

How to Talk to Your Clients About Their Philanthropy

According to *Giving USA 2012: The Annual Report on Philanthropy*, 80% of households in the U.S. give to charity every year. High-net-worth individuals give at even higher levels. According to a 2012 Bank of America study, 95% of households with a net worth in excess of \$1 million give to charity annually as do 98% of families with a net worth in excess of \$5 million.

With so many of their clients engaged in philanthropy, you would think that the majority of financial advisors would be engaged in conversations about the place of giving—both outright and planned—in their clients' wealth management strategies. You would be wrong.

A surprising number of advisors are reluctant to engage their clients in conversations about their philanthropy, even though many studies show that most clients would actually welcome the advice in this area. According to a survey by the Luxury Institute, "twenty-eight percent of wealthy individuals want to discuss philanthropy. Another 25% would like their advisor to assist in crafting a giving plan." Advisors routinely underestimate their clients' interest in receiving specific information about the advantages of charitable vehicles, such as private foundations. According to *Financial Advisor Magazine*, "Sixty-seven percent of affluent investors are interested in learning about private foundations. Only 14.5% of financial advisors believe this to be the case." Moreover, if you are able to speak confidently and knowledgeably about their philanthropic options, your clients are more likely to view you as a broad financial expert.

Beyond providing better service for your high-net-worth client, a discussion about philanthropy provides an opportunity for you to connect with the client's core aspirations and values, and over time, with the client's family (and heirs). Increasingly, wealthy Americans articulate concern about the impact of significant wealth on future generations, worrying that a significant financial legacy will undermine personal responsibility, work ethic, financial motivation, and constructive engagement in the community. For many families of means, philanthropy is a critical bulwark against the corrosive effects of privilege. It plays an important role in the education of younger family members to be stewards of their family's wealth. Statistics indicate that you ignore these opportunities at your peril. As reported in *Barron's*, "One study for *Trusts & Estates* magazine found that a full 92% of heirs switch advisors after getting their inheritance." Forging a strong, meaningful relationship with your client's family now can mitigate that relationship risk, positioning you as not just the parents' advisor, but as the advisor to the entire family.

What to Ask

Even if you know that your clients want to discuss their philanthropy, you might feel awkward initiating a conversation on such a "personal" matter. Open-ended questions like these can "get the ball rolling" and help you understand your client's priorities and concerns:

- Are you currently making gifts to any charitable organizations? Which ones?
How much?
- What are your philanthropic goals? Do you have current outstanding charitable gifts or pledges?
- Is there a minimum amount of money you would want to leave to your children? Is there a maximum? What are your concerns about wealth and your children?
- Are there charitable causes or specific organizations in your community that you'd like to support? What would enable you to do that?
- Are there personal goals that you've set and not accomplished? How could philanthropy help you achieve them?
- Have you ever entertained the thought of becoming a major donor?
- Would you like your philanthropic work to continue beyond your lifespan? Would you like your children to be able to be involved in their own philanthropy? With you?

You need to become comfortable asking these questions and evaluating your client's responses strategically. The answers your client provides will inform a more meaningful wealth management strategy and enable you to become and remain your client's most trusted advisor.

Choose the Right Time for the Conversation

Choosing the right time to enter the philanthropic conversation with your client can make it easier to have this important conversation. Here are some of the occasions that might naturally trigger a discussion about philanthropy:

- **At a year-end client meeting**
The financial benefits of charitable giving, and especially charitable vehicles, become especially relevant when reviewing the previous year's activities and financial changes and making plans for the future.
- **During conversations about estate planning**
Charitable vehicles such as a private foundation, either alone or in concert with other charitable vehicles, can help preserve the estate and transfer wealth to the next generation in a controlled and protected manner.
- **When a client is contemplating a liquidity event, such as selling a business or receiving an inheritance**
A private foundation can minimize the potentially enormous tax bill incurred when a business changes hands. It is critical to have this conversation well in advance of final planning around a transfer of assets.
- **While reviewing non-performing assets in a client's portfolio**
Many appreciated securities and some other low-basis assets can be donated to a private foundation for full-market value without incurring capital gains tax recognition at that time.

Next Steps

Once you have verified that your client has an interest in philanthropy and perhaps even specific goals, you will want to help your client adjust his/her wealth management strategy accordingly. You might also want to explore the advantages and disadvantages of various charitable vehicles, including a private foundation.

Briefly defined, a private foundation is a privately funded and controlled tax-exempt enterprise established for a charitable purpose. Unlike a public charity, which receives support from the general public, a private foundation is typically supported by a single source, usually an individual, family, or company. A private foundation offers an unmatched degree of control for wealth creators who wish to extend the beneficial impact of their wealth over time. IRS rules allow donors to control the mission, vision, governance, operations, grants, and investments of the foundation. Foundations are also, without question, the charitable

vehicle of choice for results-oriented philanthropists because of their unparalleled flexibility in accomplishing targeted goals.

Clients who might benefit from establishing a private foundation are those that have:

- At least \$1 million in investable assets or a net worth of at least \$5 million
- Personal financial and philanthropic goals that would be advanced by philanthropic planning
- A desire to protect and preserve wealth over an extended time horizon
- The desire to avoid taxes on the sale or transfer of assets
- The desire to avoid estate tax liability
- Children or heirs they wish to educate and support in their philanthropic and community lives
- No inheritors and wish to leave their wealth to charitable causes
- A CLT, CRT, or other planned giving vehicle
- A desire to create an enduring legacy

If your client meets these criteria, there are benefits and possible disadvantages to selecting a private foundation as a wealth management tool. For more information and for help determining whether a private foundation might be right for your client, please feel free to contact us.

About Foundation Source (www.foundationsource.com)

Foundation Source is the nation's largest provider of comprehensive support services for private foundations, bringing unparalleled knowledge and expertise to clients across the country. The company's administrative services, online foundation management tools and philanthropic advisory services provide a total outsourced solution for private foundations. The result: better-run, more effective foundations and more enjoyable philanthropy. Our clients supply the funds, the vision and the philanthropic goals; we provide everything else.

Today, Foundation Source provides its services to more than 1,100 family, corporate and professionally staffed foundations coast to coast, ranging in size from \$250,000 to over \$500 million. The company provides its services directly to philanthropically focused families and institutions as well as in partnership with the nation's leading private wealth management firms, law firms and accounting firms. Foundation Source is headquartered in Fairfield, Connecticut, with auxiliary locations in Atlanta, Chicago, Dallas, Denver, Los Angeles, New York City, Philadelphia, San Francisco, South Florida, and Washington, D.C.



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