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# Help your clients leave a lasting legacy



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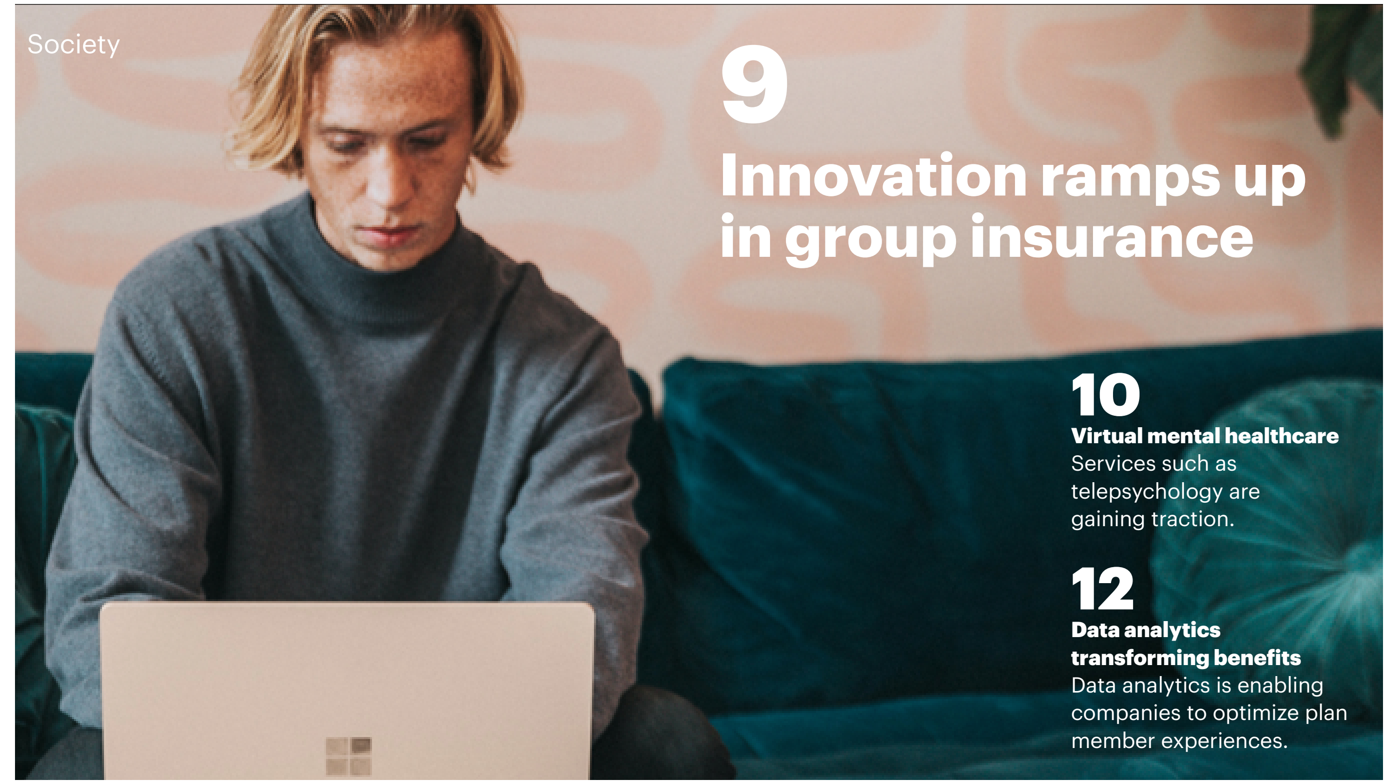



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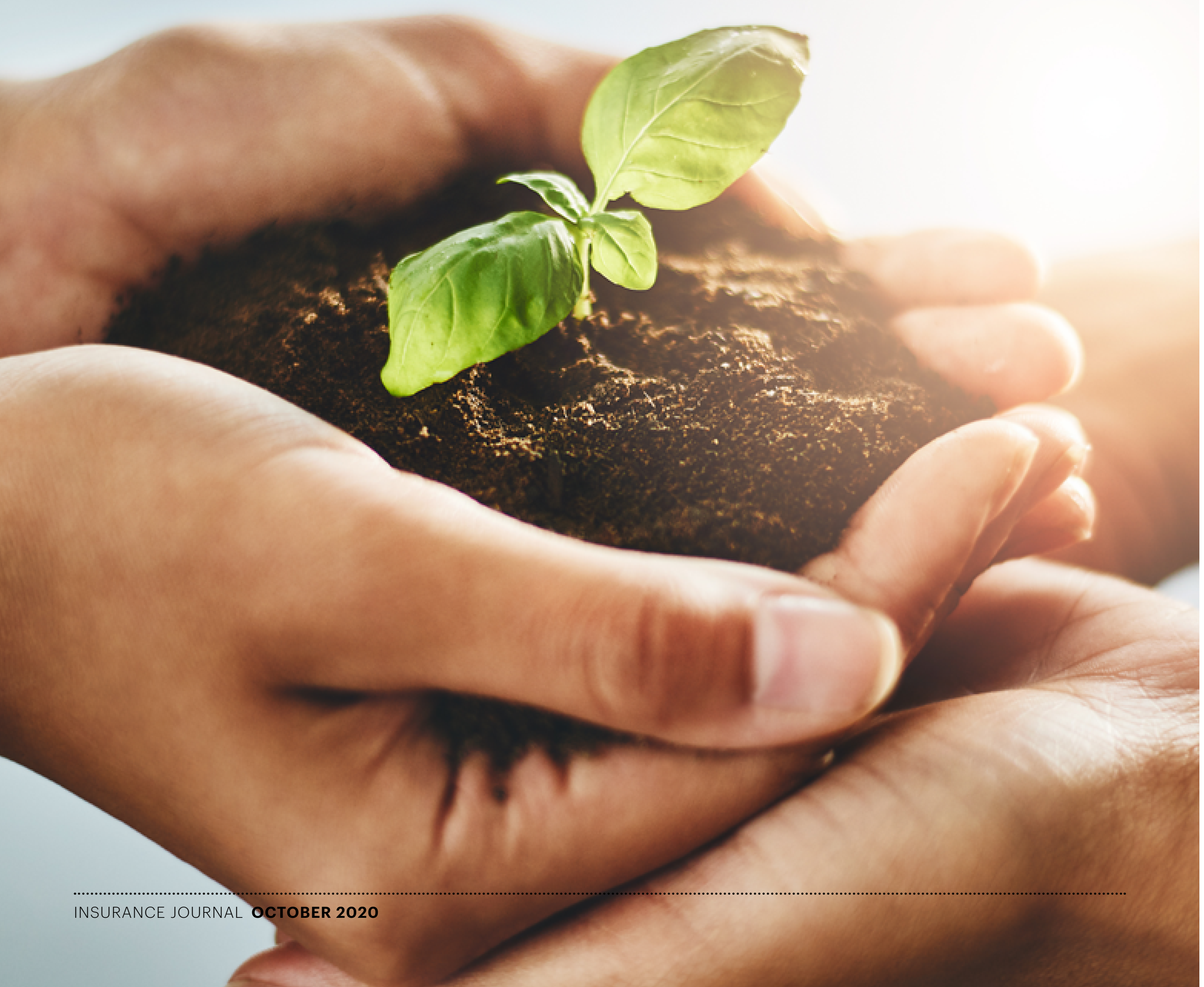
# Help your clients leave a lasting legacy

Charitable philanthropy is not just for the wealthy – many middle-class individuals are also taking a greater interest in planned giving. Advisors play a key role in developing plans that will maximize their clients' gifts to the causes they care about, while at the same time reducing estate tax liabilities.

A SPECIAL REPORT BY SUSAN YELLIN





## Strategic charitable giving allows clients to make a bigger impact

"Charity begins at home but shouldn't end there."
— Thomas Fuller, British clergyman and author

BY SUSAN YELLIN

For **Mark Halpern**, giving to others did indeed begin at home learning the importance of charity both through his Jewish heritage and his widowed mother who impressed on him the importance of responsibility and giving to those without.

So when he started up his financial advisory firm some 30 years ago, now called **WEALTHinsurance.com**, Halpern realized the great opportunity for all advisors to create (large) philanthropic opportunities, often by converting financial products into charitable dollars with the goal of reducing taxes.

"As I went through the planning cycle with clients, I would see that they were going to have more money when they died than they have today. They are sitting as the custodian or trustee for the next generation. But they don't realize that they are also partnering with **Canada Revenue Agency** (CRA) for that money when they die."

That is especially true for those who are single, widowed or divorced because without a tax-free spousal rollover for assets like RRSPs, there could be a sizeable disposition on their death – plus taxes on the growth of capital gains, investment real estate and appreciated securities.

Charitable gift giving and philanthropy may seem to be terms meant exclusively for the uber wealthy – those known for leaving long-term legacies that carry the donor's name on doors of hospital wings and business schools. But many middle-class individuals are also a part of planned giving.

Halpern says it's only after estate planning, corporate structures and insurance are discussed in his holistic planning discussions that he raises the topic of planned giving and how he can help clients both lower their final taxes and be philanthropic.

This usually takes place when clients who are in their 50s have accumulated a number of assets and start to feel successful.

"But now they want to go from 'successful' to 'significance' and that's a very different discussion," says Halpern, who holds CFP and TEP designations as well as an MFA-P, a philanthropy services specialist.

> "Just like any other financial goal, if you put a plan behind it you have a greater chance of success."
> — Stephen Webb

"That now comes around to talking to them about preserving their money, maximizing their income on that money for retirement and tax efficiency on their money. That's where individuals are let down in this discussion. That's where a lot of people may be let down because they haven't gone through the exercise of crystallizing their tax liability."

Halpern gives the example of an 80-year-old client who felt very confident in her future with $10 million of assets until he told her that her estate would face about $3 million in taxes.

"So now we have a reason to talk about putting together a charitable strategy."

### The philanthropic conversation

**Stephen Webb**, a financial advisor and owner of **Entrust Financial Services** in Winnipeg, says he engages in a philanthropic conversation with every client when he discovers that they support any charitable cause financially. Even for clients donating a modest amount, this conversation often uncovers a desire to support these causes in a more substantial way in the future, but clients either don't know how or whether it is possible.

"The majority of my clients are engaged with charitable giving at some sort of level and I argue that if any client is involved in the process of giving away money or assets which have significant tax consequences, their advisor should be engaged in that process to achieve the best results for the charity and their client," says Webb.

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Once clients sit down and hear of the benefits of strategic charitable giving they learn that their giving may become more efficient and have a greater impact.

"Just like any other financial goal, if you put a plan behind it you have a greater chance of success. More than that – they may realize that they are able to accomplish greater things than they ever dreamed," says Webb, a 15-year member of the **Canadian Association of Gift Planners** (CAGP).

Many people are in a position to make a greater influence on the causes they care about, but are also concerned about whether they have enough for their own retirement and the support they want to provide for their family while they are alive or through their estate, he says.

The solution is to develop a gift plan which may address the client's annual giving budget like a lifestyle expense, and then decide whether a part of their estate may be used to leave a legacy, says Webb.

"I have had clients develop a gift plan and realize that they had not changed their support to their most valued causes for many years. Once they realize that they would be able to retire comfortably and support their family they were excited to think about how they could make a greater impact today and in the future."

Halpern talks about a client named Joe who had a $500,000 life insurance policy but has become uninsurable for anything more than that so he wanted to donate the policy to his alma mater. An independent actuary determined the policy's current value at $290,000. In exchange Joe received a charitable receipt for the entire $290,000, saving himself about $145,000 in taxes. If he wanted to, he could have continued to pay the premiums for the insurance and receive charitable tax receipts for the amounts paid, lowering his taxes in the future. Instead, the university found a generous donor who paid those premiums going forward and the donor now receives an annual charitable receipt for his donations.

### Donating securities

Another way to give to charity – and one of the most efficient – is to donate securities or mutual funds because the donor avoids paying capital gains taxes, says Halpern.

Webb says some of his older clients opt to set up a donor advised fund (DAF). This lets donors make a charitable contribution without stating immediately which charities will receive the gift. In the meantime, the funds can grow tax free and the donor receives an immediate donation receipt. In some cases, a DAF can be set up with just $10,000.

Families can also set up private foundations with the possibility of creating a lasting legacy for their children and grandchildren. A foundation can use its funds to operate its own charitable programs or make donations to other registered charities. But there are costs involved, including legal and accounting fees in setting up the foundation, and ongoing expenses for such things as tax filings, preparing audited financial statements, issuing of tax receipts and investment management.

Webb suggests that advisors who want to become more knowledgeable about discussing strategic planned gift giving ideas with their clients become part of CAGP, an Ottawa-based organization that brings together charitable representatives with donor advisors in one professional *association*.

There are a number of different ways people can give to charity and inspire others to do so. But it's when a client is primarily passionate about a charity and an advisor talks about the positive tax savings that can amplify the gift, that the real magic happens, says Halpern.

"It's the passion for charity that wags the tail of the dog. The tax doesn't wag the tail."



# Advisors increasingly interested in providing philanthropic advice

Financial advisors are playing an increasingly larger role in the country's philanthropic endeavours.

BY SUSAN YELLIN

"We call it strategic charitable gift planning, meaning that it's both thoughtful and strategic," says **Ruth MacKenzie**, president and CEO of Ottawa-based **Canadian Association of Gift Planners** (CAGP).

According to the latest figures from **Statistics Canada**, Canadian tax filers donated $9.6 billion in 2017 with those 65 and older representing almost one quarter of all donors as well as the highest average donation.

As Canadians live longer, more may be thinking about leaving money to a favourite charitable cause in addition to family but need help determining how to best go about it. MacKenzie says CAGP is seeing more advisors who want to provide that strategic philanthropic advice to their clients these days, pointing them to the new MFA-P™ designation as a way to become a philanthropy services specialist.

### Special designation

CAGP, **Knowledge Bureau** and **Spire Philanthropy** put together the course for the designation in September 2019 to help advisors broach the topic of gift giving to their clients, incorporate philanthropy into their practice and align client goals with the right solutions.

"So CAGP really provides advisors with that education and that ability to engage those conversations that are more values-based," says MacKenzie.

There is somewhat of a disconnect when it comes to whether charitable donations are even discussed between advisors and clients. A study by CAGP, **BMO Harris Private Banking**, **GIV3** and **Philanthropic Foundations of Canada**, indicates that more than 90 per cent of advisors say they talk to clients about philanthropy. But one study revealed that only 13 per cent of these advisors' clients said they had meaningful conversations on the subject with their advisors.

This is where the course comes in. It educates advisors about the charitable sector, providing them with technical information on the tax strategies that can amplify charitable giving and how to incorporate philanthropy into their practices.

Particularly, advisors need to focus on planning strategies that are relevant to clients, that will say something about that person and how they want to be remembered, she said.

CAGP will soon be piloting a public awareness campaign in the Niagara Golden Horseshoe area called *Will Power* that is designed to make it more commonplace for people to leave a gift to charity through their wills.

> "Research says advisors who are engaging in philanthropy have grown their business, their network and client base."
>
> — Ruth MacKenzie

"It's an unprecedented opportunity given the COVID-19 pandemic, but we're also continuing to be in the midst of the biggest intergenerational transfer of wealth that has ever happened," says MacKenzie. "There is an opportunity that wealth is changing hands from one generation to another and in many cases we have older people leaving money to their children who are Baby Boomers but [who really] have less of a need of an inheritance. At CAGP we think we have a real opportune time around that message – about thinking about charities as part of your estate giving plans and it's a right time to do that."

### Pandemic impacting fundraising

Charitable organizations themselves have been coming to donors multiple times in the past few months because of the uncertainty they are feeling about being able to raise enough funds to keep projects moving during the pandemic.

MacKenzie says charities have programs they need to deliver and teams that they need to retain, along with increased costs dealing with social distancing. As well, many cultural institutions that rely on visitors are seeing harder times because of the many weeks or months they were shut down. While many of these have re-opened, they may now need to implement only timed entrances and social distancing techniques, all of which are costly.

As clients get older, thoughts of leaving to charity, in addition to family, may become more top of mind for clients. Research indicates that advisors who do add philanthropic advisory services as part of their business are increasingly sought after, says MacKenzie.

"Research says advisors who are engaging in philanthropy have grown their business, their network and client base and in their view advisors who don't provide these kinds of services are at risk of losing business and ignore it at their peril."

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