



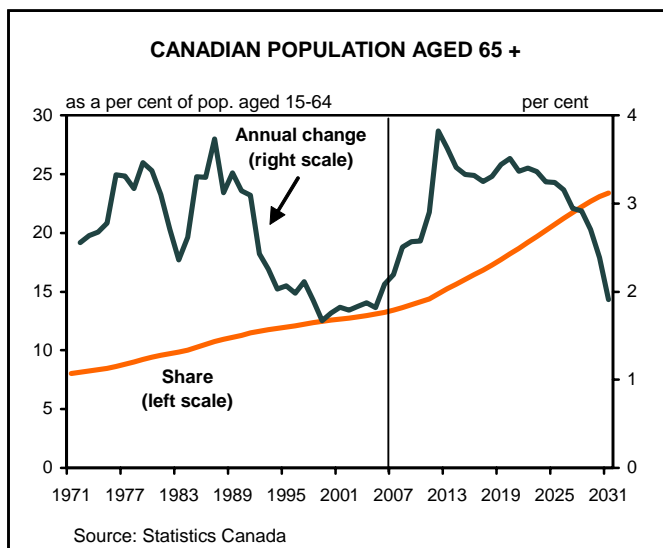
TD Economics

Special Report

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GREYING OF CANADA'S POPULATION HAS FAR REACHING IMPLICATIONS FOR CHARITIES

Shifting demographics and an aging population will have a powerful impact on the Canadian economy and society in the years ahead. Much has been written about the possible effects for stocks, real estate and pensions. Less attention has been given to the considerable and far reaching implications for charities. An aging population will affect the demand for various charitable services. It will also impact the availability and distribution of government funding to the charitable sector. Charities will need to respond to the increasing diversity in the Canadian population, as immigrants become greater users of charitable services and a rising share of donors and volunteers. The aging of the baby boomer generation may enhance the availability and the skill sets of volunteers. It is also likely to support the trend towards philanthropic capitalism, in which giving is increasingly treated as social investing with donors becoming more strategic and active



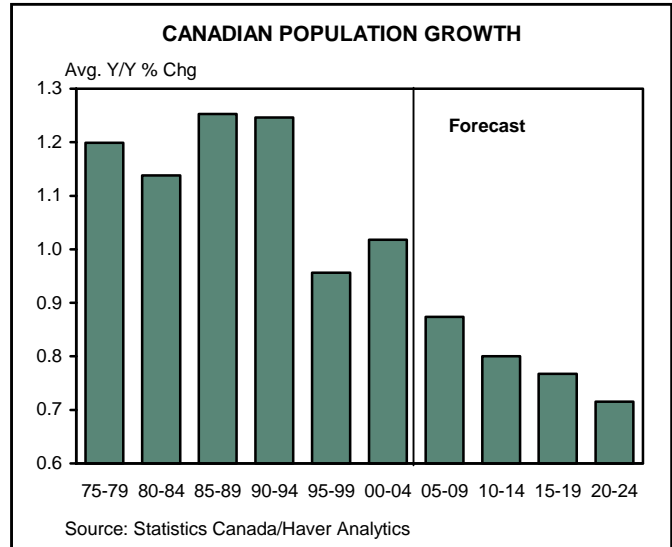
HIGHLIGHTS

- **Aging of Canada's population will deeply affect charities**
- **Demand for charitable services will increase, but nature of demands will change**
- **Government funding for non-profit sector may be shifted towards health care**
- **Charities in all areas will continue to face financial strains**
- **Retiring baby boomers provide a significant future pool of volunteers for charities**
- **Increasing diversity of Canadian population will create challenges and opportunities for charities**
- **Donations of stocks and other financial assets to increase**
- **Inheritances and estates to play a larger role in donations**
- **Philanthropy and donations through foundations becoming more fashionable**
- **Trend towards philanthropic capitalism, venture philanthropy and social entrepreneurs**

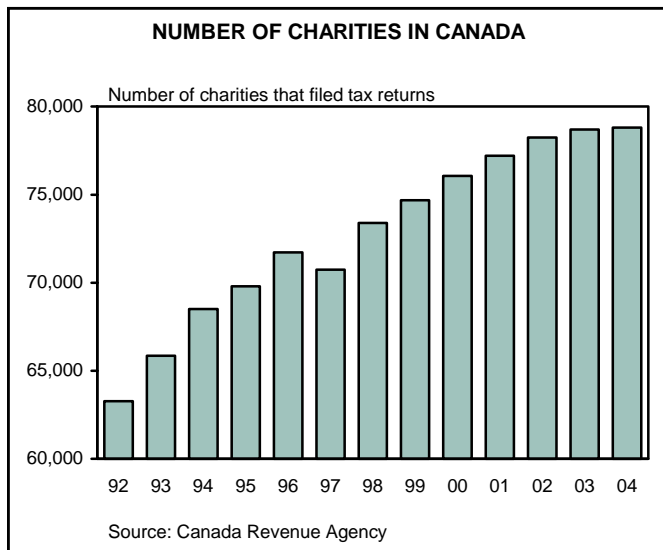
in their involvement with charities. There will likely be an impact on the nature of donations, with financial assets and gifts in kind becoming more important. Foundations are likely to become more popular vehicles for the distribution of charitable funding. Overall, the greying of Canada's population is expected to lead to tectonic changes in the charitable sector, creating both challenges and opportunities.

Charities a core part of the economy and society

Before getting into the impact of demographics, it is worth outlining the role and importance of charities in Canada. In 2004, there were 78,808 registered charities in Canada that filed tax returns (implying that they were active and were not just registered names). These entities were distributed across a wide range of activities, with many in key areas of social services – including health care, education, welfare and the environment. They were also well represented in sporting and cultural activities. As a rough estimate, charitable services might represent as much as 6% of the entire Canadian economy (for a more in depth discussion see TD Economics report “Canada’s Charities: Under Pressure” and “Canada’s Charities: Struggling to Make Ends Meet” available at www.td.com/economics).



The number of charities has been steadily climbing, posting an average annual increase of around 1,100 institutions over the past decade. There is a general perception, but it is hard to quantify, that the role of charities has also been expanding in tandem with their number. Looking ahead, the number and activity of charities is likely to continue to climb, but the economic, social and financial environment in which charities operate may see some dramatic changes, many of which will be tied directly or indirectly to demographics.



Canada’s aging population

The demographic pressures created from the aging of the baby boom generation are well known, so we will only hit a few highlights. The average age in Canada has climbed from 26 years in 1971 to around 39 years today and it is headed for 45 years by 2030. Even more dramatic, Canadians 65 years of age and older will reach almost a quarter of the total population in 2030, nearly double the 13% share today and the 8% share in the early 1970s. This aging will cut the pace of population growth virtually in half over the next two and a half decades.

How will the demographic changes impact charities?

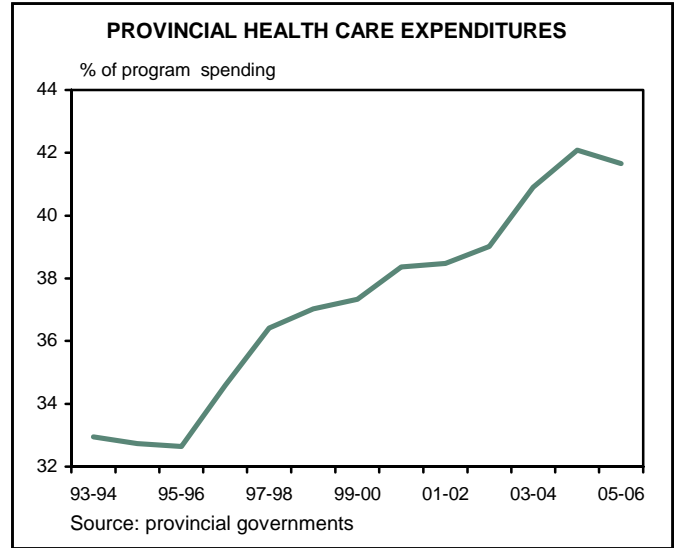
In 2004, Statistics Canada released the results of the National Survey of Non-profit and Voluntary Organizations, which showed that the top two concerns identified by charities were recruiting and retaining high-skilled volunteers and obtaining stable and long-run funding. The changing demographic landscape of Canada will shape the future of these issues.

NON-PROFIT ORGANIZATIONS, 2003		
	Number	Registered Charities (%)
Sports & Recreation	33,649	27
Religion	30,679	94
Social Services	19,099	72
Grant-making & fundraising	15,935	79
Arts & culture	13,770	54
Development & housing	12,255	23
Business, associations & unions	8,483	7
Education & research	8,284	55
Health	5,324	79
Environment	4,424	41
Law, advocacy & politics	3,628	35
Other	3,393	32
International	1,022	75
Hospitals	779	87
Universities & colleges	502	71

Source: Statistics Canada

Funding challenges will persist

One of the most obvious implications from an aging population is a future dramatic increase in demand for health care services. From an age profile point of view, health-related expenditures balloon late in life and this is bound to put strains on the health care system and on social services targeted at older Canadians in general. There is no doubt that this will lead to additional government funding for charities in the health sector. The trend is already evident. The majority of hospitals and other health-related facilities are established as charities and the provincial government outlays on health care have jumped from one-third of total program spending in the early 1990s to more than 40% today, with the ratio likely to continue to rise. Indeed, growth in government spending on health-

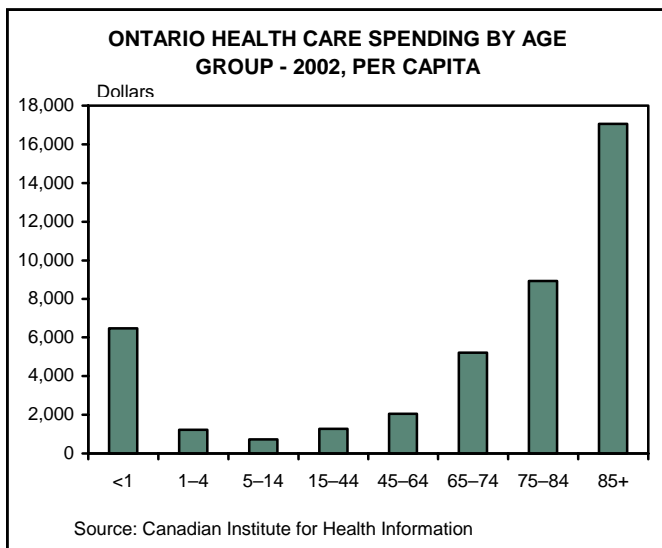
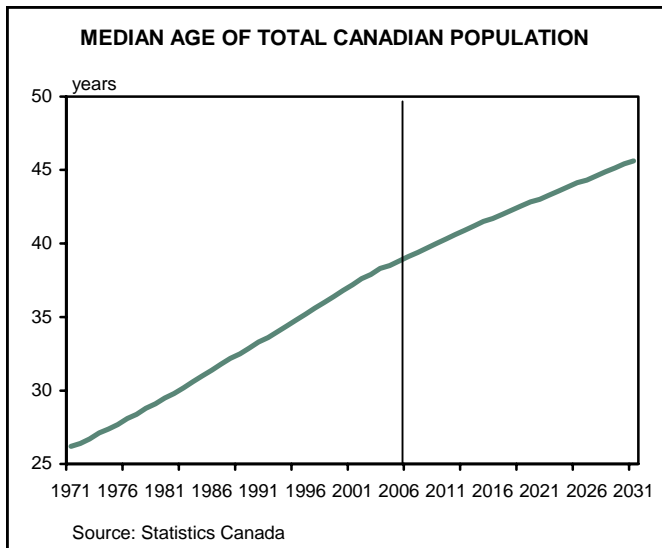


	2000	2010	2020	2030	2040
Total Benefits	8.9	11.2	15.5	20.2	22.9
Public Pensions	4.9	6.0	8.0	10.5	11.7
Health Benefits	3.3	4.3	5.9	7.6	9.2
Other Benefits	1.1	1.3	1.5	1.8	2.0

Source: Watson Wyatt Worldwide, The 2003 Ageing Vulnerability Index, TD Economics

related programs could rise 6 to 9% annually over the next couple of decades. Spending on health is estimated to have been 10.4% of the total economy in 2005, but this could reach close to 19% in 2030. Additional government funding will be crucial to helping maintain Canada's health system, but even with this cash infusion many charities within health care areas are likely to find that it is extremely difficult to meet the demand for their services with the available funding. The need for additional private and corporate donations will intensify.

Not-for-profit institutions outside of health care will also be deeply affected. There is a general misperception that charities are generally financed by donations. In fact, the charitable sector receives close to 54% of its funding through government payments, grants and contributions. However, there is a finite pool of government money. If health care is receiving a greater share of public funds, there will be less for other charities. Canadians also usually rank health care as their number one social priority, suggesting that charities outside of health care will have to campaign hard to attract and maintain non-government funding.



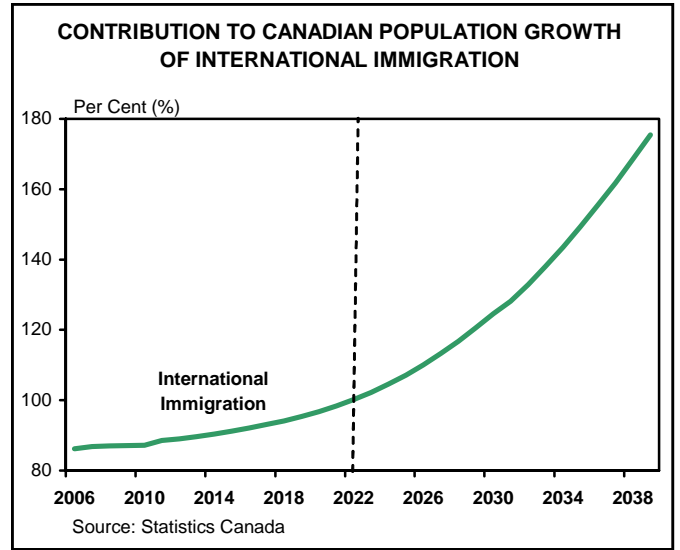
Retiring boomers could create a large pool of volunteers

In contrast to financing, there is good news on the volunteer front. Boomers are living longer and healthier lives. There is a real possibility that many of the retiring boomers could become more involved in charitable activities. Not only is there a perception that volunteering is good for the soul, but it keeps individuals active and engaged with like-minded people. Furthermore, the baby boomers have been a generation with rising labour market participation, as evidenced by the increase in dual income households, and they have dominated the management level of corporations for many years – both of which suggests that boomers will bring many professional skills to their volunteering activities.

Diversity will become a greater issue

Another major impact of the aging population will be the increasing reliance on immigration for population growth. It is estimated that immigration will account for all of Canada’s population growth from 2022 and beyond. This growing diversity of the population is changing the social and cultural landscape of Canada.

This will have profound implications for charities. First, immigrants will become a greater share of the users of charitable services. Not only will immigrants be a larger part of the population, but it is important to recognize that



many may not be able to access Canada’s social security benefits, at least initially. For example, it takes time to be eligible for employment insurance and older newly arriving immigrants may not have sufficient time in the labour market to be entitled to items like the Canadian Pension Plan. This means that demand for charitable services from the immigrant communities will rise and charities may play a crucial role in helping some immigrants make the transition to their new lives in Canada. In order to adjust to this reality, charities will need to deal with language barriers and cultural issues.

Second, newly arrived immigrants usually reside in major urban centres like Toronto and Vancouver, which could put pressure on charities in these jurisdictions.

Third, as immigrants make up a bigger portion of the population, they will also comprise a larger share of the pool of individuals available to volunteer. Charities may need to market themselves more to immigrants to meet their staffing needs, which could also help alleviate some of the language and cultural issues mentioned above. This also implies that heightened recognition of skills and education obtained abroad will be necessary.

Fourth, immigrants will also make up a growing share of donors, although it may take time for new arrivals to amass funds from which charities can try to attract significant donations.

Finally, the increasing demand for charitable services and the larger donor activity by immigrants may spark the creation of new charities aligned to support specific cultural social priorities as a targeted way of addressing the impact of growing diversity.

REGISTERED CHARITIES, 2003	
By Revenue Source	
	Per cent
Revenues from government	
Payments for goods & services	18.5
Grants & contributions	35.6
Total revenues from government	54.0
Income from non-governmental sources	
Charitable gaming	1.1
Membership fees	2.9
Fees for goods or services	16.3
Investment income (including interest)	4.5
Total income from non-governmental sources	24.7
Gifts & donations	
Individual donations	11.2
Fundraising organizations	1.5
Other non-profit organizations	2.3
Corporate sponsorships & donations	3.1
Total gifts & donations	18.1
Total other income	3.2

Source: Statistics Canada

Relationship between donors and charities is changing

The aging of the baby boomer generation is also having an impact on their relationship with charities. This cohort is so large that it has affected product and service markets throughout its lifecycle. When boomers first entered the work force they depressed wages. When they had children, it created dramatic changes in education and daycare services. In recent years they have been in the financial accumulation stage of their lifecycle, amassing funds for retirement, which has shaped the nature and delivery of financial services. Now the first boomers are entering retirement. This more mature and financially secure generation will have a different relationship with charities in terms of their donations and their interaction. Let's discuss each in turn.

Donations of stock and other financial assets to increase

Boomers will receive a large wealth transfer from their parents, who were considerable savers. It is difficult to get an accurate number for the size of the inheritances, but a rough estimate is that a wealth transfer of almost \$10 trillion dollars could occur in the U.S. over the next few decades. A comparable Canadian estimate would likely be in the range of \$800 billion to \$1 trillion. If this occurs, there is a real possibility that charities can benefit from additional donations from estates or from inheritance recipients.

Baby boomers are also huge holders of financial assets in their own right. The proliferation and explosive growth in mutual funds and direct holding of stocks are good il-

lustrations. Along with the inheritances noted above, the holdings of financial assets make it very likely that donations of stocks and other financial products will become an increasingly important source of charity financing in the coming years. Recent tax changes will encourage the trend. In the May 2006 federal budget, the government announced that donations of publicly-listed securities to public charities would be exempt from capital gains taxation, but would still be entitled to the tax credit for the charitable giving.

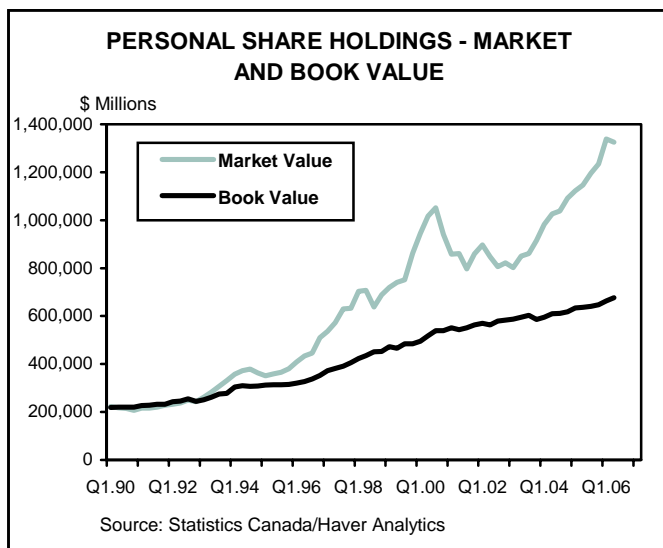
For investors that have seen their portfolios appreciate considerably, this is a huge incentive to give. Not only is it a boon to the charities, but it also minimizes the tax hit that occurs when liquidating the portfolio. If the capital gains are sufficiently large, it is even possible for the tax credit to exceed the book value of the investment, meaning that the individual runs a profit on their donation (for more details see TD Economics report "Good News for Donors to Charities"). Moreover, the growth in financial assets is likely to promote donations of stocks and other financial instruments instead of cash.

To provide an example of just how much of an impact this could make to charities, consider that the total value of shares held by Canadians is roughly \$1.3 trillion dollars, of which almost half is capital gains. The monetary possibilities cannot be understated, but it also means that charities need to develop policies and strong practices regarding how they deal with donations of equities and other gifts in kind.

A new golden age of philanthropy?

Philanthropy has become more fashionable in recent years and an aging population with significant holdings of financial assets could maintain the trend. At the moment, the popularity of philanthropy has been most prevalent amongst the ultra-rich, which has been facilitated by the growing number of billionaires. According to Forbes magazine, the number of billionaires worldwide has shot up from 140 to 793 over the past twenty years. Even if a small portion of these individuals give more, the impact on charities will be substantial. And, the more attention that philanthropy receives, the more likely that the movement towards increased generosity will filter down the entire income range so that giving is something that is simply expected from those who can afford to do so.

However, there is a more fundamental change underway



in the relationship that donors have with charities. This can be seen in the increasing trend toward philanthropic capitalism, venture philanthropy and the rise of social entrepreneurs. These terms are really jargon for a more active style of charitable giving that is likely to create pressure for more professional and business-like conduct from the charitable sector.

Today's ultra-rich donors want to ensure that the maximum amount of funds is reaching the recipients of charitable services and the minimum goes to paying for administrative and other overhead costs of charities. They also realize that despite their enormous wealth, their financial capacity is dwarfed by that of governments, which leads them to adopt a targeted approach to giving. The result has been increased pressure on charities to become more transparent, to adopt more business like accounting standards and governance requirements, to minimize costs and to accept more program-specific funding. In order to facilitate achieving their objectives, philanthropists have also increasingly turned to the use of foundations to intermediate and monitor the transfer of funds. A recent Economist magazine article noted that the number of foundations has ballooned from 22,000 in the early 1980s to over 65,000 today.

In our opinion, these trends are likely to persist and, perhaps, even intensify. More and more attention is being given to the idea of treating donations like any other financial investment (see TD Economics report "An Investor Approach to Charitable Giving"). Instead of maximizing the return on investment, the goal is to maximize the social return – i.e. the benefit given to receivers of charitable services. And, while the ultra rich may continue to be the main driver, the demand for change may be increasingly felt from all donors.

The key will be to find a balance. After all, the fixed, or overhead, costs of charities must still be paid. Moreover, it would be detrimental if the oversight of charitable activities becomes an excessive burden that gets in the way of delivering the services. Nevertheless, charities will

need to rise to the challenge and this could have far reaching consequences. For example, in order to minimize costs, it is possible that some consolidation will take place across charities that have overlapping activities. It could also lead to more strategic partnerships between charities, such as sharing back office and overhead costs. There could also be increased use of new technologies for the delivery of services and a significant change in administrative activities. These are the sort of changes that corporations go through with every business cycle. Businesses will often go through a time of restructuring to improve shareholder value and trim down any excesses that have developed. Charities will have to do the same, but for the purposes of remaining attractive to donors. The good news is that many of the retiring baby boomers that can be tapped as a pool of volunteers have the skills that can help charities become more efficient and productive in order to meet the new demands of donors.

Charities will rise to the challenge and be stronger for it

In conclusion, the greying of Canada's population will create additional demands and strains on the charitable sector, but there is every reason to believe that charities will rise to the challenge. There will be a strong need and competition amongst charities for private donations from both individuals and corporations. However, the current large scale wealth transfer, the scope for additional donations of financial assets and the increasing popularity of philanthropic giving could also help limit the financial pressures. The trend towards more activist giving may also create pressure on charities to change some of their practices, but this may prove a positive development if it makes charities more efficient. Overall, and despite all of the trials and tribulations ahead, the outcome is likely to be a stronger charitable sector that will remain a key part of Canada's economy and society.

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