



Advancing Philanthropy: Tapping the Potential of Legal and Financial Advisors

By Stephen P. Johnson, Esq.

Manuscript for *Trusts & Estates*, Summer Supplement 2000

© The Philanthropic Initiative, Inc., 2000
Boston, MA

“Most people have a philanthropic tendency, it just has to be cultivated. I had a client who just didn’t realize that he had choices. But given the opportunity he began to think about his community and making a difference.” Accountant

As the new millennium begins, the opportunity to increase philanthropic giving has never been greater. The forthcoming intergenerational transfer of wealth – now estimated at between \$40-\$130 *trillion* dollars over the next 50 years – has no precedent. The professional advisor is uniquely positioned to ensure that the opportunity is seized, that the moment is not lost.

Professional advisors have the access and opportunity to influence the way their clients think about and allocate their wealth. The estate planner working on a will, the financial advisor sorting through investment strategies, and the family business advisor helping a family prepare for succession, have compelling reasons to raise the subject of philanthropy with their clients.

The encouraging news is that more and more advisors appear to be asking “the philanthropic question” – discussing their clients’ interests in philanthropy during the course of the wealth planning process. Less encouraging is that many advisors do not feel they are asking the question well. And many of those clients – donors and potential donors – agree.

What follows is a snapshot of how advisors do (and don’t) make philanthropy a part of client wealth counseling, and a number of ways that philanthropy might become a more consistent, integral part of advisor practice.

Genesis

Throughout its 11-year history The Philanthropic Initiative (TPI) has consistently sought to increase the quantity and improve the quality of philanthropy. One of the ways it has attempted to do so is by better understanding the way in which advisors - lawyers, financial planners, accountants, insurance professionals, and others – approach the subject of philanthropy with their clients.

In 1996, TPI’s Joe Breiteneicher, working with the Council of Michigan Foundations, interviewed in person some 150 advisors in Michigan. Among the findings from that study (reported in *Trusts & Estates*, August 1996) were: (1) Few advisors routinely asked their clients about philanthropic interests. (2) A majority only discussed philanthropy if the client raised the issue first. (3) Discussions regarding philanthropy focused largely on the tax consequences of giving. (4) Many advisors felt that any inquiry into a client’s philanthropic interests was unprofessional – possibly even unethical – and could result in the loss of the client’s trust and, or even his or her business.

In the same year, a TPI study of 80 high-wealth clients (\$100 million +) of Bankers Trust found that fewer than half of the respondents had been encouraged to be philanthropic by their legal or financial advisors, even though the majority looked to their advisors for such guidance. The study also suggested that advisors did not feel it was their role to ask the philanthropic question.

In December 1998, with the support of a generous grant, TPI launched a research initiative to test the continued validity of the Michigan and Bankers Trust findings, and to learn more about: advisor motivations for giving philanthropic advice, client motivations for charitable giving, the giving mechanisms donors employ, and the kinds of philanthropy-related resources advisors need.

The returns from that study are in. While the data offer encouragement about advisor practice and philanthropy, they also point up opportunities for advisors to serve clients better, to add value to their own practice, to distinguish themselves from the competition, and to increase the nation's social capital.

Research

TPI concluded this research in March 2000. The project was guided by 20 senior representatives of four advisor professions. Principal research components included:

1. A survey of some 500 advisors to high net-worth clients, including insurance professionals, financial advisors, accountants, and lawyers. The survey was conducted by the Opinion Dynamics Corporation (ODC), of Cambridge, MA, a national public opinion research firm.
2. In-depth TPI interviews with an additional 80 advisors.
3. Forty donor interviews and surveys designed to capture the donor experience with their advisors.
4. Focus groups, workshops, and group conversations with advisors and development professionals to refine and interpret the data and findings.

TPI gratefully acknowledges the assistance of the four professional associations that shared the membership lists from which the sample was drawn: the American Institute of Certified Public Accountants; the American Bar Association's Section on Real Property, Probate, and Trust Law; the International Association for Financial Planning; and the Association for Advanced Life Underwriting.

Advisor Behavior

Many advisors are acutely aware of their clients' interest in comprehensive counsel about the philanthropic process. Many are genuinely eager to help. But in their own words, too many "are afraid to ask the hard questions." Many "move too quickly" to discussions of

giving mechanisms, before fully engaging their clients around values and motivations. And many “would do more if they knew how.”

The ODC survey of 500+ advisors revealed, among other things:

- Almost 90% of advisors make it a practice to raise the subject of philanthropy or charitable giving with their high net worth clients.
- However, of the advisors who do raise the subject with clients, only half (54%) discuss it with all of their high net worth clients.
- More than nine in ten advisors raise the subject of philanthropy with their clients if there are highly appreciated assets, confirming that tax considerations remain an important motivation for many such discussions.
- Eighty-six percent of advisors disagreed with the proposition that they only discuss charitable giving “when the client expresses an interest in it first.”
- Advisors say that clients’ motivations for giving are, first, caring about a cause or institution (73%), and second, the tax benefits of such a gift (57%).
- But advisors are far more likely to feel that tax savings are the primary reason for clients to engage in charitable giving. Clients should give “to make a difference, to help people” (41%) and for “tax reasons” (40%).
- Advisors believe that the greatest deterrent to greater client charitable giving is the fear that if they do they will not have enough money left for themselves (54%) or their children (48%).
- Surprisingly perhaps, the high-net-worth clients (net assets exceeding \$2 million) of these advisors do the great majority of their giving through direct gifts. Very few have private foundations, charitable trusts, or donor advised funds at either community foundations or for-profit gift funds.

On their face, these findings might suggest that much has changed since 1996, that advisors are talking more consistently and effectively with their clients about client philanthropic objectives and practices. But upon closer examination, the complete picture is not so clear.

The survey work was completed in the summer of 1999. But subsequent interviews, focus groups, and discussions with senior advisors revealed that:

- A large majority of advisors interviewed would like to become better informed about how to make charitable giving conversations more effective. Put differently, most advisors still feel there is ample room for improvement in their philanthropy-related practice.
- Over half of those interviewed do not discuss their clients’ personal or social values, or help them develop a philanthropic mission.

- Nearly two thirds of advisors have very limited philanthropy toolboxes. Most rely consistently on one or two planned giving vehicles, regardless of the client’s circumstances or charitable intent.
- A large majority of advisors would like access to more and better tools to help counsel clients about philanthropic options.
- A significant majority of those advisors who do actively pursue charitable giving conversations with clients consider themselves to be philanthropic.
- Advisor perceptions about their role continue to vary, from those who see opportunities to help clients “make a difference,” to those who continue to believe that even to raise the topic of philanthropy may create a risk of alienating the client.

These findings, supported by the impressions of donors, strongly suggest that not a great deal has changed in the last four years.

Assistance in Defining Philanthropic Mission and Program

Many donors are eager to discuss their personal values with their advisors, and many say they would welcome help in shaping their philanthropic mission. Some report that this is the most important philanthropy-related counsel they ever receive. Seasoned planners recognize this need, and underscore the importance of matching giving mechanisms to client values and mission. But the research indicates that more than half of all advisors neither discuss their clients’ personal or social values, nor help them develop a philanthropic mission.

The survey also indicates that less than half of all advisors assist their clients in defining a programmatic focus for their giving.

“Leaving aside conversations with clients about their interest in philanthropy generally, do you develop strategies for helping clients develop a focus for charitable giving?”

| | <u>Total</u> | <u>Insurance</u> | <u>Financial</u> | <u>Accounting</u> | <u>Lawyer</u> |
|---------------|--------------|------------------|------------------|-------------------|---------------|
| 1. Yes | 39% | 41% | 44% | 26% | 43% |
| 2. No | 60 | 57 | 56 | 73 | 56 |
| 3. (Not sure) | 1 | 2 | -- | 1 | 1 |

When advisors the areas in which they would like to improve their practice, it is often in this area of wealth counseling.

Referrals to Philanthropy “Insiders”

Previous research had shown advisors hesitant to refer clients to third parties for philanthropy-related counsel. This reluctance appeared to stem from a failure to recognize the nature of the client’s need, a failure to recognize the advisor’s own lack of expertise, or fear of jeopardizing the advisor-client relationship. Now, 50% of planners say they will, where warranted, bring a third party into the mix. It is significant, however, that the majority of such referrals are not to community foundations, planned giving officers, or philanthropy consultants, but to lawyers.

“Do you refer clients to other parties who can help them focus their giving or identify worthy gift recipients?”

| | <u>Total</u> | <u>Insurance</u> | <u>Financial</u> | <u>Accounting</u> | <u>Lawyer</u> |
|--------|--------------|------------------|------------------|-------------------|---------------|
| 1. Yes | 50% | 65% | 50% | 46% | 42% |
| 2. No | 49 | 34 | 49 | 53 | 57 |

The Donor’s Perception of the Advisor Relationship

Donors who were questioned for the study see the advisor/client relationship rather differently than do many of the advisor participants. The great majority of donors report it is they, rather than their advisors, who typically raise the subject of philanthropy in wealth planning discussions.

Many donors wish their advisors were more knowledgeable about philanthropic planning, that advisors would take a more “holistic” approach to their giving, rather than focusing on tax deductions and specific giving mechanisms.

Most of the donors surveyed believe their advisors are technically competent. But they also believe most advisors lack the tools and/or comfort levels to link technical counsel to more personal, values-based philanthropy planning.

Donors say they want to be guided in their philanthropy to achieve important objectives. They want to be equipped to create cohesive giving programs, evaluate the impact of their gifts, and know whether they’ve made a difference.

In TPI’s experience with families and individual donors, those who seek to convert a portion of their personal capital into social capital often want or need some or all of the following:

- Stimulation and/or cultivation of their philanthropic interests. Many donors need to achieve a comfort level with their wealth.
- Opportunities to explore, develop, and/or refine a sense of mission that will motivate their giving.

- Advisors who are knowledgeable about philanthropic planning, or who can put them in touch with others who can.
- Advisors who can link information about giving choices to a larger philanthropic process, one that embraces strategic planning.
- Opportunities to create effective and/or innovative gifts and giving programs.

What donors need and want, and what the professional advisor can and is willing to provide, may in many cases constitute a mismatch. And certainly not every advisor must be a skilled philanthropy consultant. However, it is TPI's view that at a minimum, advisors should be equipped to ask the philanthropic question, and to ask it well. And they should be able and willing to make referrals to other sources of expertise as needed.

Advisor Profiles

Based on the research, TPI built the following three advisor profiles:

Initiators - Philanthropy initiators almost always raise the topic of philanthropy with their clients. They see an important part of their role as helping clients use philanthropy to make a difference in society and “in their lives.” They often believe that part of the advisor role is to promote good citizenship. And they feel that philanthropy counseling helps advisors stay competitive.

Facilitators - Philanthropy facilitators may see philanthropy counseling as important, but often feel their skill is lacking. They seldom reference their own giving or civic involvement as a strategy to enrich client conversations about philanthropy. While they sometimes discuss their clients' personal values and philanthropic goals, they would be more proactive if they had better command of the tools.

Followers – “Followers” are just that; they almost always follow the client's lead in discussing philanthropy. They rarely talk values or focus. Tax planning is the most important – often the exclusive – reason to discuss philanthropy. Followers fear they may alienate clients if they push too hard. And they are often wed to the use of one or two giving vehicles, to the exclusion of others.

Suggestions and Tools

Professional advisors alone do not hold the key to tapping and expanding the nation's philanthropic potential. But with sufficient encouragement, information, tools and conviction, they can supply a critically important resource.

Based on the research – and in significant part on what advisors themselves said – we would urge advisors, their professional associations, and philanthropy professionals to:

1. Offer Continuing Professional Education that informs advisors about the opportunities for philanthropic impact and client service in the multi-trillion dollar intergenerational transfer of wealth.
2. Illustrate the added value for both client and advisor in incorporating philanthropy counseling into client practice. Highlight the ways in which incorporating philanthropy into wealth counseling can enrich advisor-client relationships.
3. Convince advisors that for the client who seeks philanthropy-related counsel, time expended on values-based philanthropy planning is as important as the actual creation of the giving mechanism. And it is billable.
4. Persuade more advisors that donors seek comprehensive wealth and philanthropy planning – as opposed to ad-hoc advice focused on giving tools and grants to specific organizations.
5. Identify and explain the role of potential partners in the planning process, i.e., philanthropy advisors and philanthropy-related organizations.

“Advisors want to know about the whole process. Often they will say, that’s not my area of expertise. What am I doing with these tools? Who am I to be asking them about their deep values? I don’t know how to do it. I don’t have the professional skills to deal with it.” Financial Planner

The following are among the tools that advisors say they would like:

- Strategies for helping clients shape values, goals, and mission
- Sample personal/family philanthropy mission statements
- Sample lines of questioning about philanthropic objectives, and colloquies that illustrate effective and ineffective practices
- Outline of a philanthropic planning process, from values identification to “social investment strategies”
- An outline of “best practices”
- A bibliography of outstanding tools
- A flow-chart highlighting a process for bringing philanthropy advisors and philanthropy professionals into client counseling
- Materials offering a step-by-step process for creating family foundations
- A chart of giving mechanisms chart, identifying the merits of each

There is ample opportunity to develop and disseminate such materials. Indeed, planned giving councils and others have already created some excellent models.

Conclusion

It is encouraging that the great majority of advisors say they are raising the subject of charitable giving with their clients. However, a significant number continue to approach the topic with a cautious eye to tax reduction, perhaps even to the exclusion of values-based wealth planning.

Certainly not all clients *wish* to discuss charitable giving with their advisors. However, these findings also point to (1) sketchy advisor knowledge about the philanthropic planning process, (2) insufficient attention to client values and charitable mission, and (3) lack of advisor comfort about being able to sustain a thorough conversation about a client's philanthropic interests. Further, while many advisors recognize the need for comprehensive philanthropy planning and may on occasion refer clients to philanthropy professionals, other advisors remain "tied to the tools."

If the campaign to make the professional advisor a consistent and potent advocate for philanthropy is to succeed, there will be plenty of work for everyone: For all those who believe that philanthropy planning is an essential component of the wealth advisor's role. For all those who believe in the power and the potential of philanthropy. And for all those who would energetically address tomorrow's challenges. Because that is, after all, philanthropy's role and philanthropy's promise.

Steve Johnson works with TPI in promoting philanthropy and consulting with families, corporations and law firms in enhancing their philanthropy. He is a lawyer (JD, University of Virginia, 1979), public policy advocate, court reformer, and teacher. He is active in family philanthropy in the Lake Champlain basin. He is a frequent speaker on philanthropy and the advisor's role.

The author wishes to thank Jane Maddox and Lisa Gregory for their substantial contributions to the research on which this article is based, and Peter Karoff, Joe Breitenicher, and Ellen Remmer of TPI for their thoughtful contributions and editorial suggestions.

The report on which this article is based can be found at TPI's website: www.tpi.org