

The Advisor from Both Sides

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Introduction:

Navigating change is a very appropriate theme for describing today's planned gifts environment. Now more than ever, charities that wish to utilize the awesome power of planned giving need to forge alliances with financial advisors – especially financial planners. The question has been and still is, how? Unfortunately for some (charities and advisors), the answer may require both parties to operate outside the “box” of their normal operations.

The intent of this paper is to continue the information presented from past conferences and to offer my insights having spent 13 years working for charities and a prominent financial planning firm. While other disciplines are discussed, the primary focus of this paper is on financial planners and accountants.

This paper is based on my personal experiences from working in both sectors, a survey of planners in Winnipeg (hopefully across Canada), and from direct conversations and presentations with hundreds of advisors from Manitoba and across Canada.

Definitions:

Financial Advisor:

For the purposes of this paper, a financial advisor is an accountant, a financial planner, a life underwriter, a lawyer, or a combination of any and all of the aforementioned disciplines.

Accountant:

A person that is designated as a CA, a CGA, or a CMA that works with clients (corporate, trusts, and individuals) as their principle source of income.

Life Underwriter:

A person licensed in a Canadian jurisdiction to sell life insurance products.

Financial Planner (Planners):

A person that works with clients (corporate, individual, trusts) on a variety of issues pertaining to the management of their financial wealth. Many of these persons would be licensed to sell insurance products as well.

Lawyer:

A person that has been called to the Bar in Canada and is in good standing in the jurisdictions where he or she practices law.

Stock Brokers:

A person licensed to sell securities traded on stock exchanges. The person may or may not offer investment advice as part of their duties to clients (full service brokerage houses do offer advice, discount houses do not).

Investment Counsels:

A person licensed as investment counsel in a province in Canada. These individuals typically manage large accounts for institutions (e.g. pension funds) and wealthy individuals that can afford the minimum account sizes required to do business (e.g. \$500,000 is standard for an individual account).

Issues to Consider:

When trying to forge a relationship with financial advisors, there are several issues the charity should understand prior to discussions with the advisor. Here are some of the more notable ones (in no particular order):

1. Compensation:

How the advisor is paid can reveal ways to help the charity forge a business relationship. Business relationships are mutually beneficial arrangements where both parties find value. It should come as no surprise that lawyers and accountants are paid fees based on the work they do. However, value based fees are not uncommon. Value based fees are not strictly based on hours, but by the value to the client (typically in terms of taxes or penalties avoided). For example, an accountant billing out at \$100 per hour may spend 10 hours on an estate case that includes a residual (non-specified) gift to a charity. If during that process the accountant realizes that the executor can decide which assets to gift, and such action will save the estate \$25,000 in tax, a value based bill would exceed the normal fee of \$1,000.

Most people understand that life underwriters are paid commissions based on the policies they sell. What may be surprising is that life underwriters' commissions are based on the size of the policy (typically the larger the policy, the smaller the percentage retained by the agent) and the fact that they receive override commissions based on the first year's commissions. For example: Bob sells a policy with a premium of \$10,000 per year. Bob's contract with the life insurance company pays him 30% (could be as high as 60%) of that first year premium (\$3,000). Further, the insurance company will pay Bob's agency an override equal to say 160% (high may be 185%) of the first year's commission. If all that override commission goes to Bob, which is not difficult to arrange, Bob gets paid \$7,800 in the first year for that policy. Furthermore, Bob gets paid a trailer fee (typically 3 to 10%) on an annual basis to help service the policy later.

However, it should be noted that most insurance companies will request that the agency pay back commissions paid if the policy lapses in the first two to three years (charge back period).

Full service stockbrokers are paid transaction fees of 1 to 2% when you purchase or sell a security. In addition to the transaction fee, a wrap fee of 1 ½ to 4% is charged based on the assets under administration. Typically, ½ of that wrap fee is paid to the broker. Discount brokerages offer no investment advice, thus they tend to charge lower transaction fees and no wrap fees.

Financial planners can be paid a fee, or commission, or both, and they must disclose to the client how they are being compensated. Financial planners selling mutual funds are paid commissions by their mutual fund dealer (e.g. Lawton Partners Financial) on a front end (FEL) or a deferred basis (DSC). Both commissions can range from 0 to 5% and are negotiable. Most planners I talked to use the DSC option in the range of 5% citing that the client gets the full benefit of the investment and they get fair compensation for the work they did to sell the fund. For example: Mary buys \$100,000 of Trimark Fund on a DSC basis. Trimark credits Mary's account for \$100,000 and Trimark pays Mary's employer (a mutual fund dealer) \$5,000. If Mary disposes of the Fund within seven years, she pays the DSC fee in effect at that time. The DSC fee decreases every year she holds the fund and typically disappears after seven years. Alternatively, Mary could have purchased the Trimark Fund on a FEL 5% basis. In this case, Trimark credits her account with \$95,000 and Trimark pays her mutual fund dealer the \$5,000 fee, and the dealer pays Mary. Now Mary can dispose of the fund at any time with no other fee. It should be noted that some mutual fund dealers have policies that prevent certain fees from being used for larger accounts. For example, if Mary was purchasing \$500,000+ in the Trimark Fund, her mutual fund dealer may force the representative to charge FEL at 0%.

Front end and deferred fees are at the time of sale and governed by the fund's prospectus. Furthermore, the prospectus governs the payment of another commission that is paid on an annual basis to the representative's dealer based on how the fund was sold. This fee, which is set by prospectus and is not negotiable, is called the trail commission and ranges from .5 for DSC funds to 1% for FEL funds. Therefore, if a mutual fund representative has \$25 million in assets under admin, all sold DSC, the fund companies are paying his dealer \$125,000 annually (.5% X \$25 million). Had Bob sold the funds FEL, or converted the DSC funds to FEL funds (clients can typically convert 10% of their DSC funds to FEL annually for no fee), the annual compensation from the fund companies would be \$250,000.

Therefore, it should be clear that fee based advisors (lawyers, accountants, fee based financial planners) and life insurance agents are normally not adversely affected by a planned gift. However, it can cost the commission based mutual fund representative or full service stock broker \$10,000 per year or more (1% of \$1 million) for a client to donate \$1 million in mutual funds to a charity.

2. Client Relationship:

When working with planners, one must pay particular attention to the relationship between the client (your potential donor) and the planner. The following characteristics are not uncommon (in no particular order):

- ❑ The planner does not want to loose the client,
- ❑ The commission based planner “eats what he or she kills”,
- ❑ The planner knows most if not all of the client’s financial details,
- ❑ The planner knows the financial priorities of the client,
- ❑ The planner may not know the charitable priorities of the client,
- ❑ The planner knows what motivates the client (e.g. insurance, risk management, retirement needs, etc),
- ❑ The planner must be seen by the client to be knowledgeable,
- ❑ The planner likes to be seen to be better than his or her peers, and
- ❑ The client trusts the planner.

3. Salesmen Mentality:

I have heard some planners describe this aspect as the “red zone”. Simply put, in this zone, you close the sale to get paid. Like other salesmen, planners use sales strategies to get their clients to purchase their products and services (e.g. park your money for RRSP, RRSP loans, estate bonds, back to back insurance strategies, leveraged insurance). In most cases, these strategies are produced on an ongoing basis by mutual fund and life insurance companies and then promoted with high dollar promotional campaigns that can never be matched by charities. Commonly termed “road shows”, the mutual or life company will trot out very influential speakers (e.g. mutual fund managers) to fly across the country promoting the product or strategy.

For example, during my time at Lawton Partners, I have seen several heavily promoted, very complicated leveraged insurance strategies designed to make a gift to charity and benefit the family. Such strategies are great for the insurance agent because he or she will make an insurance sale. Unfortunately for the charity, the strategy could fall apart in time and leave the charity out in the cold. Furthermore, the charity would most likely never know what happened because the gift occurs at the end of the process with no tax receipts during lifetime of the donor (beneficiary election of insurance proceeds).

Another aspect of sales oriented professions is what I call the “retreat”. In many cases, I have seen perfectly sound planned gift strategies designed after careful consultation with the donor changed to accommodate the intellectual “comfort zone” of the advisor. By intellectual comfort zone, I mean the product or service to which the advisor will retreat when confronted by an area he or she is not comfortable handling (e.g. planned giving). For example, any attempt to get a gift of non-cash assets from a client may be changed to an insurance strategy by the planner for one of three reasons: the planner does not understand the ramifications of the gift, the planner does not want to loose the assets under administration, or the planner deems that the gift is not in the best interests of the client.

4. Conflict of Interest:

I have seen a wide variety of interpretations of this concept. Typically prominent in planned gift committees where advisors are volunteering their time to help the charity, conflict of interest guidelines need to be established and understood by all parties.

Most advisors operate under a business prospect model. They will spend enormous amounts of money and time to generate and explore business opportunities. Advisors are constantly looking for a competitive edge to offer to their clients. They may see planned giving and their role on a planned giving committee as being that edge. In these situations, the advisor may want business referrals from the charity, and/or to learn sufficient information to prospect their client base. Conflict of interest guidelines, presented in advance of any involvement by the advisor with the charity, will help smooth any problems that may develop.

Having said this, I have seen what can be described as an overly enthusiastic application of conflict of interest. Advisors have told me that they volunteered for a charity's planned gifts committee only to lose potential business to another firm. The reason given was that the advisor was in conflict with the charity because he served on the committee. The case involved a donor wanting to make a gift, but needing the services of an advisor to ensure the deal made sense for his situation. The donor had no advisor at that time, so the charity referred him to the self-regulating organization (e.g. CICA, CAFP, CGA) representing the type of advisor the donor required – not the advisor serving on the committee. I was dumbfounded. That same charity did business with many institutions that regularly donated to the charity, and yet that was acceptable.

Confidentiality of information should be included in any conflict of interest guidelines. Typically used by advisors, mutual fund and insurance companies to protect their investments in new products and services, confidentiality agreements bind the parties to not disclose the particulars of the deal under discussion. When used in planned giving, such guidelines (if enforced) bind the advisor and client to not share such a strategy with any other charity or other non-authorized party.

5. Ongoing Education Requirements:

All advisors who are members of self-regulating bodies need to maintain a certain amount of professional education credits every year. Volunteering for charities (presenting, committee work) is often acceptable for credits. Furthermore, planners must have certain types of credits (e.g. one hour of ethics per year). One hour per year is required to maintain good standing in the Canadian Association of Financial Planners (now called ADVOCIS¹). Given the enormous importance of ethics in planned giving, here is an excellent opportunity to forge a relationship between CAGP*ACFPDTM and ADVOCIS by hosting joint meetings on ethics.

6. Time:

The vast majority of advisors I have worked with have a keen appreciation of time. As their personal book of business increases, planners tend to get more selective in the type of clients

¹ ADVOCIS does not stand for anything. It is the merger of the 2500 member strong CAFP with the 15,000 members of the Canadian Association of Insurance and Financial Advisors (CAIFA).

they accept. The principle force driving this selectivity is often time versus return. How much time the client will require in relation to the compensation the advisor will receive. Time is normally directly related to the advisor's financial success. The larger their book of business, the more they seem to appreciate the value of time. Interestingly, I have had many occasions to work with advisors with \$100 million+ books of business. These individuals were always willing to volunteer for charities. They may volunteer, but they still place a very high value on their time. The charity that wastes their time will very quickly lose them to another charity.

Survey Results:

Before I discuss ways charities and advisor can work together, I developed a brief survey to gather some empirical data to support or refute my observations. The questionnaire was designed to be completed in less than five minutes and was returned anonymously.

1 Data Collection Methodology:

I sent out approximately 100 surveys to planners here in Winnipeg (see Appendix One for Sample). Drop down menus were provided that allowed the advisor to select a range of responses (not included in the sample). Fifteen completed surveys were returned. By the time this paper is presented in Vancouver, I hope to dramatically increase that number and to include advisors from outside Manitoba. It is my hope that these results coupled with other surveys of the sector will be of benefit to members of CAGP*ACDPDTM and advisors alike.

2. Results:

Question one was designed to establish a baseline for basic knowledge from the client's perspective. Based on the 15 respondents, an average of 4.0% of their typical clients would ask the advisor about charitable giving. The highest number was 20% and the lowest was zero.

Question two was designed to see if the advisors were actively using charitable giving in the six step financial planning process². Based on the 15 respondents, the advisor inquired about planned giving on average to 15.2% of his or her typical clients. The high response was 50% and the lowest response was zero.

Question three was designed to assess how many clients might be considered planned gift prospects. Based on the 15 respondents, 24.7% of typical clients fit the description provided. The highest number was 80% and the lowest was zero.

Question four was designed to see if there was any potential for the new beneficiary elections for RRSP and RRIF proceeds. Based on the 15 respondents, the typical client would have an average registered fund size was \$164,000 in RRSP or RRIF funds. The highest amount was \$350,000 and the lowest was \$50,000.

² David Christianson outlined the CAFPSix Step Financial Planning process as follows: 1) Assess Current Position, 2) Establish Goals and Objectives, 3) Identify Problems and Opportunities, 4) Consider Solutions and Alternatives, 5)Take Action (implement), and 6) Periodic Review.

Question five was designed to ascertain if there was any potential for charities to actively include gifts from personal corporations in their planned giving programs. Based on the 15 respondents, an average 7.4% of typical clients had personal corporations. The highest figure was 20% and the lowest was 1%.

Question six asked if out of 100 typical clients, did any of them have excess insurance that could be gifted. Based on the 15 respondents, the average was 8.4% with a high of 20% and a low of zero.

Question seven attempted to find out which strategies advisors were most comfortable presenting to clients. The results indicated that gifts by will, insurance, securities, none, charitable remainder trusts, and non-cash gifts respectively were preferred.

Question eight offered a variety of factors for consideration when thinking about planned giving. The most important issues were: tax implications for client, create a win-win situation, add value for the client, fair compensation for the advisor, advisor's comfort with the strategy, technical resources provided by the charity, advisor's familiarity with the charity, the advisor's own philanthropic actions respectively.

Question nine asked for the advisor's total assets under administration (book). The average book was \$31 million with the largest being \$75 million and the smallest at \$10 million.

Question ten asked for the types of products the advisor was licensed to trade. Mutual funds, segregated funds and life insurance were all equally used. One respondent indicated that he or she could trade bonds.

Question eleven asked for the advisor's years of experience. The average experience in years was 21.8 years. The longest time working with clients was 41 years. The least amount of time working with clients was 10 years.

3. Data Analysis:

Based on this data, a significant numbers of advisors are not being approached by clients seeking advice on charitable giving. Thus one could conclude that there is low demand for advice in this area. Therefore, the average advisor will not spend a lot of time researching charitable gifting to offer to his clients. However, when one looks at the number of years in the business, and compares that to the number of times he or she asks the client about charitable gifting, there is a positive correlation. In this study, the individual that had the most experience (41 years) also asked more clients about charitable gifting than any other advisor (80 clients), and was second in the largest number of clients asking about charitable gifting (35). Such a finding is not surprising in that one would expect that the longer the advisor had been in business, the higher the proportion of older clients where charitable gifting fit into their overall financial plan.

When considering potential assets for gifting, registered funds and excess insurance policies are there for the gifting. In a recent presentation I made to the local chapter of the Canadian Life Underwriters Association, I was surprised at how many policies lapse in a given year. Lapsed

policies can be recovered within a prescribed period of time. However, once permanently lapsed, the advisor may be on the hook for repayment of premiums (charge back period). In one case, a foundation had let a policy lapse because the donor had notified them that they no longer intended to pay the premiums³. The real tragedy was that the foundation had not thought to assign the policy to another charity (e.g. grant the policy) that had donors that were willing to continue the premium. Such a charity existed at the time. Now, what would your charity do if approached by an advisor, that had several excellent policies that were going to lapse, requesting you to find a donor willing to continue the premiums? Would your charity ever think outside the box and consider making it known to planners that you would entertain such actions (naturally within limits)? Does your charity have the technical resources to analyze the policies to see if they make sense for your charity?

My belief that the advisor's perspective is often different from that of the donor was supported by these findings. Donors are thinking more about helping the charity, and less about the consequences of the gift (e.g. taxation). Advisors on the other hand ranked tax planning, creating a win-win scenario, providing value for clients, receiving fair compensation, and having comfort in suggesting gifts by will and life insurance as the important factors (the advisor's own philanthropy was very low). Furthermore, this finding could support the concept that advisors retreat to areas they are more comfortable. Naturally, if this survey was sent to tax accountants or lawyers, the results may differ dramatically. However, when trying to understand how planners feel about charitable gifting, I feel there is merit in these findings.

As mentioned earlier, this survey is an ongoing process and more analysis and results may be available at the time of presentation.

What to Do:

So, when one partner has all the financial and long-term information about the client/donor, how does a marriage between financial advisors and charities work in a productive way? Well to start, perhaps we continue where David Christianson (a fee based financial advisor) left off at the Winnipeg CAGP*ACPDTM conference. David suggested that perhaps instead of trying to have the advisor fit into the charity's environment, have the charity try and fit somehow into the advisor's world. I think that is a good place to start. Developing a one-step beyond basic understanding the advisor's world can only help charities make the marriage work. One key area to try and fit in is compensation (business development).

1. Know Your Charity Cold:

While it is true that the advisor will likely know a great deal more than you do about the client's financial affairs, there is a high probability that he or she knows precious little about how a charity works (e.g. disbursement quotas, your charitable activities, directed funds, endowment funds, gift acceptance policies and procedures). Here is where the charity can bring real value to the table. Helping the advisor understand the charity side of the equation may enable him or her to better service their client's wants and needs. It has been my experience that when the advisor

³ I assume the decision to not continue funding the policy in some manner was made after careful deliberation by the foundation.

is shown the options his or her client has in many planned giving programs; especially endowment funds and directed funds, the ultimate gift is often increased.

2. Offer Fair Compensation – Fee Based Advisors:

Every year, many charities spend millions on direct mail and other fundraisers, but ask advisors to donate their time when working on planned gifts. If an advisor is working on a gift, please do not offer a tax receipt (the advisor will most likely make the offer if it is important to him or her). The last time I checked, when a charity conducts a direct mail campaign, Canada Post still charges to deliver mail, and print houses still charge for production. Few if any charities try and offer Canada Post and other companies tax receipts to perform the services they require. So think about paying the advisor for the time he or she puts into the gift⁴. By budgeting for some tax and legal support every year, you will get better support from that advisor when you need it (e.g. free, timely clarification of a legal or tax matter, willingness to present to donors at seminars, etc.). Furthermore, you can probably negotiate the fee based on offering referral opportunities. It has been my experience that the fees I paid rarely exceeded budget, yet the service I got was exceptional, and unexpected referral opportunities do come about. If you think there may be a problem using one or two firms on a regular basis, consider making it clear from the on-set that you plan to rotate the firms your charity does business with so as to not show favoritism. Another way to compensate a fee-based advisor (especially accountants) is to get access to good planned gifts material that can be summarized quickly and presented in a condensed format. Your charity's planned gifts committee should be able to prepare such material. Be sure they focus on the unique provisions afforded to charities that a busy tax accountant may not know (e.g. cost elections for capital property, beneficiary elections that avoid probate, etc.), and include references. Once complete, do not mail it out to every accounting firm in your city. To be successful in soliciting help, you need to have a familiarity with someone in the firm. Therefore, distribute it to your group of advisors and have some on-hand for inquiries from other financial advisors when a gift is pending. On more than one occasion, by providing such material, the accountant saved considerable time and tax dollars for his clients. The accountant subsequently became a member of my group of close advisors. Here is an example where the charity's planned gifts committee had brought real value to the table.

The above supposes that the donor went to his or her advisor before going to the charity⁵. If the donor has come to you first (which happens quite often), be sure to ask the client if he or she has an advisor that you can use for this gift. If not, then be prepared to make a referral. Here is where I suggest using the advisors that have helped you down the road. It is relatively simple to group a handful of advisors by specialty and to get to know them personally. I stress the importance of the getting to know the advisor because quite often personalities are very important in determining whether or not a referral will work. Some advisors may be too matter of fact, others too young or old, and still others are not interested in new clients except if they can meet certain requirements (wealth, age, needs, etc.). Having such a referral listing has proven invaluable to me on several occasions.

3. One Endowment Is Never Enough:

⁴ I am assuming a gift closing, not speculating for gifts. Those speculating services would most likely remain free.

⁵ I know of many gifts destined for charities where the charity is completely unaware of the situation.

What about situations where the advisor is a commission based individual? When commissioned based individuals lose assets, they lose income. Thus it should come as no small surprise why organizations representing planners⁶ are not advocating planned giving on a significant scale. Except for rare situations, advisors (planners) advocating charitable gifting have sufficient book size to afford the loss in commission. Further, their business is probably growing by referrals alone. Therefore, as a service to their long-term clientele, they are prepared to use planned giving to try and bring value to those clients.

But what about the tens of thousands of planners with clients that are willing and able to make a planned gift⁷, that have earned the trust and respect of their clients (hence are reluctant to challenge their opinions), yet are not willing to support planned giving unless it somehow tied to insurance or possibly a bequest? To make matters worse for the charity, it is very difficult to avoid the advisor and go directly to the client (donor) because the client has to have the advisor's signature on the trade form to transfer the stock, mutual funds, etc., to the charity. Remember, most successful planners are very accomplished sales people and quite capable of changing a client's mind. For example, I have witnessed several occasions where an outright gift of mutual funds was changed to a life insurance policy by the advisor⁸.

So what can a charity do to try and avoid this situation? Perhaps consider the following actions (in no particular order):

- ❑ Target your planned gifts marketing materials on advisors that are more likely to support planned giving (e.g. more than 20 years of experience and large books).
- ❑ Accept that, and develop your marketing program to accommodate the fact that, a very high percentage of advisors will support planned giving only if it involves insurance, annuities, or a bequest⁹,
- ❑ Invite the advisor to meet your charity's planned gifts committee so other advisors can show him or her the benefits of the proposed planned gift,
- ❑ Develop a system to find and cultivate only the most committed donors; donors of such strong conviction that they will not be easily swayed from the proposed strategy¹⁰,
- ❑ Consider methods to eliminate the disincentive for many planners – the loss in commission revenue.

One way to alleviate the commission problem is to encourage donors to create private foundations that will support your charity. In this way, your charity can benefit from ongoing grants from the private foundation, and yet the donor's advisors still retain the control and

⁶ Accounting organizations and life underwriters are promoting planned giving.

⁷ All they need is for some assurance from their advisor.

⁸ This is not an issue when the client is highly motivated to make the gift and is ready to confront a pessimistic advisor.

⁹ Your charity's planned gifts acceptance committee (or board of directors) should always determine the best use of insurance gifts.

¹⁰ Such action is not atypical for most planned gifts programs anyway.

management of the funds¹¹. Therefore, if your charity is actively trying to build an endowment fund, and gifts received would be endowed anyway, would it really matter if another charity held the funds? Your charity still gets the income from the money, and the donor's direction, which you help craft, on the account secures the funding for the future.

Another way is to have more than one endowment fund. Currently, many charities have endowment funds, and in every case, a licensed person is paid to manage the endowment funds. When a gift of securities is made, the funds leave the donor's agent of record and are transferred to the charity's agent. From that time forward, all commissions are paid to the new agent of record. However, if your charity is capable of running a comprehensive planned gifts program, then diversifying your endowment fund among several different investment dealers (firms) should be relatively straightforward¹². Select a few prominent securities dealers and agree to hold some of your charity's endowment fund, plus all new endowment gifts with each firm. As with any other client, the charity can take its business to another firm at any time.

According to securities regulations, all commissions must be paid to the dealer, and not to the individual agent. Thus the dealer makes all payments to the agent of record according to its policies. Therefore, the charity and the donor are independent of the issue of compensation. By using several firms to manage your endowment funds, some (not all) advisors may become more willing to discuss outright gifts to their clients.

Lastly, encourage gifts using trusts. Trusts need trustees to manage their funds – a role the existing financial advisor can perform. When the CAGP*ACPDTM is successful in legislating clearer rules around the charitable remainder trust, the use of trusts for gifting, and the opportunities for advisors will likely increase.

4. Networking is King:

Business opportunities are built on networking. I think most advisors and charities share this view. Networking by definition means a long-term proposition with uncertain probability of success. Furthermore, the perceived benefit from the experience may vary between advisors. Do not try and determine the value for them, simply make the offer and they will accept if they see the benefit. Offering quality networking opportunities is one way to compensate an advisor for their efforts. How? From the charity's point of view, hand pick advisors to help you that are in positions within organizations you want to get more involved in. For example, individuals that sit on the program committee of the ADVOCIS or the estate sub-section of the law society can get your charity on the agenda for a planned gifts presentation. Even if you keep the presentation generic (non-charity specific), merely through your introduction and association with your charity, you will gain respect and opportunities to network for advisors. What if you do not feel comfortable making such presentation? Offer to arrange and moderate a high profile panel that will analyze one or two cases for the group. Use your planned gifts committee, or advisors that have helped you, to form the panel. Remember, during your opening remarks as

¹¹ Advisors are setting up private foundations all the time. Further, allowing a public foundation to own, and manage another charity's endowment funds is not new. However, combining the two, especially using private foundations, may require the charity to work outside the box.

¹² Focusing on a select few firms will allow the charity to negotiate FEL 0 on all of its funds.

moderator, you are standing in front of a group of advisors that can help your organization. Therefore, it is absolutely critical that you craft your remarks carefully. Do not stand there and go on and on about your charity¹³. Frankly, for most advisors¹⁴, they can care less what your charity does because they assume it performs a valuable service – issues tax receipts. Rather, in 2 to 5 minutes, you let them know your role, that you make referrals, that you work the donor's advisors, and that the advisor is welcomed into your planned gifts committee when discussing the gift, etc. Now advisors are networking with advisors and you are seen to be valuable resource.

Some charities produce magazines and other periodicals. Here is an excellent way to give advisors an opportunity to publish their work to earn educational credits, gain notoriety in the community, and show your donors valuable third party support for your planned gifts program. I can remember a situation during my work in charities where the most dedicated and committed donor I had ever met, a person leaving their entire estate the charity, finally made a seed gift to her endowment fund. It took two years from the time I began talking to her until she made the seed gift. When I asked why now, she told me that she had heard a program on charitable giving on the local radio broadcast that had confirmed what she had read from me.

Conclusions:

It was not too long ago that all donations were used by the charity as needed. At some point, donors began demanding some direction as to the use of those funds. No longer were all donations received subject to 100% discretion of the charity's board of directors. The directed gift was born.

More recently, charities began to realize that Albert Einstein was right – the eighth modern wonder of the world is compound interest. Endowment funds and their return on investment has become an extremely powerful way for charities to achieve stability in revenues. Once again, charities adjusted to forego current needs and permit donors to invest in the future.

Now donors are permitted to establish smaller private foundations within public charities through use of directed (named) endowment funds. Here the donor is permitted to direct the income from the endowment fund to a specific need within the charity. Once again, charities adjusted their operations to fit the needs of their donors.

So, what is left to change? Perhaps the next wave of change will involve charities (more so than advisors) adjusting their operations to motivate advisors to help them raise funds¹⁵. While I suspect that advisors have the easier road to change, unfortunately, I also feel they are less

¹³ Ask if beforehand if you can leave some documentation about your charity as a take away. In your opening remarks, reference the take away.

¹⁴ Do not get me wrong. Some advisors are passionate about the work of charities, and typically sit on the boards of those groups. In this paper, we are speaking in general terms. The client will have specific charities in mind and that is more important to the advisor.

¹⁵ If not, and in the absence of legislative changes, the private foundation will grow in popularity.

motivated to try and fit in with charities. After all, they hold the majority of the cards in the planned giving game. In my opinion, public charities that want to unleash the ultimate power of planned giving must find a way to get advisors motivated to bump planned giving up in importance when they talk to clients. I absolutely believe, and the Fidelity Foundation in the USA has proved it, that if the financial sector companies enter the charitable world, then advisors can bury many public charities¹⁶. The next wave could hold enormous promise, or tremendous risk for many charities. In order to succeed in planned giving, many charities may have to steer their boats into uncharted waters and rely more than ever on the beacons from financial advisors to guide their way.

¹⁶ Financial institutions are starting to form their own foundations. It is only a matter of time before large gifts from clients start flowing into those foundations, and not into the public sector ones.

Appendix One

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- Confidential Questionnaire -

Instructions: Simply click on the arrow to reveal the selections. Once complete, hit “Tab” key to move to the next box. If more than one box is present, then multiple responses may be selected.

When finished, save the document and return by email to me. At no time will your name or company be mentioned in my report. **Total time to complete: < 5 minutes.** Thank You.

Q1) Out of 100 of your typical clients, how many would ask you to help them with charitable giving advice?

Q2) Out of 100 of your typical clients, how many would you ask if they had considered charitable gifts?

Q3) Out of 100 of your typical clients, how many would fit the following profile: Over 60 years of age, healthy (insurable), household net worth of \$250,000+ (exclusive of registered funds).

Q4) For your typical client, how much RRSP or RRIF would he or she have?

Q5) Out of 100 of your typical clients, how many would have at least one personal corporation (e.g. holding company)?

Q6) Out of 100 of your typical clients, how many have excess insurance coverage (e.g. policies purchased some time ago for contingencies that are no longer relevant)?

Q7) Please indicate (if any) of the following planned giving strategies that are you comfortable presenting to clients (look in each box):

Q8) If you were to discuss charitable giving with your clients, indicate which of the following would be important factors for you as an advisor (look in each box)

Q9) What are your Total Assets under Administration?

Q10) What kinds of assets (if any) do you sell (look in each box):

Q11) How many years have you been working with clients?