Giving back

The generosity of high-net-worth Canadians

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Over the past few years, wealth management firms have been cautiously climbing on the charitable bandwagon, not as donors, but as advisors and implementers. Households within the high net worth (HNW) segment ($1 million-plus in investible assets) are the most influential personal donors in Canada, and they are turning to their wealth management providers for information, advice and ways in which to implement that advice.

This white paper discusses some of the issues and trends wealth managers and client-facing advisors need to be aware of as they plan the expansion of their personal philanthropy services.

Note:

The data and statistics used in the development of this white paper have been sourced from government departments and agencies as well as reliable third parties. The publication of government data is not always regular and can vary depending on the type of data and how it's collected. In all cases the most current data available has been used.

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Good news, bad news

The news is mixed about the giving environment. The good news first: in the five-year period from 2013 to 2017 (the latest year for which final T1 data has been published by the Canada Revenue Agency), donations from individuals increased from $9.3 billion to $10.5 billion, (an increase of 12.5%). The total amount of donations was likely far higher, as small donations — potentially worth over $1 billion — are not captured in the tax data.

Also in the good news category, despite 245,000 Canadians dropping off the giving list over the five-year period, the average amount donated rose from $1,615 in 2013 to $1,898 five years later. The picture becomes even sunnier if the spotlight is focused on those individuals who reported annual income over $150,000, a group that aligns closely with the HNW segment.

This sounds positive until growth is viewed in terms of a compound annual growth rate (CAGR) over the five-year period which, at a modest annual average of 2.4% per year, was only 100 basis points ahead of the average annual inflation rate of 1.4%. The inflation-adjusted benefit to charities over the period amounted to approximately $500 million in additional funding (compared to the $2.2 billion absolute growth in claimed donations), an amount well short of the financial needs faced by charities.

It's worth noting that inter-charity revenue, which includes gifts made through donor-advised funds (DAFs) and private foundations, increased from $5.9 billion in 2013 to $7.3 billion in 2017. The increase in charity-to-charity revenue, while not the highest in absolute terms, was the fastest of any revenue category over the period.

The HNW donor

In 2017, the approximately 547,300 people who reported income over $150,000 (many of whom are HNW individuals) and who also claimed a charitable donation for that year (a disappointing 50.9% of the cohort) donated a total of $4.5 billion, or 43.3%, of total claimed donations (see Figure 1). The concentration of donors, and the reliance placed on the comparatively large purses of these individuals, is underscored by the fact that the donors in this group made up only 9.9% of all individual donors.

Figure 1 | High income donors (2017)

Income group	Number of donors	Share of total donors	Value of donations	Share of donations
$150,000 - $250,000	348,530	6.30%	$1,093,903	10.40%
$250,000 +	198,800	3.60%	$3,456,939	32.90%
Total	**547,330**	**9.90%**	**$4,550,842**	**43.30%**

Source: Canada Revenue Agency. T1 Final Statistcs. 2017

The situation becomes slightly more concerning for charities if attention is focused only on the highest income earners in Canada (those who earn over $250,000). The number of individuals in this income cohort who claimed a gift in 2013 — 180,500 — grew by approximately 18,500 to 198,800 in 2017. However, the percentage of donating tax filers in this income group declined from 67.9% in 2013 to 63.7% in 2017.

Given this pattern, it is no surprise that Imagine Canada's Personal Philanthropy Project, which has been gathering steam over the last five years, is targeted at high income earners who display very limited generosity. Perhaps the actions taken by the most generous donors will encourage others to follow suit. According to a report published in March 2021 by Statistics Canada, the number of individual charitable gifts over $50,000 increased from 11,390 in 2017 to 12,820 in 2019, with the number of gifts over $500,000 increasing by 20% over the same period.

Figure 2 | Number of donations by size of donation 2017 - 2019

Size of donations	2017	2018	2019
$1,000 - $4,999	1,064,110	1,067,170	1,045,540
$5,000 - $24,999	343,790	348,980	348,920
$25,000 - $49,999	21,270	21,620	22,070
$50,000 - $99,999	6,680	7,010	7,240
$100,000 - $499,999	4,070	4,420	4,710
$500,000 +	640	770	870

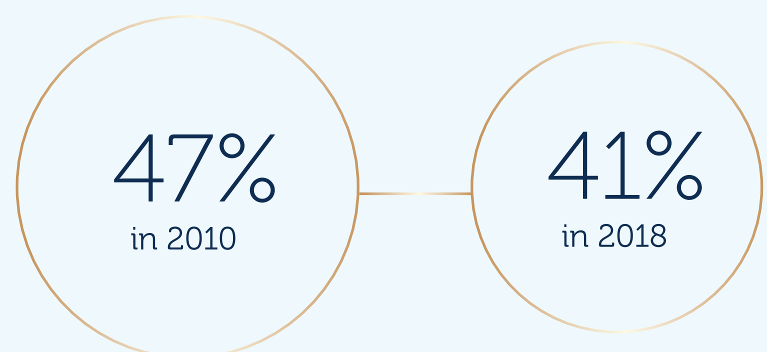
Source: Statistics Canada 2021

The same report provided additional insights into giving which may be helpful to financial advisors in their discussions with clients. Firstly, and consistent with other findings discussed in an earlier Mackenzie white paper entitled Women and Wealth, more women than men donate to charities (71.7% versus 63.6%). Secondly, married people are more active donors than singles. And thirdly, those who are religious in their habits and activities are four times more likely to be philanthropic than their spiritually hesitant peers.

Volunteering

Unfortunately, the negative trends in giving are also appearing in volunteering. Statistics Canada reported in 2020 that between 2010 and 2018, the volunteering rate among Canadian adults fell from 47% in 2010 to 41% in 2018, reflecting a decline of 800,000 in the number of individuals spending time as volunteers. If there is any consolation for these dismal numbers, the rate of volunteer participation in Canada is higher than that recorded in either the United Kingdom or the United States.

Volunteering rate among Canadian adults



Without wishing to belabour the challenge facing the charitable sector (even before the damaging impact of the COVID-19 pandemic), while the years since 2015 have seen declining numbers of donors in general, they have also been years of sound growth in both personal (and surplus) financial wealth and disposable income, the two primary sources of gifts. In other words, affluent Canadians have a far greater ability to give than ever before (see section on the Real Size of the Opportunity). On top of that, the tax incentives offered by the federal government to donors are some of the most generous in the world.

Figure 3 | Household discretionary financial assets and disposable income 2018 - 2020 ($ billions)

	2018	2019	2020
Discretionary financial assets	$5,354	$5,923	$6,517
Disposable income	$1,226	$1,273	$1,399

Source. Statistics Canada and Investor Economics Household Balance Sheet Report 2021

Better times ahead

Despite these negative trends, current projections for the expansion of the HNW segment may bring comfort to fundraisers in the charitable sector who recognize that households with high incomes and/or financial wealth punch well above their weight when it comes to donations.

There are three unique drivers of this optimism. Firstly, there is evidence that older HNW Canadians are more generous, in terms of donation frequency, amounts and percentage of income, than their peers under the age of 65. The HNW segment is aging, a demographic certainty which will likely herald an increase in charitable giving. At the end of 2020, 406,000 HNW households had at least one member at or over the age of 65. By 2030, this number will have increased to 778,000, with the amount of financial wealth increasing from $1.7 trillion to $3.4 trillion.

Secondly, the number of HNW women in Canada is increasing at a faster rate than the segment as a whole. By 2030, wealth controlled by HNW women of all ages is projected to reach $1 trillion. This is because of a higher rate of participation in the workplace at managerial and executive levels; a rise in the number of female professionals and entrepreneurs; and, significantly, the fact that women will benefit disproportionately from the massive transfer of wealth underway in Canada. This is good news for charities, as various studies and reports — including the Statistics Canada report referenced earlier — have underscored the fact that across the country women are more generous than men in terms of giving and investing for the purpose of social impact.

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Figure 4 | Donation rates by gender by region 2018

	All	Female	Male
Atlantic	74.6%	78.2%	70.7%
Quebec	68.8%	73.0%	64.6%
Ontario	68.0%	70.6%	65.2%
Prairies	68.2%	73.1%	63.3%
British Columbia	63.1%	69.0%	57.0%

Source: Statistics Canada 2021

Finally, (and perhaps the most important driver of optimism), members of the HNW segment are clients (and targets) of a growing number of wealth management advisors. These advisors typically discuss charitable giving as an integral part of a multi-generational wealth plan, not only in terms of giving during the client's lifetime, but also through embedding charitable bequests in estate plans.

Investor Economics estimates that approximately $6.6 billion will flow to charities from the estates of Canadians in the decade ending 2030, with the bulk of that flow coming from HNW estates. This amount is consistent with the goal of the Canadian Association of Gift Planners, which has been actively campaigning to increase the number of individuals who include charitable bequests in their wills.

The importance of advisors

Over the past decade, the rapid growth in the number of family-established foundations and donor-advised funds (DAFs) has been driven, to a great extent, by the guidance of advisors working with HNW clients, many of whom are, or will be, going through liquidity events.

Figure 5 | Growth in assets held in donor-advised funds and private foundations (adjusted) in $ bilions 2016 - 2018

	2016	2017	2018	CAGR
Donor-advised funds	$4.4	$5.4	$5.7	13.8%
Private foundations	$28.1	$32.0	$32.6	7.7%

Source: Investor Economics and Philanthropic Foundations Canada 2021.

Not only will advisors seek to engage their clients in discussions about philanthropy, but in a study published by the Institute of Fundraising in the UK, two-thirds of HNW donors indicated they would be "likely or very likely to consult a professional advisor before making a sizeable gift". Before becoming overly optimistic, it's also worth noting that only 3% of donors participating in the study acknowledged the fact that their advisor would be influential in determining whether or not they would make a sizeable gift.

The future focus of many wealth advisors will be entrepreneurs, who represent an estimated 36% of the HNW segment. As discussed in an earlier white paper in this series, almost a quarter of family businesses in Canada are expected to be sold in the next five years, resulting in the release of substantial amounts of financial wealth. Marrying the sudden availability of liquid wealth with entrepreneurs' growing interest in philanthropy (and tax minimization) suggests that there will be new opportunities for charities to partner with HNW Canadians.

A US study of HNW families made two important observations: overall, philanthropic activities are increasingly important to entrepreneurs in terms of financial priorities; and, secondly, there is a meaningful difference in the level of importance given to philanthropic activities between business owners and non-business owners, with business owners rating them far higher.

A study by a US-based asset manager, reported that "on average, the median annual gift for entrepreneurs is 50% higher than that of non-entrepreneurs". Some of the study's additional findings are shown in the chart below.

Figure 6 | Activities and attitudes of entrepreneurs comapred to non-business owners

	Entrepreneurs	Non-business owners
Consider themsleves philanthropists	47%	30%
Volunteer more than 2.5 hours per month	66%	55%
Discussed philanthropy with financial advisor	73%	52%
Planning to leave a legacy gift	47%	34%

Source: Fidelity Charitable (US)

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The real size of the opportunity

The opportunity for charities represented by the growing financial wealth of the HNW segment (see Figure 2 above) needs to be tempered by the recognition that, at the end of 2020, approximately $800 billion was held by HNW households in savings and demand accounts maintained to provide for household costs and a buffer against unanticipated expenses. In addition, using Investor Economics' 2020 financial wealth allocation model, another $1.7 trillion was held in registered accounts, outside defined benefit and government pension plans, which will be earmarked for retirement funding or specific needs of the family.

Using this model, unallocated financial wealth held by the HNW segment was approximately $2.4 trillion at the end of 2020. It is unallocated wealth which is frequently used by the HNW to fund donations to charities, private foundations and DAFs. On a per-household basis, at the end of 2020, the average HNW household had approximately $2.3 million in unallocated wealth. A gift or gifts equal to 1% of unallocated wealth would, therefore, be approximately $23,000, an amount far higher than high-income households' average annual donation.

In terms of income available for donations, the following statistics provide some high-level guidance. The best denominator is net disposable income (income after tax) which, for those with annual income above $150,000, totalled $212.6 billion in 2017, or 17.9 % of total NDI. Charitable gifts claimed by the cohort in 2017 amounted to $4.6 billion, or 2.2% of NDI, a giving rate similar to that reported for 2012. Even at this level of generosity, there is likely room for a higher level of giving by HNW individuals from cash flow and accumulated wealth.

Some clouds linger on the horizon

Although many signs point to a better future in terms of the relationship between HNW individuals and the charitable sector, there remain some hard-to-dislodge barriers. Perhaps the largest barrier to overcome is a sense among many members of the segment that supporting charitable organizations is optional rather than a duty that is inextricably linked to financial success. This issue is cultural and not economic in nature.

While the overarching challenge may be cultural, there are other barriers that are attitudinal and may be difficult to change. A review of recent survey-based research reports points to some common objections by members of the HNW segment to giving to charity. Other than outright refusal, the objections fall into two areas: firstly, giving to charity is prevented by the needs of family and/or other financial obligations; and, secondly, the affluent do not trust charities to use donated capital effectively, and believe that they might limit the ability of donors to determine how a major gift will be used.

Advisors can work with client families on the first hurdle but not the second. That is in the hands of the charities.

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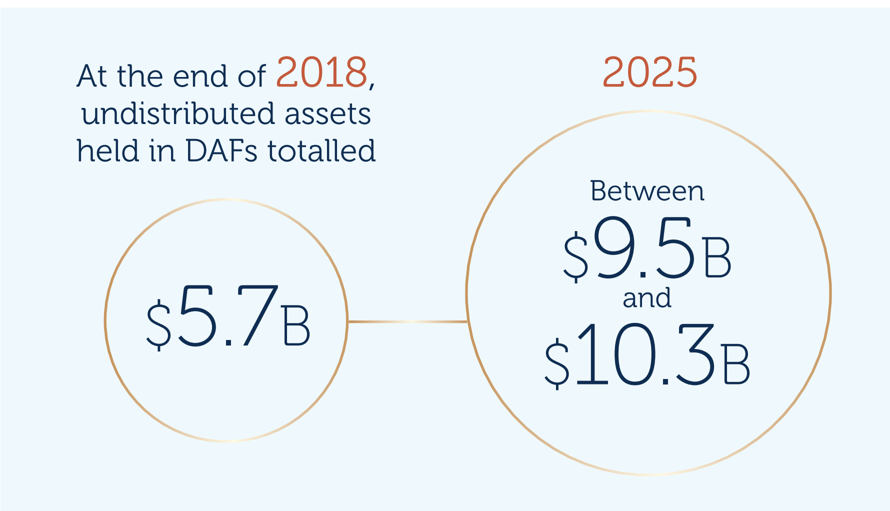
The opportunity for advisors

All major banks and many independent wealth managers, have recognized that DAFs and family foundations are playing an increasingly important role in marrying the financial ability and strategies of the upscale and affluent segments with the funding needs of charities.

Although there are a small number of critics of these structures, the introduction and development of DAFs by asset managers and wealth advisory companies, the acceptance of DAFs by the charitable sector, and the wider involvement of financial advisors in the formation of giving strategies, suggests the financial services industry may play a key role in reversing the negative trends discussed here.

Advisors and wealth management firms will be the drivers of further expansion of the Canadian DAF sector in terms of donations, grants and undistributed assets. At the end of 2018, undistributed assets held in DAFs totalled $5.7 billion, with projections for that amount to almost double to between $9.5 and $10.3 billion by 2025.



As indicated earlier, the opportunity for advisors is not only to work with their clients in terms of philanthropy during their lifetime but also to provide legacy advice. Recent research published in the United States reveals that while 41% of end-of-life donors become aware of planned giving through contact with a charity, a higher percentage — 46% — were introduced to the idea by a financial planner or advisor. It is also worth noting that not all bequests are made by wealthy donors, and research by Giving USA pointed out that 35% of those who included a bequest in their will had a net worth below US$1 million.

Final thoughts and the global pandemic

Aside from shifts and demographics of wealth ownership, there is one factor that has had and will have a bearing on HNW philanthropy: the global pandemic that has been such a disruptive force over the past eighteen months. It has had both a positive and negative impact.

A third of Canadians have indicated to Imagine Canada that they reduced their donations to charities in 2020. At the same time, a quarter of HNW donors increased their level of giving to local causes, such as food banks and organizations focused on health care. When asked about the impact of COVID-19 on their future giving behaviour, most HNW donors believed that the pandemic would have no influence, while nearly 20% felt that the pandemic would encourage them to be more specific in their granting patterns.

The importance of giving to HNW and high-income groups, and the importance of these groups to the survival and growth of charities is not in dispute. Not only that, but there is considerable evidence that donors will seek the influence and guidance of financial advisors for basic questions, such as amounts and timing, as well as the more complex question about how to make the donation. Three sub-groups (women, the silver generation and entrepreneurs), will likely be the most active participants in philanthropic services in the medium term and each group represents a unique opportunity and challenge to Canada's wealth managers.

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