

# SIMPLIFIED PHILANTHROPY

**D**onor funds make it easier for advisors to talk to clients about leaving a legacy.

**By** Kate McCaffery

**C**oncerns about assets, the bottom line and comfort level issues prevent many advisors from making charitable giving a standard part of their practices. New donor-advised funds, however, could move philanthropy strategies from the domain of tax specialists and estate planners directly into the arena of advisor product offerings.

The catalyst is the proliferation of several commercially backed donor-advised fund programs recently launched in Canada. Donor-advised funds work as follows: A client sets up an account with a third-party foundation or charitable organization. The organization invests the donated amount, issues a tax receipt, then allows the client to allocate or disburse income and gains generated by the investments to charities of their choice.

The amount clients can disburse each year is determined by a rate set by each foundation's board of directors at a level that will maintain the endowment and

still meet CRA disbursement quota rules. Under the CRA enduring property rules donations must be endowed for 10 years and the foundation must disburse at least 3.5% of the fund's average assets each year.

Donor-advised funds fit in someplace between direct contributions to a charity and establishing a private foundation. Clients can name the fund, for example calling it the Smith Family Foundation, decide where the income generated by the fund is disbursed, and even accept gifts or charitable contributions from friends and other family

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# DONOR CHOICES

*Several established foundations provide outlets for clients' largesse.*

Unless otherwise noted, all organizations accept insurance policy gifts and publicly listed shares, and allow clients to fully direct all disbursements, regardless of the fund's geographical or specialty focus.

- **Edmonton Community Foundation**

**Minimum Initial Donation:** \$10,000, payable over time using an "emerging fund."

**Fees:** Approximately 1% of the fund's value, depending on the extent of support provided.

**Current Disbursement Rate:** 4.5%

**Details and Conditions:** [www.ecfoundation.org](http://www.ecfoundation.org)

The foundation is currently investigating workable models for an advisor-managed program.

- **The Calgary Foundation**

**Minimum Initial Donation:** \$5,000

**Fees:** 0.6% to 1.25%

**Current Disbursement Rate:** 5%

**Details and Conditions:** [www.thecalgaryfoundation.org](http://www.thecalgaryfoundation.org)

Recommended minimum grant amount is \$250 per charity.

- **The Winnipeg Foundation**

**Minimum Initial Donation:** \$7,500, payable over five years with initial payment of \$1,000.

**Fees:** 0.5%

**Current Disbursement Rate:** 5%

**Details and Conditions:** [www.wpgfdn.org](http://www.wpgfdn.org)

The foundation does not reinvest assets with a client's advi-

sors, regardless of the donation's size. The process of appointing successors is generally only allowed for two generations. Clients can select another fund type without disbursement decisions, but may not close the fund and donate the capital to charity.

- **Toronto Community Foundation**

**Minimum Initial Donation:** \$25,000 over two years.

**Fees:** 1.5% to 2%

**Current Disbursement Rate:** 4%

**Details and Conditions:** [www.tcf.ca](http://www.tcf.ca)

Donors and the fund may agree to retain an existing manager's services using different fees and the foundation's investment policies.

- **Charitable Gift Funds Canada Foundation**

**Minimum Initial Donation:** \$50,000 payable over a period of time negotiated with the donor.

**Fees:** 0.65% to 1% administration fee, plus fund management fees.

**Current Disbursement Rate:** 4.5%

**Details and Conditions:** [www.charitablegiftfunds.ca](http://www.charitablegiftfunds.ca)

Subsequent donation minimum is \$5,000. Advisors are paid using traditional mutual fund sales commissions.

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## DONOR CHOICES

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Minimum grant amount is \$250 per charity.

- **Mackenzie Charitable Giving Fund**

**Minimum Initial Donation:** \$25,000

**Fees:** 1% administration fee, plus fund management fees

**Current Disbursement Rate:** at least 3.5%

**Details and Conditions:** [www.mackenziefinancial.com/charitablegivingfund](http://www.mackenziefinancial.com/charitablegivingfund)

Subsequent donation minimum is \$5,000. Advisors are paid using traditional mutual fund sales commissions. After 10 years, clients may collapse the fund and pay capital out to the charities of their choice. Minimum grant amount is \$500 per charity.

- **SickKids Charitable Giving Fund**

**Minimum Initial Donation:** \$50,000, payable over five years with initial payment of \$10,000.

**Fees:** 1%

**Current Disbursement Rate:** 4.5%

**Details and Conditions:** [www.sickkidsfoundation.com](http://www.sickkidsfoundation.com)

Subsequent minimum donation is \$1,000. Disbursement decisions can only be made annually. SickKids Foundation must receive 10% to 50% of the fund's annual disburse-

ment. Clients may not choose to close their fund.

- **Supporting Your Community – BMO Financial Group**

**Minimum Initial Donation:** \$10,000

**Fees:** 0.5% investment management fee, plus foundation administration fees.

**Current Disbursement Rate:** Determined by each partnering foundation.

**Details and Conditions:** [www.bmoinvesting.com/supporting-yourcommunity](http://www.bmoinvesting.com/supporting-yourcommunity)

Program for BMO advisors refers clients to one of 36 participating community foundations that, in turn, reinvest donations with BMO Investment Management. The company may, at its discretion, pay the advisor a small referral fee.

- **The Private Giving Foundation – TD Waterhouse**

**Minimum Initial Donation:** \$10,000

**Fees:** 1% MER, plus 1% to 1.5% administration fees.

**Current Disbursement Rate:** 5% target

**Details and Conditions:** [www.tdwaterhouse.ca/privategiving](http://www.tdwaterhouse.ca/privategiving)

Subsequent minimum donation is \$1,000. Waterhouse advisors receive compensation for "assisting in fundraising efforts," out of existing foundation fees.

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members—while avoiding prohibitive legal, accounting and management costs typically associated with private foundations.

These funds are efficient for higher-net-worth clients who already have specific charitable giving habits and intentions. Rather than writing a cheque and collecting receipts for each of their

causes, clients make donations to their fund each year and then direct the fund's giving. Although the strategy doesn't replace reactionary situations where clients are asked to sponsor

people participating in charitable walkathons or other immediate requests for cash, the legacy programs are an effective long-term strategy to coordinate annual charitable contributions.

## **GROWING MARKETPLACE**

While this concept is new for most Canadian investors, donor-advised funds have been in existence for more than 20 years, through community and religious foundations that accept sizable contributions and invest the assets with their own money managers. Disbursement conditions in these cases sometimes require a certain percentage of the income paid to charities go to the foundation itself or to related causes. But many foundations have become more flexible in recent years, generally allowing clients to direct their gifts to any charity qualified and registered with the CRA.

In the United States, financial institutions such as Fidelity Investments, Bank of America and Wells Fargo are well established in operating commercial programs for clients. Since its inception in 1991, the Fidelity Charitable Gift Fund has paid out more than \$5.5 billion to charities while growing its assets under management to more than \$3 billion by the end of 2005.

This growth is what makes endowments so attractive for those interested in creating a legacy fund—the assets remain intact, and they grow. BMO Financial Group numbers show \$1 million endowed at 7%, with a payout of 3.5% each year, will grow to \$2 million within 20 years. According to the Edmonton Community Foundation, an initial gift of \$10,000 can result in

cumulative gross income of more than \$50,000 with disbursements of more than \$26,000 in only 10 years.

So, Canadian commercial financial institutions have eagerly entered the space, providing programs that invest the money with their own managers and sometimes continue to pay the client's advisor a trailing commission.

The TD Waterhouse Private Giving Foundation (PGF) invests in the TD Balanced Income Fund and compensates the advisor out of existing management and administration fees for “assisting the PGF in its fundraising activities.” Compensation arrangement details are confidential.

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The BMO Financial Group advisors refer clients to participating community foundations through the organization's "Supporting Your Community" program. The funds do not compensate advisors but BMO may, at its discretion, pay a small referral fee.

The Mackenzie Charitable Giving Fund is the second program in Canada that directly compensates independent advisors. Fund donors select one of seven balanced Canadian or balanced international Mackenzie mutual funds and the advisor is compensated using the traditional mutual fund purchase commissions and ongoing management trailer fees.

The Charitable Gift Funds Canada

Foundation has been using a similar strategy for years. Once the donor-advised fund is established for the client, advisors use their own back-office systems to purchase one of 24 approved funds on behalf of the foundation, effectively adding the foundation to the advisor's list of clients. RBC Financial Group recently partnered with the foundation to create a program for its

own brokers using RBC mutual funds.

Community funds generally do not pay advisors but will sometimes hire the client's advisor to continue managing assets if the client's contribution is sizable enough. Typically, only specialists and high-end money managers have the clout to be given consideration.

But community foundations have

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other qualities that make them worth considering. Their size generally allows them to negotiate some of the lowest administration and investment fees from some of the best institutional managers in the industry. Those running the fund have specialized knowledge of their given charitable sectors, which can sometimes be leveraged to provide very personalized service to donor clients.

The Toronto Community Foundation, for example, sends donors the foundation's annual Vital Ideas catalogue of high-impact grant opportunities, profiling some of the city's most innovative and effective community programs. Among its list of other services, the foundation sends letters of appreciation and tax receipts to friends and family who donate and will immediately notify the client when others contribute to their fund, unless the donations are made anonymously.

## ESTATE PLANNING

Once advisors and clients have considered the different disbursement policies, minimum investment options and fee structures, and selected the right program for their needs, clients name their funds, select investment options if applicable,

and name successors who will carry on granting activities after the clients die. If there are no logical successors, clients can name charities to receive their funds' assets on death or grants in perpetuity, or the funds' boards can take over granting responsibilities. Understanding these options, any conditions and getting the details in writing before making the donations is crucial.

The clients relinquish all control over the assets once the initial donations are made. Although clients "advise" the foundations to direct the money to certain charities, and the foundations generally respect these wishes, the clients cannot have any control or be given any special considerations once the tax receipts are issued. All granting activity and other decisions are made at the sole discretion of each foundation's board of directors. "Legally, the foundation is not required or obligated to make the donation to the charities that you want them to but they have said, as a matter of course, that when you make this gift and tell us what your preferences are, we're going to send the money where you want," explains Tim Cestnick, managing director of the WaterStreet Group. "[The CRA] doesn't have a problem with that."

Those working in the philanthropic sector say they expect to see more money coming in as a result of the new advisory programs, helped by changes to the Income Tax Act that eliminate capital gains on gifts of appreciated securities.

There are a number of other factors at work too. Massive intergenerational wealth transfers notwithstanding, baby boomers are a notoriously "hands-on" and sometimes picky bunch who want more from their philanthropy and their advisors.

"This is an opportunity for advisors to become really intimately involved in the area of charitable giving with their clients," notes Brad Offman, assistant vice-president of strategic philanthropy for the tax-and-estate planning group at Mackenzie Financial. "I think the advisor will play an integral role in the future development of Canadian philanthropy. Providing [advisors] with the tools to integrate philanthropy into their practices can only be a good thing. It's only going to increase the size of the pie." **AE**

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