A GIFT TO BUILD A DREAM ON

Kevin and Marni want to make a substantial gift with a long-lasting impact. Their motivation is clear. They have decided to give $1 million to support research on a rare heart syndrome that has affected a close family member. One roadblock stands in the way and that is answering: What strategy best supports their long-term goals while ensuring their donated funds "work" hard for years to come?

Kevin and Marni are hypothetical, but their concerns are very real. When we hear a significant gift of money—donated during a lifetime or as part of an estate—is to be invested as a means of generating income for charitable activities well into the future, we refer to the gift as an "endowment." At Fiduciary Trust Canada, we believe an endowment donation requires advance planning, considering factors such as:

- Can the intended charity handle an endowment gift? There are over 86,000 registered charities in Canada.[1] Many are small and may not have the resources to steward a large endowment.
- Will the intended charity exist years from now? For a variety of reasons, charities close every year. What happens to your endowment if the charity closes?
- Will the intended charitable purpose remain important? For example, the World Health Organization is optimistic that polio may be eradicated by 2018.[2] If your endowment is focused specifically on eradicating polio, what happens if the goal is achieved?
- Are you qualified to decide how to spend endowment income, or should this job be delegated to experts?
- Who will make decisions about the endowment after you die?

The good news is there are many ways to make endowment gifts and many proven ways to address the above planning concerns. Here is a look at several options, providing a starting point for pushing the roadblocks aside and moving forward. For instance, Kevin and Marni could:

Leave a bequest to an established charity

The couple are involved with a small charity dedicated to solving the rare ABC Syndrome, but are not confident the group could effectively manage a $1-million endowment.

Alternatively, a larger, well-established organization such as the Canadian Heart and Stroke Foundation would have those capabilities. The couple could direct their bequest to that group, specifying that any endowment income should be directed to research on ABC Syndrome. The foundation's directors would make decisions about the organization's investments and the best way to allocate endowment income each year.

This direct solution works well as long as Kevin and Marni feel comfortable that the foundation is well-managed and will make good decisions in the future. Depending on how specific the couple wants to be about how their gift is to be invested or the resulting income used, the large public charity may not meet their needs.

Create a donor-advised fund

A donor-advised fund (DAF) is a public charitable foundation sponsored and administered (including issuing donation receipts and filing tax returns) by a financial institution. It is designed to assist clients in making very flexible charitable gifts and provides the opportunity to be as hands-on or hands-off as they choose. Normally, the financial institution will invest the donated funds in its proprietary investment products. Within the overarching foundation, donors can create unique sub-funds, with the terms of each fund determined by the donor.

1. Canada Revenue Agency, "Charities Listing," www.cra-arc.gc.ca/chrts-gvng/lstngs/menu-eng.html
2. See Global Polio Eradication Initiative website: www.polioeradication.org/Dataandmonitoring/Polioeradicationtargets.aspx

Kevin and Marni could, for instance, establish a DAF for the purpose of eradicating ABC Syndrome. They may be able to select the fund's specific asset allocation strategy and investments. They can state that the purpose of the DAF is to fund research into ABC Syndrome or similar diseases that may be discovered in future, without committing to a particular registered charity. They can donate funds to the DAF immediately or make a bequest in their will. The couple can make annual grants to qualified donees of their choice during their lifetime. After their death, their will can direct how future grant decisions are to be made. They can leave a lasting legacy by naming the fund or make grants anonymously.

DAFs are relatively new in Canada, though they have existed in the United States for some time. They are gaining popularity as a turnkey solution for individuals who wish to give approximately $25,000[3] or more in the form of a permanent endowment. There are some considerations:

- There are relatively few institutions offering DAFs in Canada and therefore the choice of investment managers and/or investment vehicles is fairly limited. Fiduciary Trust Canada can customize DAF portfolios for clients.
- Though steered by the donor, the trustees, or directors of a DAF's underlying public charitable foundation must approve investment policies and grant-making decisions.
- A DAF is not as flexible as a truly private foundation.

Give through a community foundation

This special type of public charitable foundation builds endowment funds to support a range of initiatives, ensuring the future vitality of specific geographic communities. There are 191 community foundations in Canada and every major city has one.[4]

All community foundations accept endowment gifts for specific or general purposes. Most offer DAFs that operate similar to commercial DAFs. They also allow donors to create funds in support of a "field of interest," such as education or the arts.

The strengths of a community foundation include economies of scale leading to lower management and administrative expenses; expert governance; and the flexibility to recognize and respond to emerging community needs. Often manned by skilled volunteers with expertise in many fields, community foundations excel in awarding grants. Due to their high profile, community foundations generally receive numerous grant applications that may interest the sponsors of donor-advised or field-of-interest funds. Such an organization can typically perform due diligence on prospective grant recipients more thoroughly than most individuals.

Kevin and Marni could meet with officers of their local community foundation to discuss how to maximize the benefit of their planned $1-million gift. Perhaps, as a result of this discussion, they might broaden the scope of their endowment beyond ABC Syndrome.

The couple might decide to create a DAF within the community foundation with a mandate to use its income to first fund the local ABC Syndrome organization (as long as that organization exists), and second to fund heart-related programs for children in their city. They could design these terms in consultation with community foundation experts, and fund the endowment through a combination of annual giving and a bequest in their will. Marni and Kevin can be confident their endowment will be in prudent hands after they are gone.

Create a private foundation

There are 5,300 private foundations in Canada (compared to 5,000 public foundations).[5] We find that most benefits of a private foundation can be met using a DAF through a financial institution or a community foundation, and generally at a lower cost. However, much hinges on the donor's priorities. For example, if Kevin and Marni want to become recognized leaders in the field of research into ABC Syndrome, or if they want to create a permanent structure to ensure their passion for this field is carried on by successive generations, a private foundation may make sense.

Creating a private foundation includes gaining legal and accounting advice, learning the governance rules for charitable foundations in Canada or hiring someone who knows the regulations, creating a legal structure (a trust or a corporation) for the foundation, registering with Canada Revenue Agency, recruiting board members, and establishing guidelines for investments, fundraising and grant making. Clearly, establishing a private foundation involves a significant investment of time and money. For this reason, in our opinion, it is impractical to establish a private foundation with an initial endowment of less than $1 million. However, for some families and situations, creating and running a private foundation can be the focus of their life's work.

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3. Note: The sponsoring institution sets the minimum acceptable donation and so may be higher than $25,000.
4. Community Foundations of Canada, www.cfc-fcc.ca
5. Philanthropic Foundations of Canada, www.pfc.ca

KNOW YOUR OPTIONS

When considering making a significant philanthropic gift, weigh whether an endowment will help achieve your goals. If it appears to be the appropriate avenue, we recommend you speak to your professional advisors and examine all the options. After all, you will be building a gift to last for generations to come.