Advisors and Clients in the Brave New World of Philanthropy

by Jim Grote, CFP®

How can you tell if your clients are charitably inclined? Is it your business to ask them? If they are charitably inclined, how do you help them?

Like it or not, more and more donors are looking to their financial planners rather than to their favorite charities for advice on making serious gifts. According to a study of donors by the National Committee on Planned Giving (*Journal of Gift Planning* Vol. 5, No. 1, 2001), "When donors were asked to identify the origin of the idea for their planned gift, we found that financial and legal advisors provided the impetus in 29 percent of the cases for charitable bequests and 68 percent for charitable remainder trusts, both up roughly five times the comparable 1992 results."

The groundswell of giving in this country has fueled the demand for such advice. And the increasingly high-profile nature of philanthropy (from Warren Buffett and Bill Gates to Angelina Jolie and Oprah Winfrey) may be increasing the supply of donors through a kind of trickle-down generosity. Both the mega-wealthy and merely wealthy compete for inclusion on lists like the *Slate* 60 of America's most generous donors (see www.slate.com). According to an October 2006 report of 900 affluent Americans by PhilanthropyNow and the Luxury Institute, a new cadre of donors wishes to "brand their family name as a living icon of generosity" (www.philanthropynow.com).

Ray Ferrara, CFP®, president and CEO of ProVise Management Group LLC in Clearwater, Florida, acknowledges the booming business in philanthropy but questions any celebrity influence. "Baby boomers may be called the *me* generation, but they are amazingly philanthropic and community oriented. I think of the boomers as the philanthropic generation and most of them are quiet givers, not wanting to see their names on a building."

Competitive celebrities aside, with 1.4 million 501(c)3 charities competing for access to your clients' pocketbooks, clients need help clarifying their roles as donors and advisors need guidance clarifying their roles as fiduciaries of client assets. The *Journal of Financial Planning* interviewed a number of financial planners and philanthropic consultants in order to shed light on the motivation of charitable clients, the responsibility of financial planners, and the interaction of the two in this brave new world of philanthropy.

Mega-donors and quiet donors alike are asking financial planners the following questions:

- Should I give large gifts now or wait and give them by bequest?
- If I give substantially, will there be enough funds for my children?
- If I leave too much to my children, will I stifle their initiative and work ethic?
- How do I best model giving to my children?
- Which charitable vehicles are most tax wise?
- Do I need to establish a foundation?
- How do I know which charities are most deserving?

Stuck between their clients and 1.4 million nonprofits, financial advisors have legitimate questions of their own. Charles Maclean, donor advocate and founder of PhilanthropyNow, has enumerated these concerns in an illuminating article, "Engaging Financial Advisors," first published in *Philanthropy World Magazine* and available at www.philanthropynow.com/pn/engaging_financial_advisors.htm.

- Is it professional and ethical to raise the personal charitable giving question with clients?
- Will I alienate and risk losing my client by raising the giving question if they do not want to give?
- Will I alienate spouses or children by discussing giving values?
- Will I lose commissions or fees by encouraging clients to give away their money? How will I be compensated for this charitable intent conversation?
- How do I conduct due diligence on a nonprofit at the client's request and best advise my client?
- If I am not a generous donor myself, how can I ask my clients to give?
- As a financial gatekeeper, shouldn't I be protecting my clients from aggressive fundraisers who may be putting their interests ahead of my clients' best interests?
- How do I keep up with the ever-changing tax rules on private foundations, supporting organizations, donor advised funds, and so on?

Popping the Question

With the nervousness some advisors feel over bringing up the philanthropy question with clients, one might think they were proposing marriage. Debate rages over the best approach to "popping the question." Ken Strmiska, managing director of Community Foundation Services for the Council on Foundations in Washington D.C., thinks the indirect approach is best.

In his experience, there are three types of financial advisors. The first type refuses to bring up charitable planning for fear of losing control of client assets, or worse, for fear of creating ill will among the next generation (You gave away my parents' money!"). Says Strmiska, "Community Foundation directors spend a fair amount of their time convincing advisors that charitable planning is a way to expand their product line, not diminish it."

The second type of advisor focuses on the technical aspects of charitable planning and offers clients a smorgasbord of charitable giving options with attendant acronyms and flowcharts. Strmiska believes these complex options generally paralyze clients. "It's like showing your clients a list of a hundred mutual funds and asking them which one they like best!"

The third type (less than 15 percent of all advisors, according to Strmiska) walks their clients through an ordered process that uncovers client values and only afterward analyzes the best techniques to implement those values. Strmiska counsels advisors never to begin the conversation with the line, "Do you want to do some charitable giving?"

Even worse is to say to your clients, "I can put you in this fancy charitable vehicle that will save you in taxes." The earlier cited study by the National Committee on Planned Giving shows tax savings to be a less important charitable motivation. When asked about their motives for making charitable bequests, 97 percent of the respondents listed the desire to support charity, while only 35 percent listed the desire to reduce taxes.

The best approach is to ask, "If you could do something to make a difference in our community for $100,000 (or $500,000 or another number, depending on the client), what would you do?" As the client begins to answer that question, the advisor can help the client identify the right charity and the right financial vehicle as part of that process.

Kathy Longo, CFP®, a principal with Accredited Investors, a comprehensive financial planning firm in Minneapolis, Minnesota, approaches philanthropy as part of her annual review process. Alternately, she looks for other opportune times such as liquidity events (for example, the sale of a business) or estate planning to bring up the subject. After showing clients how much money will pass to their children through their estate plan, she asks the clients if that amount of money is appropriate. More often than not they respond, "That's too much!"

Says Longo, "Most parents have tremendous concern that too much wealth will stifle their children's initiative to make something of themselves. Often they see estate gifts as a final way to teach their children self-reliance and generosity."

Longo also eases any client concerns about balancing financial security with charitable giving by establishing realistic benchmarks with clients, benchmarks such as planned gifts of 1 percent of their portfolio or 5Ð10 percent of their annual income. Over time, many of her clients become more comfortable with their philanthropy and gradually increase those percentages, some to as much as 50 percent of their annual income.

Uncovering Charitable Intent

Ferrara has no problem broaching the subject with his clients because he is an active philanthropist himself. In fact, all the principals of the ProVise team are personally philanthropic and serve on numerous local nonprofit boards. In addition, the firm manages over $90 million for nonprofits. According to Ferrara, "Most planners would probably be surprised at the extent of their clients' philanthropic intent if they looked into this issue."

Ferrara's firm delves directly into the charitable question as part of its comprehensive financial planning. "During our discovery process we ask our clients about their charitable intent. What have you been doing? Do you tithe at your place of worship? If you're giving cash to your church once a week, do you know that it might be more tax efficient to give highly appreciated securities once a year?"

He doesn't mind this simple approach because as he observes, "Financial planning is not about hitting home runs, but hitting singles consistently. I've been a fundraiser for a lot of charities and I take the modest donations seriously. You never know which donated dollar will be the one that finds the cure for cancer."

But like Strmiska, Barbara Culver, CFP®, CLU, ChFC, AEP, president of Resonate Inc. in Cincinnati, Ohio, and editor of the *Journal of Practical Estate Planning*, takes a more indirect approach to charitable planning. In fact, she takes a more indirect approach to financial planning in general. She initiates the financial planning process with an extensive legacy planning process. "We don't try to motivate anyone. We try to clarify our clients' values and build their plans around those values."

She sends to new clients a 48-page questionnaire two weeks before their first engagement, be it a meeting or a retreat. The topics for these meetings come from the questionnaire:

- How was money used in your family?

- What were the money patterns?
- How was it spent?
- How was it saved?
- What were the "money messages" you received in your family?
- What are you most proud of in your life?
- What are you most concerned about for your children?
- List your five most important values.
- List your five least important values.

As part of this process Culver works with the family to craft a family mission statement, expressing their values (values like a relationship with God, family continuity, stewardship of resources, and education).

Next, Culver examines the family's living legacies like their lifestyle and annual giving patterns, as well as the family's leaving legacies like their estate plan and family treasure chest. (The family treasure chest includes all types of family heirlooms such as family china, photo albums, children's diaries, as well as collections of family stories.) Are their legacies aligned with their mission statement? At this point, families often beef up their living legacies through outright gifts, donor-advised funds, or private foundations, as well as their leaving legacies through bequests or testamentary trusts.

Culver's connection of charitable giving and legacy planning is no accident. She bases her approach on research into family business failure rates (collected in Appendix B of Roy Williams and Vic Preisser's *Philanthropy, Heirs and Values: How Successful Families Are Using Philanthropy to Prepare Their Heirs for Post-Transition Responsibilities*). According to Williams and Preisser, "Families need to comprehend the stunningly high failure rate that follows the transition of wealth to heirs. This is a worldwide phenomenon that hovers around the 70 percent level."

This research also reveals that family philanthropy is one of the main factors for success among the 30 percent of family businesses that do not experience a meltdown. According to Culver, "Philanthropy is one of the major ties that bind families together both emotionally and financially over generations by the preservation of their family values. Philanthropy helps prepare the next generation to be successful heirs by instilling family values and at the same time teaching financial stewardship." Her approach is so successful that she now trains other financial professionals in her process of client-centered legacy planning.

The experience of attorney Robert Sharpe, Jr., confirms Culver's approach. One of the most well-known financial consultants for nonprofit organizations in the country, the Sharpe Group in Memphis, Tennessee, engages nonprofits in comprehensive financial planning, or, as he says, "in the tricky areas where finance, development, and legal issues overlap."

As Sharpe observes, "Over the years I've seen a lot of families destroyed by generations who inherit too much too soon. Most of the people I know who have inherited wealth and are healthy individuals were stewarded by philanthropic parents. Personally, I like John D. Rockefeller's advice to his children to give 10 percent of their income to charity, save 10 percent, and have fun spending the rest."

Losing Compensation

While charitable giving may be the cement that keeps wealthy families together, financial planners have an obligation to keep their own families together. How do they get reimbursed for all this charitable activity? And how can planners keep charities from harassing their clients for donations? Ken Strmiska has good news.

He comments, "Community foundations do not want to interrupt the client-planner relationship. They want to build on it. For this reason, community foundations are going out of their way to develop programs so that planners do not lose their clients' charitable assets. Increasingly, planners can continue to manage assets and collect management fees on assets that are donated to community foundations but not yet allocated to causes. Also, the American Funds has programs that ensure that clients' gifts to community foundations do not interrupt the planner-client relationship."

Strmiska adds, "Since it is the planners who have helped their clients create wealth, they are the people who naturally have the highest trust relationship with their clients. Nonprofit development officers who try to bypass the planner are only making life more difficult for themselves. If the development officer develops a working relationship with the planner, they will cultivate many more donors over time. At the same time, planners need to be more open to the nonprofit community, particularly in seeking expert advice about the intricacies of charitable planning."

Ferrara's approach to the fee issue is that it is a non-issue. "When our clients give to charity we don't worry about losing assets under management. That's the last thing on my mind. If you want to protect your turf, then you're not serving the best interests of the client or the community."

Some planners even argue that charitable planning can actually increase assets under management. According to

Charles Haines, CFP®, of Charles D. Haines, LLC, in Birmingham, Alabama, "There is no surer path to establishing a solid relationship with your clients' children than to work with your clients on creating a tradition of family philanthropy. The clients gain an intergenerational bond within the family and the planner gains the trust of a new generation of clients. Planners sometimes fail to recognize that the longevity of their client relationships is like a long-term annuity stream that actually increases the financial value of their practice."

Finding Resources

But even for planners enthusiastic about charitable planning, mastering the mechanics of this market niche can be a daunting challenge. First there is the extensive process, such as Culver's efforts to help clients realize their deepest values. Then there is the issue of which of the 1.4 million charities clients should donate to. And finally there are the charitable vehicles themselves that are subject to the shifting tax rules, such as private foundations, supporting organizations, and donor-advised funds, not to mention CLATs, CLUTs, CRATs, CRUTS, and NIMCRUTs.

Melissa Berman, Ph.D., is the president and CEO of Rockefeller Philanthropy Advisors in New York City, the largest nonprofit philanthropy advisory firm in the country. She echoes Haines's conviction: "Our experience is that families that work with advisors on philanthropy end up with much deeper relationships with those advisors. Philanthropy helps advisors build the relationship with the next generation. It is simply a matter of enlightened self-interest."

But she encounters planners reluctant to start the conversation because of the steep learning curve facing them. Her advice? "No planner should be embarrassed that they don't have all the answers. There are so many resources available that they don't *need* to have all the answers. There are several simple ways for planners to learn about philanthropy." Resources include

- Reading *Philanthropy News Digest* published by the Foundation Center (see (http://foundationcenter.org)
- Surfing for the basic philanthropy Web sites that can assist your clients (see sidebar for a list)
- Seeking out local grant-making groups that can assist clients who have established private foundations
- Meeting with professionals at your local community foundation
- Engaging the services of firms providing custom philanthropic counsel for donors or advisors, such as the Council on Foundations (www.cof.org), Geneva Global (www.genevaglobal.com), the National Center for Family Philanthropy (www.ncfp.org), Philanthropy Coach (www.myphilanthropycoach.com) or the Rockefeller Philanthropy Advisors (www.rockpa.org)

Rockefeller Philanthropic Advisors follows a charitable planning process remarkably similar to the financial planning process. The first step helps clients establish their *goals*. Do they want to make a difference in the local community? Do they want personal hands-on engagement in the field they choose? The second step entails philanthropic *asset allocation*. What percent goes to alleviating poverty? What percent to education? What percent to health care? The final step addresses the question of *strategy*. Do clients want to give to research? Are they more interested in policy issues? Grassroots efforts? Local giving? International giving? In each step of the process, the staff at Rockefeller engages clients in a risk/return analysis on their philanthropic investments.

Choosing Vehicles

Choosing the right charitable vehicle can be tricky. Ray Ferrara recommends letting clients stick their toes in the water before jumping in. "When it comes to making lifetime gifts, we encourage clients to start with, for example, a modest $100,000 charitable remainder trust and then add more money in the future as they become comfortable with the vehicle. When it comes to estate gifts, we always advise clients to make bequests from their IRA. Otherwise the client pays estate tax on the IRA assets and their heirs pay income taxes on the IRA inheritance. IRA assets are the worst assets to pass on to your heirs. Better to donate IRA assets to charity and bequeath other assets to the kids."

Ken Strmiska cautions advisors against encouraging clients to establish private foundations in order to keep control of the client assets. "In my experience, private foundations are not worth the headaches unless a donor wants to drop $4 or $5 million into one. Donor-advised funds at a community foundation are much easier to control and the advisor does not need to lose control of the assets."

Ferrara looks at the foundation question differently. "Some of our clients establish private foundations for less than $1 million before deciding to commit heftier sums. They are always free to outsource their headaches to firms like Foundation Source that provide back-office support services like grants management, compliance monitoring, federal and state filings, and so on."

While many advisors remain fond of charitable remainder trusts, Internal Revenue Service statistics reveal there has been little growth in this method of giving over the past five years. Robert Sharpe points out that the fastest growing charitable trusts today are the charitable lead trusts (see "Tax Stats" at www.irs.gov). Unlike the charitable remainder trust, which provides annual income to the donor or selected beneficiaries and the remainder to charity, the lead trust provides annual income to charity and the remainder returns to the donor or chosen beneficiaries.

According to Sharpe, "Charitable lead trusts are like a long-term pledge to a charity. They can be excellent alternatives to private foundations for two reasons. One, they are temporary. Donors can make a significant difference to charity without committing themselves in perpetuity. Two, they function as a temporary disinheritance of children. I've worked with more than one donor who has decided to let their children work till age 40 before they receive their inheritance through a charitable lead trust." Sharpe notes, however, that charitable remainder trusts may begin to have new appeal with renewed growth in the investment markets, higher real estate values, and the aging of the baby boomer generation.

Quarterbacking the Process

The challenge of finding the right vehicle pales, however, before the challenge of finding the right advisor. Says Sharpe, "The best financial planners I know are the ones open to charitable planning. This openness proves that they are looking out for the best interests of their client."

The primary challenge for the planner is to coordinate the myriad other advisors including attorneys, accountants, insurance agents, trust officers, money managers, and planned giving officers, all of whom are promoting their interests. Says Sharpe, "Insurance professionals naturally want to structure gifts that use insurance, like the wealth replacement trusts alongside a charitable remainder trust. Trust officers like to structure charitable remainder trusts that last for a long time, while planned giving officers encourage trusts with a shorter lifespan. General practitioner attorneys tend to think of charitable planning from the testamentary standpoint and are sometimes reluctant to get into, for example, lifetime charitable lead trusts because of the cost of their own learning curve. Of all the advisors, accountants and fee-for-service financial planners tend to be the most neutral because they are only selling their time, not managing money or contemplating future fees."

Sharpe continues, "I try to look at charitable gifts through the lens of all these advisors. Many advisors love private foundations because they promise perpetual legal fees, perpetual accounting fees, perpetual fiduciary fees, and perpetual money management fees. What financial planners need to remember is that many charitable deals crash and burn because one or more of the advisors in the process does not understand or for some reason does not like the idea."

It is ironic that charitable giving can become such a minefield. Despite the conflicts of interest inherent in this altruistic field, Kathy Longo keeps her eye on the results of the intricate charitable planning process. "One of my clients was not interested in charitable giving because she was worried that she did not have enough money for such largesse. She and I put together a comprehensive financial plan that not only convinced her that she didn't need to work full time, but that she had plenty left over to establish a donor-advised fund at our local community foundation. Moreover, she plans to work part time for a nonprofit organization!"

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Sidebar

Basic Philanthropy Web Sites

The following list of Web sites is provided courtesy of Rockefeller Philanthropy Advisors at www.rockpa.org. Click on "Donor Resources." These organizations offer more information on nonprofit organizations, philanthropy, and foundations.

The Better Business Bureau Wise Giving Alliance—The BBB Wise Giving Alliance is a charity watchdog organization that was formed through the merger of the National Charities Information Bureau and the Council of Better Business Bureaus' Foundation. The BBB Wise Giving Alliance helps donors make informed giving decisions and advances high standards of conduct among organizations that solicit contributions from the public. The Alliance produces in-depth evaluative reports on national charities based on comprehensive Standards for Charity Accountability and publishes a quarterly magazine, the *Better Business Bureau Wise Giving Guide*.

The Chronicle of Philanthropy*—The Chronicle of Philanthropy* is the newspaper of the nonprofit world.

The Foundation Center—The Foundation Center's mission is to strengthen the nonprofit sector by advancing knowledge about U.S. philanthropy. Its Web site offers many resources for both grant makers and grant seekers.

GrantCraft—A project of the Ford Foundation, this Web site offers grant makers tools, tips, and techniques for effective grant making. GrantCraft offers guides, videos, and case studies that present the practitioner's view of philanthropy.

GuideStar—GuideStar was created in order to connect people and organizations with valuable information to improve the world around them. GuideStar is the leader in providing comprehensive data on more than 1.5 million nonprofit organizations, connecting them with donors, foundations, businesses, and governing agencies in a nationwide community of giving. GuideStar's searchable database provides information that can be used to verify nonprofit status of organizations, to obtain their contact information, and to review their IRS Forms 990.

The Independent Sector—Independent Sector is the leadership forum for charities, foundations, and corporate giving programs committed to advancing the common good in America and around the world.

National Center for Family Philanthropy—The mission of the National Center for Family Philanthropy (NCFP) is to promote philanthropic values, vision, and excellence across generations of donors and donor families. NCFP's Web site offers many resources to assist families engaged in philanthropy.

Membership Organizations: The Association of Small Foundations—The Association of Small Foundations (ASF) is a membership organization founded to support the 60,000 U.S.-based smaller foundations, which are led entirely by volunteer boards or operated by just a few staff. ASF's site offers information and publications for the boards and staff of small foundations.

The Council on Foundations—The Council on Foundations (COF) is a membership organization of more than 2,000 grant-making foundations and giving programs worldwide. COF provides leadership expertise, legal services, and networking opportunities to members and to the general public.

The Forum of Regional Associations of Grantmakers—The Forum of Regional Associations of Grantmakers is a national network of local leaders and organizations across the United States that support effective charitable giving. The Forum's network focuses on the philanthropy of the city, state, and multi-state areas of the U.S. and encompasses 31 regional associations of grant makers.

Grantmakers for Effective Organizations—Grantmakers for Effective Organizations (GEO) is a coalition of grant makers committed to building strong and effective nonprofit organizations. GEO's Web site offers a wealth of information on effective philanthropy, evaluation, and capacity building.

The Grants Managers Network—The Grants Managers Network is an affinity group of the Council on Foundations, providing a forum to exchange information about grants management and its relevance to efficient and effective grant making.

Women & Philanthropy—Women & Philanthropy is a network and a voice for positive change in the field of philanthropy. Women & Philanthropy's research, events, services, and network of members have helped increase both the amount of philanthropic dollars awarded to women and girls and the number of women working at all levels in the field of philanthropy.