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Endowments 2.0: Rethinking Endowments in the New World

BY ELIZABETH MOXHAM, LL.M, CFRE

How will the March 4, 2010 Federal Budget change the way charities think about endowments?

With the repeal of significant portions of the disbursement quota, including the concepts of enduring property and 10 year gifts, charities have an opportunity and obligation to review their endowment policies, agreements, and marketing messages to evaluate whether they are suited to the new world.

The Budget, together with the economic free-fall of 2008, changes the landscape for charities. Let's use this opportunity to rethink our endowments: to reflect on how endowments can help us meet our charitable objectives and help our donors create their meaningful legacies.

1. WHAT IS A LEGACY?

A legacy is what someone or something is remembered for, or what they have left behind that is remembered, revered, or has an impact on current events and the present day. Philanthropy is all about creating legacies, and endowments are a significant example. However, any gift whose impact lasts for many tomorrows creates a powerful legacy, whether it is an endowment or not.

An endowment should not just be about an invested bucket of capital. It should be about fulfilling a purpose, meeting a need, and doing good. As we have seen with the market crisis in 2008, sometimes we need to dig into the bucket to do those things. The 2010 Budget now makes this easier.

As a result of the Budget, we do not have to think about opposite ends of a spectrum: either using funds today OR holding them for the long term. Now we can deliberately think of time frames in between. Specifically, now we can more easily talk to donors about gifts that are invested and then fully utilized within a decade.

Further, as a result of the market crisis in 2008, we now have the collective experience to discuss what to do with endowments with insufficient income to meet the purpose for which the fund was given. We can now have more thoughtful conversations about when it is appropriate and important to use capital.

Charities need to preserve the trust of donors. Their endowment policies, agreements, marketing materials, and meetings with donors will be part of that trust. With the 2008 economic meltdown still fresh in our minds, we have the opportunity to rethink what is important to discuss with donors.

Budget 2010

The disbursement quota rules were introduced in 1976 to help curtail fundraising costs and limit capital accumulation by charities. They were intended to ensure a significant portion of a charity's resources were devoted to charitable activities. At their core, the rules provided that 80% of a charity's tax-receipted donations in a year must be spent on charitable activities by the end of the following year, and a percentage (now 3.5%) of a charity's investment assets must similarly be expended. The rules were tweaked over time, with an overhaul in 2005 which made the complex and somewhat arbitrary rules even more complex.

The Federal Budget of March 4, 2010 repealed a significant portion of the disbursement quota rules in an effort to simplify the administrative reporting requirements for registered charities.

The Budget proposes to:

1. Repeal the **charitable expenditure rule** which provided that a registered charity must spend 80% of tax-receipted donations on charitable activities by the end of the year following the issuance of the receipt. Expenditures of enduring property and transfers between charities also fell within this rule, as did the adjustments related to the capital gains reduction and capital gains pools; therefore, these rules are also eliminated.
2. Retain the **capital accumulation rule** which provides that a charity must spend on charitable purposes an amount equal to at least 3.5% of eligible property owned in the 24-month period prior to the current year. An exemption applies for charitable foundations with less than $25,000 in property, and for charitable organizations with less than $100,000 (this exemption has been raised from $25,000).
3. Strengthen the **anti-avoidance rules** for charities to ensure that transfers between charities are not improperly used to meet the disbursement quota rules and thereby delay the expenditure of funds on charitable activities.

The new rules apply to all registered charities for fiscal years that end on or after March 4, 2010. For more detailed information, go to CRA's Charities page at www.cra-arc.gc.ca, and search "Budget 2010".

Elizabeth Moxham, LL.M., CFRE

2. THEORY OF ENDOWMENTS:

In the charity world, our understanding of an endowment is a fund in which the capital is invested and the income disbursed annually for the purpose for which the endowment was created.

Past and Current Practice: While there is no legal definition of "endowment", it has often been viewed by charities as a perpetual investment, and has overwhelmingly been promoted this way to donors. One reason for this is charities have been confined by the "10 year gift" rule in the Income Tax Act when creating long-term gifts. They have needed to restrict the use of the capital to help them meet their disbursement quota.

Also, charities have believed donors are attracted to the idea of creating a permanent legacy. Therefore, charities may have included stronger language than "10 years" in their endowment agreements, reflecting the intended permanent nature of the gift. Even if a charity's endowment agreements did not contain language implying permanence (or even 10 years in the case of large charities for which the disbursement quota has been irrelevant), its policies and marketing materials may have conveyed this message.

As of March 4, 2010: Since "10 year gifts" are no longer required, and the assumption of endowments as perpetual investments has been challenged by the recent market implosion (I refer you to the excellent article by Malcolm Burrows in the Philanthropist, Vol. 23, No. 1 [2010]), charities have more flexibility to create endowed gifts with different characteristics to meet both their needs and their donors' needs in more creative and perhaps more productive ways.

Going Forward: While charities should regularly review their endowment policies and agreements to ensure their ongoing relevance, the Budget should make this task a priority. If a charity's existing agreements do not reflect its policy objectives, it will need legal advice, because the terms of the agreements dictate how to treat existing endowments. The new rules do not override the charity's existing obligations. If it is necessary or desirable to change existing agreements, the charity will need to consider what steps to take with donors. Alternatively, if current agreements fit within the revised policy, the review will have served as an excellent opportunity to understand and reinforce the charity's position.

3. ALTERNATIVES:

It is time to redefine "endowments" to mean "invested gifts which may or may not be perpetual". There is a spectrum of alternative types of endowments possible given the lifting of the 10 year rule. The classifications below are not terms of art, and are intended only to illustrate key characteristics of endowments across the spectrum. Variations exist along the path. At one end is what I am referring to as "permanent endowments". At the other end are "term endowments", which have specific time limits on the expenditure of capital and income. In the middle are "flexible endowments".

Permanent endowments: At one end of the spectrum, the objective would be to invest the capital of the gift in perpetuity, without providing any rights to encroach on the capital, and with the intention of increasing the purchasing power of the fund over time. The purpose of the fund should be flexible enough to be relevant in perpetuity or be changed if it ceases to be relevant.

Term endowments: At the other end of the spectrum, the objective would be to invest the capital, and spend both the income and capital within a defined period of time, which may be over 5 or 25 years, or somewhere in between. The purpose may be fixed, and have little or no flexibility. Some charities may quibble with the idea of calling this an endowment; however, since there is a fund that is invested, I think it is a fair use of the term. On the other hand, it may be attractive to restrict the use of the word "endowment" for those funds which are held for a "long term". If so, these could be called "term-invested funds". A pledged gift with an extended payment period may have a similar impact, but would not be a term fund because the charity would not hold the capital.

Flexible endowments: In between, the objective would be to invest the capital for the long-term, while providing some ability to use the capital, partially or completely. There may or may not be an intention to maintain or increase the purchasing power of the fund over time. The purpose of the fund should also be flexible enough to be relevant for the very long term.

A charity may decide to offer all three types, with variations on each theme, to its donors. Or it may choose one that fits its needs. Each charity

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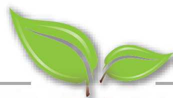

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needs to decide what is right for its needs and objectives.

4. POLICY CONSIDERATIONS:

The following key areas should be considered when determining how much flexibility to provide within a charity's endowment policy: the length of term, access to capital, and the purpose of the endowments.

Flexibility of Term: Should endowments be invested in perpetuity, or for the long-term, or for a fixed term?

A charity may consider the following questions to determine its policy position:

- How long is "long term": is it 20 years, 50 years, 100 years, more, or less, or somewhere in between? Is it a generation? Is it the length of a researcher's career at a university, of a maestro's career at a symphony, or the life of a tree in the forest for an environmental charity?
- If an endowment has a fixed term, what may be the length of that term: 5-10 years, 10-20 years, or longer?
- Can a term be defined in another way, such as based on the useful life of the purpose of the endowment?
- Can a charity accommodate multiple types of endowment terms? Does it have a system to track the different terms?
- What does it cost to administer a perpetual endowment as compared to a term endowment? Do shorter terms cost proportionately more, or not? What cost is the charity willing to bear?

Flexibility to Utilize Capital: Should long-term or perpetual endowments permit the spending of capital?

Consider these questions:

- If a charity or donor does not wish to permit access to capital, how will this affect the ability of the charity to meet the endowment's purpose in years when there is no income or insufficient income to meet the spending allocation? Does the charity have other options to meet the needs ordinarily provided for by the endowment?
- If access to capital is desirable, who will decide when it is appropriate to utilize capital? The users of the fund? The donor? The board of directors of the charity alone? The board in consultation with the donor? The board in consultation with community members or independent experts?
- How often may capital be utilized? At the sole discretion of the decision-makers? Whenever the purpose requires funds beyond the annual spending allocation? Only in exceptional circumstances such as a drastic market decline? Only once? Only once per decade?
- How much capital may be utilized at one time? An amount to meet the purpose of the fund? A maximum percentage, such as 5% or 10% or 50% of the original capital or of the current capital?
- If capital is utilized, is such encroachment intended to be permanent? Or does the capital need to be restored in the future?
- What impact would permanent encroachment have on current

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needs provided for by the endowment? Future needs? What is an appropriate and acceptable balance between current and future needs?

- If the capital is to be restored, how will this be accomplished? On a specific schedule, through methodical and calculated reductions in current distributions (thereby reducing current spending allocations to the users of the fund but guaranteeing the restoration of the capital within a specific period of time)? On an ad hoc schedule, using excess earnings above the annual allocations if and when they are available (thereby not reducing current payments, but not ensuring the restoration within any specific period of time, if ever)? A compromise between the above options?

Flexibility of Purpose: is the purpose fixed or may it be altered?

Consider these questions:

- If the purpose is fixed, must it be sufficiently general that it will survive the test of time?
- When is it acceptable to change the purpose of an endowment? May the purpose be changed when the original purpose has been achieved, is no longer relevant, practical, or possible to achieve? Should there be a time limit placed upon the purpose, where if the purpose has or has not been achieved within the specified time, it may be changed? Should the new purpose mirror, as closely as possible, the spirit of the original purpose? Or should the Board have discretion to choose the new purpose to reflect the best and most important objectives of the charity?
- How will the charity balance its desire for unrestricted endowment funds and increased fundraising? Should it use some or all bequests to create board-directed quasi-endowments that have an unrestricted purpose, a flexible term, and permit access to capital when needed? Should it use some or all bequests as matching gifts to create restricted endowments and thereby potentially enhance overall fundraising, but at the expense of unrestricted funds? Should it encourage and solicit unrestricted endowments to be used for the best and highest purpose of the charity? Or for purposes, such as research, or education, etc, that are specific yet general at the same time?

The answers to these questions will help define the types of endowments that are acceptable to a charity, both to meet its own needs and those of its donors. With a renewed sense of understanding and purpose for its endowments, charities can confidently discuss their vision with donors.

5. CONCLUSION:

I believe in endowments as important investments in the future of our charitable institutions and organizations. I leave you with three wishes.

First, by all means, let's continue to establish and promote long-term or permanent endowments. However, ensure that their purposes are broad and flexible and can be changed if they are no longer working, and give thoughtful consideration as to when capital can be utilized and whether and how it should be restored.

Second, let's not set up long-term or permanent endowments for narrow, flavour-of-the-month purposes. If a purpose is limited, regardless of the size of the endowment, use a term endowment that permits the fund to be fully utilized within a reasonable period of time. Be strategic in choosing which purposes may be endowed for the long term.

Third, let's raise our minimum threshold for establishing new long-term or permanent endowments. Bump it up by 25% or 50% or more. Add smaller gifts to existing endowments, and find some way to recognize these donors without establishing separate named-funds. Or use smaller gifts to create term funds lasting between 5 and 10 years.

Endowments can create a wonderful legacy for donors and the charities they support. We now have the flexibility to think more creatively and consider what really makes sense for the charity and the donor. We are no longer restricted by having to hold capital for 10 years if we really need to make use of it within a shorter period of time. The longevity of the fund should not be the determining factor as to whether a gift is a worthy legacy. Legacies exist in many forms: indeed, making a difference is what creates a true legacy.

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The New Disbursement Quota Rules and their Implications for Charities

BY BRAD OFFMAN

Tucked away in the latest Federal Budget were several proposed provisions which will radically impact the way that charities manage their donations. These provisions, which reform and substantially simplify the existing disbursement quota rules, should dramatically impact the conversations that gift planners (and all fundraisers) have with their prospective donors.

Thankfully, Canadians will be returning to those halcyon days when "DQ" meant a trip to the local Dairy Queen for some tasty soft serve. While the elimination of the most onerous disbursement quota provisions should be thunderously applauded, we need to understand what these changes truly mean when we sit down with our supporters and discuss their next gift.

KEY POINT #1: Elimination of the Charitable Expenditure Rule

The "80/20" rule for ordinary receipted donations will be eliminated. Charities will no longer be required to spend 80% of receipted donations on charitable activities by the end of the year following the issuance of the receipt.

Administrative Implications:

This is good news for charities. Small and rural charities, especially those that received the bulk of their funding from tax-receipted donations (as opposed to government grants or sponsorships), often had difficulty meeting the disbursement quota requirements.

Under the new regime, charities will no longer be required to closely monitor their receipted versus non-receipted donations. They will also be able to accumulate donations for the purpose of raising funds for longer-term projects (and may even be permitted to exclude these accumulated gifts from the 3.5% provision outlined below).

The 80/20 rule was originally introduced to curtail administrative spending by charities and ensure an appropriate portion was spent on charitable activities. Although this is repealed, charities are still required by law to "devote their resources to

charitable activities". Over the past few years, the Charities Directorate has engaged the charitable sector in a discussion about the level of expenses that are reasonable for charities to incur. The result was the introduction of new Fundraising Guidelines (not discussed in this paper). While the Guidelines are new, and charities are just beginning to understand and interpret them, they are designed to ensure that charities continue to engage in charitable activities. The absence of the 80/20 rule does not mean charities can now arbitrarily and without sanction spend their funds on administration.

KEY POINT #2:
Elimination of "Enduring Property"

Enduring property has been eliminated, as well as the "ten-year" gift which excluded lifetime donations from the 80/20 formula if the capital was held for a minimum of ten years.

Administrative Implications:
The rules around enduring property were incredibly burdensome for charities, especially the requirement that each ten-year gift be tracked individually. No longer will charities have to track the expiration of ten-year gifts for the purposes of a disbursement quota calculation or manage the fine line between ten-year and perpetual gifts. This will also allow charities to spend unrestricted gifts on their own timetable, reflecting the actual needs of their own programs and activities.

Of course, charities will likely still have to comply with the terms of their own endowments and the terms under which they were created.

KEY POINT #3:
Elimination of "Capital Gains Pool"

The "capital gains pool" has been repealed. The capital gains pool was essentially a notional tracking of a charity's realized capital gains. While it provided charities with somewhat more flexibility with respect to meeting their disbursement quota, it also provided administrators with an unending source of head-scratching.

Administrative Implications:
Many charities did not implement the capital gains pool, due to their investment policy, record-keeping systems, and lack of understanding. The capital gains pool concept also imposed a set of administrative rules that was contrary to prudent investing. It dictated that capital gains be crystallized and the proceeds held outside the charity's main investment portfolio to enable capital to be used for charitable purposes according to a complex formula. No wonder that I'd rather jump in the pollution-infested waters of the Erie Canal than wade into the murky ones of the capital gains pool. Good riddance. The proposed new regime provides the flexibility without the complexity.

KEY POINT #4:
Retention of the Capital Accumulation Rule

Charities must spend on charitable purposes an amount equal to at least 3.5% of eligible property owned in the 24-month period prior to the current year (that is, property not used directly in charitable activities or for administration). This is effectively unchanged from previous rules. However, charitable organizations with less than $100,000 (up from $25,000) in eligible property are exempt, as are foundations with under $25,000 in such property.

Administrative Implications:
Charities must continue to manage and track their eligible (sometimes referred to as "investable") property. It is important to note that charities must take a rolling average of their property held in the 24-month period prior to the current year. This figure may differ significantly from the charity's current eligible property due to market fluctuations, additional donations and grants.

I believe the increase in the exemption for charitable organizations to $100,000 will lift the administration burden of the 3.5% rule for a significant number of charities. In fact, sector-based organizations like Imagine Canada will need to consider how to communicate this important change to their constituents.

It will be interesting to evaluate the impact of this change (and the elimination of enduring property rules) on a charity's investment policy. The flexibility introduced by the proposed new rules should allow donors to disburse the capital from the gifts on a different schedule. What happens if a million-dollar donor asks the charity to use the donation over a five-year period (let's say $200,000 per year) instead of using only the distributable return over a longer term. This request, along with others like it, should cause the charity to rethink its investment objectives (time horizon being an important component of investment objectives) and therefore its asset mix and investment policy. Charities may wish to consider the introduction of "spend-down" funds into their policy mix – a middle category between immediate use and endowment. Charities will also have more of an opportunity to build reserve funds or quasi-endowments, which are managed like endowments, but with access to capital, as needed.

Finally, the new rules eliminate an inherent conflict between the governing rules of trustee investment legislation (typically found in provincial Trustee Acts) and the Income Tax Act. Trust legislation generally calls for charities to adhere to "prudent investor" standards which often result in a focus on total return investing (where the total return of the portfolio is the prime focus, rather than what generates these returns). The old DQ rules required a focus on earnings generation whereas the new regime will allow the charity to engage in total return investing without regard to the tracking of income and capital.

In fact, I would suggest that all charities carefully review their investment policies over the next few months.

KEY POINT #5:
Strengthening of Anti-Avoidance Rules

The budget also introduced some other changes around inter-charity transfers, which will be ignored for the purpose of this article because these changes have virtually no impact on most donors.

Existing gifts:

Existing gift agreements may be reviewed in order to determine whether or not they can be amended to reflect the new rules. In cases where the gift arrangement can be amended and the original donor is still alive, it may be prudent to discuss with the original donor whether they would be interested in revisiting the current terms of the gift. Charities will also likely want to see the actual legislation before taking any drastic action on existing gifts.

Conclusion:

It is critical for charitable personnel (including senior volunteers) to familiarize themselves with the new rules because of the potential of these new

rules to affect not only how we administer the charity, but how we discuss giving with our potential donors.

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How Much Should You Give?

BY MALCOLM D. BURROWS

The annual ritual of preparing family tax returns prompted me to think about how much we should give to charity each year. Did we give enough, considering factors such as our incomes, assets, age, the requirements of our family, and the fact that we live in one of the world's most prosperous countries?

Giving levels is not a common topic, but there are many resources that exist. The most natural place to start is the major religions. The Judeo-Christian tradition received its first giving benchmark when Jacob promised to give one tenth of what he receives back to God in the book of Genesis. This pledge prompted the 10% tithing rule, which continues to be strongly ingrained in a variety of faith communities. While the original intent was to pay a percentage of property to God or God's earthly stand-ins, the church or temple, the rule has been extended to include the poor and non-religious charities for many people.

Interestingly, the 10% rule once even made an appearance in the Canadian Income Tax Act in the guise of the contribution limit (the maximum amount of gifts you may annually claim against income). In Canada, this limit was pushed to 20% because of a tax case involving Toronto's Reichmann family, who dedicate a high proportion of annual income to charity. For those of strong religious convictions, the 10% figure is a minimum figure. You can always give more. The contribution limit is now 75% of net annual income during life and 100% at death, although there is no suggestion these are targets that should be maintained on an annual basis.

Jacob's promise applies to both income and capital, although it is most often thought of in the context of annual giving. In the book of Deuteronomy there is a much vaguer income-based giving commandment tied to annual harvest and personal circumstances. One should tithe "all the increase in thy seed, that the field bringeth forth year by year". In other words, as you earn more beyond a baseline year you should be giving it all away. I only recently discovered the existence of this edict in an article in The New York Times by the personal finance columnist Ron Lieber. I don't think this rule has been widely adopted, but it may have inspired modern philosophers like Peter Singer, who I discuss below.

In the Koran there is zakāt, one of the Five Pillars of Islam, which deals with alms or spiritual purification from greed and selfishness. Zakāt (or sadqat) dictates that one fortieth or 2.5% of one's accumulated wealth should be given each year to the poor and needy. What this wealth includes appears to be a matter of some debate, and it has been translated into 2.5% of annual income. My sense is this proportional, asset-based system is an early form of progressive taxation probably tied to land ownership. If you have no accumulated wealth, you would apparently have no obligation to give. Traditionally, a failure to give zakāt could, at one time, lead to severe punishment, imprisonment and a lack of acceptance of prayers.

Obligations

Giving in our increasingly secular and individualistic society is anything but an obligation. The idea that giving is something guided by imperatives – that it "should" occur, and at a certain level – is clearly something we have lost in society as a whole. The concept in the anglo-saxon charity tradition that a gift is "freely given" has become dominant, but dominant to the point that we've lost any sense of standards. Charitable giving, unlike paying taxes, is voluntary. It is internally motivated, not externally imposed. If a gift is freely given, the choice of not giving is, at least in theory, valid. By this logic, it is perhaps natural that we have a tax system that provides economic incentives to give to charity. All we have now are carrots to lure us to do the right thing.

In an increasingly secular consumer society, determining the "right" amount is subjective and entirely dependent on individual choice. Standards are hard to set and even harder to impose. We do, however, need them.

Fundraisers have picked up where the great religions left off in providing standards. One of the fundamental tools of the fundraiser – whether volunteer or professional – is giving charts and giving clubs. Become a leader by giving $1,000 per year, or a builder by giving $100,000! By articulating levels of giving, the fundraiser raises sights and establishes relative benchmarks that allow you to measure yourself against your peers. The standards set by an individual charity will never be proportional to one's overall means, but at least they serve as a challenge.

A classic bit of fundraising rhetoric is to present these "giving club" levels as standards for people to aspire to on a voluntary basis. But the none-too-subtle flip side of giving tiers is to serve as a form of public shaming if you don't meet the mark within a particular community. Of course, that assumes the donor cares where they rank within the social pecking order, which is not the case with all people or all charities. Giving campaigns within the workplace often bring out negative feelings in reaction to "community" expectations.

Fundraising standards are helpful to individuals and do encourage us to increase total giving. They provide much-needed information about the expected (hoped for) value of gifts, as well as the scale and ambition of the charity itself. Unlike religious tenets, individual charities do not provide standards for total giving. That is increasingly up to individuals to figure out.

The Right Amount

At least in my world, determining the right amount to give is a topic that comes up with some regularity. Recently I had a fascinating and rewarding dialogue with a client who is a successful Bay Street lawyer in his mid-40s. He had a small epiphany when he realized he had crossed the line between meeting family needs and having significant excess wealth due to his high annual compensation. He knew he could give more to charity, but he had no idea how much was appropriate or how to go about it. I wish more affluent people were afflicted by this level of thoughtfulness. Not being religious, he spoke to peers and partners trying to figure out how much a responsible person in his situation should donate. It was no accident that for many people they come to a point in life where they realize they can and

should do more. Giving, especially when it is voluntary, depends on personal circumstances and values.

personal circumstances and values

Let me provide a personal example gleaned from the recent tax season. In 2009 my wife, Barbara, and I gave 4.3% of our gross income to charity and 4.7% of net taxable income. This amount is well below the 10% tithing mark, but well above national averages, which are admittedly not hard to surpass. I think we can and should do better, but it will require a bit more planning on our part.

According to the 2009 version of the Fraser Institute's annual "Generosity Index", Canadians gave on average 0.73% of annual income to charity in 2007 compared to 1.60% in the U.S. The best-performing province was Manitoba at 1.02% in 2007 compared with a very devout Utah at 3.84%. The Fraser Institute's annual exercise in shaming Canadians for our apparent lack of generosity only measures the average giving of the 24% of Canadians who reported donations to charity.

Giving expectations do increase with income levels. Basic needs are met and surplus income can be devoted to other purposes. In addition, it is more likely for individuals at higher income levels to have surplus assets to give to charity. For example, according to recent media reports, Barack and Michelle Obama gave 6.6% of their income to charity in 2009, and also the entire $1.7 million from the Nobel Peace Prize. McMaster University researcher Abigail Payne has tracked giving by income levels in the Canadian context in a series of papers for the C.D. Howe Institute. As income climbs above $250,000 per annum, giving levels climb upwards of 5%.

As I was researching this article, I spoke to some friends and colleagues about giving levels. A number mentioned the old adage "give 'til it hurts," which has always struck me as excessively puritanical and masochistic. Margaret Mason, the B.C. charity lawyer, offered me a more subtle formulation: "give 'til you feel it". The feeling she meant encompasses both what you are giving up as well as the positive feeling of contributing. Is your giving significant enough that it means you can't do or buy other things? Margaret described giving a large - in personal terms - gift to a community charity that she chairs. Part of the process involved talking to her husband about the amount. There is a dividing line between giving $20 to a neighbour canvassing at the door and giving an amount you must talk to your partner about. That family discussion is a real marker. When you need to talk to your partner about a donation, you probably know you will "feel" it.

The Princeton University bioethicist Peter Singer has become the best-known moralist on the imperative of citizens living in affluent nations to donate to charity. In his 2009 book *The Life You Can Save* he has developed a grid and a challenge. He asks "will you do your part to save the lives of people living in extreme poverty?' (He does not count charitable donations to universities and arts organizations as valid.) His giving grid is based on income levels, not assets. It mimics progressive taxation regimes like we have in Canada, with taxation bands that increase. For example, if you have income under $148,000, his range is a minimum of 1% of income to 5% as you approach the first ceiling. If your income is $148,000 to $383,000, the first $148,000 is 5% and 10% on the remainder. And so on, up the income scale. His top rate is 33%. Singer is in the categorical imperative school of giving. If you are moral and decent human being, you will give at these levels.

planning and mechanics

An approach based more on personal values and experiences is the Bolder Giving project (www.boldergiving.org). It provides real examples of people from all walks of life who give extraordinary sums to charity to "inspire us to give at our full potential." They have a 50% League, which is made up of individuals who have donated or pledged to donate more than 50% of their net worth to charity. There are families who donate 50% of all income over the national median income and 100% of an inheritance. The lead-by-example approach is both challenging and inspirational. We just need to muster strong convictions.

A quixotic home grown initiative to encourage greater giving is Giv3 (www.giv3.ca). Giv3 is a social marketing campaign to encourage "Canadians to give 3% of income and volunteer 3 hours a month to charitable causes." It is a project of The Hallmont Foundation, a Montreal-based private foundation, and it names a number of public charities as "partners".

The Giv3 website includes a donation calculator that figures out how much you should be giving based on your income. You would think that 3% is a simple calculation, but the actual calculator provides variable amounts based on income. These variations are reportedly suggested in a survey conducted by Ipsos Reid in 2008 of Canadians. So, if you have an income of $67,000 the 3% goal applies, but if you have an income of $100,000 the goal is 3.63%, and for $500,000 it is 6.08%. While the calculator smacks of a bait-and-switch - give 3%... no, give 4.28% - it does provide decent guidance.

Methods to Give More

The greatest barriers to higher levels of giving are probably planning and mechanics. Not nearly enough people budget their annual giving or set a target rate. If you have a target number at the beginning of the year it is easier to fill out the quota. Most charitable people have a few primary charities, a handful of secondary charities, and a slew of minor gifts made in response to random requests. A budget will start with the first two categories and then provide a number for miscellaneous causes.

The mechanics question is more difficult. Cashflow is a problem for many. It is easy to get into a year-end giving pattern, which means giving during the high spending December holiday period. It's normal to feel poor at that time of year. Hence, many prudent charities encourage donors to make monthly preauthorized payments. I find this to be the easiest way to give more and give painlessly. My wife and I have even started to give monthly donations through the online charity CanadaHelps.org (www.canadahelps.org) to charities that are too small to have the capacity for this form of giving on their own.

As a planner, I wish that CanadaHelps or some similar intermediary charity would enable me to give monthly, build up cash, and then designate all the donations once or twice a year. This is a bit like some of the donor-advised funds available in the U.S. Another option is to create a separate high-interest savings account that I could fund with

monthly pre-authorized payments. A savings account for charity.

Another classic way to give tax-effectively and at the right level is to make a single donation of an appreciated public security that can be subdivided among many charities at the end of the year. A gift of public securities is not subject to capital gains tax and also receives the normal tax credit. To do this, you again need an intermediary charity, and the best options in Canada for annual gifts are CanadaHelps or some United Ways.

A bequest or gift by will is one of the most painless ways of giving a major gift. Charities can be named in the will and the payment is not made until after death. It's interesting to note that few of the above noted giving standards address the right amount to give from one's estate. Campaigns like the Canadian Association of Gift Planner's *Leave a Legacy* duck the question entirely. It is a topic for another article.

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Gift Planning: An Integrated Approach

The 17th Annual National CAGP-ACPDP Conference provided a wealth of information and resources, as usual, but from the perspective of *Gift Planning in Canada*, one presentation offered a successful model to resolving key challenges the profession continues to face.

Prior to the Conference, Jill Nelson and Greg Lichti from the Princess Margaret Hospital Foundation (PMHF) in Toronto surveyed 10 colleagues in different organizations and compiled the following list of commonly faced challenges to maximizing gift planning revenue.

Challenges to maximizing Gift Planning Revenue:

- Demand for current cash vs future expectancy
- Fear of talking about death
- Lack of integration
- Perceived complexity
- Marketing challenges
- Limited creativity
- Low visibility, credibility, and recognition
- Resourcing
- Lack of understanding of Leadership

To address these challenges, and using the experience and successes of their own organization, Nelson and Lichti propose comprehensive integration of gift planning into a holistic approach, essentially replacing the traditional advancement silos with actively integrated development positions which incorporate cross-training, goal setting, and the measurement of success.

Their Thesis:

- Gift Planning is a "holistic" approach to the donor's giving.
- "Holistic" takes into account the whole of the donor, and the whole of our organizations.
- It's about attitude, not just "systems".

Holistic is an excellent description of their model and approach. The dictionary definition of holistic: *characterized by comprehension of the parts of something as intimately interconnected and explicable only by reference to the whole.*

Nelson and Lichti offered a holistic view of the donor which would include, at a minimum, the following:

- attitude toward wealth
- attitude toward giving
- how they hold their wealth
- who they turn to for advice
- who influences their giving decisions
- their interests, values, aspirations, regrets, sorrows and joys

The same holistic approach to the charity would extend:

- from the first person on the phone through gift processing to the recognition and stewardship of the gift;
- to the many ways donors support the work of the charity: volunteering, gifts in kind, cash, stock, influence, testimonials, legacy gifts, etc.;
- to the important understanding that donors don't put themselves in a category - we (wrongly) tend to impose those limits on them.

As per Penelope Burk's principles of *Donor-Centered Fundraising*, Nelson and Lichti reminded delegates:

> *whether you call it customer service or client satisfaction or something else...*
>
> *it begins and ends with the Donor;*
>
> *it's all about the Donor's point of view.*

Integration at PMHF has evolved to include collaboration amongst all parts of the Foundation, and operates on the belief that a current gift does not negate a planned/estate gift (and vice versa). They admit they are *"not always perfect – but always striving to do better."*

The integration of gift planning is exemplified in the PMHF Major and Estate Giving Team, where Major Gift officers and Estate Giving officers work together on the "Major & Estate Giving" (MEG) team:

- MG officers receive training in EG to establish a basic skill and comfort level
- EG & MG staff meet together weekly to discuss prospects -- EG staff are consulted and included in discussions related to specific MG prospects
- MG officers are asked to identify EG prospects; goals are set and tracked against this objective

There is further collaboration at PMHF...

- …with direct mail, intermediate giving & special events
- in prospect review and transitioning
- in newsletter articles about Estate Giving
- through cultivation and recognition events
- "Do you want more info about Estate Giving?" asked at every opportunity
- Estate Giving information in mailings to direct mail and leadership donors
- joint strategic planning meetings with Intermediate Giving and other Foundation staff
- attendance at each other's events
- celebrating success together

In summary: **COMMUNICATION & COLLABORATION!!!**

As further examples of a holistic, integrated approach, Nelson and Lichti contrasted two ways of viewing gift planning: the vehicles and the process.

Bequests		Identification + Qualification
Stocks		Cultivation
Insurance	-vs-	Solicitation
Annuities		Recognition
CRTs		Stewardship

The challenges and successes of their model, with its applicability to large and small charities (if you work in a small shop, "the scale of execution will vary, but you have fewer people to convince"), illustrate the evolution and huge potential of gift planning.

Nelson and Lichti stressed the importance of trust and respect for colleagues and donors, and comprehensive and useful communications between team members. In the conference session they demonstrated the principle that "good ideas can come from anywhere" by offering a series of challenges and inviting feedback and ideas from the audience. Many of the responses emphasized the importance of building trust and respect with your colleagues, which Nelson and Lichti consider as critical to integration. In closing, they urge us to "share the glory, own the defeats."

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THE LAST WORD

When Greg Lichti and Jill Nelson consulted their colleagues to develop the list of 'challenges to maximizing planned giving revenue' for their conference session, they listed Lack of understanding of Leadership as their final point.

I would have identified it as the primary challenge.

From my earliest experiences with the NGO sector, I have been convinced our volunteer boards are both our greatest strength and our weakest link. The sector is founded on trust and altruism and relies on these attributes for its very existence. But there has been limited success in defining the skill-set and mind-set for directors which would enable them to effectively contribute to charitable excellence.

We do not know how to recruit or train superlative directors. Because so many of our directors are inadequately prepared for their roles, they do not know how to recognize or pursue the strategies necessary to achieve excellence in their organizations.

Ego, turf wars, obsession with the bottom line for the quarter or the year, and a profound resistance to anything unfamiliar, have all served to limit the potential of gift planning. And these attributes are, unfortunately, all too common on our boards.

Later this year, GPIC will be taking a close look at an NGO organized and operated as a collective. Usually anything written by committee is turgid and incomprehensible - and those are the good points. We were very impressed at the quality of materials coming from this organization, and with their clarity of mission and purpose. A collective may provide a viable alternative model to recruiting directors based on their success in an unrelated sector (usually the private sector, where altruism is not a core value), because they sit on other charitable boards, because they have retired from a profession occasionally useful to the charity, or because they have time to spare.

Virtually anyone who has worked for a volunteer board has had many head-shaking moments, many occasions of feeling like they have slipped into a parallel universe where things almost make sense... but not quite.

To be sure, there are thousands of sincere and dedicated directors doing the very best they can for Canadian charities. Most of them are not poisoned by ego or pursuing their own agenda. Very few directors would consciously or overtly reject greater success in favour of resisting change. But the absence of negatives is not a positive. The prevailing ethos of our boards is, 'this is the way we do it because this is the way it's done'.

Well, yes - and therein lies the problem.

Until such time as charitable boards embody a holistic approach to advancement - which I consider synonymous with a gift planning mindset - countless opportunities will be missed or wasted. This is the greatest obstacle not only to gift planning, but to achieving charitable goals.

We should be encouraged by those organizations maturing and evolving sufficiently to surmount this obstacle, and hope they serve to inspire others to follow their lead.

--JWH

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