Grow your business through giving

Peter Bennett

CFP, CLU, CH.F.C.

Information for financial security
and investment representatives.
This material is not intended for use with clients.

Agenda

- Overview of the charitable sector
    - Does it fit your market?
- How I got started
- What do I do?
- How do my clients do it?
    - Some case studies
- Some thoughts on philanthropy
- Questions

Overview of the charitable giving market in Canada

- 112,396 charities in Canada
- Charitable donations surpassed $8.6 billion in 2007, up 1.4 per cent from 2006
- 78 per cent of Canadians made at least one donation
- 35–44 age group gives the most
- 45–54 age group is next
- 77 per cent of those 65 or older still donate
- 80 / 20 rule applies to the dollar amount

Source: Statistics Canada, Imagine Canada NSGVP 2008

Where does the money go?

	Per cent	Dollars
Health	54%	20%
Social Services	38%	10%
Religion	32%	49%
Education	19%	<10%
Arts/Culture/Recreation	13%	<10%
All others	<10%	<10%

Source: Statistics Canada, Imagine Canada NSGVP 2008

Breakdown by demographic

- Household income
  - 79 per cent - < $60,000
  - 85 per cent - <$100,000
  - 86 per cent - >$100,000
- Female
- Married
- Post secondary educated
- Mirrors your target market?

Source: Statistics Canada, Imagine Canada NSGVP 2008

Market size

- Non profit/voluntary sector second largest in the world
- Employs 2 million people (11.1 per cent of economically active population)
- 7.8 per cent of national GDP (larger than automotive and manufacturing)

Imagine Canada 2007 Canada Survey of Giving, Volunteering and Participating

Tax changes that enhance capacity to give

- In the space of 15 years, claimable donations as a per cent of income has gone from 20 to 50 to 75 per cent
- Claimable donations allowed - 100 per cent in year of death and year prior
- No capital gain inclusion on gift of publicly traded securities, mutual funds and segregated fund policies
- Actuarial value of life insurance policy (Term 100 or minimally funded universal life insurance) used to calculate donation receipt (CSV of life insurance used to be the only way to get a receipt for an existing policy ownership transfer)
- Naming beneficiaries on registered plans

Annuity example

- Assume:
  - Donor with 12 year life expectancy makes $100,000 contribution to charity
  - Donor to receive annual annuity payments of $7,400
  - Charity provides $72,000 to insurance company to fund desired payments

Minton & Somers: Planned Giving for Canadians

Annuity example

- Old rules:
  - Donor receives tax receipt for $12,000 (amount of donation less anticipated payments)
  - Annuity income tax-free

Annuity example

- New rules:
  - Donor receives tax receipt for $28,000 (amount of donation less church's cost to purchase the annuity)
  - Donor receives $88,000 of annuity payments, of which $33,000 are taxable

Minton & Somers: Planned Giving for Canadians

Comparison

	Old	New
Tax receipt	12,000	28,000
Tax savings (45%)	5,400	12,600
Tax on annuity (45%)	0	(7,200)
Net tax savings	5,400	5,400

Commercial vs. charitable gift annuity

- Not all charities are licensed
- Annuities (self insured) are considered a debt obligation
    - CRA is murky vis-a-vis impact on charity
- Foundations normally cannot issue annuities
- Charities often reinsure anyway
- Income often higher, as is donation receipt

Market potential

- In Canada, an estimated $1 - 4 trillion will be transferred over the next generation.

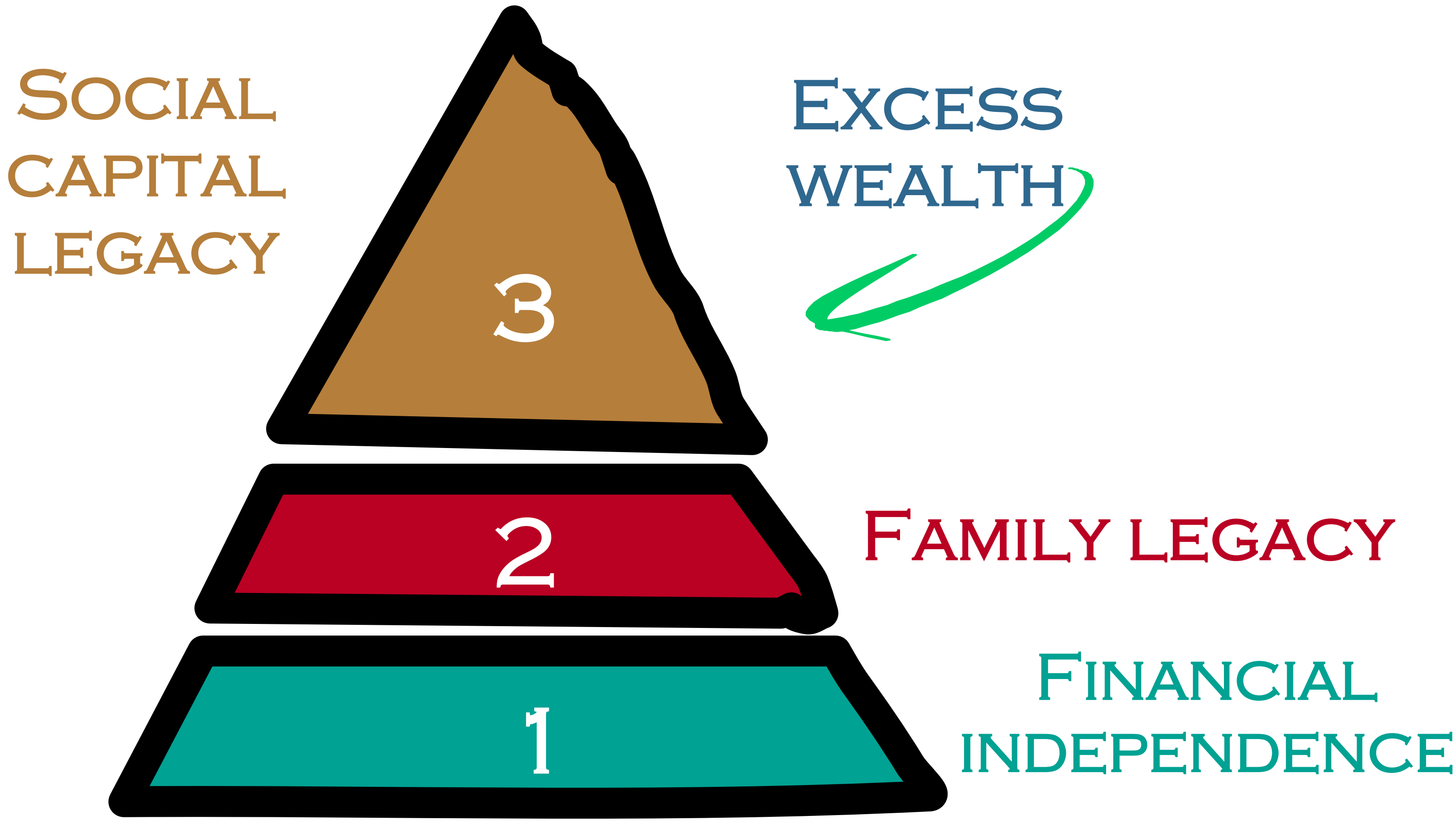
  Canwest News, RBC study Nov 7, 2007

- Who will inherit?
- Is there a public policy shift towards individual philanthropy?

How I got into the market

- Through my church
- Initial gift made personally
- Started doing seminars, workshops thinking I could make money!
- Membership in Canadian Association of Gift Planners
- Advanced gift planning course
- Legacy wealth optimization planning

Hierarchy of objectives



Business goals

- Initially $10 million over five years
- Now $25 million over 10 years
- Take a holistic approach, but…
- How do I maintain control of client, assets?
- Cooperation with charities

Client approach

- Over age 55
- Fee based financial planning
- Interest in charities/volunteering, etc.
- Estate beneficiaries
- Cash surrender value candidates with gain
- Regular volunteer, writing, within natural market

Products we use

- Life insurance
- Annuities
- RRSPs/RRIFs
- Mutual funds and segregated fund policies
- Strategic Charitable Giving Foundation

Strategic charitable giving foundation

- Donor advised (commercial) vs. personal or community foundation
- Advantages to the client
  - Anonymity
  - Ongoing administration
  - Cost
  - Charitable oversight
  - Income in perpetuity
  - Maintain advisor relationship
- Disclosure of conflict

Foundation vs. direct donation

- Donor charitably inclined but…
  - Multiple charitable interests
  - Interests change over time
- Smaller charities have disbursement quota issues
- Will the charity be around?
- Who can provide ongoing stewardship of the gift?

The information provided on the following slides is based on current tax legislation and interpretations for Canadian residents and are accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax expert.

Some planning ideas (1)

- 15-year client, 76 years old, single
- $6 million investable assets with $3.2 million unrealized capital gain, all equities, self directed
- $150,000 RRIF
- $700,000 real estate (with $50,000 capital gain)
- $36,000 pension
- Will made within last 10 years

The above example is for illustrative purposes only. Situations may vary according to specific circumstances. This information is general in nature, and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax expert.

Issues from interview (1)

- 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 per cent equity portfolio
- Cottage too burdensome (?)
- Control of charitable gift decisions as long as possible
- Gift capacity

Planning decisions (1)

- New will
- New investment counsellor relationship
- Three new foundation relationships
  - Secular
  - Religious
  - Commercial
- Estate enhanced by 20 per cent, probate reduced by 20 per cent
  - $1 million universal life insurance policy with $55,000 annual premium
- Annual giving doubled
- Income taxes eliminated in perpetuity, adjusted cost base (ACB) of portfolio increased
- RRIF cashed in (to Quadrus D8 portfolio)

Results (1)

- Two fee agreements for financial planning
- $25,000 life policy (1992) to charity
- Referral fee for equity assets ($10,000/yr)
- Transfer of RRIF to Quadrus/London Life
- RRIF collapse
- New Strategic Charitable Giving Foundation (SCGF) account
- $1 million universal life insurance to SCGF ($55,000 annual premium)
- $600,000 Quadrus account
- $300,000 to be added this year from cottage sale

RRIF meltdown or charitable gift? (1)

- Classic RRIF meltdown involves leverage
- Similar tax result can be achieved with charitable gift
- RRIF income offsets charitable gift receipt
- Refund (if any) can be invested in open portfolio
- Grind down the estate's taxable assets

Planning ideas (2)

- 83-year-old widow (now 93), no family
- Investable assets of $1.1 million (I controlled only annuities)
- Income of $40,000 monthly, roughly $10,000 taxable
- Expenses $8,000 -10,000 monthly
- $2,000 annually to 15 charities, including three that are not!

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
- Corporate class funds to minimize income tax
  - $3,000 per month income from systematic withdrawal plan
- Segregated funds to avoid probate
  - $15,000 per month pre-authorized chequing agreement
- Gathering probatable assets as they mature
- Two commercial foundations with three beneficiaries (consistent with will) currently $500,000 in assets
- Increased annual giving to $115,000 annually
- No income tax for life
- Charitable fatigue eliminated (well, reduced!)

Planning ideas (3)

- 80-year-old widow, one niece
- $36,000 pension
- $42,000 RRIF
- $16,000 stock
- $140,000 non-registered assets
- $60,000 cash

Issues from interview (3)

- 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

Planning decisions (3)

- Shares donated to charitable foundation before takeover occurred
- Capital gain eliminated
- RRIF partially cashed in ($21,000) 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 three charities through charitable foundation
- RRIF beneficiary changed to foundation
- Took over open portfolio
- Added $25,000 to portfolio

Planning ideas (4)

- Couple 74 and 71
- $150,000 RRIF capital
- $700,000 LIF
- $350,000 open account
- $70,000 cash
- $25,000 life insurance policy, $300,000 condo
- Pension income of about $60,000
- Wanted to cash in open account, gift to three kids and one charity
- Currently giving $12,000 annually to charities

Issues from interview (4)

- 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 $105,000 to kids (vs. planned $75,000)
- Commercial annuity, not charitable gift annuity ($35,000 outright gift to charity)
- $500,000 last-to-die life insurance policy ($20,000 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
- Probatable estate reduced
- Taxable estate reduced
- Annual giving up 2.5 times
- Charitable estate increased by 50 per cent
- Children get current gift vs. testamentary gift

Planning ideas (5)

- 75-year-old client
- $150,000 cash @4.1 per cent = $6,150
  - Less tax @ 46 per cent - $2,829
  - Less inflation @ 2.3 per cent - $3,450

NET INCOME = - $129

OUCH!

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Planning ideas (5) cont.

- Annuity income that **nets** $6,150 costs about $63,500, leaving donor $86,500 capital to play with (donate)

OR

- Annuity income that grosses $6,150 and nets $5,311 costs about $59,000, leaving about $91,000 to donate (and purchase estate replacement life insurance for beneficiaries!)

Planning ideas (6)

- 48-year-old single female
- ‘C’ Client
- Phoned to cancel life insurance policy with $20,000 cash value

Values conversation (6)

- Do you need the money for something?
- Are you currently working?
- What is your current 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?

Planning decisions (6)

- 20 minute phone conversation, 30 minute meeting
- Transferred ownership to charity
  - Death benefit about $78,000
  - Cash about $20,000 (tax deduction)
  - Gain about $12,000
  - Ongoing premium deduction of $480 annually
- Stronger relationship with charity for her
- New relationship for me with both client and charity

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’re missing a significant portion of the population who don’t have excess capacity

Source: Paul Schervish

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?

Some closing thoughts

- Greater client satisfaction
- Deeper relationship
- Truly long-term
- Alignment of values between me and my client

QUESTIONS?