Incorporating Philanthropic Planning Adds Value to Your Client Services and Makes Good Business Sense for You

By Betsy Brill

Betsy Brill discusses the value of incorporating philanthropic planning as part of your client services and suggests strategies to implement this important planning.

"Giving should be entered into in just the same careful way as investing … giving is investing." —John D. Rockefeller

Background and Trends

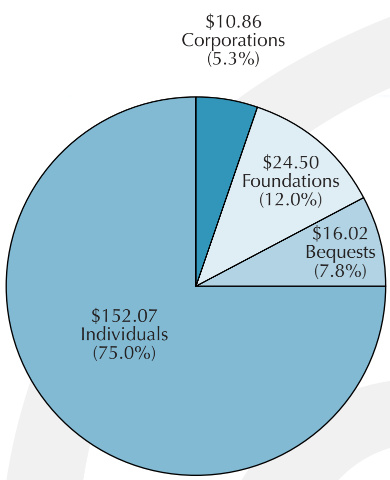
Philanthropy is a notion and act quite apart from charity. The word's Greek and Latin roots show that philanthropy is motivated by love of humankind. It is also defined as the effort or inclination to increase the well-being of humankind. Philanthropy requires a vision and a calculated investment made with the expectation that humankind will be changed for the better as a direct result of the contribution.

As noted by Ben Wattenberg on a recent PBS Special entitled *The Giving Boom: How the New Philanthropy Will Change America,*[1] America is awash in a tidal wave of wealth, and the more money Americans have, the more they give away to charity. America's net worth has gone up from $7 trillion in 1950 to $38 trillion in 2000, and the forthcoming intergenerational transfer of wealth is estimated at between $40–$130 trillion over the next 50 years.

Betsy Brill is the Founder and President of Strategic Philanthropy, Ltd., which is headquartered in Chicago, Illinois, but has clients throughout the United States and the world. The company provides philanthropic advisory services to individuals and families, corporations and established foundations. For more information about Strategic Philanthropy, Ltd., visit the company's Web site at www.stratphilanthropy.com *or call (773) 244-5185.*

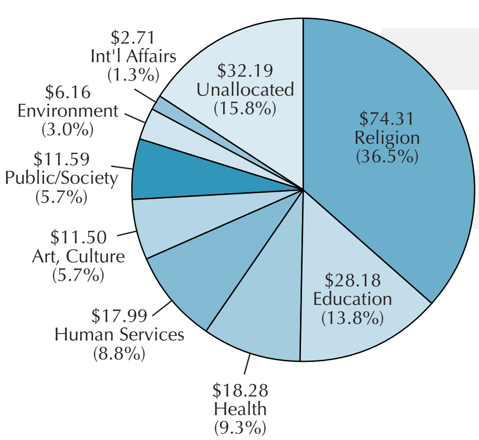
Of course many Americans struggle to get by, but this growing affluence has made many Americans richer and some Americans extremely rich, and they are all prime candidates for big-time, long-term philanthropy.

Chart 1
2000 Contributions: $203.45 Billion by Source of Contributions



Source: AAFRC Trust for Philanthropy/ *Giving USA 2001*

Chart 2
2000 Contributions: $203.45 Billion by Type of Recipient Organization



Source: AAFRC Trust for Philanthropy/*Giving USA 2001*

The Golden Age of Philanthropy

Paul Schervish and John Haven of the Social Welfare Research Institute at Boston College believe that, "the wealth we are seeing today is only the beginning and has the potential to lead to a golden age of philanthropy."[2]

So what does that really mean given that Americans have always been considered among the most generous people on earth? *Giving USA*[3] reported that in the year 2000, Americans donated $203.45 billion to nonprofit organizations, a 6.6-percent increase over the previous year. Just over three-quarters came from living individuals ($152.07 billion), and the rest from foundations ($24.50 billion), bequests ($16.02 billion) and companies ($10.86 billion). While there are no figures yet for 2001, it can be reasonably assumed that an even greater amount was donated, much of it directly related to the events of September 11.

The reality is that the preceding statistics not withstanding, there are wide disparities and contradictions in giving strategies, patterns and experiences. For its report entitled *Doing Good by Doing Well, Improving Client Service, Increasing Philanthropic Capital: The Legal and Financial Advisor's Role*,[4] The Philanthropic Initiative (TPI) interviewed more than 500 high-net-worth individuals and families and found that virtually all of them are interested in becoming increasingly strategic and proactive in their giving, yet eight out of 10 Americans with annual incomes of $1 million or more leave nothing to charity in their wills. A perfect example of a disparity and contradiction between what is desired and what is practiced.

On the other hand, family foundations are being created at an approximate rate of 1,000 per year. According to a report entitled *Family Foundations A Profile of Funders and Trends*,[5] which was released in 2000 by the Foundation Center in cooperation with the National Center for Family Philanthropy:

- Three out of five family foundations held assets in 1998 of less than $1 million.
- Family foundations accounted for more than half of all larger staffed independent foundations in 1999.
- Giving by family foundations surpasses corporate, community and operating foundations.

Note. The term 'foundation' encompasses a spectrum of organizational models. While all private grantmaking foundations are subject to the same regulatory requirements, these institutions range from those that long ago ceased to maintain direct donor connections, to those with boards consisting entirely of donor families' members, to those that are governed by a mix of family members and community leaders.

Why this growth in family philanthropy? Again according to TPI:

- Giving provides "elevated ground" for families to work together.
- It offers the opportunity for several generations to join in a common purpose.
- It may become the "glue" that binds families whose branches are increasingly geographically diverse.
- It may replace a family business that has been sold as the

family enterprise that holds the family together.[6]

As wealth has grown in the United States, it has also become more concentrated. Edward Wolff of New York University reported that the top one percent of the richest families held 27 percent of our country's wealth in 1981 and 42 percent in 1992.[7] Given the technology and stock market "boom" of the 1990s, one can calculate that the proportionate share of wealth continued to grow for one segment of society, while there was little change in other segments. As a result, the United States continues to reflect the widest disparity between rich and poor of any industrialized nation in the world. The ramifications of this have probably not yet been realized fully, but there are clear signals that despite the "generosity" of most Americans, the gap between rich and poor continues to grow.

In January of 2002, Former President Bill Clinton wrote an article for the CHICAGO TRIBUNE, in which he said, "the great question of this new century is whether the age of interdependence is going to be good or bad for humanity. The answer depends on whether *we* in the wealthy nations spread the benefits and reduce the burdens of the modern world … and on whether we all can develop a level of consciousness high enough to understand our obligations and responsibilities to each other."[8] I would expand a bit on what President Clinton said, and include individuals, families and corporations in the reference to wealthy nations.

While we as citizens and professionals may not be able to set the ultimate priorities or sensibilities, or redesign the moral codes of nations, we do have an opportunity to influence the individuals, families and corporations who have charitable inclinations and who can in small and large ways "… spread the benefits and reduce the burdens of the modern world."

"Doing Good" Can Be Good Business

What are our obligations as advisors, and how can we harness the tidal wave of wealth and participate in making the age of interdependence good for humanity? We have an opportunity, and an obligation, to try to ensure that future generations have the capacity and the resources to carry on the American legacy of philanthropy—of giving for the good of all humankind. This is especially important in light of the events of September 11. For the first time in modern American history (outside of World War II, perhaps), there is a greater sense among a larger population of the importance of giving, of sharing our wealth, our time and our resources with others less fortunate both here in the United States and throughout the world.

In our professional capacities, we are in a position to help guide clients in devising giving strategies that are meaningful, sustainable and responsive. This is not just a "do good" philosophy; it happens also to be good business.

Estate planning attorney, trust officer, accountant, financial planner, investment advisor, money manager—whatever the professional affiliation, these are the people who are in the position to initiate and be responsive to their clients' charitable interests. As a philanthropic advisor, these professionals are *our* clients, almost as much as the individuals, families, corporations and established foundations with whom we work are our clients. Why? Because we can enhance and expand upon the knowledge base of these professionals not just by making them "look good" to their clients, but by helping them "do good" for their clients.

In part this is because many professionals have limited or relatively "traditional" knowledge about the broad and complex field of philanthropy. While they may understand the investment side—how to frame and structure the legal documents and enumerate various charitable vehicles and address the tax advantages of these vehicles—they are, more often than not, uncomfortable with addressing the core values of their clients. Additionally, as with any profession, there is a certain "limit" to knowledge and expertise, which is why most professionals have a cadre of "specialists" on their client-centered teams.

But a more prevalent issue is that more often than not, philanthropic planning is not initiated by the professional advisor. Frequently, it is initiated by the client who has even less of an understanding about the options, alternatives and opportunities available and the appropriate organizational and planning parameters and resources that should be in place for effective and sustainable charitable giving programs.

Every professional has, at some time in his or her career, been faced with a client situation similar to one of the following:

- Client has just started a foundation and you, as the investment advisor, are encouraging the trustees to develop investment policies. Client decides that it is prudent to be a socially responsible investor to echo the mission and commitment of his or her foundation. Your firm does not do socially responsible investing *per se*.

- A corporate client exploring ways to link its business activity with the image of charitable giving begins making substantial contributions to various community-based organizations that are found to not have not-for-profit tax status.
- Client has no family and has agreed to establish a foundation upon his death as a tax saving measure. You, as the estate planning attorney and trustee, are charged with giving a substantial amount of money away on a yearly basis and you never were able to establish the direction or focus of the charitable giving prior to the client's death. Suddenly this has become your responsibility.
- Client has always had a foundation and has engaged in charitable giving but has never involved the children. The client is now advanced in years and realizes that he or she needs to involve the children but is completely unclear about how to proceed. In the worst case scenario, the children are resentful and "don't want anything to do with it."
- Clients have never disclosed their charitable, tax or estate plans to their children and upon the death of the last living parent, a Charitable Lead Trust is launched. The children have no idea how to go about structuring the giving of the trust, let alone managing and thoughtfully and responsibly making contributions.
- Client has always had a foundation and continues to infuse more money into the foundation on a yearly basis. Because of a previous inheritance, investments were disproportionately locked up in certain stocks. The market shifted and the value of the foundation's assets dropped significantly. The client does not know how to address this issue, how to restructure the foundation or how to reconfigure his or her giving activities with less to give away.
- Client has always been "charitably inclined," writing checks annually to various organizations and cultural institutions. The client decides to reevaluate his or her giving strategies and wants to make more significant and meaningful use of his or her money.

Unfortunately, when scenarios like these arise, or if there has not been the appropriate "front end" work, there is the potential for the charitable giving activity to end up being complicated and hence costly, and ultimately a source of frustration for everyone involved. In the worst case scenario, the resulting giving strategies or structures do not meet the original passions or intent of the donor and are abandoned.

The previously referenced TPI report said that many advisors are well aware of their clients' needs for effective counsel about philanthropy as part of the wealth-planning process and are genuinely eager to help. But, many are "too afraid to ask the hard questions" and many "move too quickly" to discussions of giving mechanisms before fully engaging their clients around values and motivations.

Here are some of the key findings from the study:

- Over half of those advisors interviewed, many of whom are highly experienced practitioners, do not discuss their clients' charitable or social values, or help them develop a philanthropic mission. There is still a perception that values-based discussions about philanthropy are highly personal and therefore risky.
- A substantial majority of these advisors would like to become more knowledgeable about how to make charitable giving conversations with clients more effective. That said, many would continue to refer their clients with complex philanthropy objectives to third-party philanthropy professionals.
- A majority of advisors want more and better materials, templates and other resources to help counsel clients about their philanthropic options. There is a perception that there is adequate access to technical tools, but that methods and materials for addressing broader-based philanthropy planning are in short supply and not easily found.
- Nearly two-thirds of the advisors interviewed employ a very limited number of charitable planning tools, consistently relying on one or two planned giving vehicles, regardless of the clients' circumstances or charitable intent.

TPI also interviewed donors and found that:

- In overwhelming numbers, the donors who were interviewed report it is they, and not their advisors, who typically raise the subject of philanthropy.
- These donors wish their advisors were more knowledgeable about philanthropic planning and that advisors would take a more comprehensive approach to their giving, rather that focus-

ing heavily on tax planning and specific giving vehicles.

- Most of the donors surveyed believed their advisors are technically competent, but they also believe most advisors lack the tools and comfort levels to link technical counsel to more personal values-based philanthropy planning.
- If their advisors are not knowledgeable about philanthropic planning, donors seek referrals to others who are knowledgeable.

So what is the solution? It starts by *initiating* a conversation with your clients rather than waiting for your client to say something. As many professional advisors know, embarking on a conversation about philanthropy and a client's charitable interests is often an uncomfortable journey. Patricia Angus,[9] a New York attorney with the firm Hughes and Whitaker, often speaks on the topic and relates several common reasons given by advisors for not discussing philanthropy with clients including: "That's not my job," "I don't have the expertise," "I won't get paid for it," "The subject is too personal" or "There is a conflict of interest."

In fact, rarely is any of the above true. Remember what I said earlier? It's good business to broach the topic of philanthropy with clients. Even if you will ultimately not be directly involved in implementing or managing a plan, you will be helping to protect your client's interests and ensure that any kind of philanthropic endeavor considered is properly designed and that it reflects the interests, concerns, passions and personal requirements of the client.

New Ventures in Philanthropy, a national initiative of the Forum of Regional Associations of Grantmakers, identified the *Top Ten Reasons Why You Should Discuss Philanthropy with Your Clients*.[10] They are:

1. It's good for society, it's good for your clients, it's good for your business and it's good for you.
2. You'd be surprised by how many of your clients are searching for a way to give back to society, to memorialize a loved one or simply to do good.
3. Discussing philanthropy with your clients can be done unobtrusively, in a way that respects their privacy, values and autonomy.
4. It expands the menu of services available to your clients, thereby increasing their level of satisfaction with you and your services.
5. It adds to your areas of expertise as a professional advisor.
6. It increases the potential for new referrals and thus opens the door to many new clients.
7. It marries your chosen profession with your desire to do something good for the world.
8. It helps address important social needs and helps make your community a healthier, more vibrant place to live, a real legacy for future generations.
9. It puts you in touch with a supportive network of new colleagues who are willing to share their time and expertise.
10. It's easy to do.

It is especially easy when you choose to use professional resources with focused expertise, just as your clients have done in working with you. But even before turning to a professional with expertise in philanthropy, you have to get the ball rolling. Patricia Angus suggests a process and questions for discussing philanthropy as part of an estate or financial planning activity.[11] (*See* Exhibits 1 and 2.)

Working with a Philanthropic Advisor—Augmenting Your Expertise

Just as many advisors are regularly involved in assisting clients in the identification of other "more typical" team members (the investment advisor, the money manager, the financial manager, *etc.*), connecting clients with a philanthropic advisor to help determine how to maximize the impact of the money designated for philanthropic interests and manage the process effectively is equally important. All members of the right "team" should have a common interest and concern: representing the client's interests and protecting the client's financial health.

Once a client has indicated an interest or desire to formalize his or her giving plans, and once the legal and tax aspects have been explored, outlined, then it is necessary to design an appropriate vehicle that (a) is responsive to the client's core interests, needs and concerns, (b) acknowledges and addresses the desired level of involvement the client wants to have in "managing" philanthropic activities and (c) incorporates the interests, expertise and desires of heirs or in the case of corporate giving, the charitable interests of the company's employees and customers. The last piece of the puzzle is ensuring that all of the elements for a viable, sustainable and effective giving plan are in place and working!

This is where the philanthropic advisor becomes a key member of the client-centered team. As the designated expert in operationalizing philanthropic endeavors, the philanthropic advisor can help do the following:

- Define, establish or enhance strategic giving plans as an integral part of the overall financial planning effort.
- Clarify and focus the client's "vision" relative to his or her philanthropic goals.
- Assist the client seeking to launch a formal charitable giving program in understanding how to evaluate, measure and document the impact and success of the program and manage the contribution process to maximize the value of every dollar.
- Create the appropriate organizational design that will respond to the client's interests and meet the legal and tax requirements defined by the financial and legal advisor.
- Connect the client to the field of organized philanthropy.
- Identify and qualify recipients of funds.
- Identify and train the necessary staff, board and trustees.
- Develop guidelines to inform and focus the process, the giving activities and the distribution of funds to recipients.
- Research issues to familiarize clients with the options and alternatives within their areas of interest.
- Provide a framework for grantee evaluation and documentation.
- Provide assessments or evaluations of giving activities.
- Support the distribution of funds … the grantmaking process.
- Assist in intergenerational training.
- Create the necessary systems, procedures and documentation to sustain the giving programs.
- Create healthy communication protocols with potential recipients of funds, with the public and within the philanthropic community.

All of this is really just another kind of financial planning where, over time and in ways that you can ultimately measure, it is possible to not only *make a difference,* but to be more fully responsive to the interests and concerns of your clients.

Virginia Esposito, President of the National Center of Family Philanthropy, wrote in *Family Foundations A Profile of Funders and Trends,*[12] that philanthropy is not a simple calling, and families considering or already engaged in it face many challenges to their effectiveness. These include how and when to set up an organized philanthropy; generational succession; investment strategies; and the challenges of geographic diversity among the family members. All of these considerations take place within the dynamics, cultures and traditions of the family.

In my company, Strategic Philanthropy, Ltd., our work with clients, whether individuals, families, corporations or established foundations, is a highly personal process because no two clients have the same interests, issues or requirements. So the starting point is always to get the client to articulate what he or she wants to accomplish. What is the "legacy" the client is seeking to leave behind? What is motivating the interest in philanthropy? What does the client hope

Exhibit 1
The Process

1. Determine whether the client has charitable interests.
2. Develop an understanding of the nature of the philanthropic interest.
3. Refer to philanthropic advisor if unable to clarify philanthropic goals or if other assistance is needed.
4. Analyze and assess options for choice of structure (for example: Outright Gift Donor Advised Fund, Charitable Gift Annuity, Community Foundation/Trust, Private Foundation, and other options).
5. Implement Structure.
6. Contact a philanthropic advisor to assist client in implementation efforts once the structure is in place.

Exhibit 2
The Questions

The questions for the philanthropic side, or the values side, of the development of an estate plan, should include:

- What does wealth mean to you?
- How much is enough? How much is surplus?
  - during your life
  - to leave to your family
  - to leave to charity
- What legacy do you wish to leave behind when you are no longer living?
- What is your current estate plan and how does (or doesn't) it reflect your values?
- If your financial resources were unlimited, how would you spend your time and what would you do with your excess financial resources?
- What are your values? Have you discussed them with your family? Do you wish to pass them on?
- Who do you want to inherit your assets from you? Family–Government–Charity?
- How do you wish to be remembered?

to change or influence as a result of these philanthropic endeavors? In this business, one size does not fit all, and contributing to social change is not accomplished overnight.

Some Closing Thoughts

Professional advisors alone do not bear the responsibility for tapping into the national potential of wealth in the new millennium. But with sufficient encouragement, continuing professional education around philanthropy and the proper tools and resources, professional advisors can play a critical role in the process. This will only happen, however, when more legal and financial advisors recognize that addressing your clients' philanthropic interests can be good business.

This is a time when the world has become very complex. Globalization is a reality, "fundamentalisms" are rampant in the world, the distribution of wealth and social capital is concentrated in the hands of a very few, and while private support of nonprofits continues to rise every year, over the last few decades government support of nonprofits has diminished significantly and, in some instances has been abandoned entirely.

As with all events of significance, there is opportunity for those who pursue it. Everyone has a role in changing the inequities of society, and philanthropy is a creative expression of that part of ourselves that cares and believes in the potential for change. Effective philanthropy joins a client's interests and experiences with the current needs in the community (whether immediate or elsewhere in the world) and seeks desired outcomes. Given the rapid changes in the world, the economics of wealth distribution and the impending transfer of wealth, informed philanthropy by individuals, families and corporations is more important than ever.

All of this reinforces the critical role advisors can play in assisting clients as they define and structure their philanthropic visions and contributions. We encourage each and every one of you to consider embarking on this new journey with your clients and reap the personal and business benefits that will undoubtedly be yours as a result.

You can find critical information right in your community through your Regional Association of Grantmakers[13] or through one of the myriad of philanthropic associations[14] across the country. When you do initiate this important discussion, consider inviting a philanthropic advisor to be a part of your client-centered team. Incorporating philanthropic planning within the financial and estate plan really is good business!

ENDNOTES

1 *The Giving Boom: How the New Philanthropy Will Change America* (PBS Think Tank Specials, July 12, 2001). Transcript can be accessed online at *www.pbs.org/thinktank/givingboom_special.html*.

2 Paul Schervish and John Haven, cited in *The Giving Boom, id.*

3 American Association of Fundraising Counsel, *Giving USA 2001: The Annual Report on Philanthropy.* Charts can be accessed online at *www.aafrc.org*.

4 The Philanthropic Initiative, Inc., *Doing Well by Doing Good Improving Client Service, Increasing Philanthropic Capital: The Legal and Financial Advisor's Role* (2000).

5 The Foundation Center, New York, N.Y., in cooperation with the National Center for Family Philanthropy in Washington, D.C. Report on *Family Foundations: A Profile of Funders and Trends* (2000).

6 *Supra* note 4.

7 Edward Wolff of New York University, cited in *Doing Well by Doing Good, supra* note 4.

8 W.J. Clinton, *Shaping the Future America's Role in a Challenging World,* CHICAGO TRIBUNE, Jan. 13, 2002, at section 2, p. 1.

9 Patricia M. Angus, Esq. Taken from remarks at a Donors Forum of Chicago speech entitled, *Giving Philanthropy a Voice: How to Discuss Philanthropy With Your Clients,* Jan. 25, 2001.

10 New Ventures in Philanthropy, *The Top Ten Reasons Why You Should Discuss Philanthropy With Your Clients.* Report can be accessed online at *www.rag.org/promote/product.htm.*

11 *Supra* note 8.

12 Virginia Esposito, cited in *Family Foundations, supra* note 5.

13 Regional Associations of Grantmakers, 1828 L Street, N.W., Suite 300, Washington, D.C. 20036-5168 (*www.rag.org*).

14 Some philanthropic associations/resources: Council on Foundations (*www.cof.org*); National Center on Family Philanthropy (*www.ncfp.org*); National Network of Grantmakers (*www.nng.org*); BBB Wise Giving Alliance (*www.give.org*); Guidestar, a Project of Philanthropic Research, Inc. (*www.guidestar.org*).