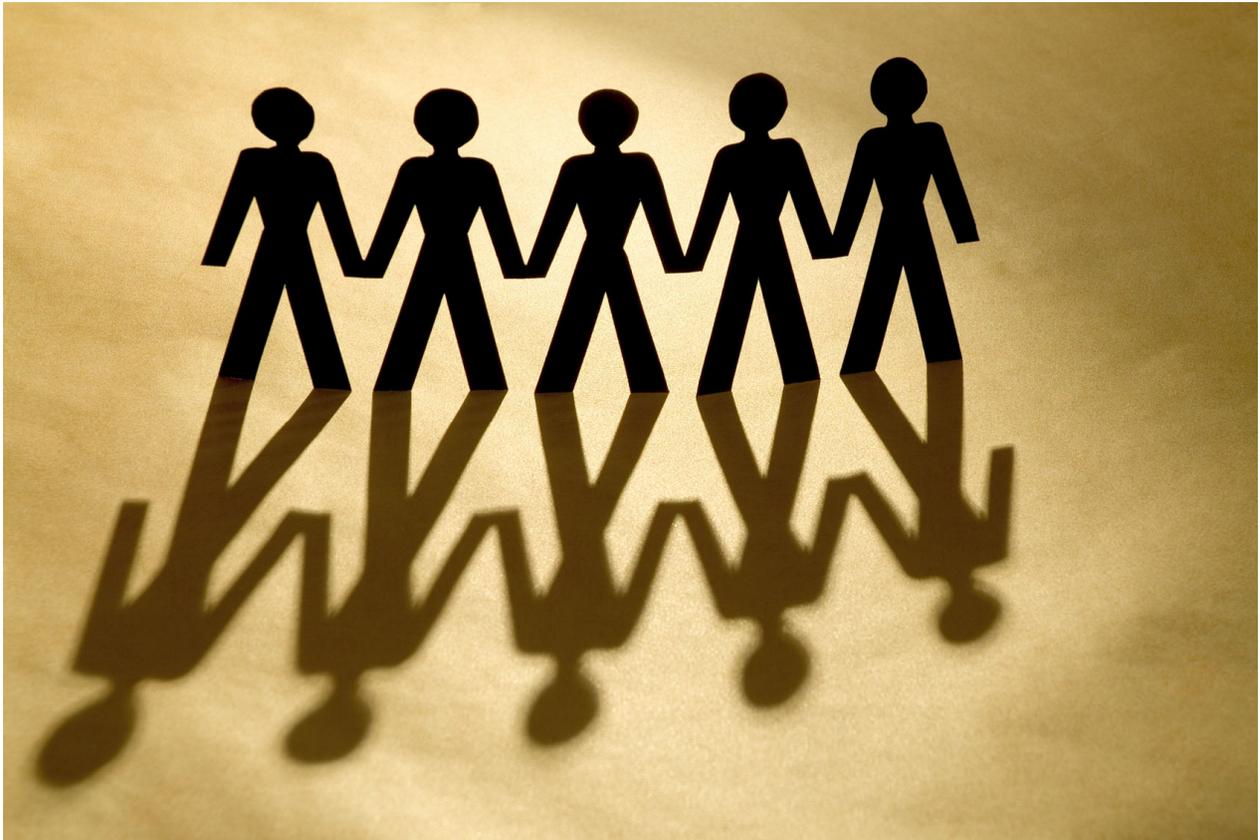


BUILDING A CULTURE OF PHILANTHROPY:
THE OPPORTUNITY OF A LIFETIME



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INTRODUCTION

In the late 1990s, government budget restraints resulted in decreased funding to thousands of Canadian non-profit organizations. At the same time, the federal government introduced new tax benefits for charitable contributions, in an effort to motivate individuals to donate more and share the responsibility of funding the charitable sector.

During the next decade, it is estimated that Canadians will inherit more than \$1 trillion, generating approximately \$250 billion in federal taxes.¹ Many believe this forthcoming wealth transfer, the largest in history, will encourage greater philanthropy than ever before. For taxpayers, the options become clear – pay the federal government billions in tax dollars, or find effective, long-term strategies for redirecting this money to charity.

For this to happen in any significant way, there must be collaboration between charities and non-profit organizations, donors, professional advisers and government. These groups must collectively commit to building a culture of philanthropy within which it is natural for everyone in the community to give what they can afford for the benefit of society.

- Can various stakeholders come together and effectively change the way Canadians give to charity?
- How can agencies better understand the needs of donors and adapt their fundraising approach?
- What role do professional advisers play in offering information and guidance for fiscally responsible and tax beneficial charitable giving?
- How can government tax policy better reflect the changing face of philanthropy?
- What can donors do to ensure they meet their own philanthropic objectives and experience satisfaction in their giving?

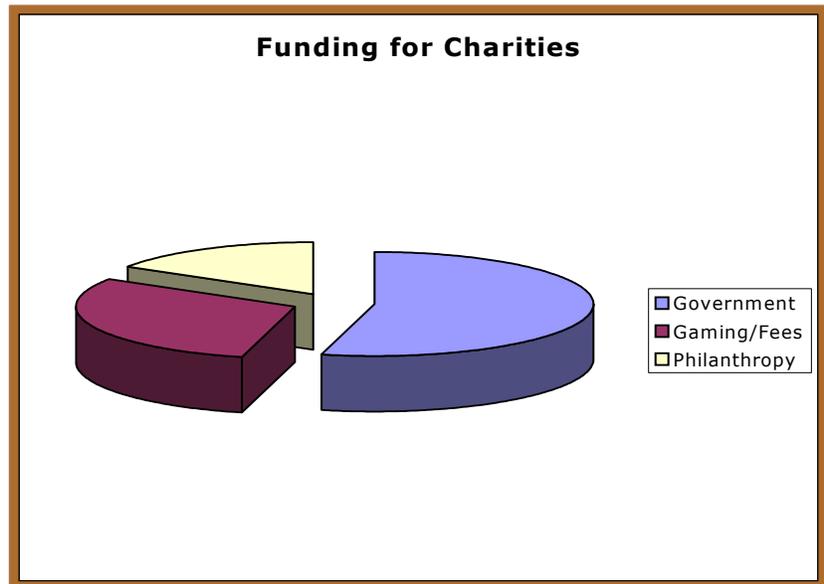
By looking at each group and its unique challenges, we will better understand how stakeholder collaboration is the key to building a sustainable, inclusive culture of philanthropy.

¹ Schacter, H., *The Money Shuffle*, Adviser's Edge. October 2001

THE ONGOING STRUGGLE

For many charities and non-profit organizations, government funding was, and still is, a major source of revenue. For some, government remains the primary provider of core funding.

Government funding makes up just over half of charitable revenues. Approximately 30 per cent comes from gaming and fees for services, while private philanthropy makes up only 16 per cent.



During the restructuring of federal funding for charities, the government introduced enhanced tax incentives for charitable giving. Changes included:

- Recognition of charitable gift annuities
- Increase of annual donation limits (From 20 to 75 per cent of income since 1996)
- Tax credits for donations rather than tax deductions
- Favourable treatment given to gifts of listed securities (stocks)²

During the past five years, several studies have been conducted to gauge the impact of government funding strategies of the 1990s. In 2003, the Canadian Council on Social Development released a report describing the financial challenges of many Canadian charities and how these difficulties affect organizational stability.

The report concluded, “Recent trends in funding appear to threaten the continued viability of the (non-profit) sector... If nothing is done, the sector will continue to suffer and, for a significant cross-section of organizations, their capacity to achieve their mission and serve their clients and communities will continue to erode.”³

² Canadian Association of Gift Planners (CAGP) – Government Relations Committee

³ Scott, K., *Funding Matters: The Impact of Canada’s New Funding Regime on Nonprofit and Voluntary Organizations* Canadian Council on Social Development, 2003.

DONORS AND THEIR GIVING

With more than 80,000 registered charities in Canada, it is not hard to imagine that donors are weary of current fundraising methods. There is a common sentiment of “donor fatigue” toward tactics such as direct mail, telephone and doorstep solicitation. In fact, the 2000 National Survey of Giving and Volunteering showed that 53 per cent of “top donors”, those who gave \$1,088 or more, did not like the way requests were made.⁴ One often heard complaint among donors is the tendency to end up on dozens of “donor lists” because of giving to one organization. This may lead donors to a point at which they begin to reject charitable solicitations, even from those organizations they had previously supported.

Does this mean donors are tired of giving? Not really. In fact, a planned giving survey by Russ Alan Prince & Associates found that 84% of those surveyed identified themselves as highly motivated towards philanthropy.⁵ More than three quarters of Canadians make a charitable donation each year. However, the top five per cent of donors accounted for nearly half the value of all individual donations.

Still, most giving tends to be sporadic and is often in response to a solicitation. This suggests most donations are not made as part of a long-term, organized plan. **The fact is, more than 50 per cent of individuals consider the uncertainty of their retirement income needs as a barrier to making larger charitable contributions.**

THE PLIGHT OF THE NON-PROFIT SECTOR

The charitable and non-profit industry provides essential services and support that are integral to the wellbeing of the community. A 2004 study by Imagine Canada found that three quarters of Canadians feel this sector understands and addresses the needs of society better than government.⁶

Ironically, this sector, which is often referred to as the “third pillar” of civil society, is rife with instability as many charities and nonprofits pursue funding that is increasingly targeted, short-term and unpredictable.

More and more, these organizations are forced to rely on project-based funding to meet organizational needs. Grants are often conditional upon the organization’s ability to secure other funding partners, and few support administrative costs. Project-based funding leads organizations away from their mission and core purpose to fit within funding guidelines. This ultimately threatens the long-term viability of the organizations and the services they provide to the community.

⁴ McClintock, N. (2004). *Understanding Canadian Donors*, submitted to Canadian Centre for Philanthropy, 2004. Toronto: Author

⁵ Affluent Planned Giving Survey, September 2002, Russ Allan Prince & Associates

⁶ Hall, Michael H., et al. *The Canadian Nonprofit and Voluntary Sector in Perspective*. (Toronto, ON: Imagine Canada, 2005)

Even those that succeed in getting sufficient funding have difficulty fulfilling reporting requirements. This reporting process, designed to ensure organization accountability, often uses more staff and resources than funding facilitates in the first place.

CHARITABLE GIVING AS PART OF A PLANNING PROCESS

In theory, it makes sense to encourage donors to include charitable giving in their financial planning process. However, only 46 per cent of Canada's wealthiest households have a formal, written financial plan.⁷

Of those with a plan, 80 per cent sought the advice of a professional in creating it. Nearly half had switched advisers at least once in the previous five years and 53 per cent are currently looking for a new adviser relationship. But why?

Most people consider themselves motivated to be philanthropic, yet on average, only 10 per cent of advisers raise the issue of charitable giving with their clients. Clients are looking for expert advice and guidance that will enable them to incorporate giving into their long-term financial strategy.

Particularly for the wealthiest families, among which, more than 75 per cent want to teach philanthropy to their children, one primary concern is that wealth not negatively impact the transfer of wealth to future generations. Many feel strongly that children and grandchildren should be taught about the responsibility that wealth entails and be involved in charitable activities.

Families are showing greater interest in giving that is more strategic and linked to specific outcomes. Many seek to structure their giving around their passion for a particular issue or social need and not necessarily a particular institution.

Many families opt to express their collective values and beliefs through a family mission statement. This is often a starting point for a family's charitable initiatives and helps to establish a legacy that serves the memory of the family for generations.

Family mission statements are similar to the tradition of the testament, most commonly known as part of the Last Will and Testament. The will determines how an individual's estate is to be distributed. The testament communicates important wisdom, life lessons and other information the individual wishes to pass on to future generations.

An Ipsos-Reid survey on behalf of Scotia Private Client Group showed that 73 per cent of affluent Canadians see an increasing need for philanthropy, primarily because they believe social priorities are not receiving adequate funding.

⁷ *We're not wealthy. We're Canadian.* Retrieved from: www.rbc.com/newsroom/20020429/wealth.html, June 10/05.

CHARITABLE GIVING AND THE FAMILY BUSINESS

In Canada, more than 75 per cent of businesses are family owned. Small business accounts for 60 per cent of employment and is a central component of the Canadian economy.

The success of small business is inextricably linked to the viability of the community in which it operates. Small and family-owned businesses can strengthen their future and their relationship with the community by evaluating their commitment to corporate social responsibility (CSR). The Conference Board of Canada has identified CSR as the number one issue facing businesses in the coming decade.

As many large corporations have found, corporate social responsibility fosters opportunities that extend far beyond a favourable profile in the community. Incorporating CSR into the business strategy can also help improve access to customers, enhance relationships with stakeholders and attract highly skilled employees.

Top 5 reasons for incorporating CSR

- Maintain or improve business reputation and brand image
- Earn and maintain social license to operate – “Doing the right thing”
- Improve access to markets and customers
- Improve relations with stakeholders
- Attract and maintain skilled employees

Source: “The National Corporate Social Responsibility Report” June 2004. The Conference Board of Canada

In the next five years, at least 39 per cent of family-owned businesses are expected to change leadership, with most expecting the business will stay in the family. However, more than half of those companies, with CEOs aged 61 or older, have not yet chosen a successor.⁸ Given unique issues such as estate transfer and succession planning, family-owned businesses have further opportunity to leverage community investment as part of their family legacy planning strategy.⁹

⁸ Article: “New Nationwide Survey Points to Bright Spot in American Economy – Family-owned Businesses.” Jan. 23/03. Retrieved Oct. 23/04 from: http://www.massmutual.com/mmfg/about/pr_2003/01_22_03.html

⁹ In Spring 2007, The Family Office will release a white paper titled, “Corporate Social Responsibility and Family Business Legacy Planning.”

THE ADVISER'S ROLE

Many advisers avoid discussing philanthropy because they feel the topic is too personal for their clients. Yet, a study conducted by the Muttart Foundation on the attitudes of Canadians toward charity, supports the idea that clients are looking for greater giving opportunity and more information on how to give more effectively.

Affluent families can have numerous advisers managing their business and personal affairs. There is an important case to be made for collaboration among these advisers, particularly on philanthropic endeavours. Few advisers have the technical expertise to complete all varieties of charitable gifts. Most are inclined to use the tools of their profession, those with which they are most familiar. For example, a lawyer may emphasize will and bequest planning, while an accountant may emphasize trusts. The adviser may not research options outside his or her experience, and may be uncomfortable referring the client to another adviser who could help.

Professional advisers have tremendous opportunity to be instrumental in the philanthropic planning process. Many families and potential donors seek and receive philanthropy-related advice from their financial, legal and tax advisers. However, much of the advice is tax-driven and does not adequately address the client's values or deeper interests in philanthropic giving. Many families are frustrated by their advisers' reluctance to move beyond tax benefits and facilitate a deeper exploration of philanthropic intent and practice.

The Philanthropic Initiative, a non-profit philanthropic advisory service in Boston, has identified three categories of advisers, according to their likeliness and aptitude to discuss philanthropy with their clients.

Types of Advisers

10 per cent of advisers are initiators

Almost always raise the topic of philanthropy with their clients. They are advocates for philanthropy and frequently reference their own philanthropic experiences.

25 per cent of advisers are facilitators

Consider philanthropy-related counsel important, but often lack the skills to fully assist clients in establishing a philanthropic giving strategy. These advisers do not necessarily have a personal philanthropic strategy in place.

65 per cent of advisers are followers

See philanthropy as important but only if the client raises the subject. These advisers avoid the subject of charitable giving often feeling it is too personal to the client.

Taken from: *Doing Well By Doing Good*, The Philanthropic Initiative, Inc.

THE PHILANTHROPIC ADVISER

A philanthropic adviser is an individual whose personal and professional interest in philanthropy, combined with their professional expertise, helps them counsel individuals on their philanthropic endeavours. Specialization is not just offering philanthropic advising services, but promoting the culture of philanthropy. Rather than waiting for clients to ask the giving question, the philanthropic adviser asks it of them.

There are a number of core competencies a philanthropic adviser must have. Most importantly, he or she understands that philanthropy is not just giving money to charity, but also identifying why, where, how and how much? **A philanthropic adviser emphasizes the strategy that is most likely to achieve the client's philanthropic objectives, without affecting their current standard of living or jeopardizing retirement or estate objectives.**

Due to the complex nature of planning gifts, an adviser should have a comprehensive understanding of the legal, financial, insurance and tax issues surrounding different strategies. Alternatively, they should collaborate with specialists in each area to ensure the process is completed properly.

There is no better way to lead than by example. Personal experience gives the adviser the practical expertise as well as perspective on the emotional reward of giving back to the community.

CONVERGENCE

Again the question, can various stakeholders come together and effectively change the way Canadians give to charity?

The convergence of a massive wealth transfer, the desire to be more philanthropic and government's charitable tax concessions are creating what is being called the "Golden Age of Philanthropy."

Certainly, the issues and challenges facing each group are far-reaching and complex and cannot be solved in the course of one discussion. However, discussion is the starting point from which ideas, innovation, collaboration, and ideally, a culture of philanthropy, will emerge.

WHAT CAN AGENCIES DO?

Communicate more actively with donors

Charities must work together to raise awareness of the complexity and cost associated with sustaining a charitable organization. In “Talking About Charities”, a study of Canadian’s attitudes toward charity, 51 per cent of respondents said they want more information about what charities do and how they do it. This is an opportunity for charities to challenge traditional attitudes toward giving and introduce the concept of philanthropy to its donors.

Engage existing donors and ask for greater contributions by introducing a culture of philanthropy

Charities have, within their constituencies, hundreds, perhaps thousands of donors who would consider giving more if the charity raised more awareness around how to do so. More than 80 per cent of affluent individuals identified themselves as highly motivated toward philanthropy, stating they want to give more, but don’t know how. **Many charities spend resources trying to attract new donors, when they could be investing in the development of relationships with their current donors.**

Partner with Philanthropic Advisers to assist donors in completing gifts

It is cost prohibitive for charities to employ advisers with the requisite expertise for completing a wide range of gifts. Building a strategic alliance with a philanthropic adviser in the community is a more efficient and effective way to provide this service to your donors.

WHAT CAN ADVISERS DO?

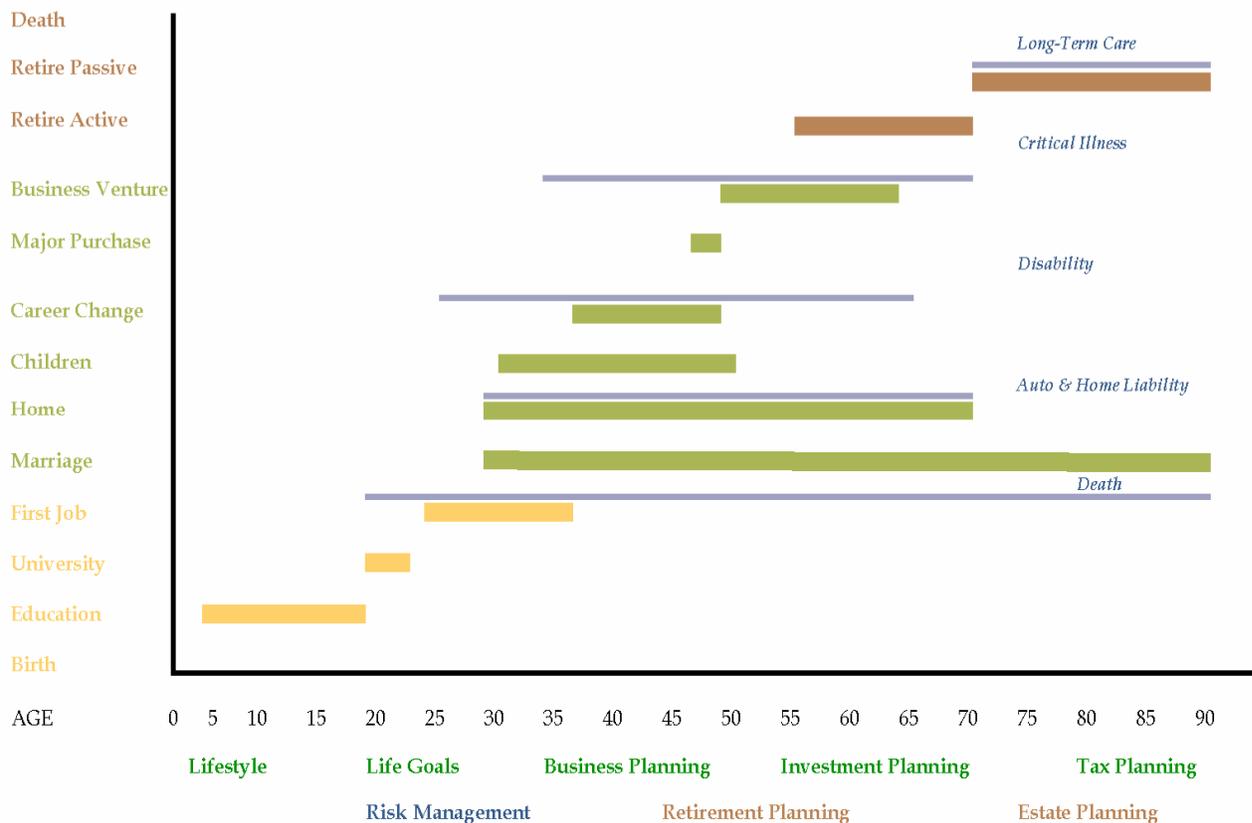
Make a commitment to philanthropy

- Get involved as a volunteer or board member of a charity. This will provide greater insight into the challenges facing charities.
- Become a member of the Canadian Association of Gift Planners. Members are kept up to date on all tax, legal and legislative changes and their impact on philanthropy.
- Establish a personal philanthropic planning strategy. By experiencing the benefits of philanthropy firsthand, it is much easier to discuss the concept with clients
- Advocate philanthropy. Professional advisers are uniquely qualified to collaborate with the government in furthering initiatives on behalf of charities and non-profit organizations, as well as clients who desire to do more for the charitable sector.

Talk about the opportunities in philanthropy with your clients

Studies have shown that clients are interested in learning more about philanthropy. Consider life planning as a good opportunity to introduce philanthropy. (See Figure 1-1)

Figure 1-1 Where does philanthropy fit?



WHAT CAN GOVERNMENT DO?

Invest in promoting the concept of philanthropy as a partnership between government, the individual and agencies

Appoint an advocate for philanthropy within caucus and communicate what government is doing to encourage an integrated community-wide culture of philanthropy

Alberta’s Promise is an excellent example of the type of initiative that works in promoting the partnership between business and charities. A similar initiative promoting partnership between charities and donors would build a culture of philanthropy.

Implement the December 2004 recommendations of the Senate Committee on Banking, Trade and Commerce

- Eliminate capital gains tax on donations of listed securities and real property¹⁰
- Extend preferred tax treatment to private foundations
- Extend donation deadline to 60 days past year end (same as RRSPs)
- Allow donors to carry back any unused receipt room for three years and carry forward indefinitely (this would allow significant planning opportunities)

¹⁰ The elimination of capital gains tax on donations of listed securities has been adopted by the federal government since the original publication of this white paper.

The Senate Committee, as a result of its study, stated:

“It is the Committee’s belief that the recommendations in our report, taken as a whole, could increase charitable donations in this country by millions of dollars.”

The Department of Finance estimates that \$14 billion in donations for 2003 cost the government only \$1.6 billion in lost revenue.

In the past, Canadians have responded favourably to government initiatives to increase philanthropy. In 1996, when government raised allowable tax credits on charitable donations to 50 per cent of income, charitable donations increased by 14 per cent.

Assist in the development of charitable financial products

As an example, one of the most widely used charitable products in the United States is the Charitable Remainder Trust (CRT). Introduction of clear legislation on the tax treatment of CRT’s would increase the use of this tool in philanthropic planning in Canada.

Define best practices for corporate social responsibility

- Work in tandem with non-governmental organizations to establish benchmarks for ethical and responsible business operation
- Disseminate and promote best practices

WHAT CAN THE BUSINESS SECTOR DO?

Provide leadership

Research shows that employees are more likely to participate in fundraising activities when company leaders are visibly and enthusiastically engaged with the organization’s charitable efforts.¹¹ A Conference Board of Canada survey in 2000 suggested that 71 per cent of employees want to work for a company that commits to social and community concerns.

- Introduce payroll giving program and/or a matching donation program
- Encourage volunteerism by offering paid volunteer days to employees

“Being a good corporate citizen is to business competition what sportsmanship is to athletic contest.”

¹¹ Joffe, J., Delew, A., *The Giving Campaign Blueprint*. www.givingcampaign.org.uk

Commit to a corporate social investing target and publish your corporate social investing report

Imagine Canada suggests a business giving benchmark of one percent of pre-tax corporate profits as a starting point for corporate donations.

Work with government for positive change

Our business leaders are well respected for their business acumen and frequently called upon by elected officials for their feedback and opinion on business issues. Promote legislation that would be favorable to the business and charitable sector partnership. **“When a business uses its assets to bring about measurable gains not only for itself, but for society as well, that business is a good corporate citizen.”**¹²

Family-owned business can explore ways to incorporate charity in their succession planning strategy

Families face the challenge of keeping their wealth in the family, while maintaining the legacy of the wealth creators. Many families believe their wealth is more than just financial net worth; it is also the family’s values, history and legacy. For the 39 per cent of family-owned businesses that will change leadership in the next five years, there is a unique opportunity to incorporate family legacy planning into the succession planning process. A properly coordinated succession plan will transfer what would be paid in taxes to meet the family’s social legacy objectives.

WHAT CAN THE INDIVIDUAL DO?

Consider philanthropy a part of the financial planning process

Families have an opportunity to transfer their financial and social legacy to the next generation while benefiting their communities. Discuss philanthropic giving with members of your family and consult your family adviser for information on planning your charitable giving. **Philanthropy is something every family should consider.**

Become a knowledgeable donor

Get involved as a volunteer or board member of a charity. You will have greater appreciation for the needs of the charitable sector. Volunteering also gives you the opportunity to determine what organizations and issues your family cares about most.

Support and help build a culture of philanthropy within your community

Our wealth does not exist independent of the community in which it was created.

¹² *The Calgary Foundation Introduces “In Good Company.”* TCF Community, Calgary Foundation Newsletter. Spring 2004

WHAT'S WEALTH GOT TO DO WITH IT?

While there is no official benchmark for giving, most people would be surprised at how much they could give using a strategic planning process. Planned charitable giving entails calculating donations according to what an individual can afford, rather than thinking in terms of an absolute amount.

This table illustrates the current giving pattern of Canadian households.¹³

Top 5% of donors who donated \$1,088 or more accounted for 47% of the total value of all donations
Next 20% of donors who donated \$213 to \$1,087 accounted for 35% of the total value of all donations
Next 25% of donors who donated \$73 to \$212 accounted for 12% of the total value of all donations
Next 25% of donors who donated \$24 to \$72 accounted for 4% of the total value of all donations
Last 25% of donors who donated \$1 to \$23 accounted for 1% of the total value of all donations

¹³ McClintock, N., (2004). *Understanding Canadian Donors*, submitted to Canadian Centre for Philanthropy, 2004. Toronto: Author

THE FAMILY OFFICE - BUILDING A CULTURE OF PHILANTHROPY

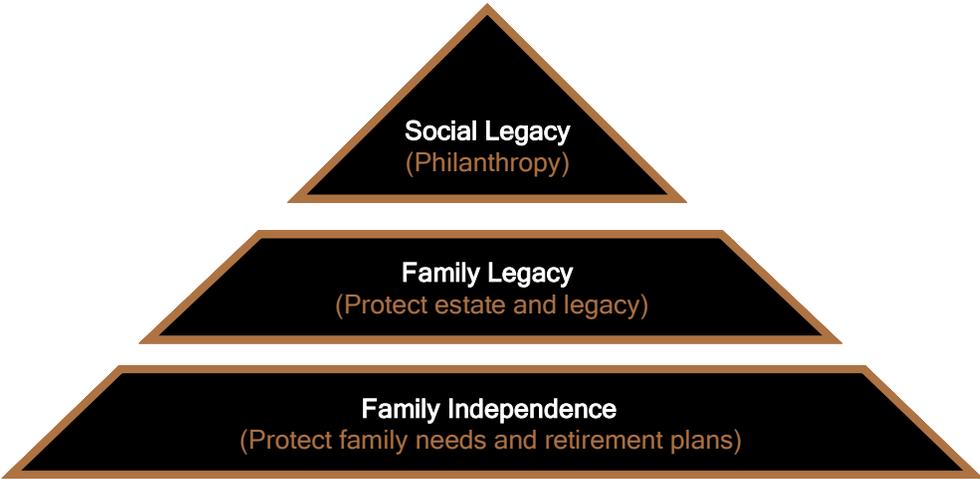
Clients expect their trusted advisers to offer sound advice. The Family Office believes wealth planning extends beyond the client’s financial objectives and returns on investment to encompass strategic philanthropic planning. The Family Office recognizes that wealth does not exist independently of the community in which it was created. Our own recognition of social responsibility and the role it plays in wealth management is crucial to our ability to offer philanthropic advising services.

Our commitment is to present innovative options, rather than staid solutions. Success must be measured by how closely the plan aligns with not just financial philosophy, but also the client’s personal values and beliefs.

THE PHILANTHROPY CAMPAIGN

The Family Office recognizes that before philanthropy will play a meaningful role in the estate and financial plans of families, they must first identify available philanthropic resources. Most families are driven by three objectives:

- The need for family financial independence
- The desire to leave a legacy for one’s family
- The desire to make a difference and have a positive impact on society through a social legacy



The Family Office applies a natural hierarchy of objectives and positions philanthropy within the context of an individual’s overall financial profile. This helps define a donor’s philanthropic objectives and determines the financial impact of planned charitable giving on their family.

THE PHILANTHROPY CAMPAIGN PROCESS

STEP ONE Philanthropy Questionnaire

Awareness review

This explores the donor's philanthropy awareness. This is an opportunity for the family to determine their philanthropic objectives and determine how, where and why they want to lend their charitable support.

Financial review

This looks at the donor's resources and future needs to determine their financial potential for implementing a philanthropic giving strategy.

STEP TWO Philanthropy Statement

The philanthropy statement merges as a summary and overview of the donor's philanthropic objectives and their financial capacity to achieve them. The Philanthropy statement is comprised of the *Awareness Summary* and the *Financial Analysis*.

Awareness summary

The awareness summary defines which charities the donor wishes to support, their current charitable giving activities, and future objectives with regard to philanthropy. The primary intent of the summary is to assist both the donor and the adviser in defining the personal and family values that will form the foundation for present-day and future social legacy planning.

Financial analysis

Family independence (The retirement snapshot)

The first, and most important analysis objective, is to determine whether there is enough income and assets to maintain a desired lifestyle through retirement and to the end of life.

Family legacy (The estate and estate tax snapshot)

The next objective is to determine the current family legacy, or the amount left to heirs after insurance and estate taxes are considered.

Social legacy (The philanthropy potential snapshot)

The final objective is to outline wishes regarding the family's social legacy. Typically, "planned giving" looks exclusively at one's ability to give on a bequest basis (in the will). Our objective is to determine whether there is the capacity to give during the family's lifetime. Our financial model projects the lifetime effect of four different philanthropic planning strategies and illustrates the impact of each on your retirement and estate plans.

- Capacity to give - annually – Target 1% of net worth or 5% of income
- Capacity to give – Lump Sum – Target 10% of net worth
- Bequest in your will – Target 15% of net estate
- Bequest of life insurance – Target estate tax elimination

CONCLUSION

The ideal philanthropic program will not decrease one's current standard of living nor will it reduce one's ultimate estate. Through proper philanthropic planning, a social legacy is created using dollars that would otherwise be allocated to taxes. This allows the donor to effectively transfer government-directed tax dollars to their self-directed social legacy, ultimately benefiting the causes the donor wishes to support.

The legacy you leave is not just the wealth your heirs inherit. Your legacy is the part of you that lives on in the hearts and minds of others after you are gone. It is the influence you had on your family and loved ones and the impact you had on society.

Few things are more important to the future of our communities than how we cultivate, facilitate and celebrate philanthropy. Few things will affect the character and vitality of our society, and shape the future for our children, as what we give back to our communities today.

We have the opportunity of a lifetime to take advantage of The Golden Age of Philanthropy. Whether it is through partnerships, pooling of resources or the vision and generosity of a single donor or family, philanthropy makes good things happen. Society needs philanthropists more than ever –people who give, who lead and inspire with their vision and generosity. We all have the potential to be philanthropists.

"To give away money is an easy matter and in any man's power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in every man's power – nor an easy matter."

- Aristotle

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