



Giving Away Your Wealth To Fulfill Your Dreams

*To give away money is an easy matter
and in any man's power.*

*But to decide to whom to give it, and how large,
and when, and for what purpose and how,
is neither in every man's power nor an easy matter.*

Aristotle

Robert Livingston
November 2009

Introduction

I have been involved in the wealth management industry for over 35 years. I have seen wealth managed well; I have seen it managed poorly. I have seen wealth create opportunities; I have seen wealth create disasters.

To manage wealth well and have it create opportunities, you must start with the basics of wealth management. Wealth management starts with defining your “achievable” dreams and then putting together plans to achieve those dreams.

Wealth management requires knowledge, planning, discipline and patience. If you want to skip these four steps, I recommend you buy some lottery tickets. At least with lottery tickets you will find out quickly if your plan is working.

The title of my first paper on wealth management was, *Managing Your Wealth to Fulfill Your Dreams*. The idea came from a friend of mine who 15 years ago received a large inheritance. Today it is all gone! I asked myself why did it happen, what mistakes were made and most importantly, what can we learn from this experience? The last question is the most important. You can't rewrite history but you can learn from it.

Why did it happen?

Reflecting upon this question, I made two observations and came to one conclusion.

This was my first observation. I came to the realization that most people outside our industry find the topic of wealth management either extremely boring or very intimidating, or both.

This was my second observation. The wealth management industry for the most part has made the explanation of wealth management either extremely boring or very intimidating, or both.

These are my opinions from 35 years of industry experience.

Needless to say this has caused a major problem. The wealth management industry has not only failed to meet the needs of the investing public; it has helped compound the problem.

From these two observations, I came to one conclusion. Any discussion of wealth management must be presented using easy to understand terms.

What did I learn from this experience?

I came to the realization that my friend never understood the very basics of wealth management. Remember the saying in the Bible? *"My people are destroyed for lack of knowledge."* Same principle applies in his case. To manage wealth well and have it create opportunities, I feel you must start with the basics of wealth management. Wealth management starts with defining your “achievable” dreams and then putting together plans to achieve those dreams.

After reading *Managing Your Wealth to Fulfill Your Dreams*, a friend sent me the following note:

Thank you for the chance to read the document, Managing Your Wealth to Fulfill Your Dreams".... I consider myself "investment-challenged" and I tend to hand over any financial document that looks like it will lead to personal frustration and confusion to my husband to read and interpret in words of one syllable. I admit my reaction is totally irrational, but it is mine and I'm stuck with it....

I am pleased to tell you I found the paper very clear, interesting and concise. It is full of commonsense topics that were laid out in layman's terms. Too often good advice is so couched in jargon that the message is lost and therefore useless to those of us who are neophytes in the area of the author's expertise....

Thank you, again, for sending the booklet. It was refreshing to read a financial document that was both informative and practical.

My friend's comments made my day! It confirmed to me that I was on the right track. Of course, some readers are not "investment-challenged" and might find my paper far too simplistic. It is meant to be that way. For those readers, I recommend you think of giving it to someone who might need and enjoy its simplicity.

But before we can manage our wealth we must acquire it. This led me to write my second paper on wealth management, *Acquiring Your Wealth to Fulfill Your Dreams*.

My third paper on wealth management recognizes that once we have acquired our wealth and managed it well, there will come a time when we realize we will have to give it away. No one lives forever and we can't take it with us. *Giving Away Your Wealth to Fulfill Your Dreams* closes the loop in my series on wealth management. We acquire it. We manage it well. Now it is time to put the plans in place to give it away.

Wealth management is both an art and a science. My observations and recommendations are my personal views based upon my industry experiences. Whether you agree or disagree with them, I hope they will generate discussion, and help you better give away your wealth to fulfill your dreams.

Table of Contents

Chapter 1	The Search for Significance	1
Chapter 2	What Are Your Dreams?	4
Chapter 3	The Generational Transfer of Wealth	6
Chapter 4	Philanthropy	12
Chapter 5	The Philanthropic Initiative	18
Chapter 6	Recommendations	20
Chapter 7	Case Study	23
Chapter 8	Achieving Significance	25
	About the Author	27

Chapter 1: The Search for Significance

*Success is when you add value to yourself.
Significance is when you add value to others.*

John Maxwell

Outline

- > An Idea Is Born
- > It Starts With Success
- > It Ends With Significance
- > The Transition

1.1 An Idea Is Born

If we accept the fact that our money is a means to an end, and we can't take it with us, there comes a time in one's life where we transition from focusing on managing our wealth, to thinking where we want it to go when we die.

John Maxwell is an author, speaker, and pastor who has written more than 50 books, primarily focusing on leadership. I listened to a talk given by John, where he discussed the differences between success and significance. This discussion prompted me to look at the third season in wealth management, the season where we give it away. How can our wealth achieve significance? To achieve success in our financial life we must acquire and prudently manage our wealth. To have our wealth achieve significance, we must prudently give it away.

My purpose in writing, *Giving Away Your Wealth to Fulfill Your Dreams*, is to generate discussion and suggest ideas on how we can give away our wealth to make it become significant.

1.2 It Starts With Success

Success is defined by the Webster's dictionary as "the attainment of wealth, position, honours, or the like." Many people work hard all their lives; at their job, for their families and in their community. John Maxwell defines success as adding value to oneself. Of course, in many cases we also add value to others, but usually because it is in our best interests to do so. There is usually a string attached. Success we might define as a good marriage, strong family values, a good job/career, financial security, recognition in the community, etc. Those who are successful have usually worked very hard to accomplish their successes, however they define them.

Many of us reach a point in our lives where we have all the toys and yet in many cases, there is something still missing. Surely there must be more to life than driving an expensive car, having a house, a cottage, and two golf memberships and so on.

This is where the search for significance regarding our wealth is born.

1.3 It Ends With Significance

The Webster's dictionary defines significance as "the quality of being significant or having a meaning." For me, the key words in this definition are "having a meaning". John Maxwell defines significance as adding value to others without any strings attached.

Once people become bored with their successes, they start to look for new mountains to climb. People begin to start thinking beyond their personal and professional successes and start to seek more significance in their lives. They begin to expand their comfort zone, including the dreams and plans for their wealth.

The two avenues in the search for significance, in the context of wealth management are:

- > The generational transfer of wealth
- > Philanthropy

The search usually starts with your family. At my father's funeral I quoted from Proverbs: "A good man leaves an inheritance to his children's children." A wonderful dream come true for me? One day becoming a grandfather. I have the money. Now all I need is the grandchildren!

Of course it first starts with your children. In early childhood, parents pay the bills usually with strings attached. "You won't get your allowance until you do your chores." Gradually (hopefully!), we withdraw financing our children's needs in an effort to help them become responsible young adults.

Later in life as they begin to have their own families, we open up our wallets again to help them get started. In this phase the dollars are a lot bigger and, I believe strongly, the process must be more clearly defined. I will talk more about this in the next chapter.

Subsequently or concurrently, people also begin giving back to the community. My father put it this way: "Service is the rent you pay for your place in society." People usually start with giving their time. They serve on boards, volunteer for fund raising and even work in kitchens to help feed the poor.

Jimmy Carter, the 39th president of the United States, founded the Carter Center in 1984. Jimmy and his wife Rosalynn give a week each year to work with Habitat for Humanity on a project. Jimmy rolls up his sleeves and gets involved; and dirty!

For Jimmy Carter there was something more to life than just being the 39th president of the United States.

1.4 The Transition

When we properly acquire and manage our wealth, we sometimes focus too much on the destination, and don't enjoy the journey to get there. I pointed out this common mistake in both *Acquiring Your Wealth to Fulfill Your Dreams* and *Managing Your Wealth to Fulfill Your Dreams*. It is a very common and dangerous mistake people (including myself!) make when it comes to wealth management.

If we acquire our wealth prudently and manage it wisely in our retirement, we can make another mistake if we are not careful. We can wait too long and not take the time needed to make the decisions and put the plans in place to see our wealth achieve significance beyond our lives.

Significance takes us out of our comfort zone. Success is about us. Significance is about others. To have our wealth become significant, we must begin to relinquish control of it. We have to put a structure in place to fulfill our dreams for when we are no longer here. This requires vision, planning and in some cases, a test of faith as we transfer the wealth.

Chapter 2: What Are Your Dreams?

The future belongs to those who believe in the beauty of their dreams.

Eleanor Roosevelt

Outline

- > The Changing Seasons
- > The Generational Transfer of Wealth
- > Philanthropy

2.1 The Changing Seasons

Wealth management progresses through three different seasons in our lives. There is a season where we acquire our wealth; there is a season where we manage it; and finally there is a season where we give it away.

In *Acquiring Your Wealth to Fulfill Your Dreams*, the following dreams were discussed:

- > Student Debt
- > Personal Nest Egg
- > Real Estate
- > Children's Education
- > Philanthropy
- > A Well-Financed Retirement

In *Managing Your Wealth to Fulfill Your Dreams*, the following dreams were discussed:

- > A Well-Financed Retirement
- > The Generational Transfer of Wealth
- > Philanthropy

Giving Away Your Wealth to Fulfill Your Dreams assumes a well-financed retirement is in place. We are now only left with two dreams to discuss:

- > The Generational Transfer of Wealth
- > Philanthropy

It is important for the current owners of the wealth to discuss the importance of each dream, recognizing there may be a limited amount of capital to be allocated.

When it comes to deciding how much to allocate to the generational transfer of wealth, Warren Buffet offers this advice: "The perfect amount of money to leave children is enough money so that they would feel they could do anything, but not so much that they could do nothing."

While the money to be allocated between the two dreams is a zero sum game, there can be synergy between the two. For instance, getting the kids involved in a family's philanthropic initiatives can teach them how to better manage their own investments.

2.2 The Generational Transfer of Wealth

For those who have families (and even some that don't), the generational transfer of wealth is usually at the top of their dream list.

An ancient Chinese proverb states: "Wealth never survives three generations." A century ago the Americans updated it to read: "From shirtsleeves to shirtsleeves in three generations."

Why does this happen? In my opinion the greatest mistake families make is that they focus on the money, not on the process. It is important to learn and actively pass on their values, rather than merely focusing on passing on their valuables.

Midas can come in two flavours: the Midas touch and the Midas curse. The Midas curse happens when money is passed on to heirs who are ill-prepared to receive it. In some cases it can destroy a family.

2.3 Philanthropy

Many people, especially those so fortunate to be living in a country like Canada, have come to realize the importance of giving back to society. And giving back is not only confined to money; it also includes something more precious than money – their time.

A friend of mine recently shared with me his philosophy regarding philanthropy. "I don't want to be remembered for how I made my money; rather I want to be remembered for how I gave it away." You can't say it much better.

The challenge for many people is to find a way to return to society our appreciation in a way that becomes meaningful and of "significance" to us. For something to become significant, we must be passionate about it. Whether it is our marriage, our family or our career, they won't achieve true significance without passion.

Philanthropy is no different. For it to become significant to ourselves and to our community, we must be passionate about it. I will discuss in chapter five how we can make our philanthropic initiatives lead to passion and achieve significance.

Chapter 3: The Generational Transfer of Wealth

A good man leaves an inheritance for his children's children.

Proverbs 13: 22

Outline

- > The Challenge
- > The Changing Seasons
- > Create a Plan
- > Family Trusts

When it comes to the generational transfer of wealth, the biggest mistake I see in my 35 years of experience is that families do not adequately plan, and seldom discuss this issue with their family. I recently read a study regarding this issue. In almost 80% of the cases, the inheritance was first discussed when the will was read. I believe this is a huge mistake. I encourage families to take the time to put plans and processes in place to begin the transfer wealth to the next generation.

3.1 The Challenge

As mentioned in the previous chapter, the greatest challenge in the generational transfer of wealth is teaching the "process" of wealth management to the next generation.

I came across a book, *Preparing Heirs* by Roy Williams and Victor Preisser which confirmed my thoughts and my approach. The authors interviewed 3,250 families over 20 years. They looked at how the families went through the planning, inheritance and evaluation stages of wealth being transferred from one generation to the next.

Here are some of their observations:

- > Over 90 percent of heirs change advisors upon receiving their inheritance
- > 70 percent of the families lose their assets and family cohesion after receiving their inheritance
- > Why did families fail to successfully transfer wealth to the next generation?
 - > 60% of the failures were caused by the family's lack of trust
 - > 25% of the failures were caused by not properly preparing the heirs
 - > 15% of the failures were caused by tax and legal complications
- > What did families do to successfully transfer wealth to the next generation?
 - > Involve the whole family in the wealth transfer and estate planning discussion and process
 - > Prepare a written Family Mission Statement outlining the long-term family goals and values
 - > Commit and make it a priority, a high level of communication and trust among all family members

Their conclusion is that a successful transition of wealth results from knowledge. Knowledge requires education. It is in the best interests of both the client and the advisor to start this education now.

3.2 The Changing Seasons

My Experiences

I want to discuss some ideas I have used or seen applied in the generational transfer of wealth. I recommend readers consult people more qualified than me when it comes to the actual structures to put in place. This would include accountants, consultants, financial planners and lawyers (No bias – I put them in alphabetical order).

From my personal experience, creating a plan for the generational transfer of wealth can be very exciting. Thinking of creative ways to accomplish this has been for me the most rewarding part of the process.

In the Early Years

In order to help your children acquire wealth, it is extremely important to focus on the process rather than the money. Acquiring wealth involves a decision, implemented by discipline and nurtured with patience. Most importantly, when it is achieved, there must be a sense of accomplishment. This applies no matter what the age.

In *Acquiring Your Wealth to Fulfill Your Dreams*, I share three examples of how I have tried to teach my children how to acquire and save wealth. All three examples followed the same theme of teaching through practice. To do this requires discipline, patience and time on the part of the parent. It would have been easier to just give them the money rather than taking the time to create the plan; unfortunately this would not have taught them anything.

One example involved a special present I gave them on their sixteenth birthday. It was a cheque for a \$1,000. I told them that the money was theirs and they could do whatever they wanted with it. However, if they deposited it to their investment account, and did not touch it for a year, on their seventeenth birthday, they would get another cheque for a \$1,000. This would happen also for their eighteenth, nineteenth and twentieth birthdays, providing they did not touch the money. It was theirs to take at any time. Once they took all (or some) of the money, the cheques would stop. When they reached twenty years old, no more cheques would be given out. If they left the money intact until their twenty-fifth birthday, I would match whatever was in their account.

This example required creativity, work and teaching on my part, not to mention, my own financial planning to keep my promise. This is the only way I believe you can teach your children how to acquire and save wealth.

In the Later Years

When our children become adults, wealth management once again becomes a topic of discussion.

Here are some of the most common financial needs of the next generation:

- > Paying off student debt
- > Acquiring real estate
- > Funding children's education

The most common mistake I have seen occurs when the parents who have the money, concentrate on their children's needs rather than first creating a plan. By focusing primarily on the needs, parents run the risk of interfering and possibly controlling their children's dreams. Despite the best of intentions, this approach can lead to disastrous results.

3.3 Create a Plan

When it comes to transferring wealth to the next generation, the most important decision is creating a plan. Putting a plan in place requires research, time, creativity, discipline and patience. It may run into some problems that require restructuring. Mistakes will happen. Let them be learning experiences.

The plan must include the following:

- > Clearly Defined Dreams
- > Wealth to be Transferred
- > Timetable
- > Degree of Control
- > A Trusted Advisor

Clearly Defined Dreams

Make sure you clearly understand and define what your dreams are when you give money to the next generation.

Take the time to define your goals and create the plans for the generational transfer of wealth. No plan ranks just ahead of a poor plan. Make sure your dreams and your plans line up. Otherwise problems will likely occur.

Wealth to be Transferred

What is the right amount to be transferred? The question for parents should not be "how much do we give or lend them?" but rather "how much can they afford?"

Here are some of the consequences that can occur when too much wealth is transferred:

- > Children adopt a life style they really can't afford
- > Children develop a sense of entitlement
- > Parents retroactively try to attach strings to their gifts
- > Stress enters into the marriage causing conflict; ultimately divorce
- > Inter-generational family communication begins to break down

The end result can be a dysfunctional family. The best of intents can lead to disaster.

I see this happen too often.

A good story to share.

About ten years ago, a friend's father invested in a start-up venture capital situation. It was a home run investment. Within 3 years his \$500,000 investment was worth almost \$10,000,000. Not really needing the money the father decided to split the investment among his 6 children. While some planning took place, it was not enough. In some cases, the new found wealth caused problems. In one case, the family "upgraded" their lifestyle; moving into a new house, buying a cottage, sending the kids to private school, etc. When the markets corrected, so did this investment and some of the "upgrades" had to be reversed.

The lesson learned?

Many families make the mistake of giving money without making sure proper tools are in place to manage it. Here is my advice. Start with a small amount. If the plan appears to be working you can gradually give more over time.

Timetable

I recommend you start early in transferring wealth to the next generation. At the same time I recommend "starter" amounts so you can see how the process is working. Take your time in transferring the money. Once given, it is difficult to get it back. Be prepared, and do not be afraid, to fine tune the plan(s) to transfer subsequent funds.

In 2008 the Government of Canada started a program called the Tax Free Savings Account (TFSA). It allows Canadians 18 years and older to contribute annually \$5,000 to a TFSA. Any income or capital earned within the plan is tax free. This is a tremendous incentive by the government of Canada to encourage Canadians to save. It is also a tremendous way for parents to not only transfer wealth to the future generations, but also educate their children in how to manage it.

A good story to share.

An elderly client of Cathy Brown wanted to begin the generational transfer of wealth. In consultation with her children it was decided that each grandchild would receive \$5,000 as a special Christmas gift. For those 18 years and older, the money was to be invested in a TFSA. For the younger ones it was invested in trust.

At the time of the gift it was explained to the older grandchildren that if they left the money untouched, there would be another \$5,000 cheque next Christmas. Spend the money before then, and the cheque might be only \$2,500 (depending upon why the money was taken out).

The lesson learned?

This is a great example of how to start the transfer of wealth. It involves planning and creativity and most importantly allows the grandmother to see the fruit of her gifts while she is still alive.

Degree of Control

In my opinion, a gift with strings attached, is not a gift. If you have to have strings attached make sure you understand what they are and more importantly your children understand them also. Sometimes getting both parties to sit down and discuss why there are strings attached, can avoid confusion and animosity down the road.

A Trusted Advisor

Choosing an advisor greatly facilitates putting plans in place to carry out your dreams with one important caveat, there must be an ongoing discussion with your advisor regarding your dreams and plans. It is important to sit down at least once a year to review both and fine tune any changes that need to be made.

3.4 Family Trusts

Here is a brief summary on family trusts. Please consult your lawyer or financial advisor to obtain more detailed information.

A trust is a relationship between the trustees and the beneficiaries. The trustee holds legal title to the property within the trust and the beneficiaries hold beneficial title. These provisions are set out in a trust agreement.

What is a family trust?

A family trust is a form of an inter-vivos or living trust. A family trust is a trust created for one or more beneficiaries. For purposes of this discussion, the money to fund the trust is made available by a parent, parents or grandparents. The money is lent to the trust in the form of a note – callable at any time by the lender. This is very important. The party making the loan still retains ownership of the money. The prescribed rate of interest is set by the *Income Tax Act* (as May 1, 2010 the rate is 1.0%). If the proper interest rate is used and the interest is properly paid by January 31 for the prior year, there are no attribution rules for interest and dividend income earned for children less than 18 years of age. For children over age 18 there are no attribution rules, whether the money is a gift or a loan.

A properly documented family trust can accomplish the following:

- > To hold assets for minor or disabled beneficiaries
- > Reduce the overall taxes to be paid by the family
- > Involve the family in the generational transfer of wealth

This is a very simple review of family trusts. If you are interested in pursuing the concept, I recommend you consult your lawyer. The concept I believe is sound and makes a lot of sense.

What can go wrong?

- > The trust is not properly documented
- > The trustees collectively are not viewed as independent
- > The settlor (the one making the loan) is not viewed as independent (if this the case, the income is attributed back to him or her)
- > The capital gain and income earned in the family trust are not allocated properly among the beneficiaries
- > The interest owed to the settlor is not paid by the due date
- > The beneficiaries' tax returns are not filled out properly
- > There is not sufficient documented evidence that the trust income was used for the beneficiary's needs

To create a family trust and make sure it works properly, requires legal and tax advice. You can't do this on the cheap, i.e., you can't do it yourself. The costs involved mean the minimum plan size should be no less than \$500,000.

Chapter 4: Philanthropy

Philanthropy is the practice of applying assets of knowledge, passion and wealth to bring about constructive change.

Peter Goldmark

Outline

- > The Attraction of Philanthropy
- > The Benefits of Philanthropy
- > Family Philanthropy
- > Donor-Advised Funds

When it came to writing the chapter on philanthropy, I really did not know where to start. There is so much material written on the topic. The more research I did, the more confused I became in how to pull it all together. It then dawned on me how to proceed. I took a page out of my own book. When an issue is beyond the scope of your knowledge, I recommend seeking out a trusted advisor. That is exactly what I did. My trusted advisor is the Winnipeg Foundation.

The Winnipeg Foundation, Canada's first community foundation was established in 1921. It is a collection of endowment funds established by a wide range of donors including individuals, families, organizations, corporations and others.

The Foundation offers flexible options for donors to help them meet their personal needs and philanthropic goals. Gifts to the Foundation are pooled and invested and the income earned is distributed as grants that support community projects. The Foundation maintains the purchasing power of the funds entrusted to them, achieving maximum returns consistent with prudent investment and assuring sound financial management practices. Through these permanent endowments, the Foundation is able to meet the needs of the community today and forever.

The Foundation responds to needs identified by local registered charities. During its eight decades of history, the Foundation has distributed more than \$200 million to support programs and projects in: community service, education, health, environment, heritage, arts and culture and recreation.

They know what they are doing and they are passionate about it.

I would also like to thank Leslie Weir, the Winnipeg Foundation's Director of Philanthropy. She has more than 25 years experience in a variety of local philanthropic settings: healthcare, health promotion, higher education and community service. Leslie earned the Advanced Certified Fundraising Executive (ACFRE) designation in 2004 - one of five Canadians and 79 professionals worldwide to attain this certification.

4.1 The Attraction of Philanthropy

Here are some of the reasons why people get involved in philanthropy:

- > A Desire to Give Back
- > Looking for a Higher Purpose
- > The Other "Option"

A Desire to Give Back

The road to philanthropy starts innocuously enough. My first "philanthropic" memory was my UNICEF box at Halloween. As life progressed, I have been constantly asked to support various causes, through the media, work place, friends and family. The key word here is asked. I call this "passive" philanthropy. My response to many requests was usually with a donation of money rather than time.

At some point in our lives, many of us begin to practice "proactive" philanthropy. It usually occurs when we slowly begin to realize we have all the toys. We begin to either feel guilt or gratitude for all we have been given; sometimes because of our hard work, and sometimes we admit, because we were in the right place at the right time. Most Canadians would admit they live in one of the best countries in the world. Canada provides so many wonderful opportunities. We slowly begin to feel a duty to give back to society. We begin to look at philanthropy as a way of fulfilling this feeling, this need.

William Forbes Alloway in 1921 made a donation of \$100,000 which started the Winnipeg Foundation. Here is what he said regarding his donation: "Since I first set foot in Winnipeg 51 years ago, Winnipeg has been my home and has done more for me than it may ever be in my power to repay. I owe everything to this community and feel it should receive some benefit from what I have been able to accumulate."

Looking for a Higher Purpose

How many toys do you really need? Once we reach this stage in our life where we have all the toys, we begin to look elsewhere for purpose and fulfillment. Essentially we become bored. We slowly become committed to a new cause in our life.

Becoming committed to a cause moves philanthropy away from the margins and towards the centre of our lives. A stirring takes place inside of us. That stirring is passion. When we are passionate about something and it dovetails with our values and our needs, we begin to become more committed to it in terms of money and time. This leads to more personal satisfaction which not only increases our passion, but also increases our commitment to the issue.

Peter Karoff, founder of The Philanthropic Initiative (TPI) puts it this way: "The alignment of one's passion to one's giving is often elusive, but worth the search. The reward is that your gift giving becomes the best possible articulation of your core values and belief systems and at the same time becomes a direct link to those issues within the community and society that you deem to be of greatest significance. The payoff is in the immense personal satisfaction that comes when your generosity is grounded in what you feel is the most important."

The “Other” Option”

Many people realize the danger in leaving their children too much money when they die. Warren Buffet says: “Wealthy parents should leave their children with enough money to do anything they want but not so much that they are doomed to do nothing at all.”

Philanthropy is the “other” option to leaving our wealth to our family. I’m sure if you asked Bill Gates why the Bill and Melinda Gates Foundation was founded, I am sure he would tell you one of the reasons was he would never leave his children the entire fortune he accumulated by founding Microsoft.

I remember once visiting a provincial park where a lot of logging was done. The logging roads were narrow with very steep inclines. Every so often there would be a side road branching off and heading back up the mountain. I was told these roads were called “escape ramps.” They were there in case the trucks got out of control as they headed down the mountain. The driver would veer off onto these escape ramps as a way of getting the truck back under control.

Some families use the same concept in deciding how much wealth to leave their children. To give it all to them might result in the “money truck” going out of control as the wealth is passed on to the next generation. Philanthropy can provide “escape ramps” to help them leave the appropriate amount for their children.

4.2 The Benefits of Philanthropy

Here are some of the benefits of becoming involved in philanthropy:

- > Fulfill the Need We Have for a Higher Purpose
- > Personal Growth
- > Connects the Family’s Values and Dreams
- > A Good Teaching Tool

Fulfill the Need We Have for a Higher Purpose

We are driven to find meaning, and we find it by discovering a necessary relationship in our lives and some larger purpose. Peter Karoff in *The Long Distance Call* wrote: “It has been estimated that roughly half of Americans are on a hunt for a higher purpose, a search for values, for connection, for community, for spirituality. For a purpose beyond work, beyond the sound bites of the evening news, away from information-overload, the minute-by-minute world we inhabit.”

Philanthropy can meet this desire.

Personal Growth

It took me about four weeks research to write the chapter on philanthropy. In four weeks, I learned more about philanthropy than in my previous 57 years.

By writing on a topic I knew little about, it has also expanded my comfort zone. I reached out to people at the Winnipeg Foundation to help get me started. I used the internet to discover philanthropic organizations I had never heard of. I won't claim to be an expert on the topic, but I sure have learned a lot.

Connects the Family's Values and Dreams

More and more families are planning their philanthropy together as an expression of their shared values, a way of teaching children about social responsibility, or to continue or establish a family legacy. The Winnipeg Foundation recognizes there are many ways for individuals and families to give to causes that are important to them.

Family philanthropy provides the opportunity to contribute to society in ways few ever experience. At the same time it forms new family bonds, based on a common purpose that can endure for generations. With this decision also comes a tremendous personal responsibility to serve the public good with your private wealth.

Here are some of the benefits family philanthropy can provide:

- > It can bring family generations together
- > It can result in better family communications
- > It can help articulate the family's core values
- > It can be intellectually and spiritually satisfying
- > It creates a significant gift for society
- > It can stimulate other families to make similar gifts
- > It can provide a "new adventure"

A Good Teaching Tool

When I speak to high school and university students, one my recommendations are for them to get involved in some sort of philanthropy. Whether it be sitting on a board or working in a food kitchen, the experience, personal growth and contacts will be invaluable.

We have been very fortunate to have children (that is so easy to say once the teen years are behind us). Our dreams for our children include the following:

- > Providing them a healthy life that is rewarding and productive
- > Instilling in them an ability to give and receive love
- > Teaching them the importance of long-term relationships
- > Raising them to have the strength of character to deal with life's challenges
- > Raising them to become responsible and caring citizens in the community

Philanthropy acts as a bridge between our values and the dreams we have for our children. It provides "classrooms of real life" to help educate our children to practice the family's values in everyday life.

4.3 Family Philanthropy

My discussion regarding family philanthropy includes the following:

- > Key Ingredients in Family Philanthropy
- > Types of Family Philanthropy

Key Ingredients in Family Philanthropy

Here are some of the key ingredients in family philanthropy:

- > There must be a commitment by the family that goes beyond any specific interest of any one family member
- > It must understand the family dynamics. Different generations have different interests. Does it only include the immediate family or does it also include the spouses, sometimes referred to as the "outlaws"
- > It must take into account the changing world we live in. David Rockefeller Jr. asks: "What happens when the giving moves from the museum to the Amazon?"
- > It must have a realistic process that engages all members of the family

Types of Family Philanthropy

There are four main types of family philanthropy:

- > Private Foundation: A donor family creates an endowment from which to make grants. The family maintains control of the grant making and manages the assets.
- > Family Businesses: Families can create a corporate giving program or a corporate foundation.
- > Giving Circle: Individual donors or families can pool their money with others to make charitable gifts from the income on the principle.
- > Donor-Advised Funds: A donor family can donate to a fund in a community foundation, federated giving organization or financial services firm, then take the tax deduction immediately and advise the organization on what charitable organizations to support.

The vehicle you choose should be based on both on your dreams and the amount of assets you have to give. It's best to consult your local community foundation, a financial advisor or a lawyer familiar with the different charitable options available before making a final decision.

4.4 Donor-Advised Funds

A donor-advised fund is a charitable giving vehicle administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family, or individual. A donor-advised fund offers the opportunity to create an easy-to-establish, low cost, flexible vehicle for charitable giving. It is an alternative to direct giving or creating a private foundation.

Community foundations pioneered the development of donor-advised funds, and a number of commercial sponsors, educational institutions, and independent charities now offer this service.

Because the fund is housed in a public charity, donors receive the maximum tax deduction available, while avoiding taxes and other restrictions imposed on private foundations. Further, donors do not incur the cost of establishing and administering a private foundation, including staffing and legal fees. Since the maximum tax deduction is received by the donor at the time of the gift, the foundation administering the fund gains full control over the contribution, granting the donor advisory status. As such, they are not legally bound to the donor.

A good story to share.

A friend of the family recently decided to make a substantial donation to a school where some of her grandchildren had gone. Her late husband felt strongly that the school should become involved in a local outreach program. A family meeting was held, and the decision was made to create an endowment to fund such a program. The endowment was funded over four years and will generate sufficient funds each year to bus children from the inner city to the private school.

The lesson learned? Over time, the family came to understand the benefits of this initiative for both the family and the community.

The benefits for the family:

- > It brought the family together to discuss their common family values
- > It brought the family together to work on a common project
- > It provided a means for the children to honour their parents
- > It put in place a structure for the third generation to get involved

The benefits for the community:

- > It created a significant gift for the school
- > It provided a "template" that hopefully can be used to attract other families to become involved in similar projects to help fulfill their dreams

Chapter 5: The Philanthropic Initiative

Outline

- > Philanthropic Trends With Wealthy Individuals
- > The Process of Discovery
- > Strategic Philanthropy
- > TPI's Philanthropic Curve

I came across a paper published by The Philanthropic Initiative (TPI) called *Community Foundations and the Coming Intergenerational Transfer of Wealth*. TPI conducted over 2,500 interviews with wealthy individuals and their advisors. While written almost 15 years ago, I thought its observations are still appropriate today.

5.1 Philanthropic Trends with Wealthy Individuals

Here are some of the more important trends they observed:

- > They have a yearning to be a "good" person
- > They desire to make their charitable giving work more effectively
- > They have a desire to know about the charitable experiences of others
- > They want to become proactive in their charitable giving
- > They are concerned about how much to leave to younger generations and wonder if philanthropy is a way to keep and bind the family together
- > They are not primarily concerned about the estate planning and tax considerations in considering charitable gifts

5.2 The Process of Discovery

The next step was to start a process of discovery. This involved asking those surveyed a number of questions to help discover what philanthropy means to them.

Key questions they asked included:

- > What are your basic values?
- > How have the values been expressed through your giving?
- > As a donor and volunteer, why have you made gifts of money and time?
- > Do you know if your efforts have made a difference?
- > Which of your gifts have given you the most and least satisfaction? Why?
- > Which social or community issues do you feel most passionate?
- > What should your giving stand for?

5.3 Strategic Philanthropy

The next important step to help clients understand the potential philanthropy can have in their lives is what they call "Strategic Philanthropy."

The key ingredients in Strategic Philanthropy are:

- > Philanthropy means more than charity
- > Charitable giving should be proactive rather than reactive
- > Charitable giving is based on a donor's commitment
- > Charitable giving should be viewed as an investment
- > Effective donors invest time
- > Effective giving builds on the due diligence of others in the philanthropic field
- > Charitable giving should be thoughtfully aimed
- > Charitable giving should align itself with a donor's values
- > Charitable giving links a client to society

5.4 TPI's Philanthropic Curve

Lastly, the paper examined the six levels of philanthropy for an individual:

- > You become a donor
- > You decide to get organized
- > You become more strategic
- > You become issue and results oriented
- > Your philanthropy is leveraged
- > Your values and your interests are aligned. Your philanthropy is among the most exciting and satisfying things you do

Chapter 6: Recommendations

Tell me and I will forget. Show me and I may remember. Involve me and I will understand.

North American Proverb

Outline

- > Define Your Dreams
- > Create Your Plans
- > Involve Future Generations
- > Enjoy Life

6.1 Define Your Dreams

As we become older, I believe our dreams become all the more important. We know without being told, the legacy we leave is the life we have led. When it comes to the wealth we leave behind, it is important to remember, we will be remembered for not only the amount we leave, but also for the process, good or bad, we leave. The legacy we leave must not only be the gift; it must also be the process.

To repeat Warren Buffet's quote: "Wealthy parents should leave their children with enough money to do anything they want but not so much that they are doomed to do nothing at all." Spouses must discuss the allocation of wealth to be distributed to their families and philanthropy. Once the decision is made, they must communicate their intentions to all parties involved. This may upset family members in the near term, but I feel it is the best way to deal with this issue in the long term.

6.2 Create Your Plans

"A dream without a plan will remain but a dream." How very true.

Each dream must have a plan.

I recommend you put some of these plans in place now, rather than waiting for the will to be read.

Creating and putting your plans in place now has several advantages:

- > You get to see if the plans are working. If not, you can still make adjustments
- > You can help, especially in the generational transfer of wealth
- > You get to enjoy seeing the fruit of your gifts
- > It can help keep the passion in your life
- > It can play an important role in passing on a family's values

There may be multiple plans when it comes to the generational transfer of wealth. For instance, you may want to have different plans dealing with your children and grandchildren when it comes to leaving them money. In says in the Bible: "A good man leaves an inheritance for his children's children." Why not enjoy seeing the fruit of your wealth.

The same principle applies when it comes to philanthropy. Too often people wait to fund philanthropic causes after their death. There can be great enjoyment seeing the fruit of your wealth. The benefactor(s) can be an asset to the organization beyond the money they give. Jimmy Carter is a wonderful example of this. He and Rosalynn not only created a foundation; they actively participate in it.

6.3 Involve Future Generations

Why involve future generations?

Here are some of the benefits:

- > Family discussion about values can help with the personal and character development of future generations
- > Family stories and traditions are powerful tools for sharing the family's heritage
- > Family philanthropy can become both a family value and a vehicle for expressing values
- > When all three generations become involved, it can be a tremendous blessing.

Here are some ideas to help educate future generations in the area of philanthropy:

- > When they learn how to receive, teach them how to give
- > Make philanthropy a family affair
- > Support your community's philanthropic education initiatives
- > Find a cause your child is passionate about
- > Be a good philanthropic role model
- > Split your children's allowance into three parts: 1/3 spending, 1/3 saving and 1/3 philanthropy
- > Encourage grandparents to get involved with their grandchildren

A good story to share.

A friend of mine's daughter recently celebrated her eighth birthday. The normal routine was to invite fifteen friends to her birthday party. Presents were eagerly opened at the party but a couple of weeks later most were in the closet and seldom looked at again.

Their daughter suggested they do something different this year. Fifteen invites were sent out with the request that each child not bring a gift but rather bring \$20 to the party. Their daughter wanted the money to go to the *Make a Wish Foundation*. Each parent got a tax receipt and the kids saw how their generosity could help others.

The lesson learned?

Philanthropy can start early in life.

6.4 Enjoy Life

I feel if we allow our wealth to become our master, it is one of the most dangerous mistakes we can make. We must remember, our wealth is meant to be a means to an end, not an end in itself. When our wealth becomes our master, it becomes our idol. When it becomes our idol; it will cause us to begin compromising our values; integrity, patience, and self-control to mention a few. When we begin to compromise our values, our plans begin to break down. And lastly, when our plans break down, our dreams begin to disappear. Both personally and professionally, I have seen this process destroy relationships, tragically in many cases. Families will become torn apart and friendships will be lost. Our Midas touch will turn into our Midas curse. The sad thing is once this process begins, it can be very difficult to reverse. And it will never lead to happiness and fulfillment because lest we forget; you can't take your wealth with you.

Taking the time to establish our dreams and the planning, discipline and patience required to bring them to fruition, will all be for naught.

Needless to say, don't go there.

Rather I recommend you take this route. Establish your dreams, put the plans in place to carry them out, maintain your discipline to follow the plans and enjoy life. While the plans may have to adapt to changing conditions, never forget your dreams. It is that simple.

Chapter 7: Case Study

For those of us who are investment- or jargon- challenged, the stories can provide a, "I get it" moment.

Anonymous

Outline

- > Background
- > Dreams
- > Plans

Case studies are an excellent way to help the reader see the principles being discussed put into action.

7.1 Background

Cathy Brown recently met with one of her clients, Bill and Jane Black, to discuss the dreams and plans for their substantial investment portfolio. The Blacks are in their late seventies and have a very affordable and comfortable retirement life style. They have come to realize they will never spend all their money and they want to begin putting plans in place for their portfolio. The Blacks have three adult children, ages 28, 26 and 24. Their youngest child George, suffers from a rare disease and requires 24/7 care. The older two children are both married and each has one child.

7.2 Dreams

In discussion with Cathy, the Blacks established the following goals for their substantial portfolio

- > Provide a structure to fund George's expenses for the rest of his life
- > Help fund their grandchildren's university education (many years down the road)
- > Establish a scholarship fund for underprivileged students at Cathy's high school
- > Prepare and educate their two older children and their husbands for their inheritance

7.3 Plans

Cathy recommended the following three ideas to help the Blacks fulfill their dreams:

- > Family Trust
- > Registered Educational Savings Plan
- > Donor-Advised Fund

Family Trust

Jane proposed the Blacks create the Black Family Trust.

Here is a quick summary of the trust agreement:

- > Jane Black lent \$3,000,000 to the Black Family Trust at a prescribed rate of 1.0% (the rate determined by the *Income Tax Act*)
- > The trust has three trustees: Bill, Jane and Neil Green (a friend of the family)
- > The trust has five beneficiaries: George, the Black's two daughters and the Black's two grandchildren
- > There is a provision in the trust agreement that future grandchildren can be added as beneficiaries

At a 4.0% rate of return, the trust will distribute approximately \$90,000 per year (1.0% must be paid to Jane Black as part of the agreement). The bulk of the distribution will go to George to pay for his care. Smaller amounts will be distributed to the two daughters and the two grandchildren.

Registered Educational Savings Plans

Although family RESPs are in place, the Blacks committed to providing \$2,500 annually for each grandchild. The first \$2,500 contributed to a RESP receives a grant of \$500 (20%). The Blacks wanted to make each family would receive the maximum grant, but they also leave the family room to make a donation of their own.

Donor-Advised Fund

Cathy, Bill and Jane worked with Jane's high school to put together an endowment fund to help two students attend the school. These are students whose families could not afford the annual tuition fees of \$20,000. Bill made a donation of \$1,000,000 to the school to fund the Jane Black Bursary. Each year this bursary will pay out approximately \$40,000 to two deserving students. This assumes the fund can earn a 4.0% rate of return, which is a reasonable assumption in today's markets.

Summary

Through discussion between Cathy, Bill and Jane, plans were put into place to help fulfill the Blacks' dreams. Cathy also suggested that she would set up meetings with the Blacks' two daughters to help them better understand wealth management.

The \$1,000,000 donation to the school was made by donating bank shares that Bill had held in his personal account for years. The cost base of the bank shares was a fraction of their market value. Because the shares were donated to a recognized charity, no capital gain taxes were paid.

By providing creative and tax effective solutions, Cathy strengthened her relationship in her role as the family's financial advisor. She also has been given the opportunity to meet and work with the next generation.

It was a win-win for all parties.

Chapter 8: Achieving Significance

To give away money is an easy matter and in any man's power. But to decide to whom to give it, and how large, and when, and for what purpose and how, is neither in every man's power nor an easy matter.

Aristotle

The Webster's dictionary defines philanthropy as "love of mankind, especially as shown in services to general welfare." It comes from the Greek word *philanthrōpía*, meaning love for mankind.

After writing the chapters on the generational transfer of wealth and philanthropy, I came to realize the motivations behind both are the same. First of all they are motivated by love; the first one based on the love for our family and the second one based on the love for our community. Secondly, they are motivated on building long-term relationships; the first one based upon family relationships and the second one based upon community relationships.

In my opinion, the true fulfillment in life is to reach a point where we realize achieving significance goes beyond what we do. We achieve significance for our wealth by putting a solid structure in place which allows success to continue for many generations. There must be plans in place to make sure the gifts are properly managed. There must be plans in place to carry on our dreams and our values once we are gone. Plans like this don't happen by chance. They require vision, hard work, discipline, passion and patience.

When it comes to philanthropy, Peter Goldmark president of the Rockefeller Foundation puts it this way: "Philanthropy is the practice of applying assets of knowledge, passion and wealth to bring about constructive change."

When it comes to the generational transfer of wealth, Robert Livingston puts it this way: "The generational transfer of wealth is the practice of applying assets of knowledge, passion and wealth to allow the next generation to carry on our family's values."

We were passionate as we acquired our wealth. We are disciplined as we manage our wealth. Now it is time to be passionate and disciplined as we put the plans in place to give away our wealth.

I want to finish with the following:

"This is the true joy in life, being used for a purpose recognized by yourself as a mighty one. Being a force of nature, instead of a feverish, selfish little clod of ailments and grievances, complaining that the world will not devote itself to making you happy. I am of the opinion that my life belongs to the whole community and as long as I live, it is my privilege to do for it what I can. I want to be thoroughly used up when I die, for the harder I work, the more I live. I rejoice in life for its own sake. Life is no brief candle to me. It is a sort of splendid torch which I have got hold of for the moment and I want to make it burn as brightly as possible before handing it on to future generations."

George Bernard Shaw

About the Author



Bob Livingston is a senior vice-president with McLean Budden in Toronto involved in their private client wealth management practice, managing portfolios for individual investors. Bob has spent over 35 years on Bay Street, both on the sell-side and buy-side.

In his current role, Bob has made many presentations on wealth management. In early 2008, Bob became involved in presenting to high school graduates, university students and young business people. Bob's presentations focus on the importance of personal growth and draw upon Bob's experiences as well as material written by John Maxwell, Jim Rohn, Stephen Covey and others. These gentlemen are leaders in the field of personal growth.

In early 2009 Bob began to write papers on his presentations and to date has written about a dozen papers on wealth management and personal growth.

When asked why he does it, Bob's answer is simple. "It expands my comfort zone, it gives me a way of giving back to the community, and most importantly, I am having fun doing it."

Articles Written

Wealth Management

It Starts With a Decision

Taking control of one's finances is a decision, followed by a plan, implemented by discipline and nurtured by patience. And it takes time. It is that simple. Bob discusses wealth management at the 101 level. He concludes with the simple example of how giving up a café latte a day for 20 years can turn into \$55,000.

Acquiring Your Wealth to Fulfill Your Dreams

Acquiring your wealth starts with defining your dreams, followed by taking control of your personal situation and then creating plans to fulfill the dreams. The plans must be executed with discipline and nurtured with patience. Bob discusses some of the common mistakes and concludes with five recommendations.

Managing Your Wealth to Fulfill Your Dreams

Managing your wealth starts with defining your dreams, followed by taking control of your personal situation and then creating plans to fulfill the dreams. The plans must be executed with discipline and nurtured with patience. Bob discusses some of the common mistakes and concludes with five recommendations.

Giving Away Your Wealth to Fulfill Your Dreams

Giving away your wealth starts with defining your dreams. As we approach the end of our life, assuming there is a well financed retirement in place, the only two options for our wealth is to leave it to our family or the community we live in. Bob discusses the difference between success and significance regarding wealth management. Success is about how we acquire and manage our wealth. Significance is how we give it away. Planning plays an extremely important part in this process.

Personal Growth

13:22

Bob discusses the important role grandparents play in being a mentor for their grandchildren. He discusses the importance of preparing a personal mission statement or what he calls "a blueprint for life." Grandparents who are: "a little bit parent, a little bit teacher, and a little bit best friend" can be so helpful in these roles.

A Tale of Two Cities

Bob discusses the two different cities children can end up in: a city called *Responsibility* and a city called *Entitlement*. He discusses the important role parents play in which city their children choose. He provides some recommendations on how parents can better raise their children to become responsible adults and avoid becoming an entitled one. And when children ask for their first cell phone, take a look at chapter 6.

A New Day Has Come

Bob has come to realize the importance of preparing a personal mission statement. A personal mission statement discusses who you are: your core philosophies, your core values; your skills; your likes and dislikes; and what makes you unique. He outlines the necessary steps to put one together and shares his own.

The End of the Beginning

Bob discusses some of the changes he has seen take place in the education system over the last 35 years. Marks are still important, but in today's world, more than marks are required. He strongly believes personal growth has become a very important part of the process and most students have not been taught it. Unlike his generation, plans and better communication are needed to have success in today's environment.

Shift Happens

Bob discusses some of the changes he has seen take place in the education system in the last 35 years. He shares with the reader his experiences as a parent: what he did right, what he would do differently; as his children headed off to university. He concludes with some recommendations for parents to help their children in this next and very important phase in their life.

Discover Your Passion

Bob starts off with the premise that you want to find a job (if possible) that you are passionate about. He talks about the benefits, the roadblocks and the risks of finding that kind of job. He concludes with some recommendations on how to enhance your personal growth: establish your personal values and develop your personal skills. A must read for young adults.

The Times They Are A-Changin'

Bob discusses his 35 years on Bay Street: his career path, his experiences, and the lessons he learned. He discusses the changing environment in the job market: "the low hanging fruit is either gone or has been relocated." He concludes with some recommendations to help the reader get started.

Three Coins from the Fountain

Bob contemplates if he could go back 35 years and start his career all over again, what three core philosophies would he take back with him? He uses the analogy that there are coins of knowledge called Wisdom and Ignorance in the Trevi Foundation made famous in the 1954 movie *Three Coins in the Fountain*. What three coins of Wisdom would he select from the Fountain? What coin of Ignorance would he avoid? What has been Bob's biggest challenge in his career?

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