Impact of Donor Advised Funds on Canadian Philanthropy:

A 2010 Perspective

Over the decade, the influx of commercial donor-advised funds (i.e., DAFs operating under the brand of a financial institution) into the charitable marketplace has raised the eyebrow of many Canadian fundraising professionals. Will these DAFs take money away from my cause? While the institutional donor-advised fund market in Canada is too new for definitive answers to these questions, it is worth looking to our neighbours to the South for some potential answers.

A NEW ERA OF PHILANTHROPY?

The role that donor-advised funds will play in this "new era" of philanthropy is nowhere more evident than the United States, where DAFs play a significant and central role in the overall philanthropic landscape. The *Fidelity* Charitable Gift Fund, by far the largest of the institutional DAFs, was founded in 1991 by Fidelity Investments, one of the largest mutual fund companies in the world. Since its inception, the Fidelity Charitable Gift Fund has received more than $8.3 billion in contributions from more than 39,000 donors. More importantly, the Fidelity Charitable Gift Fund has disbursed more than $6 billion in grants to almost 100,000 charities! The Fidelity Charitable Gift Fund is one of American's largest public charities and probably the country's largest public grantmaker. While other financial institutions have followed Fidelity's lead, the DAF market in the U.S. is controlled by Fidelity and other large mutual fund companies such as Schwab and Vanguard.

The growth of donor-advised funds in the United States reflects broader trends in American philanthropy. The baby boom generation has had a profound impact on philanthropy not only because of the size of its contributions but by its desire to become more strategic about charitable giving. Since DAFs offer the donor the opportunity for a strategic, proactive approach to charitable giving, they have been widely embraced by a generation of donors seeking to take a long-term approach to philanthropy.

DONOR ADVISED FUNDS IN CANADA

In Canada, until recently, community foundations had been the sole purveyor of donor-advised funds. Community foundations have been an important source of community philanthropy in both Canada and the U.S. since the First World War. The Canadian DAF landscape permanently changed in 2004 when TD Waterhouse launched the first commercial donor-advised fund program in Canada. RBC Dominion Securities has since followed suit. The DAF landscape continued its transformation in 2006 when Mackenzie Investments became the first mutual fund company in Canada to launch a donor-advised fund, for the first time introducing the concept of Charitable Giving Funds to the independent financial advisor. (For a detailed explanation of "charitable giving funds", please see Ian Fraser's excellent article in the xxx issue of *Gift Planning in Canada*.)

THE ORIGINS OF COMMERCIAL DAFs

The launch of the Fidelity CGF in the U.S. changed forever the face of American philanthropy, delivering what one philanthropic publication called "a shot across the bow of endowed philanthropic entities." The launch of the Fidelity CGF was a natural outgrowth of an overall interest in philanthropy and the constant search by financial institutions for new products and services. Fidelity and other firms realized that philanthropy was a business and potentially a profitable market or product extension for financial services firms. In Canada, many of the major banks and Mackenzie have recognized the business potential for philanthropic-based solutions.

The American non-profit sector responded to the entrance of commercial charitable giving funds by getting organized. It was during this era that community foundations created the Community Foundations of America and the Community Foundations Leadership Team of the Council of Foundations. Although the community foundation movement in the United States feared the introduction of commercial donor-advised funds, the 1990s witnessed the largest growth of community foundations in the movement's 75-year history. In fact, more new community foundations were created during the 1990s than in any other decade.

In the United States, the relationship between commercial firms and community foundations was not a particularly healthy one. Community foundations mobilized to improve their practices in order to compete in a world where donors had the ability to access instant information disseminated by corporations with considerable resources. Furthermore, commercial firms failed to recognize community foundations as important stakeholders in the philanthropic landscape. The unhealthy tension between commercial and community philanthropy undermined the resources of both sides and created a market characterized not by philanthropic values but by traditional cutthroat competition.

THE FUTURE OF DAFs in CANADA

While Canadian donors are generous, we lag behind our U.S. counterparts. Americans donate considerably more than us, largely because of a deeply entrenched philanthropic culture which is in part reflected by tax incentives and charitable "vehicles" which support the ongoing growth of philanthropy (charitable remainder trusts in the U.S. have over $60 billion in assets – largely because of the tax incentives that encourage this kind of giving). Notwithstanding the "generosity gap", Canadian philanthropy tends to catch up…eventually. Based on the U.S. experience, we can expect the following trends to occur in Canada over the next decade:

1. More commercial firms will launch programs and enter the Canadian philanthropic "landscape"
2. Community foundations will experience an era of unprecedented growth
3. New tax incentives (and new charitable giving vehicles) will be introduced to promote charitable giving
4. Commercial firms and the community foundations will work *together* to promote the growth of Canadian philanthropy
5. Canadians will become increasingly generous (average donation size will increase)

6. Financial advisors (planners, brokers, insurance specialists) will play an increasingly important role in helping donors shape their philanthropic goals.

Charitable giving funds may have a fundamental impact on Canadian fundraising. Some charities will clearly view charitable giving funds as a potential threat. Others will see this new philanthropic vehicle as an opportunity to reach out to donors with an innovative tool of creating an annualized (or perpetual) income stream for their organization. The most forward-thinking charities will see charitable giving funds as a tool to reach out to the coveted advisor community ("professional advisors" or "allied professionals"). Charitable giving funds, especially those designed for the independent financial advisor, will finally provide charities with the opportunity to create an equitable relationship where everyone (charity and financial advisor) wins. As Ian Fraser noted in his article, charitable giving funds afford the financial advisor the opportunity to maintain control of the investments (a monumental benefit in a world where advisors are typically compensated on the size of their book of business) while the charity benefits from the grants received from the donor's fund.

In Canada, we can learn from the U.S. experience. It is the responsibility of firms like TD, RBC and Mackenzie to ensure that their programs reflect the true spirit of philanthropy. Furthermore, firms must recognize the importance of community foundations and other organizations (CAGP, Imagine Canada, etc.) in the ongoing development of Canadian philanthropy. By working together, rather than apart, we can grow the size of the overall philanthropic pie.