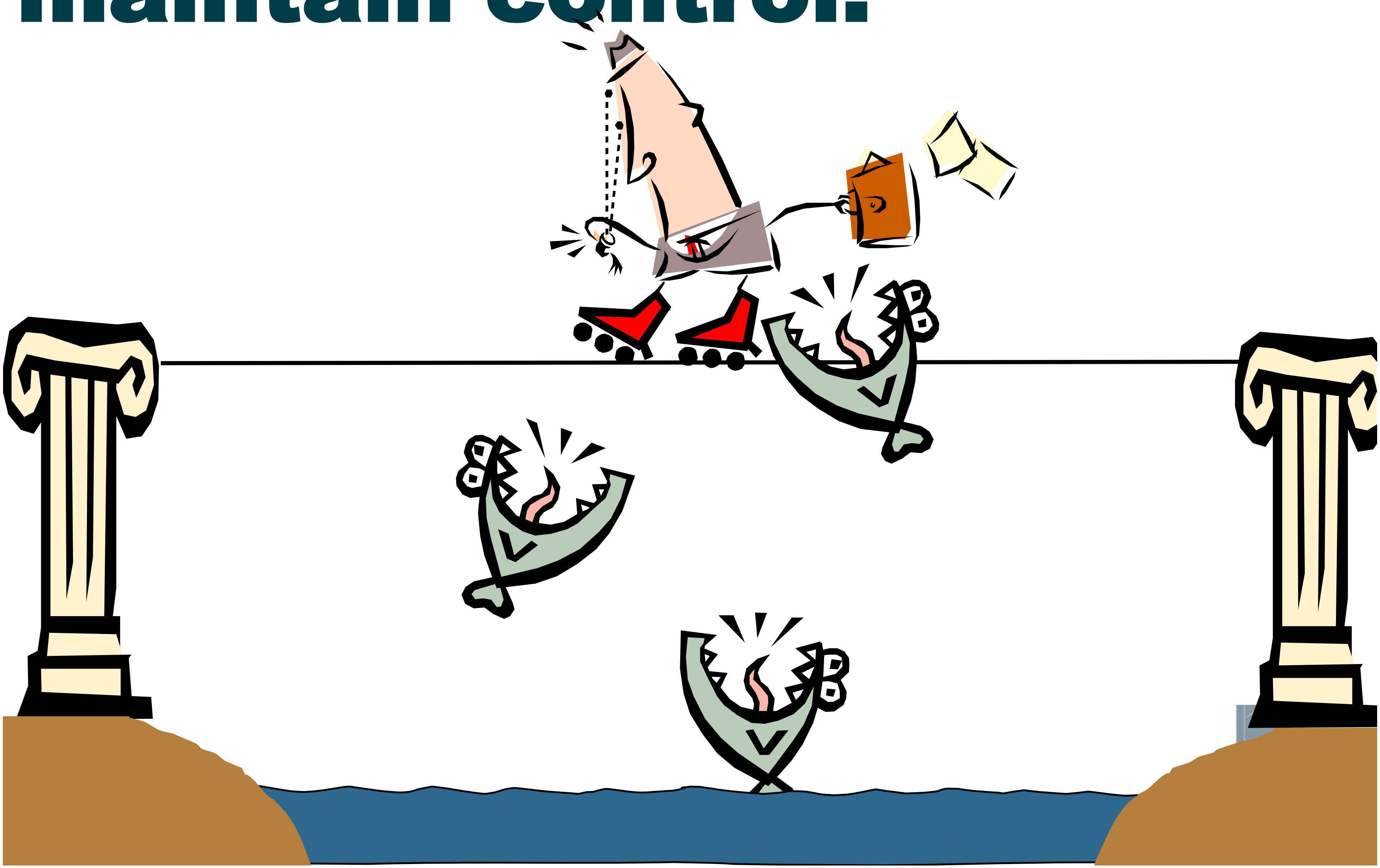
Individuals want to maintain control.



Individuals face many dilemmas in the planning process.

Me
Heirs
Charity
Heirs
Charity
Me
Me

Heirs
Charity
Me
Heirs
Charity
Spouse
Myself

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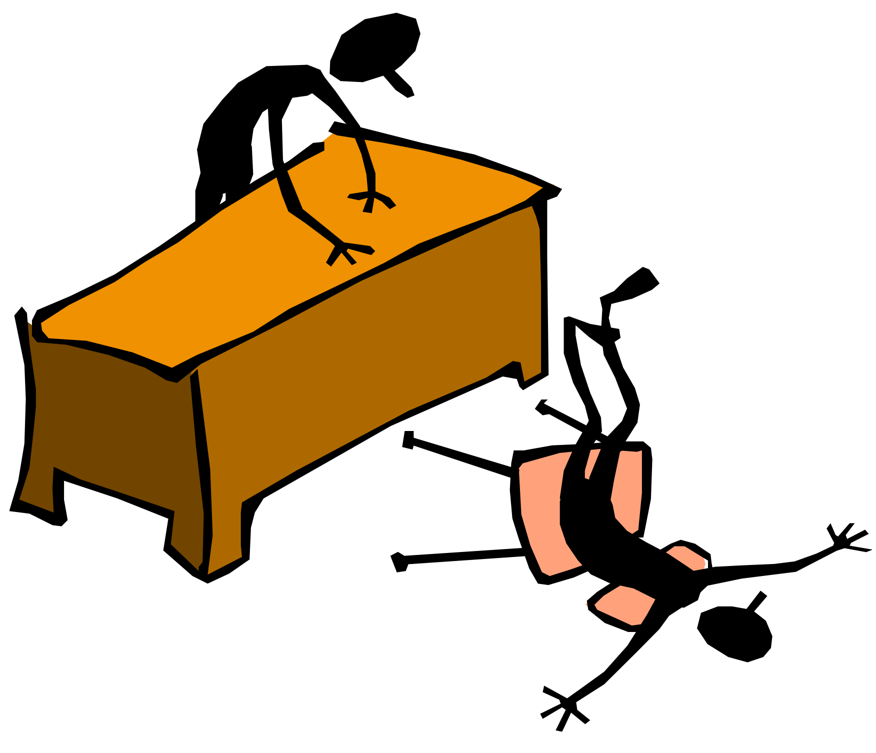
Individuals are often overwhelmed by complex planning strategies.



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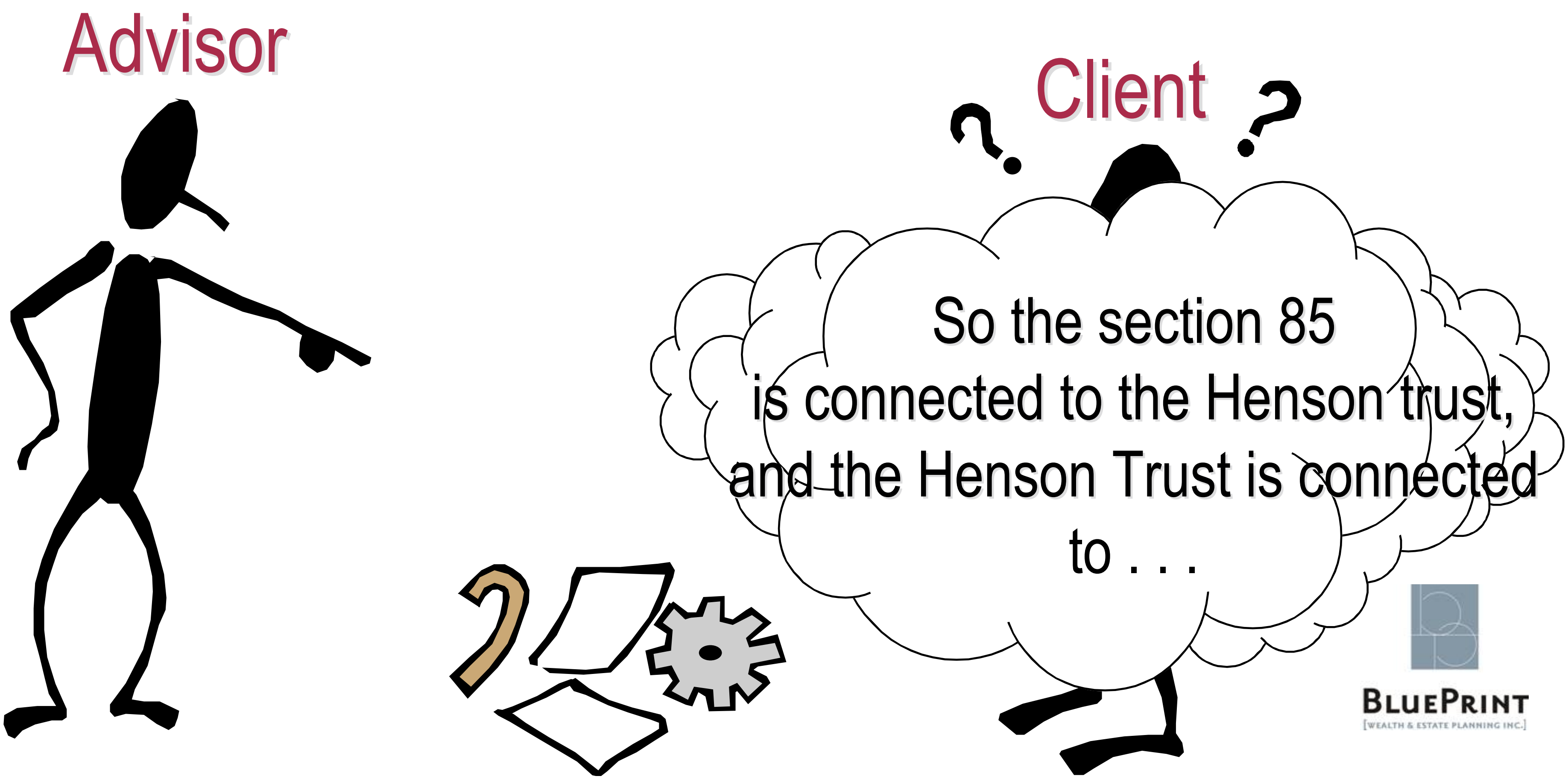
Individuals are often left in the clouds with technical jargon.



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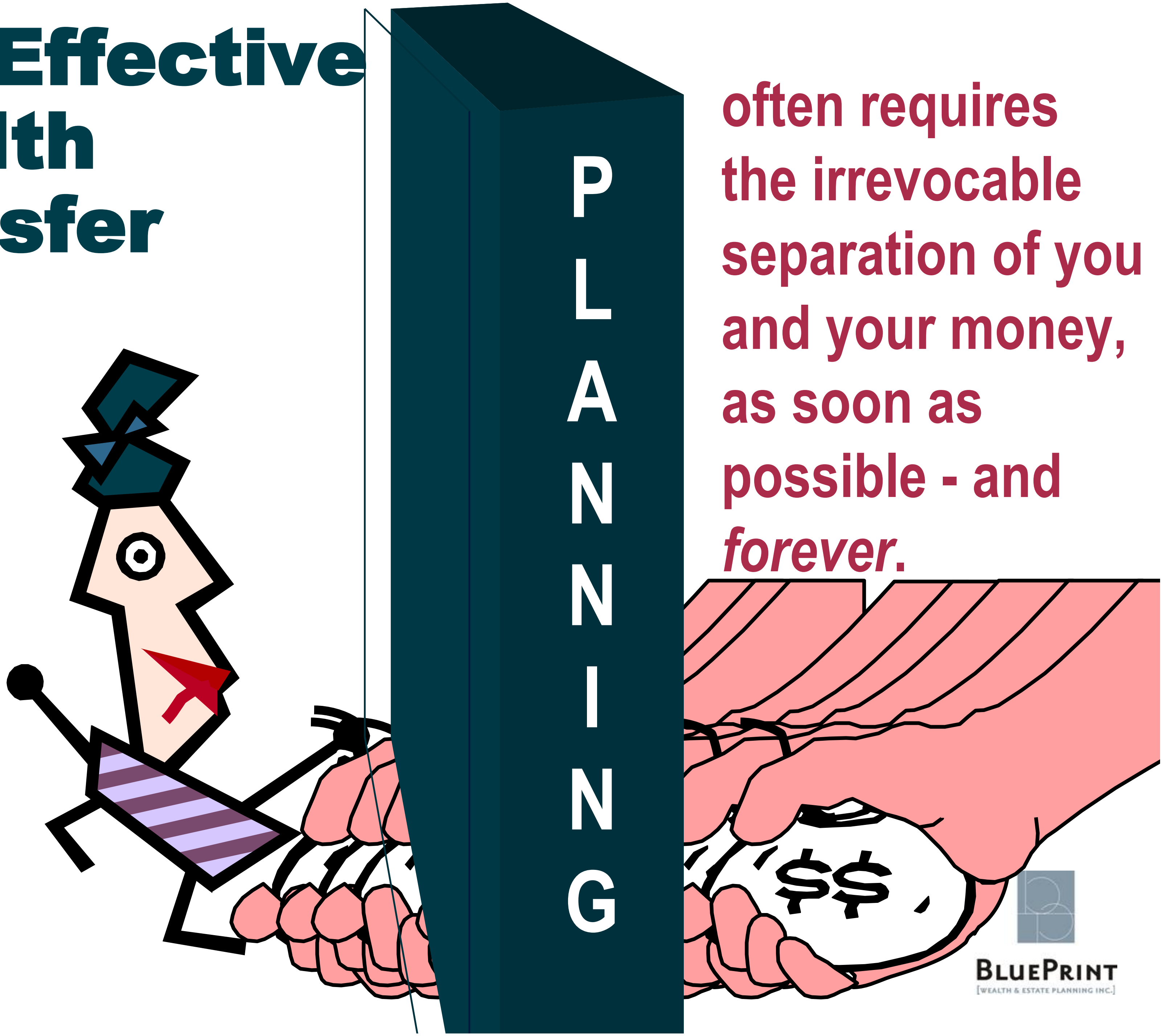
Tax Effective Wealth Transfer



often requires the irrevocable separation of you and your money, as soon as possible - and *forever*.

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Individuals face emotional barriers to strategies that involve charitable gifts.

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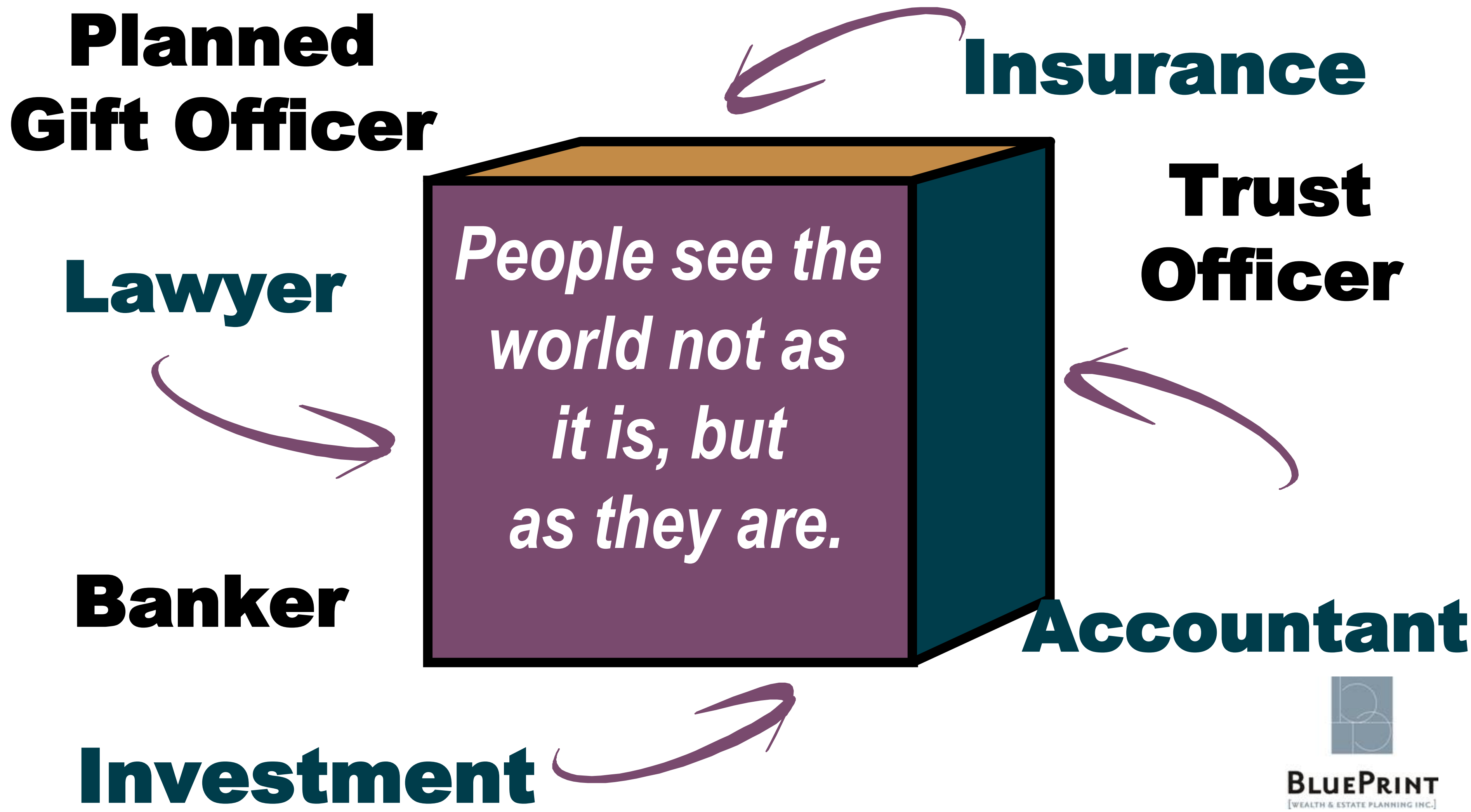
Individuals are concerned about advisor bias.



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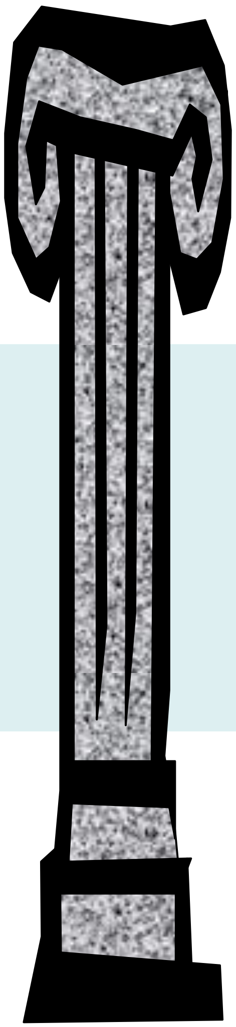
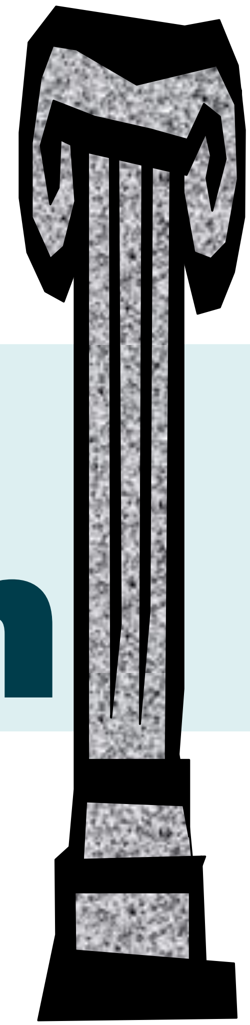
Eternal Planning

OBJECTIVES



PLAN DESIGN

IMPLEMENT



No Decision

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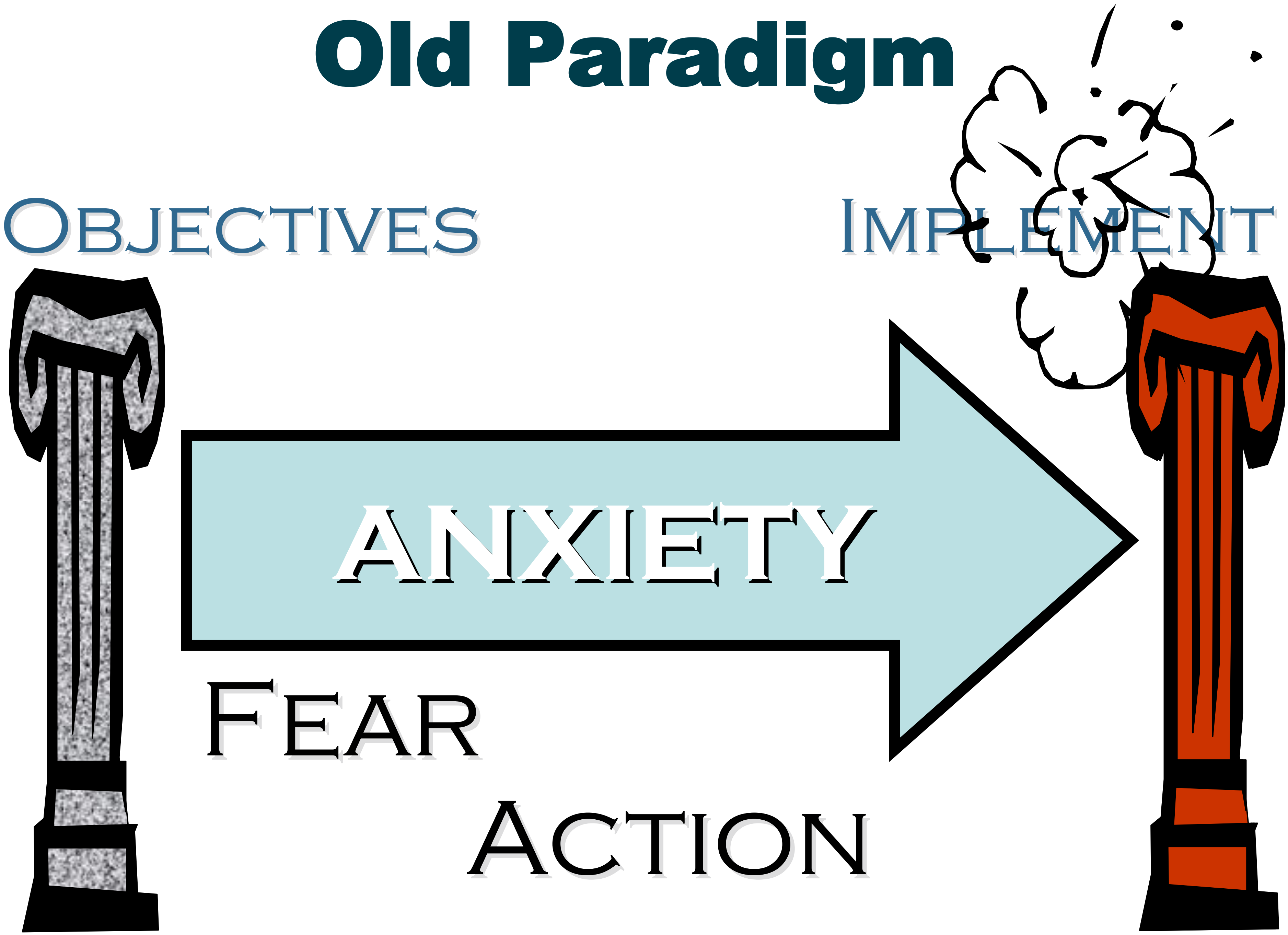
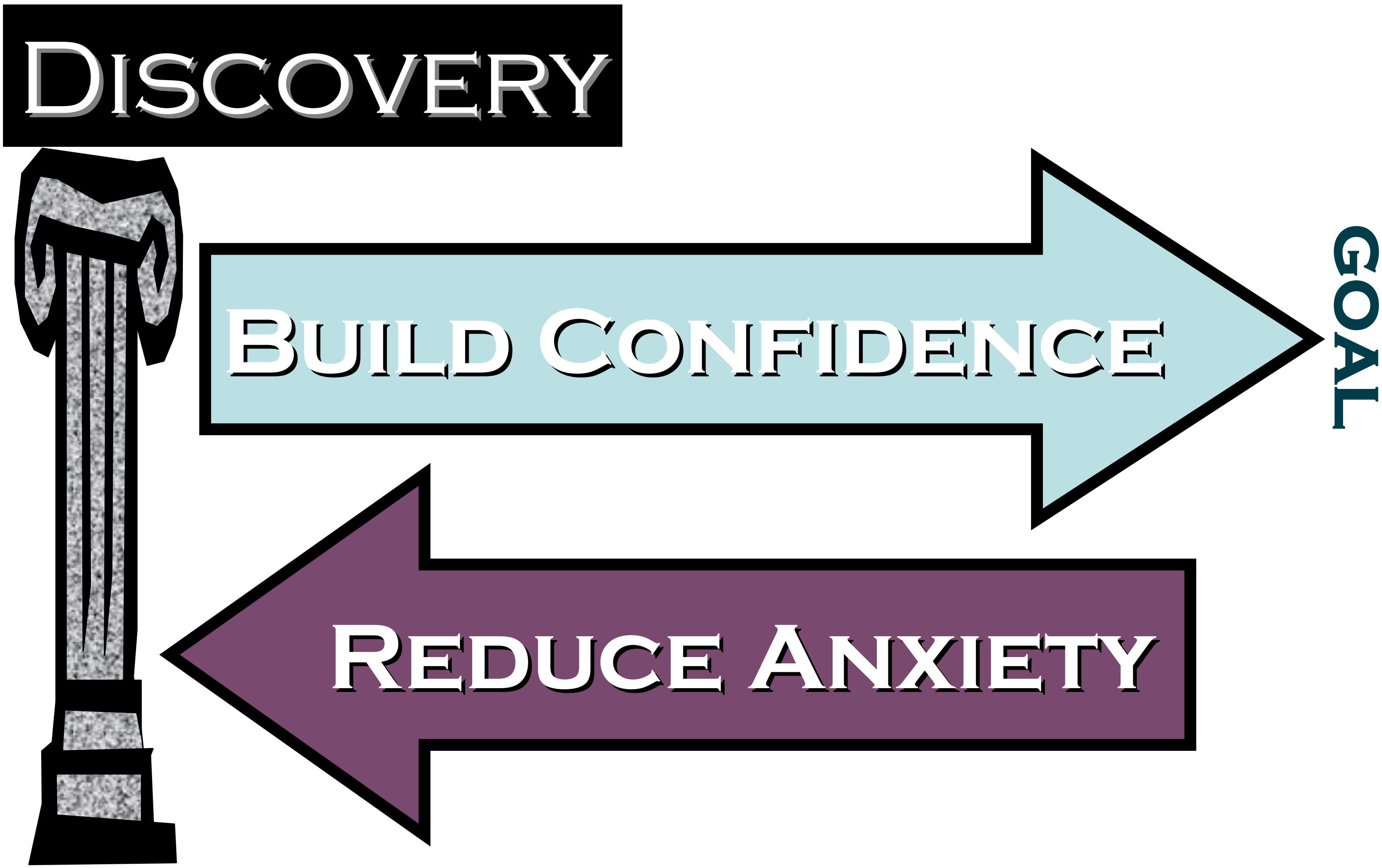
Old Paradigm



New Paradigm



Values-Based Estate Planning?

Values	A principle, standard or quality considered worthwhile or desirable.
Base	A fundamental part.
Estate	Everything one owns.
Plan	A program or method thought out ahead of time for the accomplishment of a goal.

A clearly thought out program, based upon principles, standards and qualities considered worthwhile, designed for the accumulation, management and transfer of everything one owns.

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The Seven Principles of Values-Based Planning

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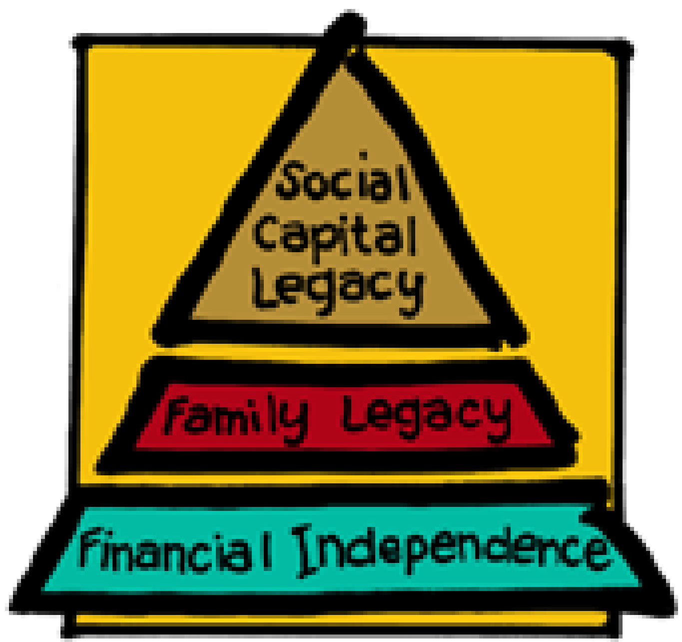
Understand The Hierarchy of Planning Objectives



Principle #1

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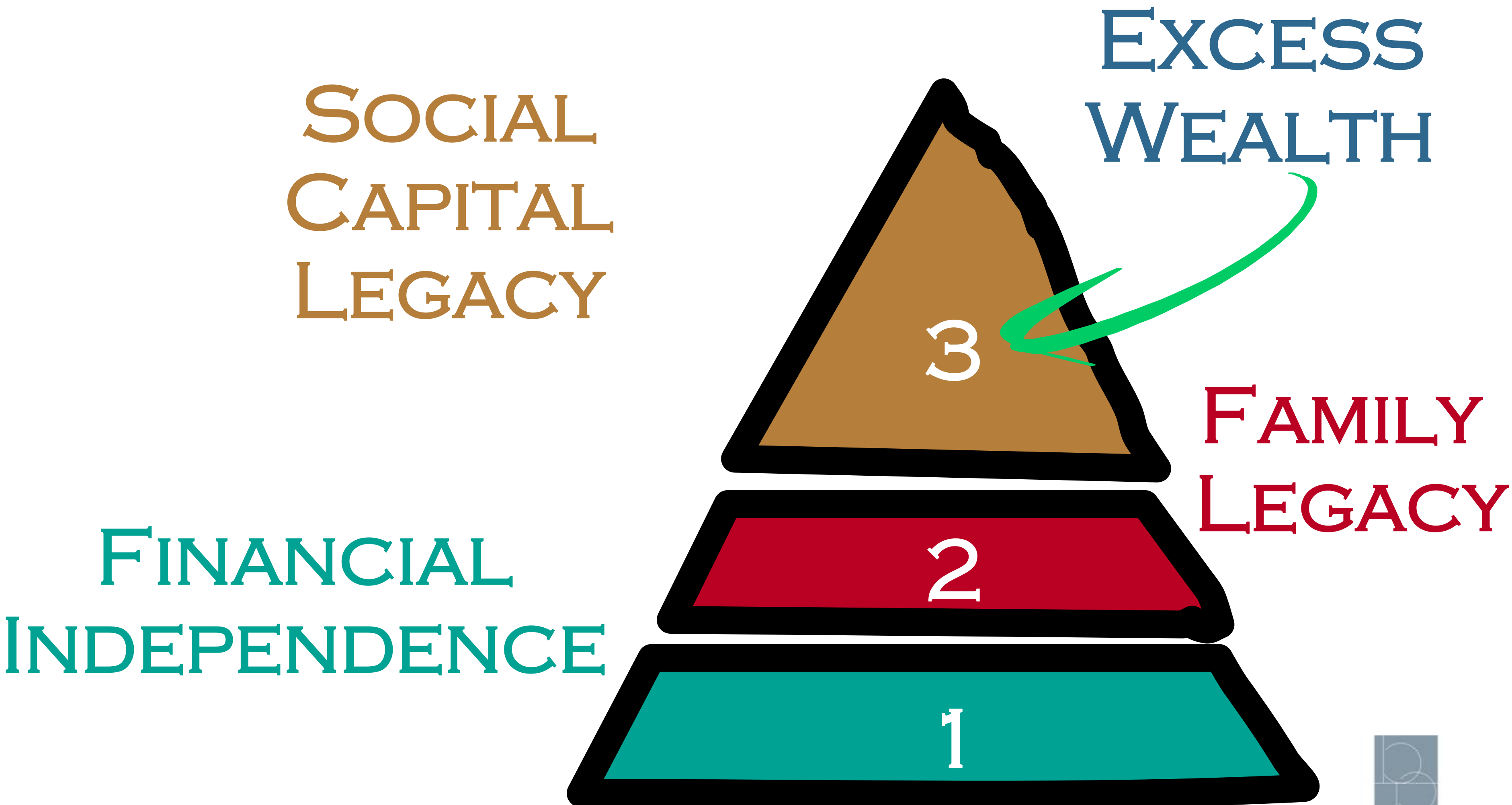
Hierarchy of Objectives



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Master the Concept of Social Capital

Principle #2

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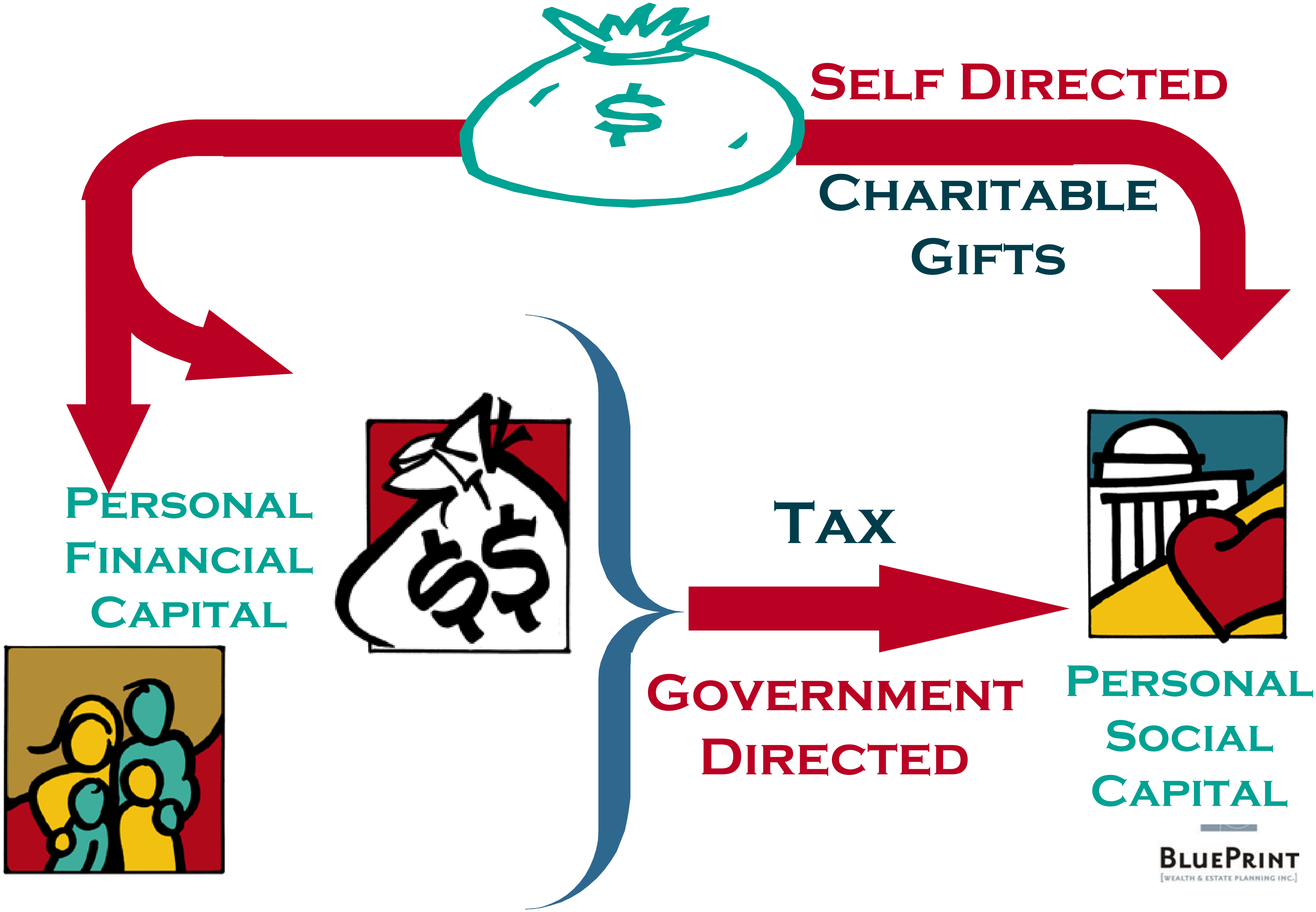
Total Wealth



Define Your Financial Philosophy

Principle #3

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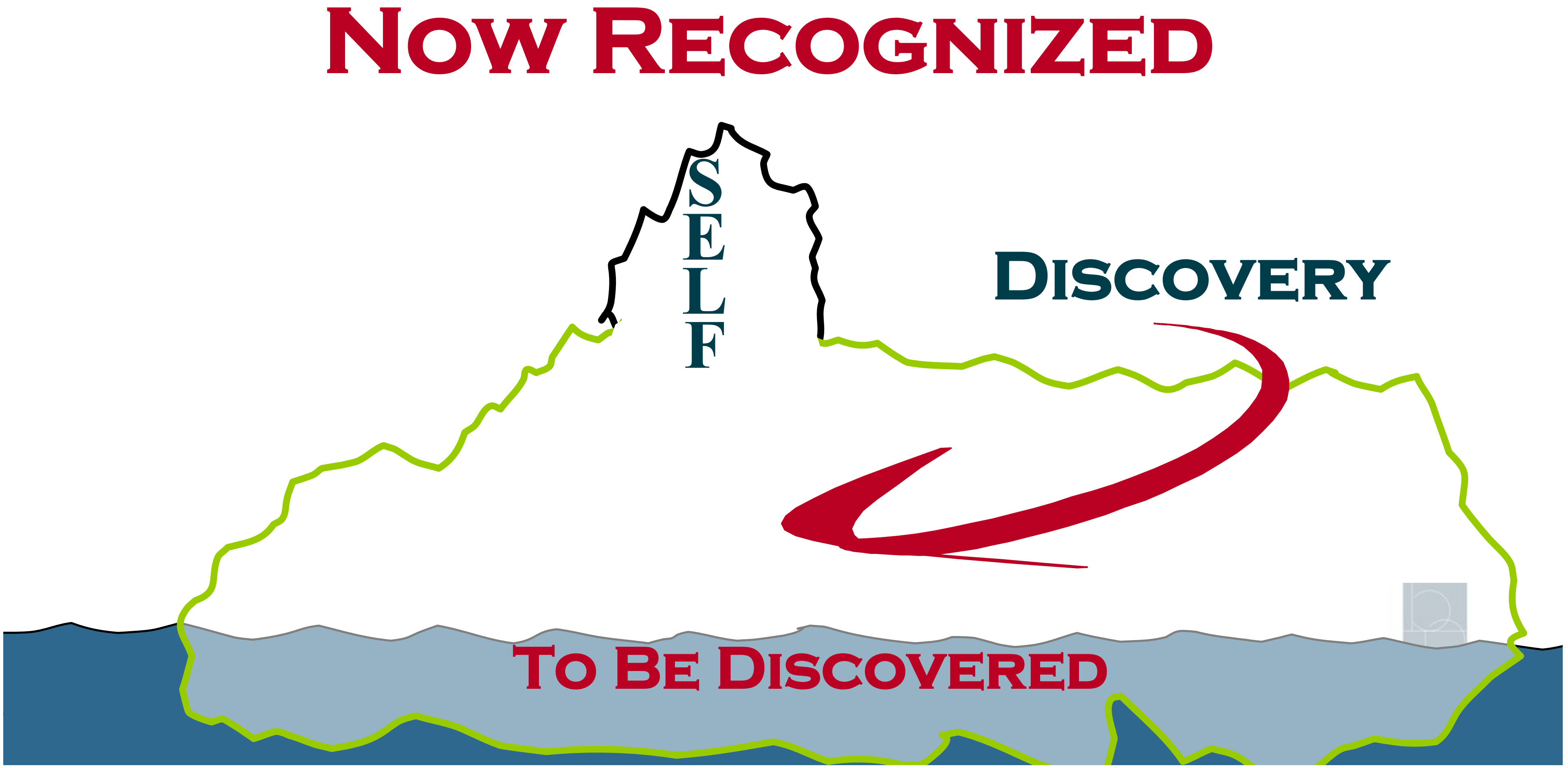
The Discovery Process

Now Recognized

The Discovery Process



The Smith Family Financial Philosophy

Purpose

Legacy Biography

Responsibilities and Obligations

Philosophy of Wealth

Primary Planning Goals

Financial Independence

Family Legacy

Social Capital Legacy

Acknowledgment

Present

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Quantify Your Financial Independence

Principle #4

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Reality vs.. Perception

Reality

Perception

Planning Paralysis

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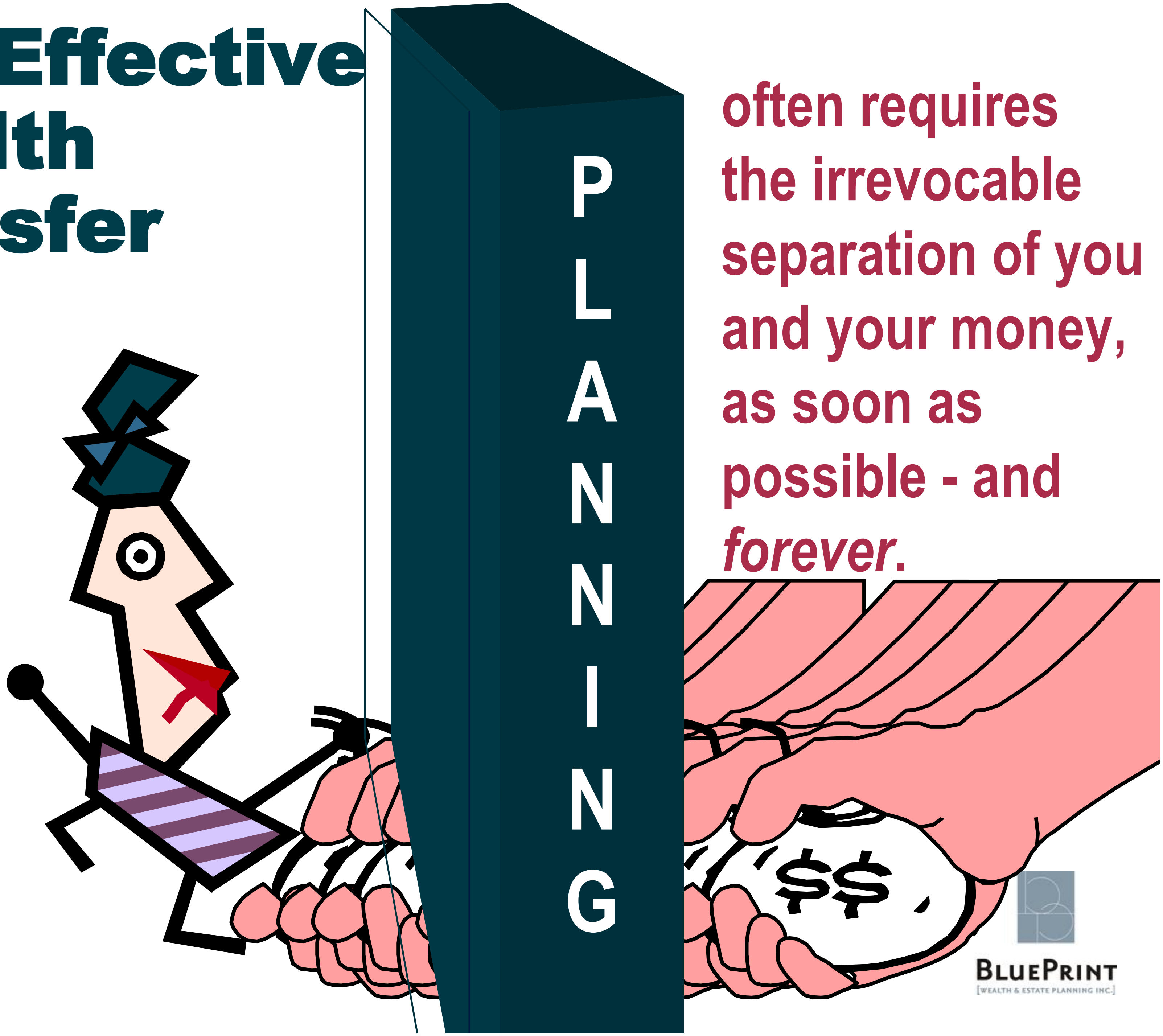
Tax-Effective Wealth Transfer



often requires the irrevocable separation of you and your money, as soon as possible - and *forever*.

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Identify an Appropriate Family Legacy

Principle #5

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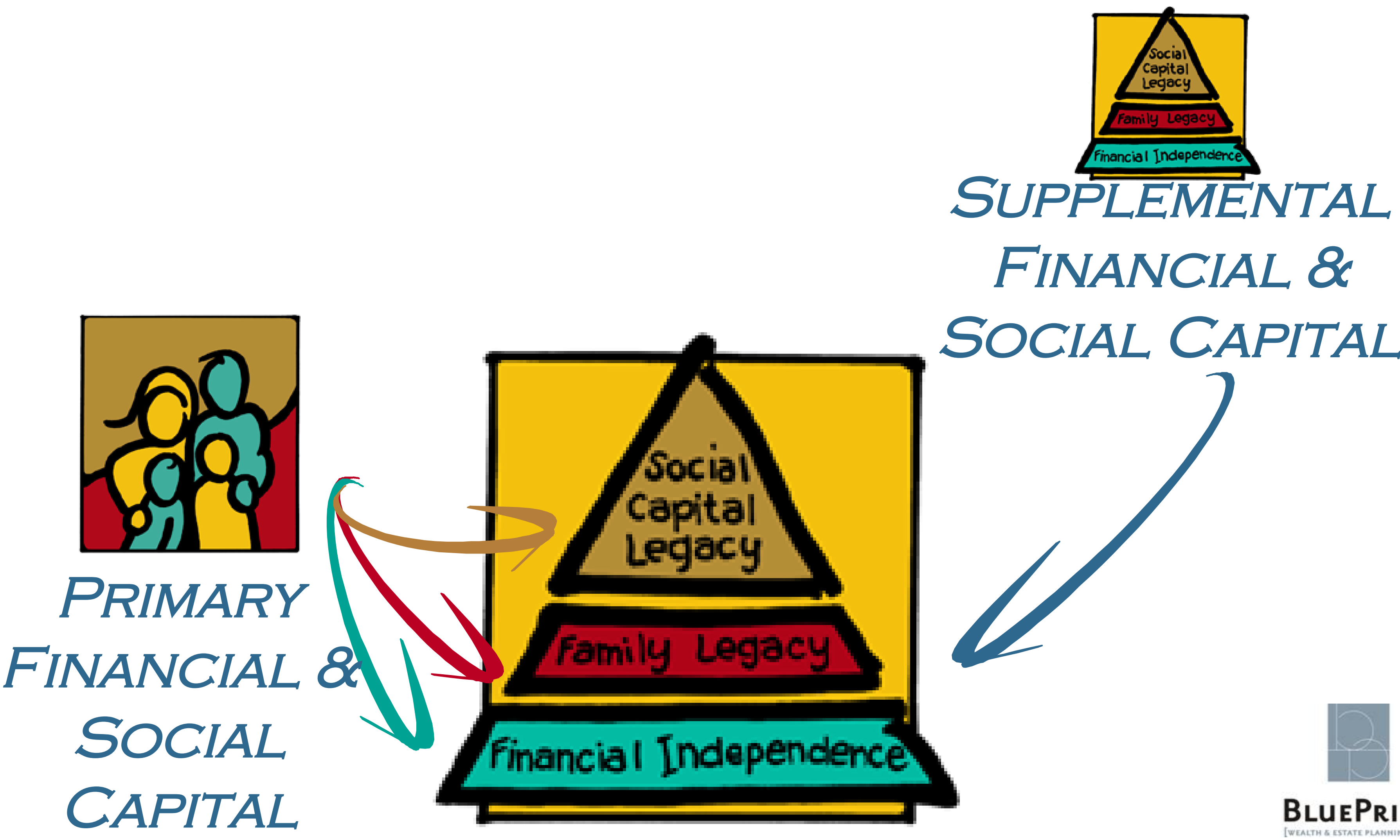
Effective Family Wealth Transfer



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Warren Buffett

Parents should leave children "enough money so they would feel they could do anything, but not so much that they could do nothing."

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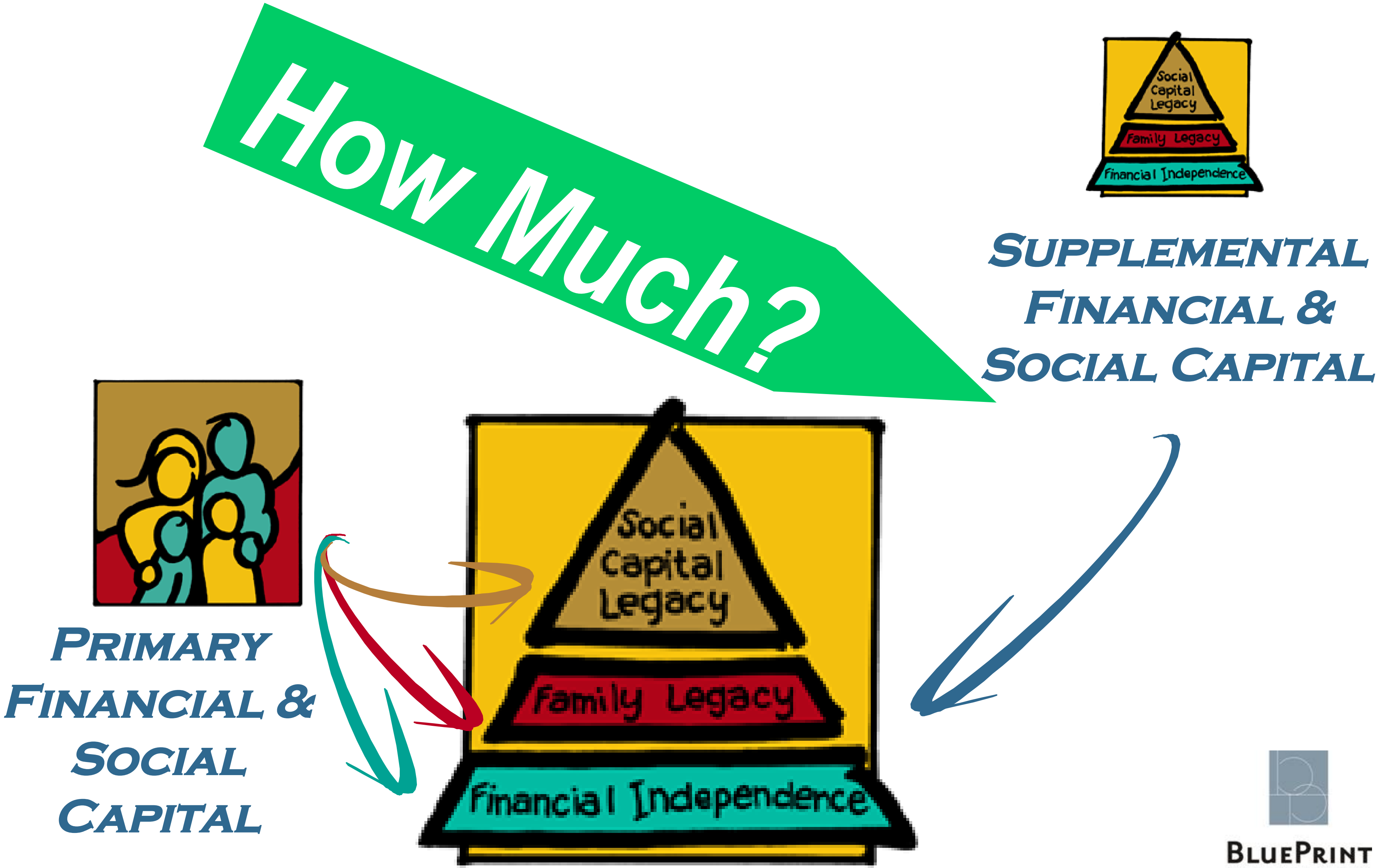
Appropriate Inheritance



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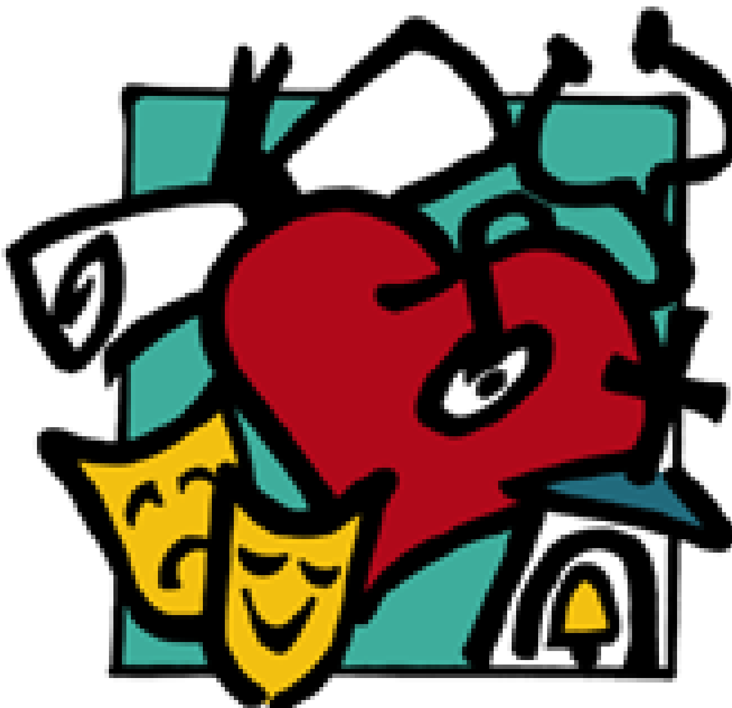
Maximize Your Social Capital Legacy



Principle #6

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How Will Your Social Capital Be Distributed?

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Build a Virtual Planning Team

Principle #7

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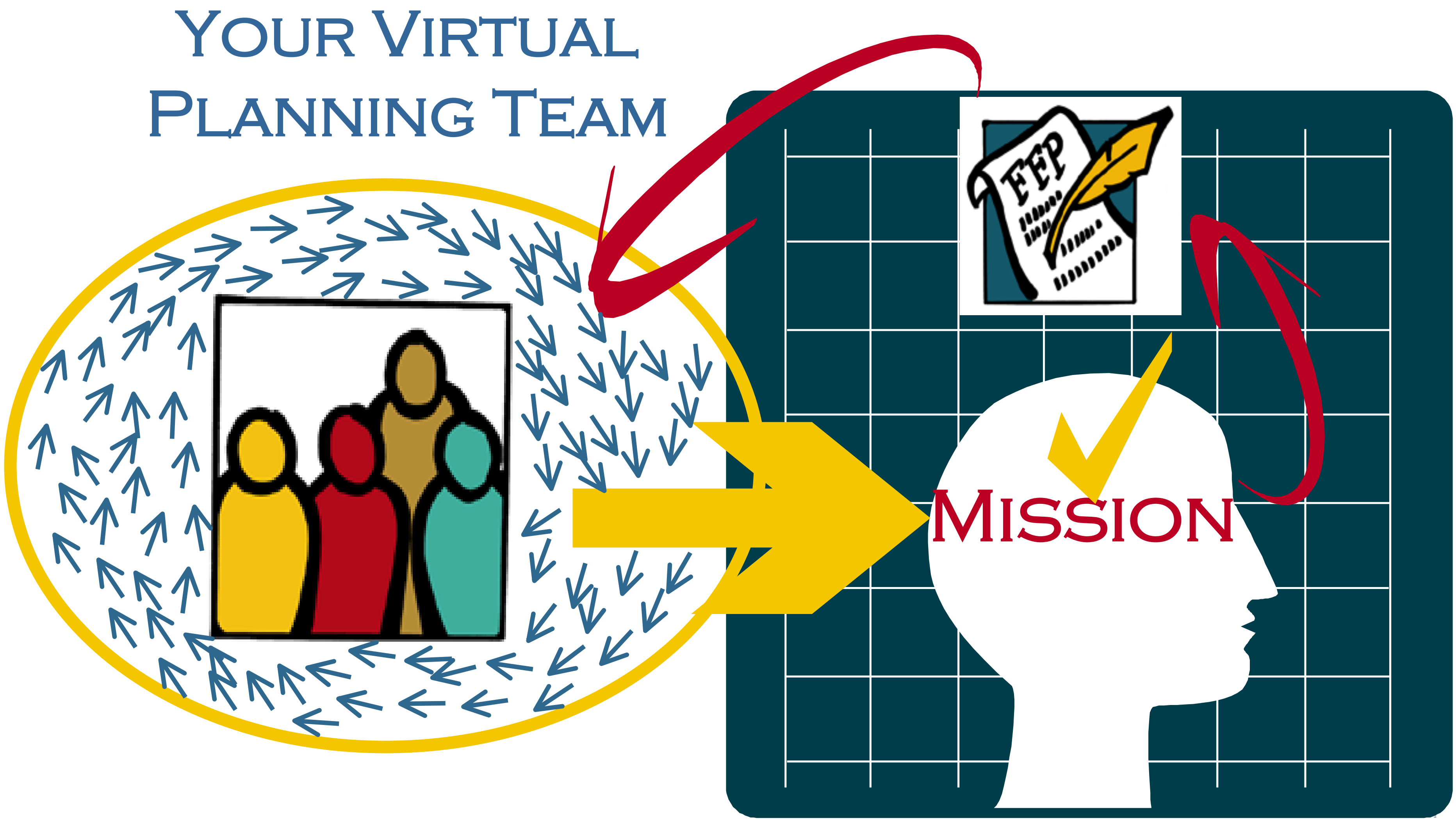
The Virtual Planning Process



Some Planning Ideas (1)

- 15 year client 76 years old, single.
- $6m investable assets with $3.2m unrealized capital gain, all equities, self directed.
- $150k RRIF
- $700k real estate (with $50k capital gain)
- $36k pension
- Will made within last 10 years.

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Issues from Interview

- Financial independence status
- Will and questionnaire inconsistent
- Family legacy status (cousin in Australia)
- Disability or inability to manage her money
- Embedded capital gain tax liability
- 100% equity portfolio
- Cottage too burdensome (?)
- Control of charitable gift decisions as long as possible
- Gift capacity

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Planning Decisions

- New will resolves incongruencies
- New investment counsellor relationship, diversified with no adverse tax result.
- Three new foundation relationships
  - Secular
  - Religious
  - Commercial
- Estate enhanced by 20%, probate reduced by 20%
- Annual giving doubled to $220k
- Income taxes eliminated, ACB of portfolio increased
- RRIF cashed in, eliminating current and testamentary tax

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Planning Ideas (2)

- 91 yr old widow, no family
- Investable assets of $1.1m
- Income of $40k monthly, roughly $10k taxable
- Expenses $8k monthly
- $2,000 annually to 15 charities, including three that are not!

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Issues from Interview (2)

- Saving too much
- Giving too little
- Financial independence fear
- Too old for annuities
- Probate way too high
- Taxes way too high
- Charitable fatigue

Planning Decisions (2)

- Independence status confirmed
  - Private duty nursing costs factored in
- Tax class funds and PPNs to minimize income tax
- Segregated Funds to avoid probate
- Two commercial foundations with three beneficiaries (consistent with will)
- Increased annual giving by $115k annually
- No income tax for life
- Charitable fatigue eliminated (well, reduced!)

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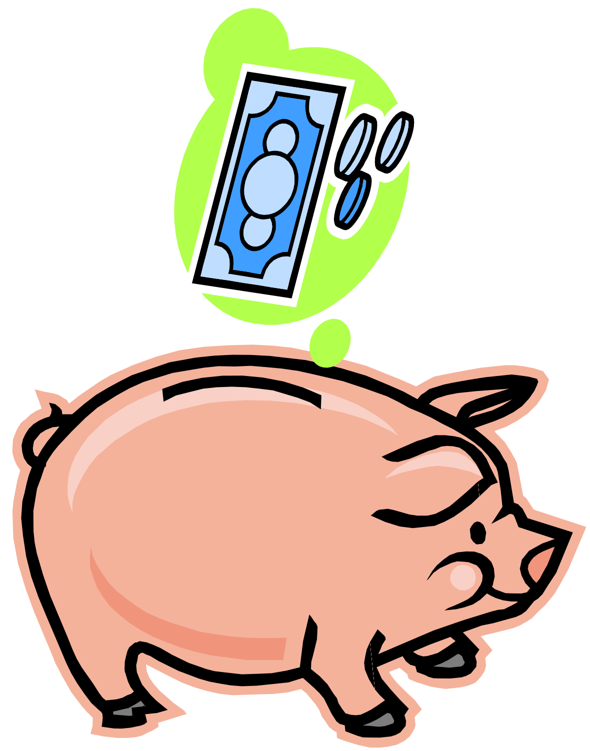
Planning Ideas (3)

- 80 year old widow, one niece
- $36k pension
- $42k RRIF
- $16k stock
- $140k non registered assets



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Issues from Interview

- Diminished life expectancy
- Not sure about the niece
- Financial independence
- Stock subject to a takeover bidding war
- Still saving
- Will not up to date
- Dissatisfied with current advisor

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Planning Decisions (3)

- Shares donated to charitable foundation before takeover occurred
- Capital gain eliminated
- RRIF partially cashed in (21k) to create tax room to use up charitable credit. Proceeds reinvested in open account. Tax refund reinvested in open account.
- New will
- Split beneficiaries between niece and 3 charities through charitable foundation.
- RRIF beneficiary changed to foundation.

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Planning Ideas (4)

- Couple 74 and 71
- $150k RRIF capital
- $700k LIF
- $350k open account
- $70k cash
- $25k life policy, $300k condo
- Pension income of about $60k
- Wanted to cash open account, gift to 3 kids and 1 charity
- Currently giving $12k annually to charities

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Issues from Interview

- One financially ‘savvy’, the other ‘naïve’
- Different social capital legacy goals
- Differing family legacy goals
- Differing history around money
- Not sure of tax efficiency of gift
- Not sure of financial independence status
- Health issues for both

Planning Decisions (4)

- Biography interview
- Discovery Profile report
- Gift $105k to kids (vs.. planned $75k)
- Commercial annuity, not charitable gift annuity ($35k outright gift to charity)
- $500k last to die life policy ($20k annual premium) in favour of charity
- Deductible premium paid by increasing registered income. Income from non registered capital stopped

Planning Decisions (4) Cont.

- Wills rewritten to deal with differing social capital, family legacy objectives
- Probatable estate reduced
- Taxable estate reduced
- Annual giving doubled
- Charitable estate increased by 50%
- Children get current gift vs. testamentary gift

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Planning Ideas (5)

- Client 75
- 150k cash @4.1% = $6150
  - Less tax @46% - $2829
  - Less inflation @2.3% - $3450

  NET INCOME = -$129

OUCH!!

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Planning Ideas (5) Cont.

- Annuity income that **<u>nets</u>** $6150 costs about $63,500, leaving donor $86,500 capital to play with (donate)

OR

- Annuity income that grosses $6150 and nets $5311 costs about $59,000, leaving about $91000 to donate (and purchase estate replacement life insurance for beneficiaries!!)

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Planning Ideas (6)

- 48 yr old single female
- 'C' Client
- Phoned to cancel life policy with 20k cash value.

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Values Conversation

- Do you need the money for something?
- Are you currently working?
- What is your financial independence status?
- Do you want to pay the tax on the gain from surrender?
- How do you fill your time when you aren't working?

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Discovery

- No debts, no dependents, no need for coverage, but no need for the cash either
- Pension, RRSPs, non-registered assets
- Working on contract
- Volunteer of the year at her favourite charity in 2005.
- Doesn't like non directed social capital (taxes)

Planning Decisions

- 20 minute phone conversation, 30 minute meeting
- Transferred ownership to charity
  – Death benefit about 78k
  – Cash about 20k (tax deduction)
  – Gain about 12k
  – Ongoing premium deduction of $480 annually
- Stronger relationship with charity for her
- New relationship for me with both client and charity

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Closing Thoughts

- Planned gifts are irrevocable, intentional
- May influence your current giving patterns
- Consult your family
- Consult your advisors
- Reflect on it
- Consult your charities

Closing Thoughts

- There is value in the values conversation
- Operate from the premise that all have philanthropic potential
- Philanthropy is more than the $ and the tax incentives
- It’s about uncovering the past, identifying the present, and imagining the future
- It’s all about ‘Philia’, the love or care for others

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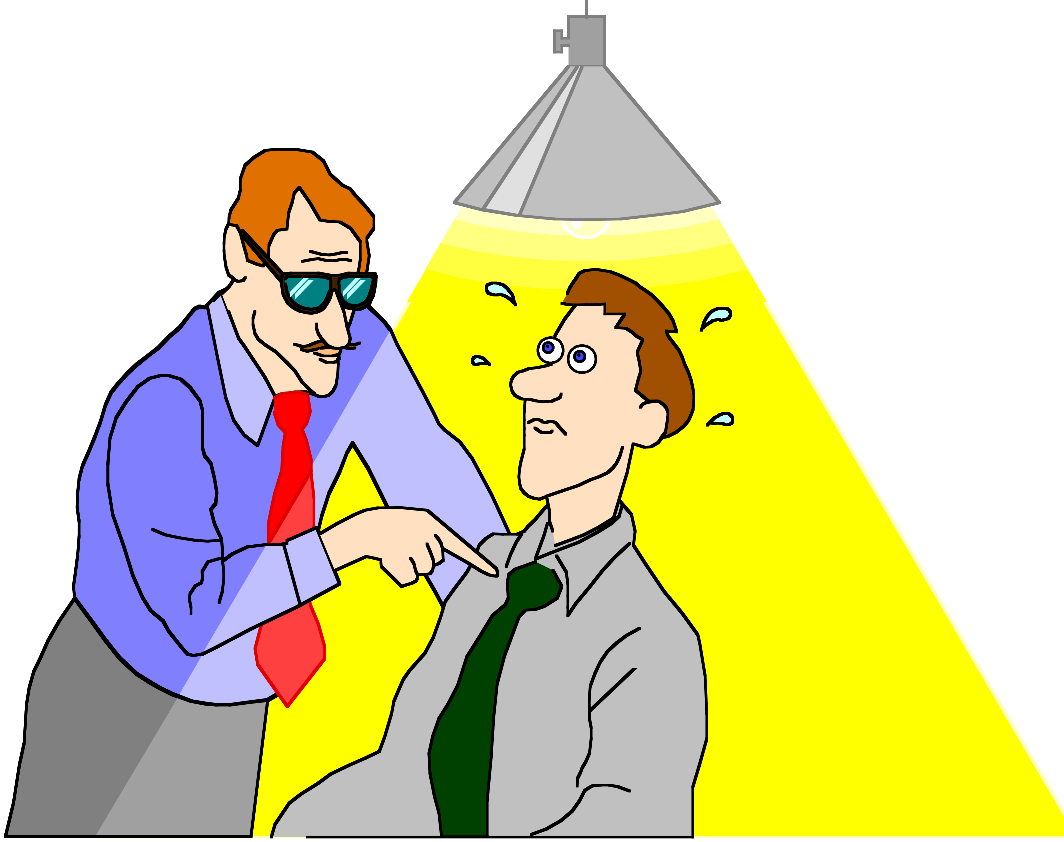
????? QUESTIONS ?????



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