

# DIGITAL

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ADVISOR'S EDGE

COVER FEATURE

BY

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## GOOD CAUSES

A soft economy notwithstanding, clients want advisors to help them keep charitable commitments.

Recession or no, clients with a place in their hearts for charity are finding ways to give. In fact, if anything, advisors we talked with say the tough times make those with means—or a plan for their giving—eager to see the results of their good works first-hand.

CONVERSATION  
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FACILITATING  
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SIDEBAR

WHAT REMAINS?

SIDEBAR

MYTH  
BUSTING



We pick up on what they've been giving or have set aside and then explain we can turn that annual donation into a sizeable lump sum gift that offsets tax on death.

"Here in my office, we just completed the [cancer fundraising event] Relay for Life and we've had one of our best years yet," says Peter Andreana, CFP and partner of Continuum II Inc. in Burlington, Ont.

Advisors say two types of donations have slowed: One-offs by occasional givers have taken a dive, as have in-kind gifts of appreciated securities by clients looking to avoid capital gains. "There are almost no in-kind securities donations. It's virtually dried up," says Mark Chabot, an advisor with TD Waterhouse in Burlington, Ont. But, they stress, clients who have contribution programs built into their estate plans haven't backed off.

### SOUNDS LIKE A PLAN

Charitable giving holds up for clients who incorporate it into their estate plans; and

advisors like the option because it can actually allow them to increase net client incomes (and maximize inheritances) by minimizing tax. **[NEXT]**

But planned giving, a process by which clients set goals to make programmed distributions to specific charities (or accumulate a lump sum with an eye toward naming a recipient later) has not suffered during the downswing, says Andreana.

"Planned giving is part of the estate-planning process," he says. "That becomes the driving force for what we are going to do while the client is alive, and how we'll work at administering that."

John Jordan, CFP, an insurance and estate planning specialist with Dundee Wealth Management in Kitchener, Ont., says he's working actively with a 79-year-old widow who derives most of her income from registered assets and

pensions. In other words, most of it is taxable. So he's looking at things she can do with charitable donations to decrease the hit her RRIF is taking.

Jordan is taking half the RRIF outflow and putting it into an annuity that will lock-in income for the rest of her life. She had intended to buy a \$25,000 policy and name a charity as beneficiary, but through tax savings and rearrangement of income vehicles, she was able to upgrade that to a \$100,000 policy without affecting her income.

"With the tax savings, we're increasing her income after tax to be more than if she'd done nothing," Jordan says. "By doing it this way, she's got more money in her pocket and she's ahead of doing just a straight \$25,000 insurance gift to the charity."

Andreana puts it to clients this way: You can leave money to your children, a charity, or the CRA. Pick two.

"Very few are going to pick tax," he says. "Unfortunately most Canadians don't know their opportunities," Andreana says. "Clients assume the taxes are inevitable and there's no way around it, so they don't consider the charity."

To minimize tax, the donation is made outside the estate, and it's done on the terminal return. The client gets credit for the charitable donation on the final return. "It's not dollar-for-dollar but it comes really close," he says.

Chabot says clients respond well when the subject of charity comes up during the discovery meeting. It adds a sense of thoroughness to his process, especially for clients who are expecting the conversation to begin and end with how much they'll need to retire and which equities to buy.

"Charitable giving is never at the top of the list and it's not a very profitable part of my business," he says. "So unless an advisor feels strongly about it, there's a good chance it's not going to

# IN A NUTSHELL

While clients have certainly focused on capital preservation since September 2008, advisors say there is still an appetite for charitable contributions among clients at all income levels.

get touched on. But that doesn't mean it's not important."

## CONVERSATION STARTERS

There are many ways to raise the topic of charitable giving with clients, but what's most important is to start the discussion by listening. Tax receipts and family history also provide clues about which charities a client might favour.

### [NEXT]

It's seldom easy to get people talking about their charitable intentions, but one way to raise the topic is to learn something about a client's past. If it comes up during an exploratory meeting, or later, that a client lost a spouse or parent to cancer or some other ailment, that's a way in.

Clues also show up on the tax receipts—a client might be donating a set sum on an annual basis, or giving occasionally when funds are available. Either way, the line item appears on the tax return and an advisor can use it as a jumping off point to have a full-scale conversation about a client's wishes.

"It's around age 50 to 55 that people first become receptive to these discussions," says Andreana. "We pick up on what they've been giving or have set aside and then explain we can turn that annual donation into a sizeable lump-sum gift that offsets tax on death."

Chabot says the most successful conversations start when an advisor talks about estate planning. "You'd be amazed how many clients have set aside a charity in their will," he says. "They've put

aside \$10,000, or \$20,000, or \$30,000."

And then you can start to talk about why the client is planning to give his estate a tax break, as opposed to taking it now. "Opening that conversation is huge," he adds.

Andreana concurs the door opener is typically the tax applications that come on death, advisors often ensure a client has a strategy in place to offset those taxes. While most clients know they can leave money in their wills, they generally don't know it can be part of a larger plan and a component of the estate plan.

"My experience with boomers has been that they focus on spending for today," he says. "And that's where my role as an advisor comes into play—to push them into looking at estate planning and what kind of legacy they could be leaving."

A more difficult, but still very productive, conversation can start with a client after a spouse dies. Yes, it's hard, but it's where Chabot says he's opened the most doors. It starts by gently explaining to the widower or widow that he or she had a pot of money designed for two that will now only be used by one; and then asking if they'd like to open a foundation that allows for the creation of a lasting legacy.

"It's not a fun conversation to have,

but it's the best time to have it because that's when clients are motivated," says Chabot. "In the end, they say, 'This is great,' because you have the Smith Family Foundation and it carries on for decades. They've set the thing up, they get statements quarterly and they get that reminder about what they did."

## INTRODUCING INSURANCE

While insurance policies can be expensive, they can also be a good tool to leverage client funds and increase the value of charitable contributions.

### [NEXT]

By and large, says Jordan, the public isn't aware of how annuities and insurance can be used to boost charitable giving. "People are saying, 'Don't buy annuities now because interest rates are low,'" he says. "But if you dip into a client's capital right now, then it's depleting everything." The other argument is that life insurance is expensive, but Jordan asks, "Expensive compared to what?"

Insurance may be pricey at the front end, he says, but it hedges against a client's longevity and inflation by obtaining a policy for a larger sum than the client would be able to amass in cash. "It's just a matter of rearranging assets and using the right income vehicles," says Jordan.

### [TAKE NOTE]

*Click here to add your own notes that you can save or print.*

## FACILITATING PHILANTHROPY

BY

KANUPRIYA VASHISHT

**Charity** is a state of being that doesn't wax and wane with economic cycles.

But there are as many options for giving across Canada as there are givers—approximately 82,000 registered charities. So, who to give to, and how much, can prove a difficult decision.

"More and more, clients wish to take control of their own giving as opposed to being solicited on the street or over telephone," says Richard Rizi, investment funds product specialist for Worldsource Financial Management.

In addition to being a service to clients, building and retaining assets in the endowment portion of a charitable-giving account can prove good business for advisors. According to Denise Castonguay, executive director of Canada Gives, "these are the stickiest assets they'll ever manage, and can add value to their books."

But getting involved in the nitty gritty of giving might not be best use of an advisor's time. Many clients give to more than one charity, and administering multiple grants can take a lot of time and effort.

The solution? Farm out the grunt work to public foundations such as Canada Gives and Benefaction, which offer donor-advised giving programs that provide advisors and clients with a strategic and more focused approach to giving.

"We're specifically designed to work with donors interested in setting their own philanthropic objectives and bringing their own priorities to charitable giving," says Castonguay. "Our model should especially appeal to the independent advisory channel because . . . we're designed with the donor client in the driver's seat."

Nicola Elkins, CEO and founder of Benefaction, compares it to having your

Andreana's also a proponent of the multiplier effect insurance offers, noting it can help with clients who are concerned about being protected during their living years. "People want to leave a charitable gift, but you don't want to do it by jeopardizing their current lifestyles," he says. "That's important."

Jordan uses the example of an average Canadian retired couple with approximately \$350,000 in their RRSP at age 65. Both have work pensions, OAS and CPP, so they defer RRSP payments until age 71.

"If they average a 6% return, at joint mortality, they'll have \$350,000 left, so that's a potential tax bill of about \$150,000," he says. "The example assumes they also have cash savings of \$80,000. So they're going to leave the RRIF to the family and the \$80,000 to a charity."

When both clients die, the family ends up with \$225,000, the charity gets \$80,000 and the government nets about \$125,000. Not a great outcome when you consider that same \$80,000 can buy the couple about \$380,000 in life insurance with their children named as beneficiaries. A charity can then be tapped as the beneficiary of the RRIF, which produces income for the couple until they die and then washes the tax bill for the estate.

The children inherit considerably more, since the insurance proceeds pass to them tax-free, and the charity gets \$350,000, instead of only \$80,000. "It costs them nothing. They're not getting much from the interest off the \$80,000 and they weren't using that money anyway," says Jordan. "If we can reduce the amount going to Ottawa and keep it in the community, that's a better thing."

Andreana, meanwhile, uses a permanent insurance example—an older client with a \$100,000 tax obligation that he'd like to eliminate. The client is 65

years old, doesn't smoke and has the means to pay \$7,600 annually to buy an annuity that covers a life insurance policy with a \$206,000 estimated death benefit. At age 80, that death benefit reaches \$250,000, at 85 it's worth \$312,000 and if the client reaches age 90, the benefit climbs to \$384,000.

When the client dies, the substantial gift washes the tax obligation, helps the heirs, and provides a substantial gift to the charity that, again, would not be available if the client had simply chosen to accumulate cash.

### A STABLE FOUNDATION

In addition to insurance solutions, some advisors advocate pooling client funds into foundation vehicles that produce income streams for charities or grow larger lump sums for clients to donate.

#### [NEXT]

For Chabot, raising the topic of charity is also part of a formula followed by his firm, which provides him with a client lifecycle management tool that ensures he asks about things like business succession, or education of children (even if those things aren't yet on the immediate horizon).

If a client does have a charitable passion, he has the option of placing funds into a private giving foundation structure that saves the hassle of opening one himself—and paying the related administrative and legal fees. These small family foundations effectively attach to the larger entity and can be contributed to on a cash or gifted securities basis.

#### [SEE, FACILITATING PHILANTHROPY]

Chabot's clients don't have a say in how assets are invested within the pool but do get to name beneficiaries of the 5% yearly distribution from those contributions. After 10 years, the client has the option to collapse the foundation and send the balance to charity, or keep

it going as a legacy. Clients who use this option get a one-time, lump-sum tax receipt to offset their estates.

Foundation contributions are placed in a special I Series of TD's balanced fund, which has a lower MER. Chabot notes he receives a trailer on assets that are inside the foundation, but unless the client is a massive donor it's a small trailer.

"Once you put in, the money isn't yours anymore. It's earmarked to the charity," he says. "You can choose from one to 15 different charities, as long as it's registered in Canada. Or if you become unhappy with a charity, you can drop it and add something new." Most clients concentrate their funds on one or two recipients.

## MYTH BUSTING

Many clients believe they don't have the means to give to charity, but that's seldom true.

With charitable giving, and investing in general, Adreana says it's his role to look at the big picture and keep the client engaged. He works with clients' accountants and lawyers on the technical aspects of gift planning, and facilitates meetings with all parties to discuss strategy.

"That helps, because if it is the right thing for the client all the parties will agree," he says. "The client isn't left in the middle. If the lawyer and the accountant say, 'Yes, this works,' then it becomes easy. We're all at the table working on behalf of the client's best interests."

## WHAT REMAINS?

BY

RAYANN HUANG

New tax law interpretations diminish, but don't eliminate, the value of charitable remainder trusts.

When Terry Richardson, an investment advisor at Scotia McLeod Inc. in Saint John, N.B., learned in 2006 that Aliant shares would be morphed into an income trust, he alerted his clients—specifically a married couple in their 80s with large Aliant holdings—because the conversion would mean significant capital gains.

Knowing that charity was important to those clients, Richardson recommended they transfer their Aliant shares into a charitable remainder trust (CRT).

By moving into a CRT—a deferred-gift vehicle that allows Canadians to donate assets to charity without giving up ownership—Richardson's clients

received an immediate tax receipt to offset capital gains, and fulfilled their charitable-giving objective.

However, in 2006, capital gains had not yet been eliminated on gifts of publicly-listed securities. Had this scenario occurred today, using a CRT for gifting publicly traded stocks would be less tax advantageous because a transfer of appreciated capital into a CRT may be considered a deemed disposition. As a result, the amount of capital gains may not be fully offset by the donation receipt.

Disposition of capital from the transfer into a CRT is not always bad news, though. With large drops in stock prices, transfer of stocks into a CRT can incur capital losses that can be used as a tax benefit.

But for the most part, CRTs are now considered an unpopular tool with few tax benefits and limited applicability, says Malcolm D. Burrows, head of philanthropic advisory services at Scotiatrust

own private foundation without having to set it up. "We consider ourselves the out-source solution for advisors working with high-net-worth clients who wish to give."

Benefaction not only offers donors the choice of where to give, but also provides them options of charity portfolios—researched field groupings for different sectors such as international, environmental, childcare, education, etc.

Both foundations allow for two types of charitable accounts—annual giving, and foundation. The first allows donors to consolidate one-time gifts—particularly helpful when donating securities or supporting a number of charities. The latter lets them build sustainable funding through endowment gifts while continuing to fund charities each year.

The minimum Canada Gives accepts for setting up a foundation account is \$25,000. An annual giving account can be started with \$5,000. Clients have the flexibility to allocate money into an endowment fund or an immediate giving account. "This model is unique to us. Others have preset limits, where 95% is designed to be an endowment, 5% goes into immediate one-time giving," Castonguay says.

Mike Theodor, CMO of Worldsource Financial Management, says feedback has been great. "In the past, a lot of advisors who stumbled upon opportunities had to construct their own solutions. When it came to comprehensive estate planning there was gap to be filled."

Rizi agrees partnering with Canada Gives has provided a turnkey solution, and allowed its advisors to provide legacy planning for clients who wish to set up endowment funds or give to charities. "For their administration fee—pretty close to being the cheapest in Canada—they provide tax reporting and accounting, and help establish and maintain a foundation, a service which is often an extra for most competitors." —K.V.



If you can really get involved in your clients' lives, well, that's the definition of a great advisor.

in Toronto. He also says there's a lack of clarity surrounding CRTs. "In Canada there is not a lot of clear regulation of CRTs," he explains. "There are a lot of questions about the structure and even a basic thing like 'how do we value the receipt?' We have standard practices but we don't have any government approved methods to do it."

The calculation of the donation receipt amount is based on the fair market value of the capital, a reasonable interest rate, and the donor's life expectancy. The older the donor, the larger the tax deduction. Accordingly, donors in their 80s will typically receive a donation receipt amount large enough to offset most of the capital gains.

But currently, the CRA does not provide the interest rate for the present-value calculation for the gift receipt. Instead, it recommends taxpayers use what is considered a "reasonable rate," leaving room for interpretation.

In addition, once the assets are in the CRT they must remain there, since CRTs are irrevocable trusts. On the upside, clients can continue to derive income from the assets during their lifetime. And upon death, the remainder of assets in the CRT passes on to the designated charity.

The CRT's appeal of receiving lifetime income from the assets is, however, diminished by the fact that payout can only comprise of net income; capital cannot be encroached upon. So in a low-

interest rate environment, there may not be enough income after the deduction of CRT fees and expenses, Burrows notes.

Susan Manwaring, a lawyer at Miller Thomson LLP and member of the Canadian Association of Gift Planners (CAGP), agrees CRTs can be cumbersome because there's nothing in the Income Tax Act that deals specifically with them. "Oftentimes this means piecing together provisions that deal with trusts and gifts to charities," she says.

The treatment of capital gains for CRT transfers is one of the topics that makes people nervous. Currently the CRA is uncertain if it will allow for this election to transfer at cost or if fair market value will apply. In such cases, Manwaring often seeks CRA's approval beforehand.

Currently, the CAGP is proposing the minister of finance make a provision in the Income Tax Act for CRTs.

Manwaring believes CRTs still have a role in the Canadian charity-giving landscape despite their shortcomings. To fairly measure CRTs, she notes advisors need to weigh the tax perspective with the charitable giving opportunity.

"People always want to put these structures in the context of the tax benefits," she says. "In the U.S., the tax benefit of a CRT is a key reason planners will tell individuals [to do it]. But [in Canada] it's more about finding a structure for someone who really wants to benefit a charity and making it make sense." —R.H.

Jordan says two longstanding myths diminish the amount of money Canadians leave to charity. One is the notion that you can't provide for both your family and a charity. The other is that you have to be of substantial means to make a meaningful gift. "People often have more resources and more income than they need to live on," he says.

He believes the means issue is best solved with insurance. A lot of sizeable gifts going to Canadian charities are being generated with insurance gifts, and by and large, they're coming from people with more modest incomes. "A lot of people don't want to admit insurance is the answer. They're ready to see it as a cost," says Jordan. "But a lot of times, it's the best answer."

While giving has been steady, Chabot notes the recession has created some need for advisors to manage client concerns. Some of his clients have begun wondering whether they'll have enough, as opposed to two years ago when they felt they had plenty and could afford to give back.

That said, Chabot insists if advisors don't raise awareness, then they're part of the problem. So he continues to make agenda time for charities at client events.

"We have to keep them top of mind," he says. "And, if you can really get involved in your clients' lives, well, that's the definition of a great advisor." <sup>AE</sup>

## LET'S REVIEW

In our look at the charitable giving landscape for Canadian clients, we've looked at:

- › Planning;
- › Conversation Starters;
- › Insurance Options;
- › Foundation Donations; and
- › Myth Busting.