

6 STEPS TO CREATE GREATER IMPACT WITH YOUR PHILANTHROPY...



AND IT'S NOT ABOUT
GIVING MORE

With the nation's largest inter-generational wealth transfer now occurring (est. \$8 Trillion in Canada and \$52 Trillion in the US),¹ along with a growing impact investment market (expected to be about \$300 Billion by 2020² Canadian investors), now is the time to talk about how philanthropy and legacy planning fits into your overall wealth strategy. This short guide on strategic philanthropy is designed to help you get started, provide you with some information to take back to your financial advisors or legal counsel and to help you start the legacy conversation with your loved ones.

Here we will explore concepts around your personal and philanthropic values, vision, timing, growth/management,

external influencers and who is at the table. This document can be used to spur thought and provide some tools for you to share with your advisor(s) and family members. Some of the topics we will cover include:

- What is philanthropy and who is a philanthropist?
- Integrating your financial lifecycle with your philanthropic planning

“If it was easy to give money away, we would all be philanthropists.”

- Leveraging your donations beyond the cheque writing
- Wealth values and shared urgency
- Evaluating and selecting organizations to support

There are six parts to a giving plan. Each of these parts can be broken down into different tasks that can be done by you alone, or alongside your family and/or financial advisors.

1. What type of philanthropist are you?
2. Setting your objectives
3. Develop your Giving Strategy
4. Tax planning and financial planning
5. Selecting strategically aligned charities
6. Evaluate your giving (internal and external)

Understanding these steps is just one part of your philanthropic journey. Putting them into action will bring you full circle.

¹TD Private Banking report and Boston College study on HNW and UHNW individuals.

²MarsDD 2017-18 Report on Impact Investing

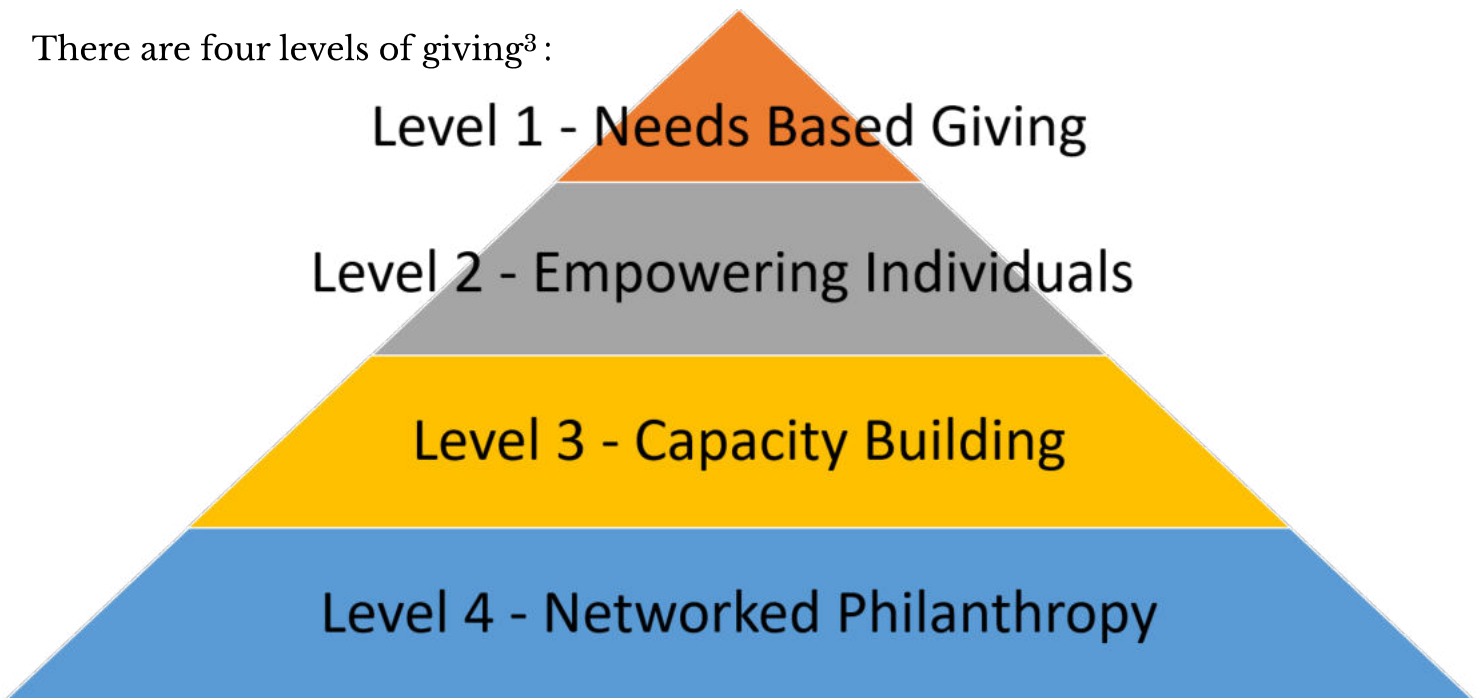


WHAT IS PHILANTHROPY?

At the root, philanthropy is *the love of mankind*. In today's society, philanthropy is a financially incentivised transaction based on an emotional experience. This emotion might be tied to the person who asked you for the donation, the charity that is receiving the funds, an experience you had or the issue that you are trying to solve.

Whatever your intrinsic motivations are, there are ripple effects to your giving. These ripples can be felt by the end recipient of your generosity, the values that are modeled for your children, or as part of your tax planning strategy. Being conscious of the types of ripple effects you want to create will help you determine your course of action in your giving.

There are four levels of giving³:



Each level serves a purpose within North America's charitable sector. *Level 1* is funding that is directed towards the typical front-line, band-aid solution type organization. *Level 2* philanthropy tends to be client-focused and is about removing the dependency of the client on the supporting organization. *Level 3* funding supports operational or organizational effectiveness. It is at this level that we find philanthropists moving from presenting problem issues (i.e. homelessness) to systemic issues and root causes. *Level 4* philanthropy requires collaboration, admission of failure and a collective approach to solutions where there is an understanding that there isn't a single-source answer to complex problems.

³ Tracy Gary, *Inspired Philanthropy*

YOUR GIVING PLAN - A STEP BY STEP GUIDE

Who is a Philanthropist?

You are! Anytime you contribute financial resources, volunteer your time, leverage your network to support an organization or cause, or provide in-kind expertise, you are doing something philanthropic.

Philanthropy is not tied to a dollar amount, a gender, or a socio-economic level. That said, there are different incentives associated with levels of giving. In Canada tax credits are provided up to 75% of your net income. If donating securities or land, additional tax incentives are available including up to 10 years of carry-over credits⁴.

Step 1 - What Type of Philanthropist are You?

Before you can give money away effectively, you need to consider the type of philanthropist do you want to be. This question explores your philanthropic risk tolerance and if you have others in your family on this journey with you, their risk tolerance too. By articulating the type of philanthropist you are in terms of risk you are better able to identify opportunities and feel confident in saying “no” when un-aligned solicitations are presented.

Donors fall along a horseshoe risk spectrum. We highlight that it is a horseshoe because the open ends curve together (at the tips of the horseshoe). Donor risk is not on a straight spectrum. Maverick and Informed donors are close together because they are looking at solutions to complex social problems from a systems perspective. The majority of North American donors are Steady (the wide base of the horseshoe). These are the individuals who support well established community-based organizations, their hospital foundations and universities.



How these personas manifest themselves in their philanthropy varies. The Maverick Donor (left-hand side of the horseshoe) leans towards venture, entrepreneurial and networked philanthropy whereas the Informed Donor (right-hand side of the horseshoe) is more inclined to look at their philanthropy as a longer-term investment with expected results and the opportunity to pivot the funding based on the results generated. The Steady Donor (wide base of the horseshoe) is more likely to do cheque-book philanthropy.

⁴CRA Charities Directorate - Information for Donors)

Donor Characteristics

Maverick	Steady	Informed
<ul style="list-style-type: none"> • Research driven but validated by gut • Shot-in-the arm funding opportunity • Emergency funding • Limited track-record • Start-up • Not easily track-able 	<ul style="list-style-type: none"> • Tried and true • Low risk • Problem focused, not necessarily solution based • Established 	<ul style="list-style-type: none"> • Research driven and validated by relationships & track-record • Longer-term relationship • May include start-up and/or seed capital • Track-able • Solution oriented

Examples of the types of charities that Maverick Donors are typically attracted to:

- Agencies operating in a war-torn country where tracking funds and supporting workers might be difficult
- Agencies that are in financial difficulties
- New organizations that don't have a proven track-record

Examples of the types of charities that Steady Donors are typically attracted to:

- United Way
- University scholarship funds
- Hospital Foundations
- Long-standing organizations with proven track-records

Examples of the types of charities that Informed Donors are typically attracted to:

- New projects within existing long-standing organizations
- Funding measurements as part of the project
- Piloting new projects or organizations when funds can be leveraged for additional funding or scaling

All types of donors are needed in our charitable sector, but each comes with their own set of expectations and risk tolerance for the types of projects they are willing and able to support.

Step 2 - Set Your Objectives and Goals

Once you have identified the type of donor you are, you can go about articulating your giving objectives. In order to set these objectives, being clear on what wealth and money means to you is critical. Your views on wealth are, in part, shaped by your core values. In North America talking about finances and wealth is seen as taboo. How can you effectively plan your financial life-cycle if you don't feel comfortable talking about money? To help you articulate your values in terms of how they are reflected in your financial management try answering these questions:

1. What does having money do for me? [Answer #1]
2. What does [Answer 1] do for me? [Answer #2]
3. What do I feel when I have [Answer 2]? [Answer #3]
4. And what else do I feel when I have [Answer 3]? [Answer #4]

We know that wealth comes in many forms and that it can create some unique opportunities. When sitting down with your advisors and others in your family to talk about your wealth plan having a clear, personal understanding as to *why and what* wealth looks like to you is imperative. Consider the following questions to align your values with your wealth and estate planning:

1. How are my values reflected in my estate plan?
2. How are my values reflected in my investment strategy?
3. How do I reflect my values in my consumer behaviour?

Shared urgency is a term that reflects the timing and expectations around your assets in question. Part of the conversation you have with your advisors and inheritors should focus around the expectations that others have of you and your wealth. These expectations may include the responsibility to inheritors on wealth, it may include the expectations of recipient organizations have on timing of use of proceeds, it might also have to do with the timing of the sale of securities or liquidating a business and tax planning. Understanding what everyone's sense of timing is around the wealth is a key component to the philanthropy planning process.

Step 3 - Develop Your Giving Strategy

Your giving strategy is about articulating how you want to achieve your philanthropic objectives, what support you can offer, and what the shared urgency is around executing on this strategy.

We are all familiar with “traditional” bank accounts - savings, chequing, registered accounts, etc. But have you heard of the FISH(E) account?

- Financial
- Intellectual
- Social/Spiritual
- Human
- Enterprise (if you have an operating company)

Think of your FISH(E) accounts like a diversified investment portfolio where you have a mix of different resources upon which to draw from as needed. We call these resources the 4 T's - Time, Talent, Treasures and Ties. At different stages of the various life-cycles these accounts will either be full or depleted. For example, when you are in university you may not have access to a lot of “Treasures” (i.e. Financial), but your Intellectual and Social accounts might be quite full and you will have more (Time and Ties) to contribute to an organization.

Just like these accounts mirror your traditional bank accounts, they also form the backbone to your “philanthropy portfolio.” As a result, the timing of your giving is influenced by when and how you are making money, and also what other resources you have at your disposal. Your philanthropic activities include financial (treasures) as well as volunteerism (time),

providing pro-bono support (talent) and networking (ties).

When considering your philanthropic plan, the time horizon and the sense of shared urgency (as mentioned above) determines what charitable activities happen in the short-term, mid-term and long-term.

To Everything there is a Season

Your annual (near-term) giving will look different from your long-term giving. Your near-term giving might focus more on band-aid solutions or one-off donations. It may provide ways to engage the younger generation today with an intention to use the time to on-board that generation into the leadership circle over time. You can also use your annual giving as a testing ground for building a relationship with a charity and its leadership.

A longer-term plan should include some strategic financial planning that ensures that funds will be available to meet the pledges made in the earlier years of the giving plan. It also should take into account if your foundation is in *growth or harvest mode*.

Growth mode focuses on increasing the asset base within the foundation so that you can continue to give to charities, in some cases, in perpetuity. Harvest mode focuses on drawing down on the principal so that by the end of your giving plan there is nothing left in your foundation to manage and the relationships with the charities and their projects are wound up or passed on to other funders.

Part of the long-term funding of your giving plan may include a life-insurance policy. Providing some guidance or instruction for the fund managers and the leadership team or Executor of your Estate is essential. Things to consider include what happens if the designated charities are no-longer in operation or are unable to use the funds as intended. Having redundancies in your philanthropic instructions can help manage the disbursement of funds once you are gone.

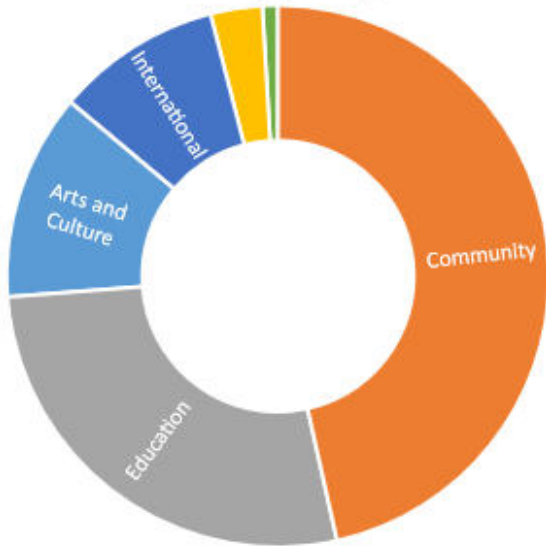
The images on the next page reflects how two families mapped out what resources they have at their disposal, and the types of organizations that received those resources. In the first scenario, the couple has significant “Treasure” resources to use, but also has some specific expertise (Talent) and the luxury of Time available to them to leverage as part of their charitable contributions. As their life-cycle shifts and they move into a different stage in their life they might see a change in the way they allocate those resources.

Compare this case with the case below (lower image), that of a younger business owner. You will notice that his philanthropic make-up is quite different. Still concentrated on Treasures, but he has narrowed his giving priorities (as seen in the circle graph - Philanthropy Categories) and decreased the general time he spends volunteering with charities to be more focused on sharing specific expertise. When creating a balanced portfolio addressing a specific issue we look at risk alignment with of the charities in the portfolio to the donor, as well as the category type the charities fall under.

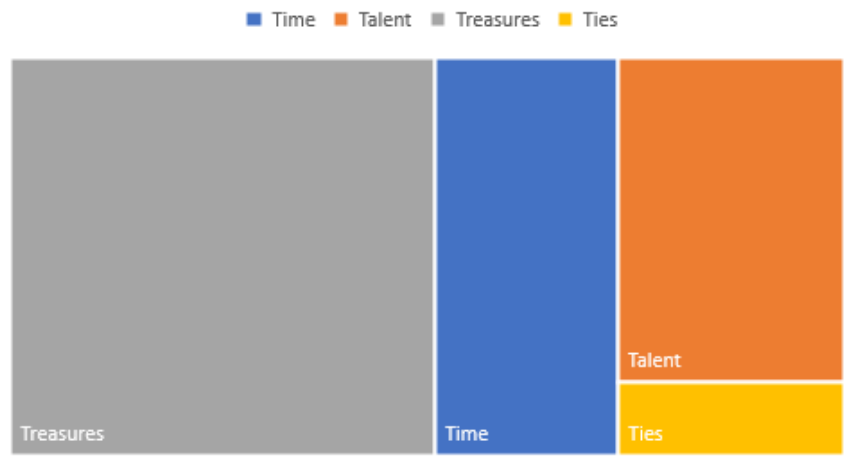
When mapping out your 4 T’s we find it helpful to consider each organization you want to support and how you want to do this. Everyone approaches this differently, for some you will apply a percentage of effort, for others you will put the different organizations into each category and add them up, and for others it will be based on sub-categories of involvement within each of the 4 T’s (i.e. sitting on a Board might be more *time* intensive than volunteering at a gala; but volunteering for a gala may be more *ties* intensive than sitting on a Board).

Family 1 - Retired Couple

Philanthropy Categories



The Four T's of Giving

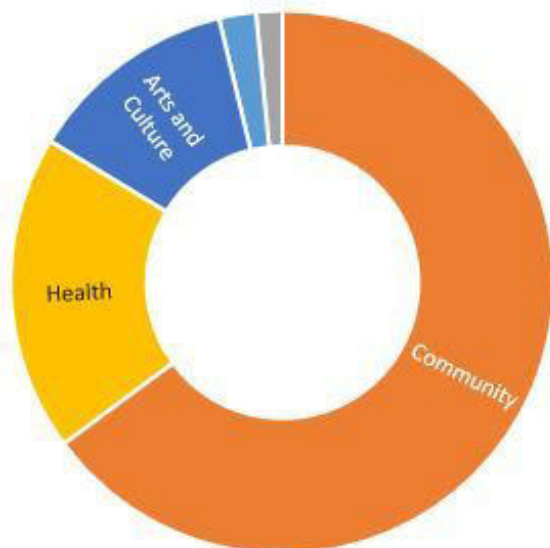


The 4 T's

- Time
- Talent
- Treasures and
- Ties

Family 2 - Business Owner

Philanthropy Categories



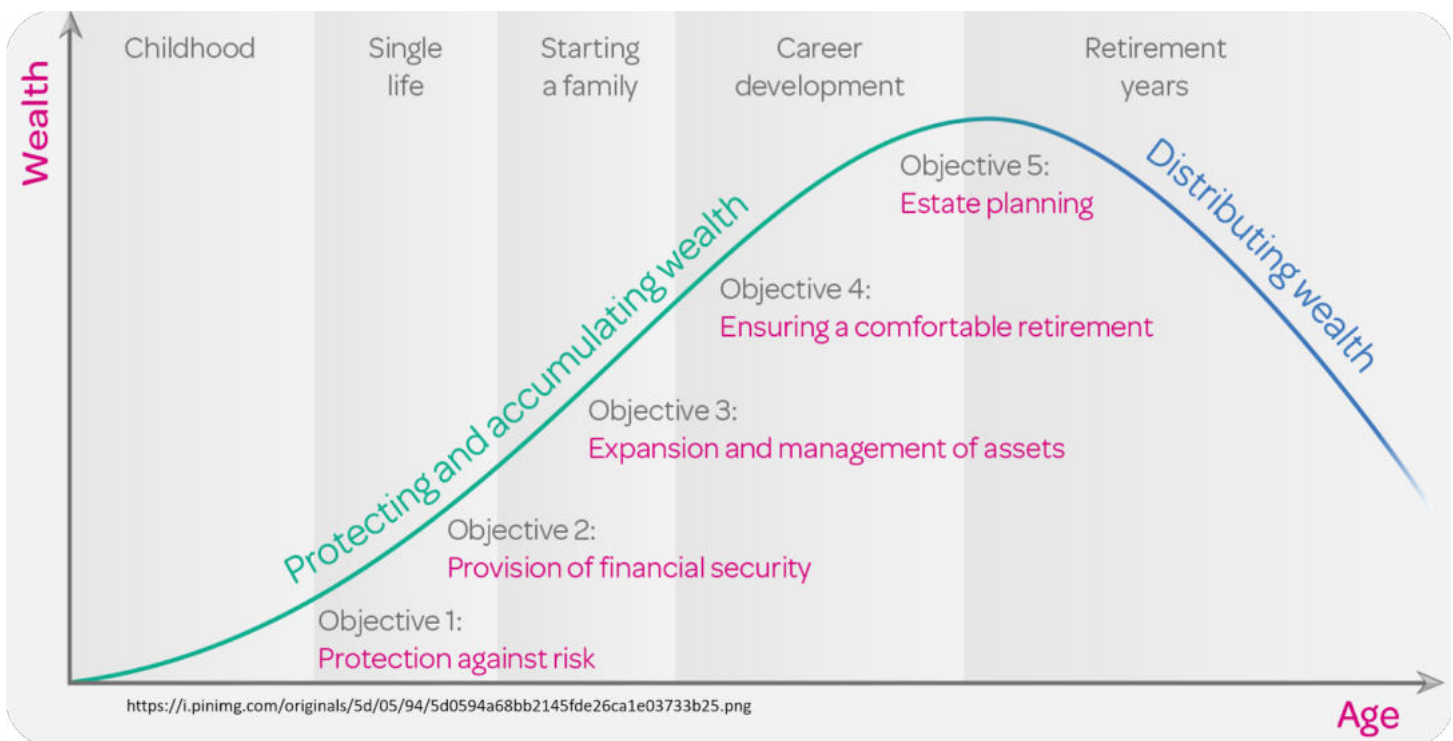
The Four T's of Giving



Step 4 - Tax & Financial Planning

After you figured out how you want to allocate resources to organizations, now is the time to think about the best corporate structure for your giving in order to support them. This is when the technical conversations around tax planning and financial management begin.

Connecting the Dots - Aligning your Personal, Financial and Giving Life-cycles



When designing your philanthropy plan there are three timelines to consider - your immediate (this year), your mid-term (five to ten years) and your long-term (multiple generations). Each takes into account where you are in your personal and financial life-cycles, AND what you want to accomplish with your charitable dollars.

In addition to the life-cycle questions highlighted on the next page, it is also important to look at where you are within the context of your personal goals, aspirations and network. Once you have clarity on your timelines you can start mapping out your financial resources.

There are several ways to capitalize on the tax incentives offered to philanthropists. These solutions fit into a variety of corporate structures (private foundation, trust, Donor Advised fund, etc.). Tax planning will also influence the types of assets that are recommended for use.

When crafting your plan along these different time horizons consider the following:

- Where are you in your career trajectory (just starting or just ending)
- Where are you in your family lifecycle (single, newly married, young children, recently divorced, empty-nesters, widowed)
- Where are you in your business (start-up, growth, maintenance, sunseting, exiting)
- Where are you in your personal wealth plan (saving, growing, spending down)

Some examples of tax credits that need to be planned for include: First-time donor tax credits, multi-year carry-over credits, donations of insurance and flow-through shares and the donation of collectibles (non-cash assets) and land. Being clear on what your legacy looks like will help determine the corporate structure that surrounds your giving as well as the asset base of your philanthropy.

Step 5 - What is the *Best* Charity to Support?

Choosing organizations to support can be hard and overwhelming. With over 1.5 Million charities in North America, the media reinforcing messages of duplication in the sector, third-party evaluators hammering on the “cost of raising a dollar” and overhead, where does one begin?

First off, starting with the overhead question doesn't actually paint an accurate picture of a charity's impact. When companies invest in their people and infrastructure we talk about how they are improving their operational effectiveness, but when charities do the same we say it is wasted money that should be going to the program. Strategic donors understand that operational effectiveness requires an investment and that someone has to pay for the lights to be kept on and the paper to be put in the printer. Operational funding might not be "sexy" but it is

necessary. If there are ways to automate manual and labour intensive tasks, it makes sense that donors invest in the professional development and software required to take the organization from where they currently are to one that can operate effectively in today's labour and business markets.

From here the question becomes, what is the right amount to spend on operational effectiveness of a charity? There is no *right* percentage as this needs to be balanced against the cost to society of NOT solving the problem and comparing the program or solution with similar organizations. We can't stress enough that context is everything. We would never compare a food-bank operating in North America with a medical organization operating in the Developing World.

Your Giving Portfolio - The Organizations you Support

Context is everything. When evaluating charities it is important to understand the different approaches to the problem and the sector standards within which they operate.

Once you have determined the charities resonate with you, you can now create a Giving Portfolio. Your Giving Portfolio is comprised of organizations that balances risk and organizational type. For example, if you are interested in Youth Mental Health your portfolio may include agencies such as: community-based counseling solutions, government funded healthcare agencies and advocacy organizations. These represent three distinct organizational types. The way that risk profile might be integrated is by layering in a research institution with an agency that is taking the research to design a new program. The last piece to the portfolio is looking at the "shared urgency" or timing needs of the fundees and the pressure that may put on your portfolio.

When we evaluate charitable organizations we review and measure six benchmarks:

Leadership - are the people qualified to deliver on the charitable mandate of the organization?

Governance - what type of Board is it - strategic or operational? Who is on that board and can they provide the expertise to help guide the organization? What does their strategic direction look like?

HR/Admin/Volunteering - What does the staff make-up look like? What is the staff turnover like? Are there opportunities to volunteer and/or leverage a donor's network to amplify their giving?

Program implementation - What is being done, how is it being done, what does success look like and how is it being measured?

Competitive landscape - Who else is offering this service? Is there duplication in the sector or high enough demand to warrant duplication? What makes their solution better/different than others? Who are the other funders in this space?

Financial/Fundraising - What does their funding mix look like? How stable are they financially? What are their contingency plans? Do they have donor stewardship and investment policies in place?

We tend to look at the above in this order of importance because if the right people are not sitting in the right seats on the bus then the likelihood of successful execution of a solution and scaling of an organization is limited. This is also reflected in the ability to raise money and steward donors through the growth of the organization. This doesn't mean that the financial questions aren't important, it's just that they don't actually tell us what we need to know in order to be effective funders.

Step 6 - Measurement & Evaluation

The last step is to evaluate the effectiveness of your philanthropy plan and the organizations you have supported. This is the most critical step of your philanthropy plan. We have a number of tools and resources to do this including the *Donor Linked Charity Index*. The most important thing is if you don't articulate what success looks like, and write it down, you won't know if you have achieved the impact you set out to make.

Impact can be measured one of three ways: number of people helped, amount of change within a system generated, or the type of change created. It is important to note that impact cannot be measured in a quarter, but what can be identified in this short amount of time is if the program is moving in the right direction or if it needs to be tweaked. There is no right way to evaluate success. Only you know what success looks like and how that will be measured against your philanthropic objectives.

This Guide to Giving is a starting point to help you think about your philanthropic goals and legacy planning. For more resources please visit our website - www.KarmaAndCents.com contact us at info@KarmaAndCents.com or at 1-866-936-GIVE(4483). We're here to answer your questions and help you align your giving with your overall wealth planning strategies.

The six steps of your Giving Plan:

1. What type of philanthropist are you?
2. Set your objectives
3. Develop your Giving Strategy
4. Tax planning and financial planning
5. Select specific charities
6. Evaluate your giving (internal and external)



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