How to Talk to Clients About Philanthropy:
What They Need and Expect

Kathryn W. Miree & Associates, Inc.
What We Know About Charitable Giving in the United States
### Giving USA 2017

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount in Billions</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>$281.26</td>
<td>72%</td>
</tr>
<tr>
<td>Foundations</td>
<td>$59.28</td>
<td>15%</td>
</tr>
<tr>
<td>Bequests</td>
<td>$30.36</td>
<td>8%</td>
</tr>
<tr>
<td>Corporations</td>
<td>$18.55</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>$390.05</td>
<td>100%</td>
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<tr>
<td>Sector</td>
<td>Amount in Billions</td>
<td>Percentage of Total</td>
</tr>
<tr>
<td>-------------------------------------</td>
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</tr>
<tr>
<td>Religion</td>
<td>$122.04</td>
<td>32%</td>
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<tr>
<td>Education</td>
<td>$59.77</td>
<td>15%</td>
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<tr>
<td>Human Services</td>
<td>$46.80</td>
<td>12%</td>
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<tr>
<td>Foundations</td>
<td>$40.56</td>
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<tr>
<td>Health</td>
<td>$33.14</td>
<td>8%</td>
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<tr>
<td>Public Society/Benefit</td>
<td>$26.89</td>
<td>8%</td>
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<tr>
<td>Arts, Culture, and Humanities</td>
<td>$18.21</td>
<td>5%</td>
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<tr>
<td></td>
<td>Returns Filed</td>
<td>#Who Itemized</td>
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<tr>
<td>-------------</td>
<td>---------------</td>
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</tr>
<tr>
<td>DC</td>
<td>344,720</td>
<td>137,700</td>
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<tr>
<td></td>
<td>39.95% of all who filed</td>
<td>81.91% of all who itemized</td>
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<tr>
<td>United States</td>
<td>147,766,770</td>
<td>43,882,990</td>
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<tr>
<td></td>
<td>29.7% of all who filed</td>
<td>82.49% of itemizers</td>
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</table>
Study measures transfer of wealth expected between 1998 and 2052

Estimated to be $41 trillion with a 2% year over year growth

Estimated to be $136 trillion with a 4% year over year growth

Between $6 and $25 trillion expected to transfer to charity
Other Data

- Independent Sector found 89% of all household gives to charity
- 44% of all adults volunteer
The Critical Role of the Donor’s Professional Advisors
Who Are the Professional Advisors?

- Attorneys
- Accountants
- Financial Planners
- Trust Officers
- Insurance Professionals
- Stock Brokers
- Real Estate Agents and Brokers
When and How Advisors Get Involved

- Serve as the donor’s advisor - assisting the donor in making a gift
  - Most common role
    - Strong relationship with client
    - Protective role - and focused on client’s best interests
  - For charitable planning, charity may not be perceived as an essential partner
    - Charity may not learn about the gift until later
When and How Advisors Get Involved

- Serve as the charity’s advisor - representing the charity in accepting a gift
  - Assistance in analyzing gift transactions
  - Document preparation
  - Guidance on a supporting organization
  - Conflict of interest
When and How Advisors Get Involved

- Serve as the charity’s advisor - representing the charity in accepting a gift
  - Administrative structure of trusts or charitable gift annuities
  - Advice on acceptance/liquidation of insurance
  - Advice on acceptance/liquidation of real estate
When and How Advisors Get Involved

- Provide services as a vendor
  - Trusts, gift annuity pools, and endowment fund accounting, administration, and reporting
  - Investment management
  - Legal services
  - Audit and tax services
When and How Advisors Get Involved

- Serve as a volunteer
  - Serving on a governing board
  - Serving on an advisory board or committee
  - Serving as a hands on volunteer (tutoring, docent, trail guide)
The Importance of Working as a Team

- Both the client and the charity benefit from a team approach
- Each professional brings an important lens to the conversation
- Teams can be small or large depending upon the complexity of the assets and the transaction
- All are critical to success
What Can Go Wrong?

- A gift initiated and planned by the charity (without the advisor)
  - Since 1995, the development staff at City University had talked to Danny Donor about a chair for the Department of medicine
  - Father on founding staff and had taught there
  - Had consider other ways to memorialize father
  - Approaching retirement and wanted more income
What Can Go Wrong?

- A gift initiated and planned by the charity (without the advisor)
  - University’s staff was helpful
  - Explained the options - outright, cry, other deferred gifts
  - Staff helped Danny review assets - select an appreciated vacation home to fund a CRT
  - Danny excited that the gift would fund a central goal in the University’s campaign - and provide income - and avoid income taxes on the gain
A gift initiated and planned by the charity (without the advisor)

Danny’s attorney, Paul Planer, received the gift proposal prepared by the development staff - and he pushed back:

- Why create it now?
- What if you need the assets?
- Can you really use the full deduction?
- This doesn’t make sense for tax purposes.
What Can Go Wrong?

- A gift initiated and planned by the charity (without the advisor)
  - Danny was confused - he thought he would be admired for his generosity.
  - Perhaps he had made a mistake....
  - Perhaps he should wait.
  - There was no gift.
What Can Go Wrong?

- A gift initiated by the advisor (without the charity)
  - Danny Dollars goes to his attorney, Paul Planner with an idea.
  - He had graduated from City University and felt the education had made him successful.
  - He wanted to do something big for the college to help others.
A gift initiated by the advisor (without the charity)

- Paul took Danny through the planning process, assured him he could spare the funds to make the gift.
- Danny offered to introduce him to the University - Paul did not feel it was necessary - it would complicate things.
- So, they proceeded. Danny wanted to create a business school at the university.
What Can Go Wrong?

- A gift initiated by the advisor (without the charity)
  - Created a bequest
  - Lots of restrictions to form up the philosophy
  - Danny wanted to create interest from other donors that would make it a reality
  - City University was never informed
What Can Go Wrong?

- A gift initiated by the advisor (without the charity)
  - At Danny’s death, the University was informed
  - However, they had to turn it down
  - The University had made a strategic decision not to create a business school but to focus on the medical and law schools
  - Danny’s family was outraged; Paul was astonished. What went wrong?
What Can Go Wrong?

- A solution: communication
- Results would have been different had the team been involved in planning
Results from Donor Surveys: What Donors Want From Their Advisors

Focus on high net worth philanthropic trends (individuals with $3 million or more)
2014 U. S. Trust Study of High Net Worth Philanthropy

- High level results
  - 98.4% of those surveyed gave to charity in the survey year (2013). This compares to 974% in 2005, the first survey year.
  - Top five areas: education (85.2%); basic needs (80.7%); arts (69.6%); health (67%); religious organizations (66.7%).
  - Average annual giving per household: $68,580 (an increase of 28.1% over 2011).
2014 U. S. Trust Study of High Net Worth Philanthropy

- High level results
  - Average gift size varied by source of wealth. When net worth was tied to business: average of $187,971. When net worth tied to financial assets: aver of $74,461.
  - 36.8% had wills with charitable provisions.
  - 15.6% had an endowment
2014 U. S. Trust Study of High Net Worth Philanthropy

- High level results
  - 14.5% had a donor advised fund
  - 12.6% had a CRT, CLT, CGQA
  - 6% had a private foundation
2014 U. S. Trust Study of High Net Worth Philanthropy

- High level results
  - 75.1% volunteered
  - 45.7% served on nonprofit boards
  - 73.5% gave when they believed their gift could make a difference
  - 73.1% gave for personal satisfaction
Where Do Donors Get Their Advice?

- 64% wanted to be more knowledgeable about charitable giving
- 28.7% wanted to know about engaging next generation
- 14.7% wanted to know about strategic giving
- 72% rated themselves as “knowledgeable” - these gave an average of $64,599
- 13.8% rated themselves as “expert” - they gave an average of $150,229.
## Where Do Donors Get Their Advice

<table>
<thead>
<tr>
<th>Type of Advisor</th>
<th>Percent Consulting with This Type Advisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonprofit Personnel</td>
<td>49.2%</td>
</tr>
<tr>
<td>Independent Financial Wealth Advisor</td>
<td>45.5%</td>
</tr>
<tr>
<td>Accountant</td>
<td>44.5%</td>
</tr>
<tr>
<td>Attorney</td>
<td>28.8%</td>
</tr>
<tr>
<td>Community Foundation Staff</td>
<td>22.8%</td>
</tr>
<tr>
<td>Peers or Peer Networks</td>
<td>16.5%</td>
</tr>
<tr>
<td>Bank or Trust Company</td>
<td>9.2%</td>
</tr>
</tbody>
</table>
The US Trust Study of the Philanthropic Conversation

- Survey of advisors and high net worth clients about philanthropy to get perspectives
- National sample of financial/wealth advisors, attorneys and accountants
- National sample of high net worth individuals with investable assets of $3+ million
The philanthropic conversations:

- 71% of advisors said they asked about philanthropic goals
- Attorneys (80%), accountants (57%)
- However, only 55% of HNW clients reported their advisor had talked with them about philanthropy
The US Trust Study of the Philanthropic Conversation

- The importance of the philanthropic conversation.

- Advisors and clients agree it is important

- 46% of advisors rated it “very important” and 42% “somewhat important”

- 18% of clients rated it “very important” and 55% reported “somewhat important”
Who initiates the conversation?

- Advisors say they generally initiated, with clients initiating it 20% of the time
- Clients indicate they initiate it more than 50% of the time
The US Trust Study of the Philanthropic Conversation

- When is the conversation initiated?
  - 34% of clients prefer it be introduced at first meeting; 15% after a few meetings; 41% after several meetings
  - Advisors report they raised it when they have a detailed knowledge of the client’s financial financial picture (47%) or detailed knowledge of personal goals (40%)
  - 41% of advisors say they encourage philanthropy: 71% emphasize the technical and 35% the personal
The US Trust Study of the Philanthropic Conversation

- 74% believe philanthropy is good for business development
- 56% believe discussing philanthropy builds the client relationship
- 49% of advisors observed client needs exceeded their capabilities
- 57% plan to increase their knowledge about philanthropy
How to Have the Conversation with Donors: Questions and Checklists
The Barriers: Assumptions in Planning

- Assumption One: The individual wants to leave his or her entire estate to family.
- Assumption two: The individual is driven by tax avoidance.
- Assumption three: The individual has fully thought through the issues that impact estate planning.
Opening the Door

- The three questions every advisor should ask:
  - Do you have charitable organizations you support on an annual basis?
  - Do you want to include a gift to any of these organizations or other charitable organizations as part of your estate plan?
  - If there were a way to make a gift to charity largely out of tax dollars, would you be interested in exploring that?
Other Probing Questions

- What are your values? What are the principles that have guided your life?
- What have you learned from your giving? What would you do differently?
- What is the most satisfying gift you have ever made? Why?
- What values do you want to pass on to the next generation? How do you want to engage your family around giving?
Preparing Clients - What Motivates Them?

- Examples:
  - Oseola McCarty
  - Bill and Melinda Gates
  - Walter Annenberg

- Wealthy donors may have complex goals
The Tax Incentives

- Rarely the most important
- Charitable deduction depends on the tip of property contributed, the basis, the holding period, and the charitable recipient.
- Some gifts avoid gain; some defer gain.
- Some gifts create multiple deductions.
The Checklist for Donors - What Do They Want to Accomplish?

- Sufficient assets for self
- Sufficient assets for family
- Provide for children, grandchildren
- Special education, special needs for family
- Extended care of family
- Long-term control
- Charitable goals
### Basic Principles for Lifetime Giving

#### Large outright gifts

<table>
<thead>
<tr>
<th></th>
<th>Donor Writes Check for $10,000</th>
<th>Donor Contributes L-T Appreciated Stock, $4,000 Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value/Deduction</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Value of Gift to Charity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Gains</td>
<td></td>
<td>$6,000</td>
</tr>
<tr>
<td>Value of Tax Deduction for Donor in the 35% Tax Bracket</td>
<td>$3,500</td>
<td>$3,500</td>
</tr>
<tr>
<td>Tax Value of Avoiding Capital Gains Tax on $6,000 Gain at 15%</td>
<td></td>
<td>$900</td>
</tr>
<tr>
<td>Total Tax Value to the Donor</td>
<td>$3,500</td>
<td>$4,400</td>
</tr>
</tbody>
</table>
Transactional Opportunities

- Sales of real estate
  - Personal residence
  - Vacation home
  - Undeveloped real estate
  - Commercial real estate
- Sales of business
Charitable IRA Rollover

- Now permanent
- For those age 70 1/2 +, up to $100,000 from IRA to qualified charities
- No private foundations, donor advised funds, supporting orgs
- No quid pro quo
Basic Principles for Deferred Giving

- IRD property is best asset to use for testamentary giving
- IRA/retirement plan most likely
- Savings bonds
- Deferred compensation
- Other income earned and not taxed
Documents Clients Should Bring to You for Review (That Others Draft)

- Endowment
- Charitable gift annuity documents
- Large gift agreements
Guiding the Client in Creating a Family Philanthropy Platform

- Select appropriate entity form - takes understanding goals, expectations, management skills, adaptability, and asset

- Why create it?
  - Philosophical goals
  - Effective giving
  - Giving for impact
Guiding the Client in Creating a Family Philanthropy Platform

- Why create it?
  - Engaging family
  - Memorial to family
  - Teaching values
  - Tax Savings
  - Protection from solicitation
Final Thoughts and Questions

- Advisors play a crucial role in the charitable planning process.
- Your clients are philanthropic - include philanthropic goals with personal goals in the planning process.
- Look first at the outcomes the donor wants to achieve - then use the large array of gift planning tools to achieve those goals.