The evolution of planned giving

Planned giving has evolved over the years, but the lessons of COVID-19 have accelerated the transformation in 2020

WHILE ALL industries are forced to evolve, COVID-19 has sped up the process. For the charity sector, it has offered lessons that may impact how the industry operates in the future. Yet as the experts from Abundance Canada explain, this is merely the latest in a series of ongoing evolutions.

"There have been a couple of trends that have become pronounced, and the data would bear it out," says Darren Pries-Klassen, CEO of Abundance Canada. "The average age of donors is getting older, and there are fewer people making charitable gifts, but the size of those gifts is bigger."

Pries-Klassen says that a flat line in charitable giving, combined with an aging donor population, begs the question of where charitable giving will come from in the future in order to meet the growing social deficit in this country. On the gift planning side, Pries-Klassen says more people are having conversations about giving from their asset base and not just their income, and financial advisors can play a huge part in framing that conversation.

Rick Braun-Janzen, director of gift planning at Abundance Canada, agrees. "In the charitable space, we want to work with multigenerational givers, and I think wealth advisors see the same opportunity with the transfer of wealth between generations," he says. "The question both wealth advisors and gift planners are asking is how to engage that next generation. Millennials are asking different questions, so gift planners need to be nimble and be prepared to change. I suspect wealth advisors are facing those same challenges."

While these trends have emerged over the years, one of the biggest impacts that both Pries-Klassen and Braun-Janzen have noticed has been the elimination of capital gains taxes for donations of publicly traded securities (stocks, bonds and mutual funds) from a non-registered account to charity.

"It was a significant change that people have capitalized on," Pries-Klassen says. "It is a tax incentive to donate, but the tax incentive hasn't been the primary reason; it has been a bonus. These are people who want to be generous, and donating publicly traded securities just happened to be a tax-efficient way to do it."

A more recent trend has been the rise of donor-advised funds, a flexible tool that might shape the industry moving forward. It's something that has been a longstanding pillar in Abundance Canada's philosophy with its 'donate now, distribute later' option.

"I think it comes down to flexibility," Pries-Klassen says. "The donor climate is changing – my parents and grandparents were committed to institutions; the younger generations are more committed to causes. The allegiance to one charity versus another is evolving, and the ability to donate now and distribute both earnings and capital later allows for that level of flexibility."

That flexibility is also important for individuals who want to initiate their planned giving during their lifetime, especially when it's triggered by certain life events.

"Individuals may sell their business or be part of a private company that goes public and they receive shares or stock options, so they can fast-track the giving element of their estate plan," Braun-Janzen says. "With the 'donate now, distribute later' option, they can match their donation receipt with the taxable event."

For individuals who have a taxable event, by using the 'donate now, distribute later' option, they can receive their donation receipt in the year of the taxable event but don't have to make a decision about which charities ultimately will benefit from their gift. Deferring the charitable distribution decision to a later date allows the individuals to move forward with the critical pieces of the taxable event that require their immediate attention. 'Donate now, distribute later' is a great option for this scenario.

Flexibility is not only important on the individual side, but also for the charities, which have encountered their own challenges because of the pandemic.

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"There has been a movement from charities that are in desperate need of funds right now, especially given COVID, if they are missing out on revenue that would come from services and programs," Pries-Klassen explains. "They would love to access more than what has been donated in a given year. If you have an endowment, where capital has been donated over a period of years and locked up, you can't have access to it – you can't arbitrarily change the terms of the endowment agreement to allow money to flow to the charity, even though the charity needs it. The terms of that endowment agreement are locked in, and unless you have a judge say you can make changes, you can't do anything about it. With a non-endowed, donor-advised fund, both earnings and capital are accessible, and both can be distributed to charity, which allows for greater flexibility as needs increase or decrease, especially during a time like COVID."

Braun-Janzen adds that the reason endowments have locked in capital has historical significance for charities and foundations.

"The Income Tax Act has a disbursement quota rule that requires a charity to distribute 3.5% of its asset base every year," he explains. "Historically, donations received by a charity or foundation that were not designated for an endowment were included in this disbursement quota calculation; 80¢ of every dollar received during a fiscal year needed to be used for charitable purposes in the next fiscal year. So, foundations in particular needed to endow funds to remove those donations from the 80% disbursement requirement. About 10 years ago, the disbursement quota rules changed – charities and foundations no longer had to distribute 80% of donations received in the next year, so that removed the disbursement quota pressure for foundations to endow money."

Now, thanks to the impact of COVID-19, both Pries-Klassen and Braun-Janzen wonder if donors' thinking will change and charities will be able to use more flexible options to create a reserve to weather a storm like a pandemic.

"Endowments have their place – we are not opposed to them; they have done well and will continue to do well," Pries-Klassen says. "But when donors want to create some degree of flexibility, I think having the option to disburse the capital as well as the earnings is a good idea."

"It will be interesting to see if donors' attitudes change towards charities," Braun-Janzen adds. "Donors look at a charity's balance sheet, and if there is excess capital, they might say, 'You aren't putting it towards your mission.' I think that is one of the biggest takeaways from COVID, because it shows the challenges charities face if they want to accumulate reserve funds for a rainy day. COVID has shown that some charities don't have adequate reserves, and their balance sheets weren't strong enough. They need to have funds in reserve to weather unexpected events, the same way a corporation needs retained earnings."

While the gift planning space has seen many changes over the last several years, one thing that both Pries-Klassen and Braun-Janzen believe needs to continue is advisors having conversations with their clients about planned giving.

"When advisors are actively having the conversation with their clients, it deepens relationships and is ultimately better for business," Pries-Klassen says. "It is a great opportunity to connect with the next generation. Charitable gift planning conversations open the door to the next generation and create loyalty with clients."

"If charitable gift planning is not part of the conversation, you are missing an opportunity," Braun-Janzen adds. "It historically hasn't been part of the lexicon in the industry, but advisors are on the front lines to ask the question, so start the conversation as early as possible." WP