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WEBINAR

How to Incorporate Philanthropy Into Your Practice

Q&A

With philanthropy on the rise, wealth advisors are increasingly called upon by their clients for guidance around charitable giving. While these conversations happen most frequently during fourth quarter (since acting before year end may generate tax savings), routinely initiating them throughout the year can be most beneficial.

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Josh Stamer, Senior Managing Director at Foundation Source, hosted a panel discussion with two talented wealth advisors who regularly assist their high-net-worth clients—mostly family offices and multi-generational families—with philanthropic planning: Sarah Silverio, Principal at Summit Trail Advisors, and Jan Vega, Director in Wealth Management at Aspiriant.

The summary below highlights some best practices and insights from Sarah and Jan for incorporating philanthropy into the wealth management process.

Josh Stamer: Has philanthropic guidance always been a part of your practice?

SARA SILVERIO: Yes. In our first few meetings with a client, philanthropy is discussed along with investments, trust and estate planning, and insurance. It's important to meet clients where they are in their philanthropic journey so you can offer the best solutions. If a client says, "I write a few checks a year and give it to my accountant at year end," that's an opportunity to discuss creating a charitable giving vehicle that can help them maximize the impact of those gifts. If another says, "Yes, I have a donor-advised fund (DAF) but I've noticed it has some limitations," you can discuss private foundations and their differences from DAFs.

JAN VEGA: Philanthropy was first introduced into my work as a best practice for family governance and the transfer of wealth to the next generation. It provides a unique platform to not only help families bond with each other but also to share a family history and values, things we don't always get to hear about in financial planning. It also provides an opportunity for the rising generation to observe their parents and learn how they make financial decisions—and for them to practice making such decisions themselves.

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Stamer: What are some of your strategies for providing philanthropic advice?

VEGA: We've seen a lot of families choose charitable vehicles solely from an income and estate tax planning perspective—yet those vehicles ultimately don't match the goals of their philanthropy. So we find it valuable to ask:

1. What is the vision and purpose of your philanthropy? For instance, if a family wants to make an impact on a specific cause, that might lend more to spending down philanthropic assets instead of having a stream of assets to pass down to the next generation.
2. Define your philanthropic mission statement. Walking clients through a value survey can help with this, especially when a client intends to involve younger generations. It's important to identify shared values and interests.
3. How do you measure philanthropic impact? Quantitatively, qualitatively or both?

Also, discussing philanthropy twice a year works very well. The first meeting focuses on reviewing the impact of clients' gifts and the second covers strategy.

SILVERIO: We break philanthropy into three components:

1. Contribution: What assets (and how many) do you want to contribute? Our practice started by identifying lowbasis shares of stock on an episodic basis. Now we've evolved to maximizing AGI contributions every year.
2. Investments: Once those assets are gifted into a charitable vehicle, how do we invest them? Our practice offers separately managed accounts, ESG screens and private placement vehicles for impact investing, to align the way our clients give with how they're investing in their portfolio.
3. Long-term Goal: Do you want to give the majority of your assets away during your lifetime or transfer them in a foundation to the next generation? This helps determine the most appropriate vehicle.

We also host networking events for clients to talk about the causes they support and how they're thinking about giving.

Stamer: What are some strategies you use when you think about short-term versus longer-term planning?

SILVERIO: In terms of asset allocation, it's important to understand how much the client plans to give away. If it's a lot up front, they can't tie up large portions of money in private equity or longer-term assets. Getting the right mix is important.

VEGA: When I have clients needing time to develop a long-term giving strategy, they usually start by creating a private foundation for the flexibility. If they later decide they don't want the foundation, they can transfer their assets to a DAF. Yet if they start with a DAF, they can't transfer back to a foundation. Some of our clients find it useful to have both vehicles.

Stamer: How do the foundations you work with make sure they're keeping their investments at a level where they can continue in perpetuity, if that's their goal?

SILVERIO: For clients who want to give away a lot more than the 5% MDR, financial modeling's helpful. It can help you explain, "Here's your grant budget and the return expectations for your foundation. And here's what it will look like, in various simulations, over the next 20 years."

VEGA: We, too, have clients who find financial modeling useful. The idea of perpetuity versus sunset is being discussed more often, and that's where you need to go back to the philanthropic goal and get everyone on the same page.

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Stamer: Any tips on impact investing?

SILVERIO: Not too long ago, people weren't keen on it because they thought they'd be giving up return potential. We think that spread has narrowed. It's possible now to accomplish both strong investment performance while aligning clients' values with their investments. We use separately managed accounts of exclusionary screens to omit industries that don't align with our clients' values. We also encourage clients to go beyond "screening out" to "leaning in" by proactively granting to organizations aligned with their values.

Stamer: What's the biggest challenge you've faced while working with clients on their philanthropy?

VEGA: The most intimidating part is the family dynamics piece. It can be challenging to facilitate a conversation in which family members are in disagreement. Some advisors prefer to engage a third party philanthropic advisor, which makes a lot of sense.

SILVERIO: Philanthropy can be overwhelming because clients feel this huge responsibility to "fix the world." So I find it most challenging to help them drill down into such a broad topic to develop the most effective strategy for giving their dollars away. The more you can engage philanthropic consultants with your clients to make it less overwhelming, the better. Then your clients will engage more and not be intimidated by it.

Stamer: What advice do you most want to offer other wealth advisors about philanthropy?

VEGA: Philanthropy is one of my favorite areas of planning. The important part for the advisor is identifying your role in the process then finding the right partners and resources for the other pieces. In my perspective, the process includes: (1) determination of family values and causes to support; (2) strategic consulting; (3) administration and compliance of the charitable vehicle; and (4) measuring impact.

SILVERIO: Don't shy away from discussing philanthropy. There are so many ways that you can add value, and clients likely aren't aware of the options available to them. It's been great for our business, and I've really enjoyed connecting with clients through it.

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