Incorporating Philanthropy into the Financial Advisor’s Practice

By Brad Hulse, CIMA®, CFP®, CAP®

There’s lunch in the conference room,” came the voice from across the bullpen.

“Who do I have to listen to?” I replied half-heartedly.

“Some trust company talking about charitable giving,” came the answer.

With a sigh of resignation, I elected to attend. After all, I was a young financial advisor, my career was far from secure, and a free lunch was still enough to get my attention.

The topic that day was charitable remainder trusts (CRTs) and how to use them to meet the needs of clients with highly appreciated securities.

“Very interesting,” I thought at the end of the presentation. “Now all I need are clients with highly appreciated assets.”

Clients with any assets were my niche market. But little did I know that those 60 minutes would set me on a path that would change my career and the way I think about the financial services industry.

Robert and Edith

Three weeks after that luncheon, Robert entered my office for his first review since becoming a client, and he brought a surprise. Robert had been a lifelong bachelor, but now at age 67 he was introducing me to his wife, Edith. Not only was Robert a first-time husband, but Edith, age 71, was a first-time wife.

After introductions and some small talk, Edith remained silent during the entire review of Robert’s portfolio. When we were done, she turned to Robert and said, “May I ask Mr. Hulse a question?”

The only thing more disarming than a 71-year-old woman asking to speak to a pup like me was what she had to say, and I shall never forget it.

“Mr. Hulse, I have a problem and I was wondering if you could help,” she said. “For the past 41 years, I have worked for an Indianapolis company as an office worker, and every chance I got I put a little bit of my wages into their stock. Today it is worth more than 20 times what I paid for it, but I feel like I have all my eggs in one basket, and on top of that, it doesn’t pay much in the way of dividends. I really want to diversify and earn more income, but I just hate the thought of paying all those taxes. Is there any way you can help me?”

After a moment of stunned silence, followed by some fact gathering (which also bought me some time as I frantically tried to recall the salient points of CRTs), I made my first case for a charitable remainder trust. I must have done a decent job, because Robert and Edith thought it was a good idea and decided to consider it and reconvene in my office a week later. So I did what any of you would have done over the next week: I learned everything I could about CRTs.

When all was said and done, helping my clients create and implement a CRT was the most gratifying event of my young working life, and I knew one thing: I wanted more experiences like this.

I wanted more experiences like this. Thus began my pursuit of philanthropic planning as a market niche.

Obstacles to a Philanthropic Practice

The advisor who wants to incorporate philanthropic planning into a practice faces hurdles that include the following:

- A complex tax code
- Appropriately wary compliance departments that understand the business risk of advisors appearing to give tax advice
- Clients who might otherwise be willing but are put off by sophisticated planning techniques
- Clients’ tax and legal advisors who may not specialize in this area but are unwilling to say so
- Heirs who see philanthropy as lost inheritances
- Charitable institutions that at best may cast a wary glance at the advisor community, or at worst see a financial advisor as an impediment to philanthropy

First Step: Education

The first significant hurdle for anyone who wants to specialize in philanthropic planning is the complexity of the tax code. If your heart is set on making philanthropy a part of—or the focus of—your practice, you need to educate yourself. Valuable resources are abundant on the Internet. Here are a few of my favorite websites that have good articles, information, resources, and related links available for all levels of expertise, including beginners:

- Planned Giving Design Center: http://www.pgdc.com
- American Council on Gift Annuities: http://www.acga-web.org
- Partnership for Philanthropic Planning: http://pppnet.org
- Association of Fund Raising Professionals: http://www.afpnet.org

If you are serious about pursuing philanthropic education or want to demonstrate a depth of understanding, I recommend investigating two professional designations:

- The American College’s Chartered Advisor in Philanthropy (CAP®) designation is the one I have experience with. It consists of three
If the charity is not already involved, consider asking your client if you can invite one of the charity’s representatives to the discussion, which just might make the difference between a plan that stalls and a plan that works.

Avoiding Mistakes

If you can learn from other’s mistakes (e.g., mine) I may be able to save you some time.

You can lead the philanthropy discussion with tax benefits, but you may spend hours preparing planning illustrations only to find that once your client talks to a tax or legal advisor, the complexity of the planning may kill the plan. Exasperation sets in, and the donor may conclude that it’s easier to do nothing. The antidote for this paralysis is to bring the attorney and the charity on board as advisors/partners from the start.

Importance of the Tax/Legal Professional

If the right tax or legal advisor (i.e., one that is knowledgeable in philanthropic planning) is involved, the planning becomes a lot easier for your client. Pursue philanthropic planning for long enough, and you eventually will run into a scenario that looks like this: The client has built significant wealth over the years, perhaps in private business, real estate, professional practice, or with a publicly traded company. Along the way, the client’s tax/legal advisor has been a valuable and trusted resource due to expertise in the client’s business. But the advisor who specializes in the area where the client grew the wealth may lack the expertise necessary for high-end estate planning. That’s not a problem if the advisor has a partner or associate who can step in, but it can be a deal breaker if the firm is small and/or lacks necessary expertise, especially high-end estate/philanthropic planning, and I have seen good plans come to a screeching halt when the donor lacks the proper motivation to see the planning process to completion. But when the charity’s representative successfully casts the vision for what could happen (improvements realized, needs met, lives changed, etc.) if the donor completes the gift, no amount of complexity will keep the donor from completing the plan, in my experience. If the charity is not already involved, consider asking your client if you can invite one of the charity’s representatives to the discussion, which just might make the difference between a plan that stalls and a plan that works.

Taking It to the Next Level: Working with Charities

It’s possible to build a successful investment consulting practice with charities without addressing the needs of their donors or the institution’s fundraising effort. But I’ve seen that the small- to medium-sized not-for-profit world can benefit from the advisor who can help manage investment assets and add value by helping add new planned gifts. Why? A staff member solely dedicated to planned giving is a huge institutional expense because experienced planned giving development officers command high salaries and it can be years before the charity reaps the rewards.

In my experience, all but the largest charities are reticent to devote large outlays to an endeavor that has a lead time measured in years. So boards may be quick to embrace the idea of planned giving, but for smaller charities this usually means asking the staff members who are responsible for raising annual funds to ask for planned gifts. Such an effort is doomed to stall at the level of the fundraiser’s expertise. Without a commitment to training, a charity risks underserving its constituency and conceding planned gifts to larger charitable counterparts.

For example, as split-interest gifts go, the charitable gift annuity (CGA) ...
is relatively easy, and in the current low interest rate environment seems like a no-brainer. But CGAs require training, gift policy development, and administration that many smaller institutions just are not prepared to handle. At the other end of the complexity scale lies the frequently overlooked charitable lead trust (CLT), which in the current economic environment (low interest rates and depressed valuations) represents the mother of all planning opportunities (both estate and philanthropic) for wealthy families. Either way, split-interest gift planning will advance no further than the level of the fundraiser’s competency and comfort level; all too frequently opportunity is forfeited to those charities that are so equipped.

I believe a great value-added proposition to the management of institutional funds is the opportunity to raise awareness of planned giving techniques to institutional stakeholders (boards, staff, donors, and maybe even constituents) without additional cost. But to do this successfully, you must establish your credibility with the charity, and that happens when you establish up-front your commitment to the sanctity of the charity-donor relationship. Our approach always has been to work in the background as a back-office resource to support the development officer, so he/she alone can interact with the client. When you make it clear to the charity your approach supports the development officer, the donor, and the relationship between the two, your credibility will rise. Never invite yourself to a donor meeting; rather, allow the charity to take the lead in inviting you to the table. Otherwise you risk the charity concluding you simply see it as a conduit to its wealthy clients, which is a sure deal-breaker.

Won’t I Lose Assets under Management?

One common objection I hear in the financial advisor community is that to be actively involved in helping clients give money away is to set yourself up to lose assets under management. Perhaps, but I see at least three ways you might gain in other ways:

1. In helping a wealthy client meet philanthropic objectives, you may get valuable referrals to others who have similar needs.
2. Your client may sit on the board of another charity that could use your expertise and may invite you to teach its board members how you can be of assistance.
3. Adding the ability to assist with large and complex charitable gifts to your resume may one day be the tie-breaker that gets you noticed in the charity’s request-for-proposal process and/or persuades a charity to hire you for the management of endowment or foundation assets.

The good news is a growing number of for-profit and not-for-profit organizations are allowing advisors to help manage client gifts made to donor-advised funds (DAFs). Recall the story about Robert and Edith. Edith survived Robert, and soon after created a second charitable trust. Later still, Edith decided she no longer needed the income from two CRTs, so with the help of a local community foundation she created a DAF that she then named as the remainder interest of her first CRT. With the community foundation’s help, she terminated that CRT and donated her income interest to the DAF as well, receiving an additional income tax deduction. Edith subsequently has passed away, but she named a nephew as her successor advisor, who to this day makes annual gifts from the DAF.

A Final Thought about Philanthropic Advising

A generous man will prosper; he who refreshes others will himself be refreshed.
—Proverbs 11:25

When Edith passed away, her family allowed me the privilege of accompanying them to present the checks representing the charitable remainder of the second CRT to her local church and to a home for troubled youth. To see the looks on the faces of the pastor and the director of the home was a great joy to me, and I am grateful her family allowed me that privilege.

Despite all of the obstacles, I cannot imagine a career path or niche more rewarding than philanthropic planning. Little did I imagine that attending that luncheon early in my career would launch me on a path that would bring me in contact with so many special people, families, and not-for-profits, and that by helping them meet their goals I would find the greatest of satisfaction. Come and join the party, there is plenty of room for all of us.

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