The Value of Philanthropy

The Wealth Manager’s Perspective

BY BRUCE W. BOYD

Many of your clients and prospective clients care as much about their philanthropy as they do about their investments. The interest you show in their giving may make the difference between average and outstanding client service—enabling you to deepen your relationship with those you serve, more accurately predict their liquidity needs, and engage your next generation of clients.

Over the next 50 years there will be an enormous intergenerational transfer of wealth. This transfer is estimated to be at least $40 trillion, and possibly much higher. Not surprisingly, an increasing number of advisors are interested in counseling people with respect to this wealth transfer, a significant portion of which will be dedicated to philanthropy.

There is value to you as wealth managers in being involved in your clients’ philanthropy, provided that you understand some core principles about effective philanthropy.

Background Worth Knowing—The Philanthropic Tradition in the United States

The U.S. tradition of philanthropy is unrivaled worldwide. In 2006, Americans gave $295 billion, more than the gross domestic product of all but the largest 25–30 countries and more than ever before.¹ More than 75 percent of that amount was given by individuals and families.

The generosity of Americans reflects a deeply held conviction that those who have more than they need should support others who are less fortunate. As a result, the vibrant nonprofit sector in the United States contributes to an improved quality of life for all Americans in education, the environment, health care, human services, and many other areas.

FIGURE 1 2006 Charitable Giving Total = $295.02 Billion

Source: Giving USA Foundation™ / Giving USA 2007

FIGURE 2 Types of Recipients of Contributions, 2006. Total = $295.02 Billion

Source: Giving USA Foundation™ / Giving USA 2007
The Value to You of Being Involved in Your Clients’ Philanthropy

Philanthropy is Important to Your Clients

Philanthropy should matter to you because it matters to your clients. While it is not your area of expertise, you want to be a resource for your clients about philanthropy and other issues that are important to them.

Your clients care about philanthropy because they want to “give back” to the community and support valuable organizations and causes. Philanthropy also is a way of supporting friends, colleagues, and others in areas that matter to them.

An important, yet often overlooked, role of philanthropy from the perspective of your clients is that it offers an opportunity to bring their families together around a meaningful activity. Many wealthy families are concerned about the impact their wealth will have on the values of their children. Philanthropy offers an ideal opportunity to transmit family values to the next generation, involve children in an activity that is outward looking, and engage the entire family in an important and meaningful activity.

As one of our clients recently said, “The work of our foundation brings us together and is the most meaningful thing we do as a family.” For this reason, the number of private foundations has grown by almost 90 percent in the past decade, to more than 100,000 nationwide, according to the National Center on Charitable Statistics.

Philanthropy is a Window to Your Clients and Their Children

Understanding a client’s philanthropic interests offers you the opportunity to develop a much deeper and richer understanding of your clients and their values and interests. Philanthropy also offers an opportunity to learn about the interests of the younger generation who are or one day also will be clients.

The philanthropic priorities of your older clients may not be shared by their children. In the case of one family with whom we worked, the parents feared that their children were not philanthropic because the children did not share their interest in the symphony and other organizations and causes. As it turned out, the children’s philanthropic interests were strong, but their passion was for protecting the coastline they had come to love through surfing and sailing. Honoring the interests of the children and giving them real authority with respect to philanthropy is critical in effectively engaging them. Both you and your older clients need to be sensitive to this.

Philanthropy is an Important Touch Point

Frequent interaction with your clients that is both positive and meaningful helps to build a relationship that is resilient and rich. Philanthropy offers you an opportunity to interact with your clients on an issue without the pressure of trying to sell a service or product. Offering counsel and serving as a resource will help you to cement a long-term relationship that is meaningful for both parties.

Moreover, if you are able to act as a resource on philanthropic issues by providing counsel and referring your clients to independent experts, the clients and the experts to whom you refer are far more likely to keep you in the loop on these issues. If such advice and referrals are provided by others, you will be a bystander with respect to this important activity.

Avoiding Philanthropy’s Pitfalls—What Your Clients (and You) Should Know about Effective Philanthropy

Philanthropy is far more complicated today than it was when John D. Rockefeller and Andrew Carnegie practiced it. A wide variety of structures can support a family’s philanthropy, a range of assets can be given, and a host of sectors and organizations vie for philanthropic support. The nonprofit landscape is crowded. There are more than one million charitable organizations in the United States, each with its own mission and strategy for addressing issues from health care to the environment, social justice to education.

According to a recent Capgemini and Merrill Lynch report, today’s philanthropist hopes to secure a “social return on their investments, rather than to just leave a legacy for future generations.” Making gifts that make a difference is every bit as challenging as finding investments that offer a substantial return. Effective philanthropy and successful investing require similarly disciplined approaches.

Here are some tips for building an effective approach to philanthropy that you may want to share with your clients. They also will help you develop a deeper understanding of this field. In addition, the Web site GiveSomeThought.com offers a useful tool for evaluating the effectiveness of a donor’s approach to philanthropy.

Develop a Plan—Lead Rather Than Be Led

There is a world of need out there, but philanthropy is most rewarding when it is focused on a specific, valued cause. An effective philanthropist identifies one or more causes about which he or she is passionate rather than simply responding to requests as they are made. Such focus allows philanthropists to say “no” to some grant-seekers, which is as important as saying “yes” to others.

Your clients should take the time to investigate the causes they want to support by consulting with people who are familiar with the issues. Is there an urgent need? Can the client help address that need? What results can he or she expect to achieve through philanthropy? These all are important considerations before thinking about which organizations to support.

Look beyond the Rhetoric—Make Good Investments and Avoid Bad Ones

Once clients decide on the causes to address, they must find nonprofit
partners to help maximize their impact. Some nonprofit organizations are more effective than others, however, and, as is true with a financial investment, one should invest where the return is likely to be greatest. Clients should perform due diligence before picking organizations to support. There are many stories of nonprofits that spend the majority of donated funds on administrative expenses rather than organizational missions or which appear busy but accomplish little. Encouraging your clients to take several important steps can help them avoid such problems.

Look beyond an organization’s rhetoric and glossy brochures. Many will claim to be “results-oriented,” to pursue “sustainable solutions” or pursue “value-driven” or “community-based” activities. What do those phrases mean in terms of their impact on a cause? Ask about the charity’s concrete results and how it measures its impact.

Scrutinize the organization’s tax returns and financial position. Does revenue exceed expenses? Are revenue sources diversified? Are administrative and fundraising expenses reasonable (no more than 30 percent of overall expenses)? Are sufficient funds set aside to cover unexpected events? The answers to these questions will tell a great deal about the strength and stability of the organization.

Remember that leadership is vital to the success of any organization. Encourage your clients to meet leading staff members and ensure they exhibit both strength and continuity. Look at the membership of the board of directors that oversees the organization. Ask about how the board is involved and the level of the board’s financial support. After all, the board knows the organization as well as anyone, and if board members are not contributing in a significant way, why should your client?

Decide How to Be Involved—Allocate Time, Talent, and Treasure Thoughtfully
Your clients can contribute three things to a cause or organization:

- Time, talent, and treasure. Your clients should think about how much of each they are able to give. Time and talent can be enormously significant resources to give. Nonprofit organizations depend upon the skills of volunteers, and a commitment of time sends a powerful signal to others about the importance of that cause and organization.

- Of course, organizations also value—and need—treasure. Most people think only about giving a percentage of their income. On average, Americans give 2–4 percent of their income, although high-net-worth individuals often give more. Many philanthropists also can afford to give from accumulated assets. Doing so can increase their impact.

Finally, your clients should be mindful that many smaller gifts will have less impact than a few larger ones. Not only are small gifts relatively more expensive to administer than large ones, but they often are not large enough to have a real impact on a cause or organization.

Measure Impact—Evaluate the Return on Your Philanthropic Investment
Holding nonprofit organizations accountable as a tool for measuring the impact of philanthropy is an oft-ignored yet vitally important practice. Forcing nonprofit organizations to be honest in their impact assessments ensures that they learn from their mistakes and become better at achieving their specific missions.

Organizations should measure impact and not just activities. Has the organization made concrete progress in achieving results that advance its mission? In the case of a halfway house with a mission to help individuals transition to more-productive lives, it is not enough to measure the number of clients who are served. The organization also must look at how its clients do once they leave the program. If a conservation organization is in the business of saving an endangered species, it is not enough to say it has bought some land or succeeded in getting a ban on hunting. The organization also must ask if those actions really are what the species needs to survive over the long term.

Get Help—Make Philanthropy a Joy rather than a Burden
Philanthropy should—and can—be among the most rewarding things your clients do, but it can be a complicated undertaking. Getting the right support is critical in making philanthropy a joy rather than a burden.

Clients can conduct philanthropy through a variety of vehicles including foundations, donor-advised funds, lead and remainder trusts or bequests, and a range of assets that can be gifted including cash, publicly traded stock, closely held stock, and real estate. Lawyers and tax advisors can be helpful in these areas.

In order to give money away wisely and effectively, it often will be important to consult a philanthropy advisor. This support’s importance is underscored by the fact that most families are not fully satisfied with their giving and are looking for help in making this activity more meaningful.4 Philanthropy advisors will help a family identify the following:

• the legacy the family hopes to leave
• the causes it hopes to influence
• the strategies that will be effective in achieving that impact
• the nonprofit partners that can help implement these strategies
• the results the family should expect to see

Philanthropy advisors also often will handle administrative functions associated with philanthropy, thus allowing family members to focus on the more-rewarding aspects of the work.

When and How to Refer a Client to an Advisor
You likely know when to refer a client to an accountant or lawyer. The role those professionals play gener-
The IMCA Investments & Wealth Monitor and editorial purpose has evolved from a “member changed since its inception, but its content that maximize wealth potential. conduit to cutting-edge investment strategies desire to serve as an ethical and trustworthy you expect, in a package that projects IMCA's sophisticated, high-level, practical articles that 2008 issue: The IMCA Monitor Unveils New Name, New Look: and be sure that a consultant has sure to ask for and check references, and be in a position to make aence with philanthropy consultants Colleagues also may have experi- selecting a philanthropy consultant. The Council on philanthropy and offer guidance on a number of credible sources can be consulted in seeking a philanthropy consultant. The Council on Foundations and the Association of Small Foundations support family philanthropy and offer guidance on selecting a philanthropy consultant. Colleagues also may have experience with philanthropy consultants and be in a position to make a recommendation. In any event, be sure to ask for and check references, and be sure that a consultant has the right experience and personality for your client.

Initiating a Conversation about Philanthropy

Wealth managers and other advisors often are uncomfortable raising the topic of philanthropy, in many cases because they feel they know little about it. You are, however, now armed with the basics and with the knowledge that there are experts who can serve as your partner in assisting your client. Take that knowledge a step further and develop an understanding of the causes that are important to your client. You now are ready to engage your client in a conversation he or she will relish.

Be sensitive to logical moments to raise the issue of philanthropy. Ask about the steps clients have taken to support causes about which they care and how they have involved their children in that activity. Your clients write checks to charities each year, thereby providing you with at least an annual opportunity to talk about philanthropy. In addition, certain events trigger an interest in philanthropy. These include the death of a family member, a liquidity event such as the sale of a business, or a pressing need or desire to engage the next generation. Watch for these opportunities.

Finally, remember that philanthropy is an issue about which your client is eager to talk. Donors are passionate about the organizations and causes they support, and your clients will appreciate your interest in their causes.

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Endnotes