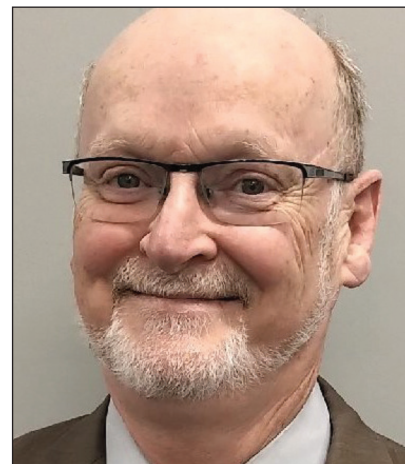

# An Advisor's Perspective

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I have been involved in gift planning for about 25 years now and am reflecting on a career that is 'on the back nine', as they say. Elsewhere in the Donor's Guide, you will read some excellent summaries of provisions of the *Income Tax Act* regarding gifts, as well as a technical guide to some of the gift planning tools I use with clients. What follows is my take from a planner's perspective.

### COMMITMENT

I made my first planned gift using a small life insurance policy that my parents had taken out on my life. It was not a significant part of my overall financial security plan. I further leveraged the tax benefits by borrowing from the cash value before transferring ownership of the policy to the charity. That way, both the premium I paid and the loan repayments I made qualified for a charitable receipt. Here I was, in my early 40s, making my first planned gift. So why did I do it? Yes, there were some tax benefits, and yes, it was an inexpensive way to start my gift planning. But there was more to it than that. I was fortunate to attend an independent school, which would not have been possible had it not been for the generosity of two families who set up a scholarship fund to which my family could apply for financial assistance. Since graduation, I had acted as agent for my class, soliciting donations to our own class bursary fund. Not only was I paying back the generosity of those who had helped me, but I needed to pay it forward to successive generations. That was the first tool in my tool box. If I was going to ask a client to consider a planned gift, I needed to be committed to my own philanthropy. Since then, I have made another planned gift using life insurance, set up a Donor Advised Fund and made provisions in my will for other gifts.

### PROCESS

Coincident with that decision was a change in mindset. My first approach to this market was to build a new revenue stream for my business. After about a year of unsatisfactory results, I came to the realization that if I was building a clientele of people whose values I admired, gift planning was not a separate business segment. I needed to be an integral part of all my client relationships. My process had to change. My second tool was process. I developed a process that sought the answer to three questions. What does financial independence mean for my client (and spouse)? What is an appropriate legacy for their family? What kind of social capital legacy do they wish to leave for their community?

### DISCOVERY

Most advisors have some kind of discovery or fact-finding process they use. There are usually lots of personal details and financial facts. Here are some questions I would ask clients that can trigger some gift planning conversations down the road.

- Tell me about your (or your family's) hobbies or interest?
- Where do you volunteer your time?
- Can you name the top three charities to which you currently donate money? Is there a disconnect between your gifts of time and money? Could they be more closely aligned?
- Is there a family history of medical issues or premature death?
- Are you happy with the amount of income tax you pay?
- What kind of conversations do you have with your children/parents about money?
- Where does your wealth come from? Do you stand to inherit an estate? Where did it come from?
- Who are the current beneficiaries of your will?
    - Is there another beneficiary you forgot to mention? (tax on last death)
- If I could show you a way to increase the size of your estate and/or reduce the impact of taxation, would you be interested in pursuing this?

There are other questions, but my process is really a conversation about mission and values. In looking at existing clients, I often look for clients who are single, divorced or widowed or clients whose plans have 'estate' as beneficiary.

For clients with whom I have a long-standing relationship, I plot their

lifeline in landscape format in the middle of a sheet of paper. The horizontal axis is divided into 5 or 10 yr increments. On the left edge, the vertical line goes up and down from 0 (horizontal axis) on a scale of 1-10 positive, and 1-10 negative. I then ask them to think of three positive events in their life and three negative, plot them on the graph and put a one word description beside each dot. I then start the conversation about these events by joining the dots on the graph. Going this deeply with a client is risky, but it can reveal some remarkable insights into their values and character – the foundation of further conversations about philanthropy.

## UNCOVERING THE GIFT

### GICs vs annuities

Mr and Mrs B Generous are 70 and 68 years of age. They have a non-registered GIC portfolio of $100,000 that they rely on to produce income or as an emergency reserve. They want to be generous, but they need the GIC income. As of this writing (May 2020), five year GIC interest is running at 3.45%. On $100,000 capital, that's $287.50/month. Net after tax, that's about $145/month, depending on your province of residence and assuming the top marginal rate. To produce the same after-tax income of $145 the Generous family could purchase a joint and survivor annuity that costs them about $36,500. Now, they've uncovered $67,500 of capital that they can donate to their favourite charities. But wait! All of a sudden $100,000 has disappeared from their estate. Will their children be left short? The Generous family uses the tax credit on the donation (about $27,000) and funds a last to die life insurance policy (Estate Replacement) that flows to their beneficiaries upon the second death.

### RRIFs

Some donors are in the fortunate position of having accumulated registered (taxable) assets. When they convert to a RRIF/LIF, the added income may push them into a higher marginal tax bracket. They may not be in a position to make a planned gift with the income but they can increase their regular donations to increase their charitable tax credit. They name their spouse as successor annuitant but they can name or add a charity as a named revocable/irrevocable beneficiary. That designation will offset – in whole or in part – the tax impact of registered capital on the second death.

For some donors, the RRIF income is not needed at all. Rather than wait until age 71, why not amortize the RRSP/RRIF now? Using conservative rate of return assumptions, $250,000 of RRIF/RRSP capital will pay just under $30,000 annually, exhausting itself in 10 years. Assuming a male annuitant's age of 63, the donor applies for about $450,000 of life insurance with a premium of about $29,700 annually, paid up in 10 years. Ownership is transferred to the charity after issue, and the premium qualifies as a charitable donation, offsetting the RRIF income. At the end of ten years, the policy is paid for and, if return assumptions hold up (they never do!), the taxable capital is gone from the donor's estate.

### Donor Advised Funds

Since I started using Donor Advised Funds (DAF) in 2005, I have noticed a surge in their popularity. Initially, I had a number of older clients who were getting bogged down by the volume of charitable solicitations they received. They were concerned about duplication in their generosity, multiple requests, unscrupulous pseudo charities and a lack of coordination in their philanthropy. They were also looking at their estates and wanting to update their wills. They were reluctant to make a bequest in their will because of the competing interests of charities. This often meant that no gift was made or their will wasn't updated. Their circumstances were changing as were their charitable intentions. Donor Advised Funds gave them the flexibility to make one bequest in their will, consolidate their annual giving using one charity and reduce the stress they were feeling.

To address the elephant in the room, using a donor advised fund gives the client peace of mind. My relationship with the donor often dates back decades. They want my continued involvement in their philanthropy.

For my younger clients, DAF allow them to start their philanthropy early. They know they can start modestly and change their grant recipients annually to suit their changing interests.

### Life Insurance:

I have used life insurance as a gift planning tool on its own or as part of an estate replacement or income tax minimization strategy. I use new and existing policies. In determining who should own the policy, I am often guided by one question. 'Where is the tax liability?' That will help determine whether the gift should be inter-vivos or testamentary. When discussing their will, I draw a circle on a sheet of paper likening the estate to a pie. I ask them to name the beneficiaries and the slice going to each. I ask if they have forgotten a beneficiary. I then draw in the tax slice and adjust the remaining beneficiaries' slices. "Mr and Mrs Generous, if I could show you how to reduce or replace this slice, and possibly make the pie bigger, would that be of interest to you?" If the answer is yes, I have the beginning of a conversation about gift planning in their estate.

### Securities

Planned gifts are usually cultivated from existing donors. For those donors who choose systematic (monthly) donations or who are long time regular donors, there may be a more efficient way to make the donation. In my discovery, I look to see if there are 'widows and orphans' stocks in their non-registered holdings. Four of our major insurance companies demutualized around the turn of the century. There's often a large unrealized capital gain in the holdings. The common planning technique is to donate the shares in kind to the charity as part of a major gift or capital campaign. However, what if my client gives to multiple charities annually? Could they improve their monthly cash flow and reduce the after-tax cost? I recommend they open an account with an organization like Canada Helps. Arrange an annual gift of shares that corresponds roughly to their current periodic giving. They stop their periodic contributions, gift the shares to Canada Helps and designate their charities to receive the same percent from the Canada Helps distribution. One tax receipt. Better tax treatment. Privacy settings can be set to eliminate direct mailings from the charities, if that is a concern.

**IN CLOSING:**

When I am giving a planned giving workshop, there's always a slide on what motivates a donor to make the gift. The reality is that most annual donors do not make a planned gift. Why they don't is always my next slide. I call these the five Cs.

Clarity: Most of us are not sure of what we want to accomplish when we engage in an estate plan. It's often the reason so many of us have not prepared or updated our will. Being unsure is often an excuse for inaction.

Conflict: Most donors give to more than one charity. If asked to choose one charity to name in their will, they are reluctant. Their spouse, business partner, children or family may have different expectations concerning the disposition of the estate. Conflict – or fear of it – Is a powerful disincentive.

Control: Effective estate planning often involves the irrevocable transfer of property. So, too, a planned gift. A donor spends a lifetime trying to control the events in their life, or if in business, consolidating control of their business. To ask a donor to relinquish control is difficult for many to accept.

Confidence: Those who have achieved financial success rely on their professional advisors. Let's face it, each of us approaches the client with our own bias about the best way to achieve a result. The donor may be asking: 'Is the advisor who helped me structure my real estate purchases, my business acquisition specialist, my income tax whiz, my numbers person who's kept my business running smoothly? Are they the professionals who can help me figure out how to dispose of my estate? Does this charity have a long-term vision for my gift? Will they be good stewards of my gift? Will they still be around when the time comes? What confidence do I have?'

Complexity: Effective estate planning often surrounds itself with a degree of complexity. The donor may be an expert in their field of endeavour. But try explaining the difference between a capital dividend, a foreign dividend, common vs preferred dividend, and a life insurance dividend, to use but one example. Assuming the donor 'gets it', can they explain the strategy to their spouse, business partner or family? What if the rules change between now and the donor's death? A complex plan may be the perfect solution to the problem of a planned gift, business or family asset transfer. However, it may come down to a matter of trust or, failing that, let the next generation figure it out. It's too complex!

Each of us involved in gift planning – be it an advisor or gift officer – knows our stuff. We are committed to building a better future. The cause is noble but, in the end, it boils down to the donor. We have to understand what makes our donor tick. We need to uncover their values, help give purpose to their philanthropy, help them overcome the barriers to action and provide them with the tools they need to more fully be the citizens we know they are.

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