Why donor-advised funds are surging in popularity

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Some donors have received lump sums of money and are looking to the donor-advised fund as a vehicle to create a long-lasting philanthropic legacy and to give back to their communities.

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More charitably-minded Canadians are turning to donor-advised funds as a simplified, tax-efficient way to give, supported by financial advisors looking to help clients distribute their wealth to good causes.

Donor-advised funds have been around for decades in Canada, but data show the charitable-giving vehicles have gained significant traction in recent years.

A recent report from Toronto-based research firm Investor Economics says the value of donor-advised funds in Canada grew at a compound annual rate of 14.3 per cent between 2016 and 2018, to $5.7-billion from $4.4-billion.

There was a 35-per-cent increase in the number of donor-advised funds set up at various foundations over the two-year period, the report shows, and a steady rise in donations to new and existing funds.

The value of donor-advised funds is projected to grow to about $10-billion by 2026, according to the research done by Keith Sjogren, senior consultant and managing director, consulting services, at Investor Economics, as more funds are expected to be set up and investors continue donating to charities.

Mr. Sjogren says increased awareness of donor-advised funds, including from advisors recommending the philanthropic product to their clients, is also driving up the numbers.

"Donor-advised funds would not have seen the growth that they have without the direct involvement of advisors," he says, "as well as increased interest by investors in having a more planned approach [for their wealth]."

Donor-advised funds are created by public charities to manage donations on behalf of organizations, families, or individuals. Donors receive an immediate tax deduction for their contribution and can then recommend grants from the fund over time.

The funds have similar tax benefits as a private foundation, which is a charity controlled and run by a single donor or family, but without the same administrative responsibilities. With a donor-advised fund, the public foundation handles the administration and distributes the funds to charities based on the donor's wishes.

For bank-established foundations, access to the fund is through either a financial advisor, investment counsellor, trust officer or private banker, Mr. Sjogren says. At many independent foundations, he says access is through an investment advisor at one of the dealers with whom the foundation has an arrangement.

The fund is administered by the foundation, he notes, but the advisor is the donor's primary point of contact. In some cases, he says the advisor can become the manager of the investments held by the donor-advised funds.

Mr. Sjogren says advisors should feel comfortable talking about philanthropy with clients, whether they plan to oversee the funds or refer them to another advisor.

"There are a number of advisors who are reluctant to raise the issue of philanthropy," he says, either because they believe it's too complicated or could reduce the value of the portfolio they oversee if the assets are managed elsewhere.

But he says charitable giving is "part of financial life" for many investors, and helping clients give back in tax-efficient ways is good for businesses.

A 2018 survey of advisors in the U.S. shows that 91 per cent believe discussing philanthropy with clients is important, while 53 per cent of those saw it as very important. The survey, conducted by U.S. Trust, Bank of America Private Wealth Management in partnership with The Philanthropic Initiative, also shows 78 per cent of U.S. advisors believe that speaking with clients about philanthropy is good for business.

"The advisor community is now more aware of donor-advised funds and feels more comfortable ... recommending them to clients," says Denise Castonguay, founder and chief executive officer at Toronto-based Canada Gives, an independent public foundation that provides donor-advised funds across Canada.

Most of the donors come through advisors as part of a broader wealth management plan.

"Many people are charitable," Ms. Castonguay says, but it's often the tax advantages advisors highlight that prompt a major gift through these funds "in a cost-effective way."

The value of the donor-advised fund assets at Canada Gives has grown more than 200 per cent to approximately $119-million in 2020, up from about $39-million in 2018. Most of the donations made into these donor-advised funds are appreciated securities, but Canada Gives recently accepted a gift of real estate as well.

Ms. Castonguay says advisors also get a lot of satisfaction from helping clients see their money make a difference to a cause or in the community.

"You should see the kind of excitement it brings [to clients]," she says, noting the value it brings to the advisor-client relationship. "I think, to an advisor, it's worth it for [their] practice because it either attracts or retains high-net-worth investors. It gets them at a time in their life at which they have the most money that they're able to make these kinds of gifts."

Lydia Potocnik, head of estate planning and philanthropic advisory services at BMO Private Wealth, says there has been a 43.6-per-cent year-over-year growth in the number of new donor-advised funds set up through the BMO Charitable Giving Program since 2019.

The BMO donor-advised fund program, established in 2016, is administered by the Charitable Gift Funds Canada Foundation (Gift Funds Canada), an independent, non-profit charitable organization registered as a public foundation with the Canada Revenue Agency.

"It's been doing very well and we have seen sustained and steady growth with our program," Ms. Potocnik says. That's thanks, in part, to the growing number of clients looking to incorporate philanthropy in their wealth management and estate plans.

Some donors have received lump sums of money, either through the sale of a business or an inheritance, and want to give back to their communities.

"They're looking to the donor-advised fund as a vehicle to create that long-lasting philanthropic legacy," she says.

Many donors also choose these funds as a simplified way to engage multiple generations in their giving plans.

"Many individuals today want to make sure that they're teaching their kids about the value of giving back to the community and to different charities," she says.

Ms. Potocnik encourages advisors to discuss donor-advised funds and other charitable options with their clients.

"Discussing philanthropy with clients is really a wonderful way to get to know what really matters to them – and it opens the door to developing a deeper relationship and helping clients give meaning to their wealth," she says. "For many advisors, that can be a very rewarding part of their work."

Phillip Crawley, Publisher