



Remarks by Keith H. Sjogren

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Introduction

Thank you for the opportunity to meet with this important committee.

In addition to my professional role at Strategic Insight, I am the Chair of the Advisory Committee to the Master of Philanthropy and Nonprofit Leadership program offered by Carleton University.

My remarks will be limited to a brief overview of the donor advised fund market in Canada, as well as the identification of benefits and concerns associated with this giving vehicle.

I will refer to donor advised funds as DAFs for the sake of brevity.

I would be pleased to answer your questions following my remarks.

An Overview of Donor Advised Funds

Canadian donors have a number of options in terms of structuring their financial support for charities. Factors impacting the donor's selection of a giving method include the donor's timeline; the source of funding for the gift; the size of the gift; whether the donor plans to support a single or multiple causes; and whether additional research into the cause or charity is required.

Increasingly, donors who are financially able to consider relatively large and more strategic donations are selecting structured giving vehicles, such as a donor advised fund (DAF). A DAF is an account within an existing public or private foundation. To establish an account, the donor makes an irrevocable gift to the foundation and, in exchange, receives a tax receipt along with administrative and investment services. Donations to DAFs can be in the form cash, securities and other types of investments, insurance proceeds or through a bequest. The funds are granted, often over time, by the foundation to qualified donees on the advice of the DAF account holder.

It is the responsibility of the foundation to comply with regulations and to undertake administrative matters to ensure that the account is managed in compliance with the agreement between the foundation and the donor, as well as all government regulations. The required annual disbursement to qualified donees by foundations is applicable at the sponsoring foundation level, not at the DAF account level.

Since DAFs are not standardized through regulation, each sponsoring foundation has the ability to establish its own terms and conditions with respect to minimum contributions, minimum balances, investment options and various types of fees.

The Current Situation

Donor advised funds, which have been available in Canada since 1952, are generally favoured by affluent donors who seek flexibility on various levels but who may not have an ability or interest in establishing a private foundation. DAF account holders are generally existing supporters of charities, over 50 years old and often in receipt of a settlement from a liquidity event or a lump sum associated with employment.

As a point of reference, in 2016 there were 5,566 private foundations in Canada with total assets of \$41 billion and an average asset level of \$7.4 million. By comparison, total assets held in donor advised funds at the end of 2016 were estimated to be \$3.2 billion. The average balance held in the estimated 10,000 Canadian DAF accounts at the end of that year was approximately \$300,000. The Canadian total is close to that of DAFs in the United Kingdom but dwarfed by the US\$85 billion in total DAF assets (held in 285,000 accounts) reported in the United States. It is the case, however, that the average balances in Canada and the United States are similar

Community foundations hold slightly over half of DAF assets in Canada with total DAF assets estimated at \$1.7 billion. Other national sponsoring foundations, such as those associated with financial service institutions and firms, are estimated to have \$1.5 billion in assets. Our research, which will be published in a report by the end of the year, indicates that assets held in representative sample of DAFs have been growing at approximately 20% per annum in recent years reflecting both net flows and the effect of the market on investment values.

The 2007 change to federal tax regulations which eliminated capital gains tax on donated publicly-listed securities, as well as the changing demographics of wealth, are recognized as being a major driver of the recent growth in the use of DAFs and the establishment of a number foundations specifically for the purpose of hosting such funds.

The Benefits of Donor Advised Funds

- Concept embraces a wide range of donors
- Often possible to work through current financial advisor
- Ease of establishment and straightforward ongoing administration
- Lower cost than those associated with a private foundation
- Ability to separate tax planning event from philanthropic action
- Simplify estate planning
- Engaging young adults in philanthropy
- Anonymity of donors

Concerns about Donor Advised Funds

- Limited information and reporting requirements
- Delay between tax benefit and granting to operating charities
- Absence of minimum disbursement rate for individual DAFs
- Diverting capital away from operating charities
- Conflicting objectives between some stakeholders
- Value for fees paid to various participants
- DAF to DAF or DAF to private foundation transfers

Outside the need for improved disclosure and greater detail in reporting both to donors and government, the need for regulation is not immediately apparent. There are few, if any, cases of DAF abuse, and sponsoring foundations appear well governed and recognize that their role is not to hoard assets for commercial benefit but to facilitate giving for charitable purposes. To this end, some sponsoring foundations could ease restrictions on minimum donations and balances, holding periods and maximum grants. It may also be appropriate for foundations to provide donors with the opportunity to invest all or a portion of the un-distributed capital held in their DAF in impact investments. While offering a lower-than-public market return, such investments would contribute to the achievement of specific social objectives.

Outlook for Donor Advised Funds

Given the increased awareness of DAFs, the trends in the creation and ownership of wealth in Canada, the significant transfer of wealth projected for the next two decades and the increasingly active role in retail philanthropy being played by financial institutions and community foundations, we anticipate that assets held in DAFs and the flow of grants from DAFs will continue to increase over the medium term. It would not be unreasonable to expect total DAF assets to reach \$7.5 billion in Canada by the end of 2023.