Charitable Expertise Strengthens a Holistic Advisory Practice: To Build a Family Legacy, Turn to Philanthropy

By Hannah Shaw Grove
Charitable Expertise Strengthens a Holistic Advisory Practice

TO BUILD A FAMILY LEGACY, TURN TO PHILANTHROPY

By Hannah Shaw Grove

If you think about it, helping clients give their money away might seem counterproductive to the value you provide as a financial advisor. But there’s an important case to be made for why, and how, an advisor can deliver greater value for clients by incorporating philanthropic expertise into a wealth management practice.

That’s because philanthropy is much more than making charitable donations. It also can help a client build a meaningful family legacy.

Philanthropy is an effective way for your clients to unite their families across generations through shared interests, values, and passions. After all, in many high-net-worth (HNW) families, only a small group of individuals has complete visibility and transparency into money and finances. But philanthropy lends itself to broader family involvement and provides a framework for building a purposeful legacy. It helps a family:

- Identify core values.
- Surface shared goals and passions.
- Increase multigenerational collaboration.
- Deploy assets in a way that creates impact.
- Align investments with intent.
- Develop skills in younger generations that prepare them for bigger roles in family enterprises.

When your charitable clients have the tools to align their philanthropic, wealth management, and legacy planning objectives, they’re better equipped to forge the multigenerational connections needed to ensure dynastic wealth.

This article explores the case for making philanthropy a core piece of a wealth management practice and explains how philanthropy can be a powerful tool for helping clients build meaningful family legacies.

THE CASE FOR PHILANTHROPY

The HNW Self-Identify as Philanthropic

As a starting point, it’s helpful to know that roughly seven out of 10 wealthy investors self-identify as philanthropic. These figures have been consistent for the past two decades, and recent reports from Bank of America suggest that the percentage may be even higher. This means that if you have a HNW practice, you should expect that at least two-thirds of your clients are charitably inclined and there’s an opportunity for you to address these interests—which is a win for your relationship. But, perhaps more importantly, if you aren’t helping your HNW clients with philanthropy, they are missing opportunities to mitigate taxes, save money, and increase their charitable impact, and they may feel as if there’s something lacking in their financial program. The other side of this coin is that if you aren’t doing it, someone else might be. And, if they are and you don’t know about it, it’s most likely happening in an uncoordinated and uninformed fashion, which can have a potential downstream effect.

KEY INTERSECTIONS WITH WEALTH MANAGEMENT

As wealth management has evolved, an increasing number of practices use the three disciplines of investment management, tax management, and estate planning as their core. Thus, bringing charitable planning into the fold is easier today than it would be if you were coordinating across three or four external subject matter experts. When charitable strategies are closely coordinated with investment strategy, estate planning, and tax management, the outcomes always will be better for the client than if any of those disciplines are approached in isolation.

Together, these four capabilities—investment management, tax management, estate planning, and charitable planning—generate the following outcomes, which are among the most important to HNW individuals and families:

- Sustaining or growing wealth.
- Reducing tax burden.
- Ensuring their assets go to the people and causes they care about most.
When charitable planning and philanthropy aren’t part of the equation, you are falling short of delivering an optimal client experience that’s critical to client satisfaction and your long-term success. When it’s part of the process, you can help magnify efforts for higher impact. You also can create valuable opportunities to:

- Address unmet client needs.
- Strengthen and deepen client relationships.
- Create better financial outcomes.
- Demonstrate value and alignment with clients’ critical goals.
- Position your practice to capture newly created wealth.
- Open new sources of referrals.

These opportunities work together to help evolve your focus from delivering technical expertise to being an elite practitioner who delivers world-class client service.

OLDER GENERATIONS LINK GIVING AND LEGACY

The case for philanthropy also is supported by an in-depth look at what motivates HNW clients to give. Research conducted with two generations of family members from single-family offices (SFOs) shows that for all generations, the core motivation for charitable giving is helping others. However, founders are more likely to see philanthropy as a way to build a family legacy while inheritors see it as a mechanism for benefiting society (see table 1).

Given that legacy planning typically is conducted with a family’s founding members, i.e., the initial wealth creators, it’s encouraging that this generation understands the important role philanthropy can play in the process.

YOUNGER GENERATIONS EMBRACE GIVING

Also encouraging, according to the same research, is that younger generations are proportionately more involved in philanthropic endeavors and expect to have even greater involvement in the future, in contrast to founding generations, which typically are more focused on wealth preservation and enhancement (see figures 1 and 2).

Altogether, the information in table 1 and figures 1 and 2 make the case that advisors are uniquely positioned to help affluent clients build meaningful family legacies through philanthropy. Founding generations understand that philanthropy can help build legacy, and younger generations are motivated to give, helping set the stage for multigenerational collaboration.

PHILANTHROPY GUIDANCE IS UNDERUSED

Meta-analysis shows that, despite self-identifying as philanthropic, HNW families need more assistance when it comes to making real progress on their charitable goals. Limited use of philanthropic plans and experts leaves plenty of room for more structure, process, and
improvement to drive desired outcomes (see figure 3). Additionally, nearly all the SFO executives surveyed indicated that they believe that more formal charitable guidance would be in their families’ best interest. This is exactly where wealth managers and their specialist networks can make a significant difference.

**BUILDING A MEANINGFUL FAMILY LEGACY**

Beyond the goals that HNW investors have for their assets are long-term priorities and aspirations for their families. These priorities and aspirations provide the building blocks for a meaningful and lasting legacy.

1. Almost nine out of 10 want to instill their core values in the rising generations of their family (see figure 4).

2. Three-quarters say they want to preserve the family unit and its wealth for at least five generations.

3. Almost two-thirds desire a personal or family legacy that will ensure their names and contributions will be remembered beyond their lifetime.

4. About half want to apply their wealth in ways that create social impact and leave the world a better place.

Advisors can use these four ambitious priorities as an overlay to a client’s core financial objectives. With this overlay, advisors can build a more nuanced understanding of clients, which leads to an enhanced level of engagement with clients.

That said, helping a client build a legacy can be a complicated and challenging journey that may require a combination of facilitation, tools, and family engagement to be fully realized.

The following sections explore how philanthropy and various charitable giving vehicles can be powerful tools for accomplishing each of the four legacy planning priorities identified above. In particular, family foundations can offer a flexible and creative framework to put a legacy plan in motion and help family members coalesce around their priorities, heritage, and desired short- and long-term impact.

**PASSING ON CORE VALUES**

Although values can be shared and learned through direct conversations among family members, they’re also demonstrated through life’s experiences,
or learning by doing. Philanthropy shifts a family’s focus outward toward serving others. It unites members around the common purpose of giving, a selfless act through which important values such as kindness, caring, generosity, and civic responsibility are taught.

Whether a family has a private foundation, contributes to a donor-advised fund, or simply engages in community service together, charitable giving spurs meaningful collaboration and learning among family members of all ages. It sparks values-based discussion about which causes are important to them and why.

For families with private foundations, younger generations can learn the founders’ values by assuming active roles in foundation management and direction. These activities present a chance to include people from different generations and facilitate dialogue around real-life examples of the family’s core values and include the following:

- Working together to craft or refine a mission for the foundation.
- Discussing how to approach giving, e.g., supporting only one cause or many, to effect change in a chosen area.
- Selecting which specific nonprofit organizations to support and how.
- Reviewing grant applications from nonprofits.
- Evaluating the impact of nonprofit partners.
- Evolving the foundation’s mission to reflect changing times or new priorities in a way that is consistent with the family’s long-term values and the founder’s mission.

**ACHIEVING DYNASTIC STABILITY**

In the context of legacy planning, dynastic stability refers to the preservation of the family unit and wealth for multiple generations. Because private foundations are designed to last in perpetuity, they are the optimal tool for creating and sustaining multigenerational continuity. They provide a legal entity, funding, and a set of bylaws that can be passed from generation to generation.

For many families, a private foundation becomes the mechanism for multiple generations to gather year after year as part of formal board meetings or simply to discuss the social problems they would like to see resolved. In doing so, they get to know each other on a new level, strengthen their unity, and focus on the issues that are important to the family.

This can be especially compelling as families become geographically, politically, or philosophically scattered. Competing priorities—kids, aging parents, work and social obligations, health and medical concerns, travel—can make it difficult to find time to talk about the things that matter, let alone take action. Family foundations can help maintain close connections by bringing a family together regularly around a common purpose.

To involve family members of all ages in a foundation, consider the following strategies:

- Employ family members at the foundation in various roles.
- Offer volunteer positions that can be filled on a part-time or rotational basis.
- Have family members serve rotations on the foundation’s board of directors.
- Permit discretionary grantmaking, a practice that gives foundation board and/or family members funds to donate independently without obtaining board consensus. This allows flexibility to support causes that might not fall within the foundation’s usual focus areas. This strategy can be helpful for engaging family members who lack interest in the foundation and its core mission.

**BUILDING A LEGACY**

Philanthropic activities provide many avenues forHNW clients who deem personal or family legacy an important goal. Private foundations specifically can play a valuable role in helping a family pursue its charitable mission by offering a robust philanthropic toolkit, attractive tax benefits, and a boost in stature.

For starters, foundations can be named in a way that supports the legacy planning aspirations of significant contributors. A hypothetical example is the Ruth Johnson Foundation for Early Childhood Development; this approach creates a clear connection between philanthropists and the causes they champion. Another hypothetical example is the Garcia family choosing to support the communities where it lives, raises its children, and operates a business. By channeling grants to various community organizations and initiatives, the Garcia family’s foundation helps establish a link between the family name and contributions that help sustain and improve a community. Additionally, when foundations take grant applications from nonprofits, it helps spread awareness of the family and its good works in a particular area of the charitable ecosystem.

Major donors can negotiate naming rights in conjunction with a significant gift. Some common examples include restoring a public landmark, expanding a school, or building a new facility named for an individual or a family. Although naming rights may be secured through direct donations, using a foundation may have some benefits when compared to

© 2023 Investments & Wealth Institute. Reprinted with permission. All rights reserved.
gifting directly. Because private foundations endure indefinitely, there is a party to the naming rights agreement that will endure beyond the donor’s death and can monitor the grantee’s compliance with the agreement. This is important because heirs typically are denied the right to enforce naming agreements entered into by individuals. Additionally, should a breach occur, it’s much easier to negotiate for the return of funds when the donor is a private foundation than when the donor is an individual. There also may be tax benefits to using a foundation for naming rights, especially if the gift is to a non-U.S. charity.

Another way to cultivate a durable legacy is through thoughtful succession planning that honors the founder’s wishes. In the legal profession, “preserving donor intent” is the phrase commonly used to describe the process of helping foundations remain true to their original missions. It generally involves working with the founders to define specific operational parameters for the foundation to ensure that the core values are preserved.

For example, some founders want their foundations to maintain certain values or principles, even as the grantee organizations or funding areas change over time. Others want their foundations to provide ongoing funding to specific charities or a particular cause. Still others want to ensure that no single foundation member gains too much power or influence over funding decisions. These types of wishes should be documented and shared with family members, foundation insiders, and legal counsel to avoid misinterpretation.

To help communicate their intent and avoid uncertainty, founders may wish to:

- Meet with family members of their generation and rising generations to share objectives and encourage participation.
- Connect formally and informally with fellow board members to discuss vision and priorities for long-term management of the foundation.
- Invite a younger colleague, friend, or trusted advisor onto the board to represent the founder’s voice when they’re no longer involved.
- Capture wishes in a letter or video that can be referenced by future leaders.

Articulating the founding intentions helps future generations respect and uphold these wishes by providing a blueprint for how to operate. Forthcoming generations of board members likely will appreciate having a clear understanding of the founders’ hopes and intentions. Although many boards may be eager to pursue new philanthropic initiatives that reflect the changing times and new priorities, most also place great importance on honoring the founders’ wishes and preserving their legacies.

EXERTING SOCIAL INFLUENCE

Although about half of HNW individuals want to use their wealth to create social impact, interest in this area is proportionately higher among inheritors, 61.3 percent of whom are focused on effecting positive change in the world. Philanthropy is an excellent outlet for this goal, because charitable activities and funding can be combined with advocacy, policy, and impact investing to drive specific outcomes.

As with many areas of philanthropy, this type of work can take many forms and is limited only by the imagination of the donors. This work offers family members exciting ways to deepen social consciousness and build a legacy that’s grounded in serving the greater good. It also offers a level of flexibility that enables philanthropists and their families to create change that feels authentic for them. Some examples include:

- Funding research that helps propel thinking and innovation.
- Devising solutions to large-scale problems, e.g., air pollution, homelessness.
- Eradicating a disease.
- Addressing social injustices.
- Leveling inequities in public and private systems and administrations.
- Training in specific fields or skills.
- Raising awareness of specific causes, plights, social issues, and populations through filmmaking, media, and entertainment.

Myriad opportunities exist for family foundations to propel social change. Private foundations are the most flexible and versatile of charitable giving vehicles, and they can enable philanthropy through a variety of activities, including the following:

- Grants to nonprofits as well as directly to individuals in need; program-related loans to nonprofits;
- Investing directly in for-profit ventures that align with the foundation’s mission;
- Direct charitable activities such as running museums or training camps; scholarship and awards programs;
- Impact investing.

Traditional grantmaking to nonprofits can play a role but often is just one part of a multi-disciplinary mission-driven program.

CRITICAL SKILLSETS FOR SUPPORTING PHILANTHROPIC CLIENTS

To help your clients act on the aforementioned opportunities, you will need to assess your capabilities in the following four areas.

Mindset. To successfully assist clients with charitable planning, you must have a willingness to think beyond investments and be more holistic in your approach, even if it means breaking new ground in your practice and your relationships. Consider yourself a steward for clients’ wealth and long-term objectives without setting limitations related to the
products, structures, or services that you rely on most frequently.

**Talking points and tools.** When approaching new topics with clients, it helps to have an outline and prompts to guide your conversations and ensure that you’re asking valuable questions and capturing meaningful inputs. This could include an informal list of ideas that you can use to shape your dialogue, brief introductory or educational materials approved for client use, and resources from third parties that help clients identify their philanthropic motivations and priorities.

**Technical knowledge.** In addition to working across both the taxable and the tax-exempt side of clients’ investment portfolios, delivering on tax-wise charitable solutions also depends on being fluent in (or having teammates who can assist with) tax planning, estate planning, and charitable vehicle evaluation and selection, and managing assets within endowments.

**Network of specialists.** Having a virtual roster of experts that can complement your practice will enable you to expand (and contract) the services that you provide clients quickly and efficiently without additional overhead. This can be especially useful in areas that may not pertain to your entire client base, such as philanthropic consultants to assist with activities such as goal-setting, mission development, charitable vehicles, and nonprofit research and professional facilitators that specialize in family or multigenerational dynamics and decision-making.

**CONCLUSION**

Philanthropy is a unique and specialized area that can create many benefits for everyone involved, so it’s worth thinking more broadly about how you serve your clients today and in the future. When you help your charitable clients align their wealth management and philanthropic objectives, you give them the framework for building a meaningful family legacy.

Bringing family members together to make the world a better place is what family philanthropy is all about. Helping your clients involve the next generation in their legacy planning and charitable activities can be the first step toward imparting the desire, confidence, and skills that younger family members will need to extend their families’ legacies of good works and generosity well into the future. A private foundation can provide a comprehensive and flexible toolkit to help families achieve those objectives and effect meaningful change.

Hannah Shaw Grove is chief marketing officer of Foundation Source, the nation’s largest provider of support services for private foundations, based in Fairfield, Connecticut. She earned an ALB in fine arts and humanities from Harvard University. Contact her at hgrove@foundationsource.com.

**ENDNOTES**

1. An average of 69.9 percent of high-net-worth respondents identified as philanthropic or meaningfully involved in philanthropy in six separate research studies conducted between 2001 and 2020. N Values: 2001 = 239; 2009 = 184; 2013 = 254; 2014 = 114; 2018 = 81; 2020 = 239.
