Why Philanthropy Should Matter to Advisors

Four essential conversations advisors should be having with clients ASAP

By Timothy J. Belber JD AEP®

Key Takeaways:

- Many advisors greatly underestimate their clients' interest in philanthropy.
- Studies show less than half of HNW clients are satisfied with the philanthropic conversations they have with advisors.
- Helping clients with philanthropic planning gives you an emotional connection with current (and future) generations that goes far beyond traditional tax, investing and insurance. It can also help you retain AUM.

To many advisors, philanthropy is at best a tax strategy or a "check off the box" conversation. It should be far more important to advisors. It certainly is to high-net-worth (HNW) families. As *The Philanthropic Initiative 2013 Study on the Philanthropic Conversation* found:

Advisors and clients disagree about the focus of their philanthropic conversations. Advisors believe their philanthropic discussions are equally balanced between their clients' personal goals/interests and technical topics, but most HNW consumers say their advisors primarily focus on the technical aspects of giving, including tax consequences. HNW consumers want advisors to adopt a more balanced approach, focusing on both their personal passions/charitable interests and technical topics. Less than half of HNW consumers are fully satisfied with the philanthropic conversations they have with advisors, likely influenced by this disparity in advisor focus and client desires.

I can tell you from experience that creating a more satisfying experience with families around philanthropy generates real benefits for financial advisors. First, you are connecting with your clients at an emotional level far beyond the traditional tax/investing/insurance premiums level. Second, being involved in true family philanthropy creates the opportunity to get to know and work with the coming generations. Done correctly, a family philanthropy program can be empowering for all family members. Third, as you become involved with your client's philanthropic interests you will find yourself meeting, on a very favorable nontechnical basis, other families similar to your client. Last, creative philanthropy, as we'll see, can actually help you retain AUM or implement other financial strategies.

Four essential conversations

How does it start? I have found four conversations useful in helping families think about philanthropy.

1. The Legacy Conversation

Legacy is a word that means different things to different people. The definition I use with clients is simple:

What do you want (your children/grandchildren/someone) to feel, think and say when they hear your name?

That leads to the next questions:

How does your current approach to philanthropy support your Legacy Statement? Should we explore ways to better align those two?

2. The Gratitude Conversation

I often hear statements such as "My children/grandchildren don't appreciate what they have!" or "I wish my children were more grateful for what I have given them."

In *Strangers in Paradise,* Dr. James Grubman lays out an interesting reason that so many wealth earners make this complaint: It's for the same reason I cannot appreciate the freedoms of living in the United States nearly as much as someone who emigrates here from Cuba or North Korea does.

Children (and often grandchildren) of wealth holders do not appreciate what they have for the very same reason we do not appreciate so many things in life: We are born into them.

If you were born in the United States, or in almost any modern country, you take things like electricity, plumbing and the telephone for granted. You have probably had them for your entire life. On the other hand, someone who emigrates from a small remote village in Africa to the United States will marvel at the flush toilet. He or she will look at you and me and say, "You don't appreciate what you have!"

Family philanthropy can be a way of bringing gratitude to life. A simple gratitude exercise (name three things you are grateful for today) followed by a conversation about how you can express that gratitude through philanthropy is an eye-opening experience for families.

3. The Sustainability Conversation
HNW families enjoy life in many different ways. Being mindful of what it takes to have and sustain that world is another entry point into meaningful family philanthropy. The opening question is, "What about your world today do you want your family to enjoy for future generations?" This is followed by the questions, "Have you ever considered what it will take to sustain that?" and "Have you discussed this with your children?"

Real-world example
The best example I have seen is a family vacation home in a ski resort community. Most families are not mindful of what it takes for them to fly in, enjoy the mountain, eat great food and have an overall wonderful experience. It requires a lot of people who also want good housing, educational opportunities for their children and good health care. Keeping the environment of the mountain pristine is also critical to the experience. Sustaining the family's overall mountain experience for coming generations requires a commitment from the family to support organizations in the resort community, such as a local scholarship foundation or various environmental philanthropies. I've seen families base most of their philanthropic giving around this idea because they see philanthropy as more of a two-way street with returns flowing back to them instead of the old one-way street benefiting the charity alone.

4. The Preparing-Heirs Conversation
It is often a wake-up call for wealth owners when you ask them what is being done to prepare their heirs to receive assets. Philanthropy offers an opportunity to ease into the bigger conversations around wealth and its role in the lives of family members. It can also help restore and support family relationships.

I saw this occur in a powerful way at a family meeting. One of the agenda items was the family's philanthropic contributions for the year. All five of the adult children had been allocated funds to donate to a charity of their choice. Each child was charged with making a short presentation about that choice before the family.

For several years, the eldest son had been distant from his siblings. His two sisters, in particular, had previously demonstrated great disrespect for him, his lack of formal education, and his seeming lack of interest in any family events involving money. When it was his turn to announce his charity, he spoke about the importance of maintaining Civil War memorials so that we remember how America once found itself pitting brother against brother. His passion about the consequences of that war and the lessons to be remembered came through so clearly that both his sisters changed their minds and decided to donate to his cause instead. The girls saw him in a new light, and he learned that money can be deployed in ways to keep families together rather than in ways that divide them.

Personalized Philanthropy

In his new book, *Personalized Philanthropy: Crash the Fundraising Matrix,* Dr. Steven L. Meyers outlines several new approaches to creating impactful philanthropy based on donor goals rather than institutional needs. Having a grasp of his concepts can lead to great results for advisors, donors and charities. Here is a quick example from my own experiences (with names changed).

I met with Pete, a longtime client, to discuss the agenda for our next family meeting. The primary topic was philanthropy and understanding how you uncover your own philanthropic capacity. This was a good-size family: parents (mid 60s), three married children and ten grandchildren. They had a significant family net worth in the range of $750M, mostly illiquid with good cash flow. They had a liquidity event on the horizon, but not anytime soon. I've done planning, education, life insurance and a variety of things for them over the past 15 years.

After reviewing my proposed agenda, I asked the family patriarch, Pete, what his current thoughts on philanthropy were. He said one of his dreams was to endow a chair at his alma mater, a great engineering school. I asked what that required, and he replied it would take between $1.5 million and $5 million, depending on the chair. Prior to learning about Dr. Meyers' ideas, my response would have been that we should add that sum into how we plan for the liquidity event.

But I asked Pete if he was familiar with the "spend rate" on endowments. He said he was and that he understood it to be between 4 percent and 5 percent. I was surprised he knew about spend rate, and he commented it was because of the number of boards he sits on. So I laid out the idea of a virtual endowment with annual gifts of $60,000 to $70,000, followed by a "completion gift" from the liquidity event or from his estate—all formalized in a "pledge agreement."

Pete loved the idea and said it would give him "great joy" to be able to see a chair from his family sooner rather than later. He was able to hold onto the principal in an investment account while getting the satisfaction, impact and recognition he desired.

Pete is setting up lunch for the foundation president and me to talk about the power of alternative strategies to improve giving and donor satisfaction. He also wants to talk about some of the other causes he is involved with to see how I may be able to help donors to those causes.

To me, this underscores the importance of financial planners, estate planners and other family advisors gaining an understanding of family philanthropy in general and personalized philanthropy in particular. It is putting me in front of the families I want to talk to and is helping important causes sustain the vital work they do.

About the Author

Tim Belber, founder and principal of The Alchemia Group in Denver, focuses his practice on helping self-made families align the power of their financial assets with their long-term goals for flourishing as individuals and families across generations. Tim has degrees from the Wharton School and Seton Hall University School of Law and is an Accredited Estate Planner (AEP®). He is the author of the forthcoming book, The Middle Way: Using Balance to Create Successful Family Wealth Transition Plans.