

Your Clients' Philanthropy: Is It Your Business? (It Should Be!)

Positioning Yourself as “THE” Trusted Advisor to Your Clients Right Now, in this Economic Environment.

King McGlaughon, Chief Executive Officer

During your typical periodic client review, do you discuss current market conditions, your firm's economic outlook, and your client's investment strategy, asset allocation, retirement and/or estate plan?

Certainly.

Do you discuss their charitable giving and involvement with philanthropic organizations?

Probably not.

Are you missing a key strategic opportunity to deepen your relationship with your client?

Most definitely.

Many advisors don't bring up or discuss philanthropy with their clients. There are many reasons, but some important ones are:

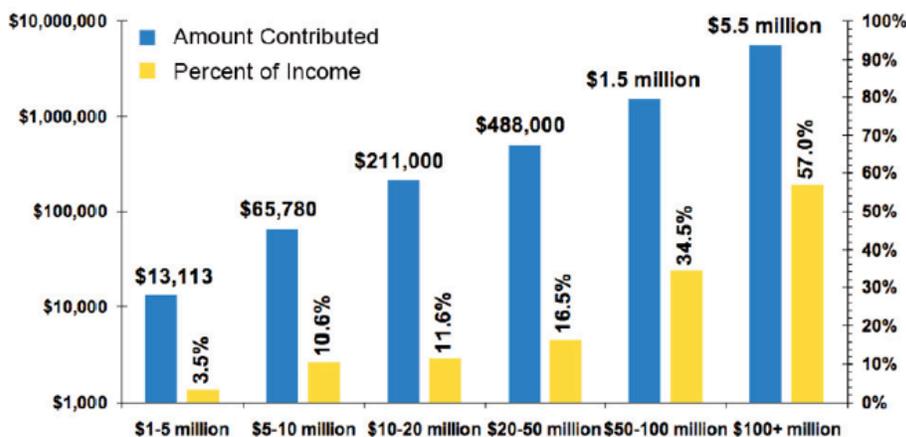
- They don't think the topic matters to their clients.
- They don't think it's their role to engage this subject.
- They don't know how (or lack confidence) to start the conversation and follow through with their clients.

The most successful advisors are involved in virtually all aspects of a client's financial life, from wealth acquisition to wealth management to wealth distribution. They position themselves as a trusted, knowledgeable advisor and solution provider. However, many advisors limit the scope of their services to the core areas of the client's life about which they are the most immediately comfortable; most often, to the areas addressed by the core components of their practice of origin—law, accounting, investment management, etc. Advisors don't always tune in to the fact that the charitable giving needs of the high-net-worth and the ultra-high-net-worth client are often as important to the client as the matters that initially brought the client and the advisor together.

Most Americans are extremely generous and are engaged regularly in recurring charitable giving. Over 80% of us give to charities each year. As our wealth increases, so does our philanthropic activity: 95% of clients with a net worth of \$1 million or more make significant charitable gifts each and every year; over 98% of clients with a net worth of \$5 million or more also do so. As most advisors (and their firms) look increasingly to “go up-market” in order to compete successfully and profitably for new clients and to increase their share of the “client’s wallet,” they are engaged more and more exclusively with people for whom charitable giving or philanthropy is a critical, core component of their lives. Not an “every-now-and-again” activity, but a constant, critical concern of the client. High-net-worth and ultra-high-net-worth clients regularly identify philanthropy and charitable giving as one of their top four concerns in terms of advice, service and support—along with tax planning, investment management strategy and solutions, and estate planning.

And for these clients, the annual financial commitment to philanthropy is significant and grows as their wealth increases. The following table, based on IRS data, shows the average amount of annual charitable giving provided by high-net-worth individuals according to their net worth.

The Importance of Giving for the Affluent



Annual Amount of Charitable Giving by Family Net-Worth.

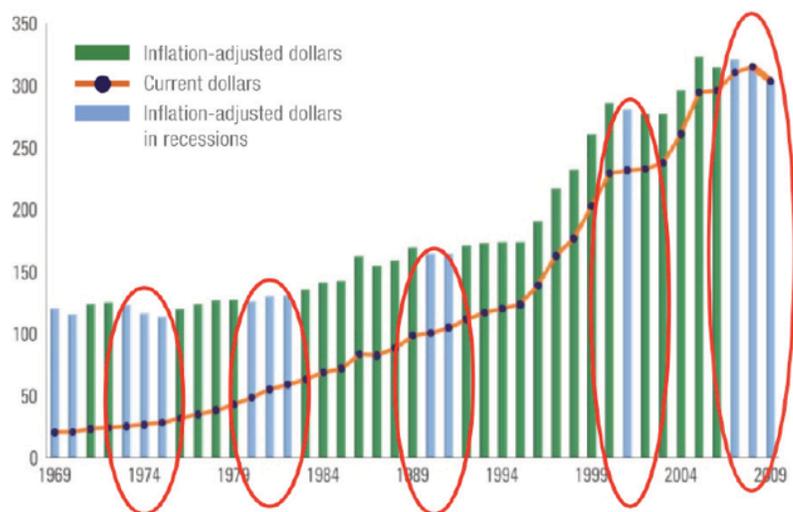
Source: Boston College — Social Research Institute & Bankers Trust

The chart indicates that if you have a client or prospect with a net worth of \$15 million, she is likely making over \$200,000 in charitable gifts each year. If your client was seeking and purchasing \$200,000 of mutual fund shares, stocks, bonds, etc., each year without your knowledge, guidance or advice, wouldn't you want to correct that situation? Of course you would! You'd have to in order to protect your client and your relationship with her. That's exactly the situation you have when a client is engaged in \$200,000 of philanthropy each year, and you're not seen as part of that core financial behavior. If you're not supporting and advising that activity, someone else is or soon will be. And if that is the case, it won't be long before you may be displaced from the client's field of top trusted advisors.

Particularly in the current environment, clients are looking for advice, strategy and solutions that allow them to maintain or increase their level of support to charitable organizations they value. Given the volatility of financial markets, clients will experience a perceived gap between what they want to accomplish financially this year and what they feel they can accomplish. These clients need something to help plug that gap. You can provide tools, techniques and tactics that allow them to harness their assets more efficiently in support of their short-term financial goals—including philanthropic goals—without undermining their current financial security or their ability to meet and support longer-term planning goals.

One of the major myths of financial advisory services is that charitable giving drops when the markets are down and increases when the markets are up. That couldn't be further from the truth. As the following chart shows, except for last year, which was clearly an aberration, giving in the U.S. increases every single year, especially in years of recession (blue years circled in red) and “uncooperative markets.”

Total Giving, 1969-2009

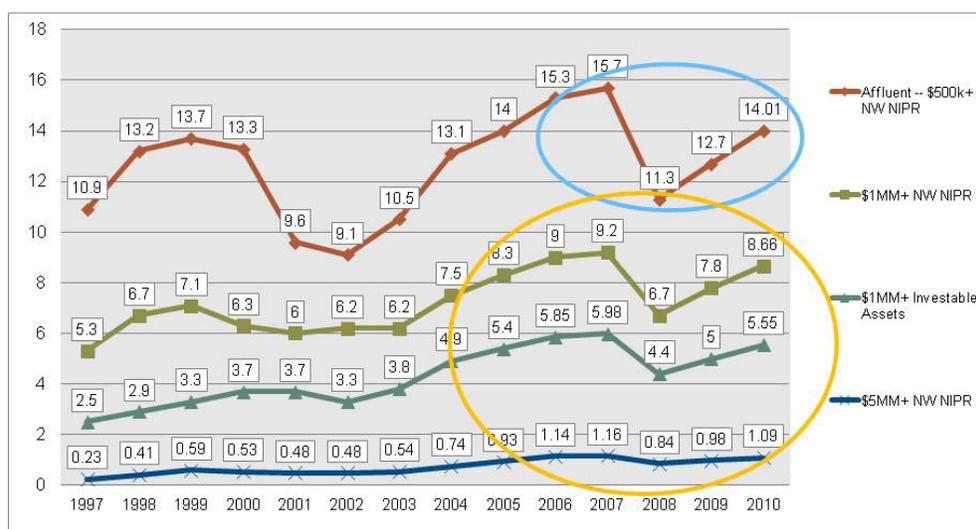


Total Annual U.S. Charitable Giving (in billions)

This chart shows that even in the past two years, which are without precedent in our lifetimes, total giving has been at or above \$300 billion annually, with individual giving through current gifts, gifts at death, and gifts through private foundations accounting for 90% or more of that total each year.

The chart below shows that, by the end of 2010, clients in every net worth segment, except the “mass affluent” segment (from \$500,000 to \$1 million in net worth, blue line at the top of the chart), had recovered asset values to pre-recession (2007) levels (yellow circled data in lower three tiers of the chart). And while clients clearly have developed a more conservative approach to financial actions than prior to the recession, during the first two quarters of 2011 their financial behaviors were returning to “normal.” Clients generally are looking for more settled solutions with less risk attached, but charitable giving clearly falls within the range of “normal” activity that high-net-worth and ultra-high-net-worth individuals continue to fund.

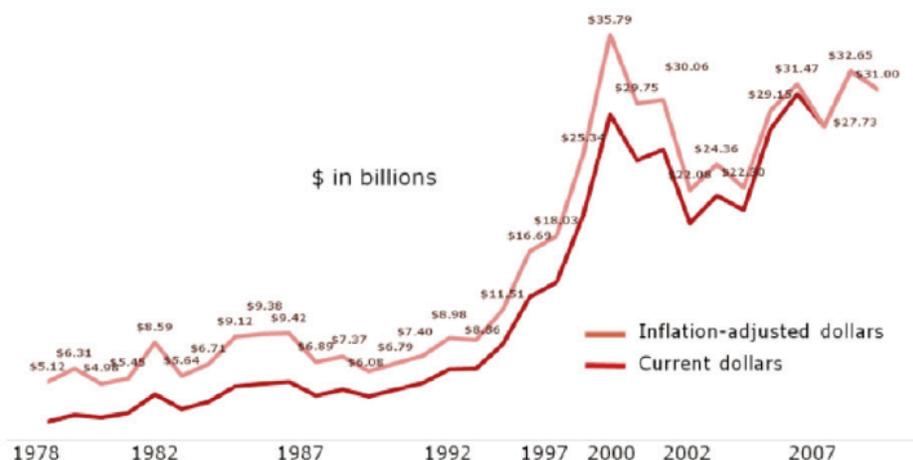
The Environment Today



In the current economic and market environment, history shows that your best clients will continue to give at current or at even higher giving levels compared to previous years. Given this commitment to ongoing charitable funding, clients will need solutions for stretching their assets and financial resources as far as possible to allow them to meet all their financial goals without sacrificing their immediate financial security. Strategic philanthropic planning—using a variety of planning tools including charitable remainder trusts, charitable lead trusts, and private foundations—is a necessity for these clients. These tools allow them to enhance both the current as well as long-term value of all their assets (not just their traditional financial assets) for planning and for reaching their overall wealth goals.

As the chart below shows, over the last decade, high-net-worth clients increasingly looked to private foundations as an integral component of their overall wealth and charitable planning. From 1978 to 1992 funding to foundations was relatively flat. Since that time, however, individuals have been funding private foundations at three times the historic level, having consistently added at least \$20 billion to private foundations each year since 2001, a relatively weak and volatile economic period. This demonstrates the high value placed by this client segment on the rewards associated with creating, funding and operating a foundation as part of their personal and family wealth infrastructure.

Foundation Funding, 1978-2009



Understanding how to create, fund, operate and use a private foundation strategically is extremely important to your success as a trusted advisor to this client segment. High-net-worth clients want to collaborate with advisors who understand and appreciate what is important to them—including the intangibles of wealth, such as legacy, values and concerns about heirs. You should discuss philanthropy with your clients because it's important and meaningful to them, not simply as a smart tax strategy, but as a way to invest in the family, the community and the future. For most high-net-worth individuals, charitable giving is part of who they are and what they want their legacy to be. For these clients, their philanthropy is an essential part of their wealth management strategy, not merely a tack-on.

If philanthropy and private foundations are important to your current clients or your targeted prospects, and you do not acknowledge this interest and show comfort and confidence around this core financial strategy, how successful will your long-term relationship be? If you helped your clients accomplish the planning they must do, along with helping them with their philanthropy, something that they want to do, would your relationship with the client be better? A successful private wealth manager can help clients with both the financial planning they must do as well as with the wealth planning that supports their intellectual and emotional pursuits. If you already have the resources in place to smoothly facilitate philanthropic pursuits, so much the better.

There are three essential elements to incorporating charitable giving into your private wealth management practice. Start by adding a discussion about philanthropic activities and interests as part of every periodic relationship review with your clients. Know and show interest in your client's philanthropic activities including giving, board membership and volunteer service. Develop and be an active supporter of a cause or issue that is important to you as well. This will allow you to develop your own understanding of charitable organizations, causes, and the language and culture of philanthropy and nonprofit organizations.

It also helps if the private wealth manager engages the family in a discussion about philanthropy and its value to the family. This makes it easy to address what kind of legacy your client currently has, what kind of legacy they plan to leave, and how will that legacy be managed in the future.

Obviously, legacy is much more than an account balance. The legacy they currently have is a combination of their current assets and their current activities—but as a client progresses through wealth acquisition and building to wealth management, they often desire something more concrete to assure them that their lives and efforts meant something.

Questions to ask: Are their heirs involved? Is the client making the kind of difference she hopes for? Is the client fulfilling goals and aspirations that wealth was supposed to allow him to fulfill? What challenges are they facing? We devote our careers to helping clients accumulate, preserve and pass on their monetary assets. Are we devoting the proper time and energy to ensure that the next generation will be outstanding stewards of the legacy they receive? Are the charitable organizations your client supports able to properly manage their support and honor the donor's intent? As a private wealth manager, you have a responsibility to both your client and the next generation to find positive answers to these questions.

A final point about legacy: the most difficult point in any client relationship is the death of the primary client. All of the time, energy and success built in that primary relationship can be lost at that single point in time. History shows that without adequate connectivity between the advisor and the next generation, the vast majority of heirs will fire the parent's advisors and hire their own team. Philanthropic planning and, in particular, the creation and support of a private foundation as part of the client's wealth strategy, can assure that the advisor meets the next generation on positive terms, creates trust with that next generation, and succeeds in negotiating this critical relationship boundary with the family's trust intact.

Foundation Source can assist you in developing the skills and confidence you need to engage your best clients and prospects fully in the area of philanthropy and charitable giving. We can provide significant resources to you and to your clients to assist in the development and delivery of a comprehensive wealth and philanthropic strategy that will allow the client to accomplish all her personal financial goals while positioning yourself as the trusted advisor to the client and to the client's heirs. Let us help you compete and succeed in this critical client marketplace.

About Foundation Source (www.foundationsource.com)

Foundation Source is the nation's largest provider of comprehensive support services for private foundations, bringing unparalleled knowledge and expertise to clients across the country. The company's administrative services, online foundation management tools and philanthropic advisory services provide a total outsourced solution for private foundations. The result: better-run, more effective foundations and more enjoyable philanthropy. Our clients supply the funds, the vision and the philanthropic goals; we provide everything else.

Today, Foundation Source provides its services to more than 1,100 family, corporate and professionally staffed foundations coast to coast, ranging in size from \$250,000 to over \$500 million. The company provides its services directly to philanthropically focused families and institutions as well as in partnership with the nation's leading private wealth management firms, law firms and accounting firms. Foundation Source is headquartered in Fairfield, Connecticut, with auxiliary locations in Atlanta, Chicago, Dallas, Denver, Los Angeles, New York City, Philadelphia, San Francisco, South Florida, and Washington, D.C.



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