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

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What We Know About Charitable Giving in the United States

Giving USA 2017

Source	*Amount in Billions*	*Percentage of Total*
Individuals	$281.26	72%
Foundations	$59.28	15%
Bequests	$30.36	8%
Corporations	$18.55	5%
Total	$390.05	100%

Giving USA 2017

Sector	*Amount in Billions*	*Percentage of Total*
Religion	$122.04	32%
Education	$59.77	15%
Human Services	$46.80	12%
Foundations	$40.56	10%
Health	$33.14	8%
Public Society/Benefit	$26.89	8%
Arts, Culture, and Humanities	$18.21	5%

Statistics of Income Bulletin

	Returns Filed	*#Who Itemized*	*#Who Took CD*	*$$ Deducted*
DC	344,720	137,700 39.95% of all who filed	112,790 81.91% of all who itemized	$992.699 Million
United States	147,766,770	43,882,990 29.7% of all who filed	36,200,750 82.49% of itemizers	$210.234 Billion

Boston College Social Welfare Institute

- 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

What Can Go Wrong?

- 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.

What Can Go Wrong?

- 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

2014 U. S. Trust Study of High Net Worth Philanthropy

- Studies done in 2006, 2008, 2010, 2012, and 2014
- 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 aver of $64,599
- 13.8% rated themselves as “expert” - they gave an average of $150,229.

Where Do Donors Get Their Advice

Type of Advisor	*Percent Consulting with This Type Advisor*
Nonprofit Personnel	49.2%
Independent Financial Wealth Advisor	45.5%
Accountant	44.5%
Attorney	28.8%
Community Foundation Staff	22.8%
Peers or Peer Networks	16.5%
Bank or Trust Company	9.2%

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 US Trust Study of the Philanthropic Conversation

- 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”

The US Trust Study of the Philanthropic Conversation

- 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 every 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

	Donor Writes Check for $10,000	*Donor Contributes L-T Appreciated Stock, $4,000 Basis*
Market Value/Deduction Value of Gift to Charity	$10,000	$10,000
Capital Gains		$6,000
Value of Tax Deduction for Donor in the 35% Tax Bracket	$3,500	$3,500
Tax Value of Avoiding Capital Gains Tax on $6,000 Gain at 15%		$900
Total Tax Value to the Donor	$3,500	$4,400

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.