The Advisor's Role In Philanthropy: A New Direction

When charitable giving makes sense for a wealth client to consider, the advice given by a lawyer, accountant or banker can be crucial.

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For many reasons, there is an increasing focus on the “intergenerational” transfer of wealth, estimated to be as much as eight trillion dollars over the next two decades. In essence, all the wealth that has been built in this country since World War II will pass in unprecedented amounts from the generation over 50 years of age to their children and grandchildren. In this process, advisors to the wealthy have an extraordinary opportunity to recommend techniques that will satisfy the desires of clients with respect to the amount and ways in which wealth is passed from one generation to the next and, at the same time, have a significant impact on the well being of society.

When clients desire advice on charitable giving, or when charitable giving makes sense for clients to consider, the advice given by lawyers, accountants, bankers, financial planners, and other estate planning professionals can be crucial. These professionals face numerous challenges in advising on charitable giving. How aggressive should they be in encouraging charitable gifts? What resources are available to help them? And of most interest, what motivates some people to give, and others to not give?

The total value of assets held by charitable foundations is $163 billion and the allocation of even a small percentage of the expected eight trillion dollars that will be transferred in the next 20 years, could exponentially increase the amount of philanthropic resources available in our society. The nonprofit/fundraising community naturally is eagerly anticipating what could be a once-in-a-century opportunity for increased funding.

Much charitable giving has always been a direct result of advice from lawyers, accountants, and other advisers. The largest charitable trust with which our firm works exists because a thoughtful lawyer, after discussion with the family, suggested that given the family circumstances, the creation of the charitable trust was the most logical and the most satisfying use of the wealth. Nonetheless, the overall statistics on charitable giving are surprising. For example, 80 percent of wealthy individuals who died in 1991 left nothing to charity. Similarly discouraging statistics exist for annual charitable giving. While Americans are the most generous people in the world, wealthy Americans give away a smaller percentage of their income to charity (2.5 percent for those earning greater than $100,000) than do those earning under $20,000/year (3.5 percent goes to charity).

The lack of generosity of some people is no surprise. The statistics on charitable giving, however, also suggest that the methods used by many fundraisers are not as productive as they should be, and may even be counterproductive. Statistics also make clear that the advice by advisors, if any, given to wealthy clients on the advantages and disadvantages of charitable giving, does not produce as favorable a result as it might.

What is the cause of this dearth of charitable giving? The missing element in our opinion is the lack of a broader point of view on the part of advisors. Advisors must not only examine the tax consequences of charitable giving. They must also take into account the critical importance of individual and family values and the exciting and effective ways in which charitable dollars may be used.

Some advisors feel it is inappropriate to push a client towards philanthropy since this appears to be a form of selling, and, after all, clients should be free to dispose of "their money" as they choose. We believe, however, that there is a powerful rationale for advisors to inform clients about the intelligent integration of philanthropy into their estate planning. In the first instance, it can satisfy the need for individuals to feel good about themselves and to more fully rationalize the existence and use of wealth. Philanthropy can also be a principal means to pass on family values from one generation to the next. The advisor also benefits from this process. To the extent clients, as a result of an advisor's counsel, determine to direct resources to the benefit of society, advisors contribute to the greater good.
TPI FAMILY QUESTIONNAIRE

1. Our history as a family. Do we understand and agree on our basic family values? How would you express them?

2. Are you individual values different? If so, how would you express that difference?

3. The family is fortunate to have significant resources that can be used to enable family members to further important personal business and philanthropic interests. What is your view of these resources and what opportunities, risks and issues do they represent to you?

4. Does a Family Foundation seem like a good idea? If so, why? If not, why?
   a. How do you think a family foundation should be organized?

5. Individually, we have a history of charitable giving and volunteerism. Do we know why we made those gifts of money and times? Do we feel good about it? Do we know if our efforts made any difference?
   a. Which of our past gifts have given us the most satisfaction?
   b. Which have given us the least?

6. As a donor, and perhaps as a trustee of a family foundation, what criteria would you put on proposals before they were funded?

7. The future: What are the things about which you feel passionate? What are the things that really interest you? There are many major issues facing society, ranging from the arts to children's issues, to civil rights, to education, to environment, to housing, to hunger. They are all important, but which are the ones to which you would give the highest priority? Which are the ones that you feel are most important and why?

8. To what extent would you like to be involved in the work of exploring/analyzing problems and shaping promising solutions?

9. In order to develop a process that works for each of us, what would be most helpful to you to learn about the things that interest you?
   Research on specific subjects
   Site visits to non-profit organizations
   Background information to read
   Visits with experts

10. How much direct contact with donees would you like to have?

11. Given your other commitments, how much time do you have to devote to philanthropy?

12. Based upon what you know about the family, do you think it is possible to arrive at consensus around giving?

13. Irrespective of consensus, should resources be made available for each individual to give and to use as they wish? If so, what amount could you effectively use in 1993?

14. What level of recognition and visibility is of interest?

15. How much risk tolerance do you have? (i.e., Are these funds to be used as seed capital, or are you more interested in building organizational capacity within existing organizations?)

16. What is your preference for geography, local, national, global or some combination of all three?

17. Are you more interested in helping individuals, organizations or effecting pubic policy?

18. Any other ideas or thoughts?

One concern is that while many advisors believe in philanthropy, and enthusiastically present the notion, they almost always do so from a tax planning perspective. To many advisors, the ability to make a substantial gift with little, or perhaps even no tax cost, is of obvious benefit to clients. Despite the benefits, many clients do not respond.

No real data is available that fully explains why some people are generous and others are not. There is, however, a growing body of hands-on experience that includes the work of our firm. For example, over the past five years, we have presented seminars and workshops on philanthropy to over 1,600 wealthy individuals. In addition, our work with many would-be donors, family foundations, and corporate charitable giving programs has taught us much about how people think about charitable giving, what motivates them to give, and what inhibits their giving.

In the process, we have been developing a new definition of philanthropy designed to make giving more effective and more satisfying for clients.

Some of the trends and factors that we have observed in charitable giving include:

- A yearning on the part of wealthy individuals to be a 'good' person and to make their charitable giving work more effectively;
- A sense that clients have been reactive to requests for charitable giving, as opposed to actively identifying and pursuing their own charitable interests;
- The number of requests received from non-profit organizations and the complexity of large social issues overwhelm donors and often turn them off from charitable giving;
- Donors are not sure their gifts "make a difference" and do not know how to measure and evaluate the effectiveness of their gifts;
- Donors are confused as to the different roles played by government as opposed to private philanthropy in our society;
• Almost all donors are concerned about how much to leave to younger generations and wonder if philanthropy is a way to keep and bind the family together;
• Clients, when they consider charitable gifts, are not concerned about the estate planning and tax considerations (even though this is where advisors usually focus their discussions).

We believe that more and better giving would occur if advisors to the wealthy were fully aware of the factors described above. Most advisors are not experts in philanthropy, but they do not need to be experts to help their clients understand the overall beneficial role that philanthropy can play in their lives and the lives of their families. In our work with clients, we start with a process of discovery, and then develop a series of questions that provide a context for discussion and action by potential donors. The questions are a natural complement to any planning process and almost always result in animated responses. For advisors to include this line of questioning in their dialogue with wealthy clients will, at a minimum, allow the subject of philanthropy to have a fair and full hearing. These questions are listed in the sidebar entitled Family Questionnaire, which appears on the opposite page.

The presentation of these questions is only a first step. The principal concept that helps clients understand the exciting potential of philanthropy in their lives is what we call "Strategic Philanthropy." The key ingredients to Strategic Philanthropy are:

1. Philanthropy means more than charity. In the first instance, philanthropy moves beyond charity. This notion was expressed well by Maimonides when he wrote that "the highest level is to forestall all (charity) by enabling your fellow humans to have a right to earn a livelihood." The best practices of American philanthropy enables, empowers, builds capacity, and develops physical and human resources. There are many wonderful examples, large and small, of the kind of giving.

2. Charitable giving should be proactive rather than reactive. Here, the donor takes a pro-active approach to charitable giving instead of mere reaction. A donor should not be a passive giver who sits at the dining room table on December 31st trying to sort through scores of solicitations. In essence, the donor takes control of a process that is frequently out of control.

3. Charitable giving should be based on a donor's commitment. At the Council on Foundation's 1993 annual meeting, James Joseph, the Council's president said, "Real philanthropy is based on passion. Without it, giving is an empty act." A key ingredient is that whatever a donor does, it should be based on his/her own real feelings, not someone else's.

4. Charitable giving should be viewed as an investment. Gifts should be treated like investments, meaning that the donor evaluates the potential effectiveness of each charitable gift and requires bottom line results. Gifts should challenge, stimulate and help people fulfill their dreams.

5. Effective donors invest the time. The best donors do not assume that they know the answers, but spend a lot of time listening. Investing time, as well as money, is both the best way to learn, and enormously satisfying to donor.

6. Charitable giving requires a certain level of competence. To make good decisions implies a competence about issues and organizations. Either the donor becomes competent or reaches out to those who are. There are many resources available including community foundations, The Council on Foundations, Regional Association of Grantmakers (RAGS), other donors, experts or an organization like ours.

7. Charitable giving should be focused. Donors should focus on a few issues or perhaps even one and stick with them or it for a reasonable period of time.

8. Charitable giving should be driven by a donor's values. A donor's values should drive his or her charitable giving. These include the attitudes a donor has toward family, wealth, work, community, risk, religion and morality. In essence, the values represent what the client believes, what the client does, and what the client is.

9. Charitable giving links a client to society. Lastly, philanthropy can be a principal tool for individuals and families of wealth to make the linkage, uniting the client and society, society as the client defines it.

Each client has a different point of departure as he or she approaches his or her philanthropy. It depends on the client's place in society, his or her enthusiasm, the ability to focus on particular issues, the availability of time, their understanding of the issues, and his or her comfort with making good decisions. Only the client can determine the overall readiness to seriously consider charitable giving and that is always internally generated.

In our experience, however, there seems to be progression, a philanthropic curve with several levels and donors are positioned at different points on the curve depending on which aspect of giving is reflected. Like all good diagrams, it really is a holograph, and faces in two directions, one out toward the world and one in toward the client's inner self. This progression, as often presented to clients, is as follows.

**TPI's Philanthropic Curve**

**Level One - You Become A Donor.**
A complex combination of personal and religious values, family background, business and social pressures, ego, and heart-felt response to the world around you, motivates you to become a donor. Giving becomes part of your way of life, your position in the community, your yearning to be a good person. Over time, giving becomes somewhat automatic, demands on you increase, and you end up on many lists. Your gifts, with few exceptions, are distributed in small amounts to an increasing number of organizations.

**Level Two - You Decide To Get Organized.** The goal is to get control of the giving process, instead of the process controlling you. You review what you have done over the last several years, and think about what gifts have given you the most satisfaction, and what really interests you. You decide to be less reactive to requests, learn how to say no, begin to
determine priorities, develop criteria, and make fewer but larger gifts.

**Level Three - You Become More Strategic.** You realize that you don't really know enough about the issues that interest you. You roll up your sleeves, do some research, visit your community foundation, talk to experts in the field and with other donors, make site visits to relevant organizations, and survey the literature. If you cannot do such extensive research, you hire someone to do it. Out of the process comes a clearer focus, a clearer understanding of the issue, and the organizations you support reflect that focus. You have now made a distinction between the gifts you must make, and your real philanthropy.

**Level Four - You Become Issue And Results Oriented.** You want to maximize giving, and increase the chances of making a difference. You look harder at the underlying issues, and the ways your available resources can be best applied. You invest in the most talented non-profit entrepreneurs. Gifts to organizations focus on building their capacity. You have become increasingly pro-active and rather than simply responding to requests, you go out, or have someone go out, search for and fund the best people and organizations.

**Level Five - Your Philanthropy is Leveraged.** You develop and fund custom designed programs that meet specific programmatic objectives. You collaborate with other donors, and participate in public-private partnerships. You attempt to create models that can be replicated, and will attract other private and public resources. You have become increasingly competent about issues, about what works, about what can really make a difference.

**Level Six - Your Values And Your Interests Are Aligned.** Your philanthropy is among the most exciting and satisfying things you do! The truth is that each of the levels of the Philanthropic Curve can satisfy a client's yearning to give. One's total giving almost always accomplishes many goals, and, thus, is by definition, multi-level. Our firm does most of its work with those who want to move from one level to the next. Professionalizing, or making the process more sophisticated, does not take away from the emotional basis on which a client gives, or to which organizations or programs the client gives. It simply reinforces the impact of those gifts, and increases the impact of those gifts, and increases the chances that ones gifts count. The objective is to help the philanthropy of each individual client achieve its best results.

**Conclusion**

Does the above add up to a new definition of philanthropy and suggest to the advisor a new way of framing the issue? The lawyer, banker, accountant, financial planner, or other advisor sitting across the table from wealthy client, who thinks about philanthropy in the terms discussed in this article, has much more to discuss with that client than tax savings. In our view, the statistics on giving from wealthy individuals would improve if there were widespread adoption of this way of thinking.

**Footnotes**


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