BMO Wealth Institute™

/Report
CANADIAN EDITION

The evolution of giving: From charity to philanthropy

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

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Executive summary

Boomers, who grew up in a time of social change, are often defined by their desire to champion the cause of those less fortunate and make the world a better place.

They're bringing their beliefs, experiences and expertise to charitable giving and have the potential to define the philanthropist of the future.

The BMO Retirement Institute (The Institute) Philanthropy

Survey, conducted in August of 2009, revealed that while boomers are "givers,":

- 44 per cent donate on impulse, without a plan or budget.
- Although charitable giving ranked high as a way of teaching family values, only 15 per cent with children involve them in the decision process.
- Just one per cent donate to charity as part of a plan or budget, with the help of a financial advisor.[1]

With a more strategic approach, boomers can spearhead the transition from a nation of charitable givers to a nation of philanthropists.

What boomers want:[2]

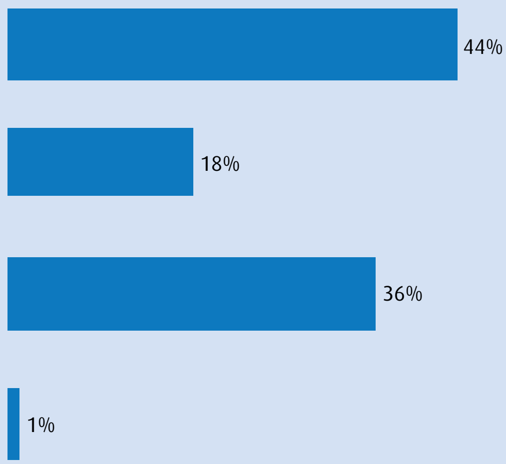
- More involvement
- More transparency as to how their donations are spent
- To know charities are run efficiently
- The ability to see the impact their donations make

Introduction

Charitable giving has always been an important part of social history, and the spirit that inspires it is universal. The benefits of making a charitable donation are countless, from helping those in need to the personal satisfaction we feel when giving something back to a cause we feel passionate about.

Which of the following statements best describes how you make plans to donate to charity, in relation to other aspects of financial planning?

- I donate to charity on impulse, without any sort of plan or budget
- I donate to charity based on a plan or budget, but I don't really consider how it impacts my finances
- Donating to charity is part of my overall financial plan or budget, but I don't involve a financial advisor
- Donating to charity is part of my overall financial plan or budget, and involve a financial advisor



Source: BMO Wealth Institute Philanthropy Survey, Ipsos Reid, August 2009

Often this benevolence is on the spur of the moment, in response to an immediate need – as is evidenced by a philanthropy survey conducted for the BMO Retirement Institute (the Institute) in August 2009, which revealed that 44 per cent of those surveyed donate on impulse, without either a plan or a budget, and only one per cent donate to charity as part of a plan or budget with the help of a financial advisor.

But now boomers, the generation who have always been socially aware and involved, and who have always rejected or redefined traditional values, are taking a closer look at their charitable involvement. They're examining why they give, what they give, to whom they give, when they give and how they give – both through financial donation, and through volunteering. Because this could affect both their current pattern of giving and how it might evolve once they retire, it begs the question:

Is the conventional way of thinking and donating still relevant?

On the one hand, philanthropy has traditionally been considered to involve large donations that are dedicated to a specific cause and sustained over time. In other words, planned, strategic giving, or bequests, that were believed to be beyond the realm of just any person and, instead, assumed to be the province of the very wealthy.

On the other hand, the more "random acts of kindness" we have long associated with the charitable giving that most average Canadians can afford sometimes come as a result of a direct solicitation by not-for-profit organizations representing any number of meaningful charities. Sometimes they commemorate the death of a loved one. Sometimes they're made in support of co-workers, friends or family members who are donating their time, energy and/or talent to a specific cause.

The point is that these gifts are often spontaneous. Although there is nothing wrong with donating randomly to different charities, a more focused, strategic, planned approach would better reflect the values boomers pride themselves on having. Planning will allow an individual to accomplish more in the long run and be less susceptible to the financial pressure brought about by recessions.

Winston Churchill once said "We make a living by what we get, but we make a life by what we give."[5]

Boomers are benevolent

Canada has always been considered to be a wealthy and generous country. In 2007, Canadians donated more than $10 billion to charitable causes (an increase of 12 per cent or $1.1 billion from 2004) and had a donor rate of 84 per cent; they also volunteered almost 2.1 billion hours of their time to charitable causes, which is the equivalent of 1.1 million full-time jobs.[3]

Like their parents before them, boomers are givers. As a whole, because the boomer generation is better educated and more knowledgeable, their level of involvement can be much more significant. What's more, the effect they can have on the future of the charitable sector is substantial for several reasons: Their sheer numbers. Their "we're going to change the world" attitude. The fact that they are more health-conscious, more active and that they will, as a result, live longer. And their desire to know how their donations are being used and what impact is being made.

Of the boomers surveyed, almost one in three who donated money to charity within the last 12 months also raised money or volunteered for a charity. In addition to donating during their lifetime, almost one in four (21 per cent) over age 45 indicated they plan to leave money to a charitable organization as part of their estate plan.[4]

A desire to give: Part of the legacy boomers want to leave behind

Charitable giving is important for the family and is a way to shape the values of future generations. Thoughtful, family-wide participation in philanthropy leads to growth in self-esteem, stability, imagination and a rewarding family life.[6] The Institute found that this sentiment holds true for the majority of the participants surveyed: 89 per cent cited charitable giving as a way of teaching family values, and 86 per cent agreed that it is a rewarding family activity. However, despite this high agreement rate and the obvious benefits to the family, few respondents with children (just 15 per cent) involve them in the decision process.[7]

American industrialist John D. Rockefeller famously had his children divide their money between three different piggy banks. One was for saving, one was for spending and one was for sharing. In doing so, he hoped to instill the importance of giving into the lives of his children.
– Marvi Ricker

In a society with a generally heightened sense of social responsibility, children are increasingly exposed to charitable activities. Marvi Ricker, VP and Managing Director, Philanthropic Services, BMO Harris Private Banking, who works with wealthy clients to create private foundations, finds that children are very excited to be involved in family philanthropy. While they realize this is money that they could be inheriting, "These young people are genuinely pleased to be helping their parents use these funds to make the world a better place, in some small way." This hearkens back to Andrew Carnegie, the famous nineteenth-century millionaire philanthropist, and his argument that with great wealth came great responsibility. He saw it as the duty of affluent individuals to use their wealth "for the common good," stating that the wealthy had a responsibility to give back to those who had been less fortunate.[8]

The extent to which people were involved in community activities as youth, or were exposed to role models who volunteered or helped others, is positively related to their charitable behaviour as adults. Individuals with these early life experiences tend to become more charitable as adults[9] – all the more reason to get children involved in the conversation early on. The discussion should include how to get from wanting to make a difference to actually making a difference, how to ensure that giving becomes part of future generations' DNA, and how to move from being generous individuals to philanthropic families.

But will the economy, and its ups and downs, wreak havoc on these intentions?

The speed and severity of the recent downturn took everyone by surprise. Because it wasn't anticipated or planned for, people the world over have had to rethink all their spending, including charitable giving.

So while 51 per cent of respondents said they donated less money because of the recession, this will not continue, as 82 per cent reported they intend to either increase or maintain their level of giving in the next five years, with the majority indicating they would do so regardless of the economic climate.[10]

This is consistent with the findings of the May 2009 Barclays Wealth Report, which was based on consultation with both U.K.- and U.S.- based high net-worth and ultra-high net-worth individuals, set against the backdrop of the global downturn: "The recession has failed to dampen philanthropic spirit; the commitment of those who already give will remain resolute, and some wealthy individuals are actually increasing the levels of their funding in order to ensure that their charitable goals are met." And according to Giving USA 2009, charitable giving in the United States exceeded $300 billion for the second year in a row in 2008.[11]

Interestingly, studies show that those who build charity into their budget or financial plan are much less likely to decrease their level of giving during an economic downturn.[12] Similarly, Canadians who planned their donations in advance and supported the same organizations repeatedly over time give significantly more than those who do not.[13]

Boomers want to make a difference

While their parents before them were more interested in making financial donations that were entrusted to the hands of charitable organizations, boomers want to make a difference more directly in the causes they believe in. While slightly more than half (53 per cent) of those polled were found to be only "somewhat satisfied" with their current way of giving, 34 per cent equated their level of satisfaction with a desire to be in a position to give more. This can, perhaps, be best explained by the fact that donors have begun to actively look for ways to measure the effect of their contributions, wanting to see results. With their remarkable self-made success stories established, boomers are looking to inject their business acumen into the charitable world.

Unlike their parents, who have tended to bequeath their donations, boomers are giving during their lifetimes, so that they can see what impact their donations are making.

This is a move that is very much in line with changes Marvi Ricker has seen in her business: "During the span of my career, I have witnessed a definite difference in the way people choose to give.

They have become more involved on a personal level and want to see results. Giving has taken on an element of strategy." This move towards more active involvement can also be seen in the exponential increase in the number of private foundations created in recent years. In the United States, for example, the number of American private foundations has increased by 75 per cent since 1990.[14] In Canada, there were 2,500 active private foundations in 2007, which represented 85 per cent of all Canadian foundations at that time.[15] Private foundations are no longer the only option, however. Community foundations and donor advised funds (DAFs)16 are becoming more popular in Canada, as 94 per cent of those over age 45 indicated it is important for them to give to charities that serve local causes.

Using a financial advisor makes the most of donations

To make the impact boomers crave, giving requires as much planning as saving – but not necessarily larger donations. And yet, despite the shift towards strategic giving and the important role that charitable giving clearly plays in boomers' lives, very few of them appear to be consulting professional help to ensure that they are giving in the most efficient and effective way possible, thereby creating a lasting legacy. A key reason, according to the Institute's survey, is that many believe financial advisors aren't needed unless the donors are very wealthy or the donated amounts are extremely large.

While boomers have some notion of what philanthropy means, relatively few directly linked philanthropy with long-term, goal oriented giving. Equally interesting is the small number of respondents (18 per cent) who believe that philanthropy is limited to the very wealthy. In that respect, the definition of "philanthropy" is changing. More and more, philanthropy is perceived as having to do with more than money, as not being restricted to large financial gifts. A new definition is emerging that describes the ideal philanthropist as someone who gives selflessly of themselves (time, money and spirit) and makes a long-term commitment to a cause.[17]

There is clearly an opportunity to plan giving in the same way as saving – by creating a plan. A plan that, while it does not have to be based on the amount of the donation, does depend on a thorough, disciplined and strategic examination of goals, objectives, interests and options. This is a task some already address with the assistance of a financial advisor, i.e., when planning for retirement.

Donors have more choices than ever

As with all financial planning, when it comes to philanthropy, the role of a financial advisor is to both identify and help clients understand all the options, to assist them in making informed charitable decisions and to ensure that those dreams are realized – during their lifetime and in perpetuity. This process becomes even more important for those who are giving significant amounts of money. Considerations include the emotional, practical and rational. Thought must be given to how best to align giving with individual family values, how to best work within the donor's financial capabilities, and how to make the most of donations.

For instance, donor advised funds allow donors to be "hands on" with their charitable giving. Once established, donors can recommend that grants be made to their favourite charities, while receiving important tax benefits for any donations they make to their donor advised funds. Donors are able to involve family members in the grant-making process and name a family member or another individual to succeed them as advisor for grants after the donors' death. In addition to giving assets during one's lifetime, donors may also transfer a life insurance policy to a charity, or naming it as a beneficiary, so as to create a legacy upon their death.

In an effort to increase charitable donations, recent federal budgets have fully eliminated the capital gains tax on donations of publicly traded securities to a registered charity.[18] Qualified securities include shares, bonds and mutual funds listed on a prescribed stock exchange. As a result of this change, donating securities is more advantageous than selling them and donating the cash proceeds, because the capital gain on the donated securities is tax-free.

While it is wonderful to see charitable gifts at work, receiving tax benefits is important as well, which accounts for one of the more important reasons for working with a financial advisor. Giving during a lifetime and giving upon death, for example, have different tax implications and benefits. For instance, a large bequest in one's will may become unusable for tax purposes if it is above the allowable threshold.

Working with a financial advisor to develop a financial plan that includes a budget for giving is an important step in determining not only what is affordable but also "comfortable," such as deciding on the frequency of payments, e.g., monthly or annually. Another sensitive decision concerns the subject of inheritance – deciding how the estate will be divided between children and charities.

What philanthropy could look like in the future

Despite the current economic doom and gloom, charities have much to look forward to. While boomers' retirement nest eggs may have decreased due to the recent market meltdown, their desire to make a difference and help those less fortunate has not. Their intent to donate money is partnered with a need to get involved, both physically and strategically, and while the concept of volunteering during retirement is not new, never before has there been such a valuable resource to tap into, because of the experiences and expertise they bring. Because charitable giving is perceived as being important for the family, boomers bring their children and grandchildren with them, assuring charitable organizations that younger generations can also be counted on – now and in the future.

This is a definite shift in attitude. Why it is so significant and bears watching is the sheer number of boomers, who account for nearly one in three Canadians.[19] As they have done time and time again, they could be the generation who lead the way to important and long-lasting social change, this time spearheading the transition from a nation of charitable givers to a nation of philanthropists.

1. BMO Retirement Institute Philanthropy Survey, Ipsos Reid, August 2009. Unless otherwise indicated, all surveyresults are from the BMO Retirement Institute Philanthropy Survey, conducted by Ipsos Reid in August 2009. This surveywas based on Canadians over age 45, with household assets worth at least $50,000, who have donated to charity inthe past 12 months.
2. BMO Retirement Institute Philanthropy Survey, Ipsos Reid, August 2009.
3. Caring Canadians, Involved Canadians: Highlights from the 2007 Canada Survey of Giving, Volunteering and Participating, Statistics Canada, June 2009 (participants 15 and older). Donor rate is the percentage of a given population that made at least one donation of money to a charitable or other non-profit organization in the 12-month reference period preceding the survey.
4. BMO Retirement Institute Inheritance Survey, Ekos Research Associates, June 2009.
5. Quotationbook.com .
6. Philanthropy, Heirs & Values, Roy Williams and Vic Preisser, 2005.
7. Among those with children under 21 years old.
8. Andrew Carnegie, "Wealth," North American Review, CCCXCI, June, 1889.
9. "Tomorrow's Philanthropist," Barclays Wealth in co-operation with Ledbury Research, 2009.
10. BMO Retirement Institute, Ipsos Reid, August 2009.
11. The Annual Report on Philanthropy for the Year 2008, Giving USA 2009.
12. Good Causes, Advisor's Edge, 2009, vol. 1, no.1.
13. Caring Canadians, Involved Canadians: Highlights from the 2007 Canada Survey of Giving, Volunteering and Participating, Statistics Canada, June 2009 (participants 15 and older). Donor rate is the percentage of a given population that made at least one donation of money to a charitable or other nonprofit organization in the 12-month reference period preceding the survey.
14. Institute for Philanthropy, 2009
15. Philanthropic Foundations Canada
16. Charitable account at a public charity
17. Philanthropic Success Stories in Canada, Imagine Canada & BMO Harris Private Banking, 2007.
18. Or other qualified donors. The 2006 federal budget fully eliminated the capital gains tax on qualifying gifts to public charitable foundations or organizations after May 1, 2006, and the 2007 federal budget extended this incentive to private foundations after March 18, 2007.
19. 2006 Census: Portrait of the Canadian Population in 2006.

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