

Why Charitable Expertise Should Be Part of Your Practice



/ CREATE DEEPER, STRONGER
CLIENT CONNECTIONS /

If you feel like helping clients give their money away is counterintuitive—or counterproductive—to the value you can provide as a financial advisor, there’s an important case to be made for why, and how, charitable expertise fits into a wealth management practice. **Philanthropy is a unique and specialized area that can create many benefits for everyone involved, so it’s worth thinking more broadly about how you serve your clients today and in the future.**

HNW Self-Identify as Philanthropic /

As a starting point, it's helpful to know that roughly seven out of every 10 wealthy investors self-identify as philanthropic. According to our research, these figures have been consistent for the past two decades¹ and recent reports from Bank of America² suggest that the percentage may be even higher. This means that if you have a HNW practice, you should expect that at least two-thirds of your clients are charitably-inclined and there's an opportunity for you to address their interests—which is a win for your relationship. But, perhaps more importantly, if you aren't helping your HNW clients with philanthropy, they are missing opportunities to mitigate taxes, save money and increase their charitable impact, and may feel as if there's something lacking in their financial program. The other side of this coin is that if you aren't doing it, someone else might be. And, if they are and you don't know about it, it's most likely happening in an uncoordinated and uninformed fashion, which can have a potential downstream effect.

Critical Intersections with Wealth Management /

As wealth management has evolved, an increasing number of wealth management practices use the three disciplines of investment management, tax management and estate planning as their core. So, bringing charitable planning into the fold is easier today than it would be if you were coordinating across three or four external subject matter experts. When charitable strategies are closely coordinated with investment strategy, estate planning and tax management, the outcomes will always be better for the client than they will when any of those disciplines are approached in a vacuum.

Together, these four capabilities—investment management, tax management, estate planning and charitable planning—generate some of the outcomes that are most important to HNW individuals and families:

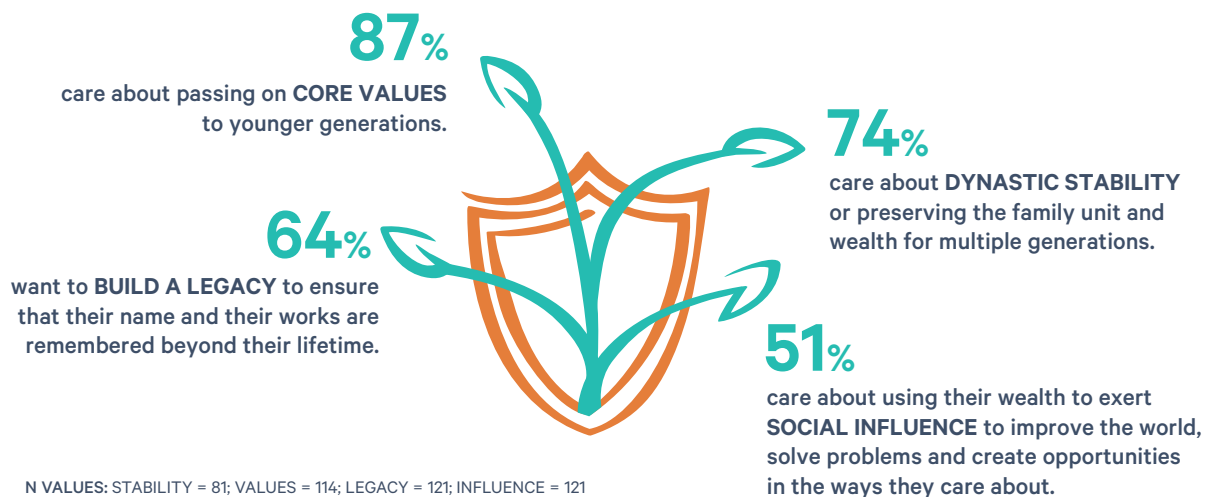
- They want to **sustain or grow their wealth**.
- They want to **reduce their tax burden**.
- They want to **ensure that their assets go to the people and causes** they care about most.

When philanthropy isn't part of the equation, you are falling short of delivering a world-class client experience that is critical to client satisfaction and your long-term success. When it is part of the process, you can help magnify efforts for higher impact.

Concerns About Family and Legacy /

Beyond the goals HNW investors have for their wealth, there are other concerns and interests that relate to their families and their legacies that open you up to a different level of engagement with your clients.

These priorities can be used as an overlay to a client's core financial objectives to construct a more nuanced and layered understanding of the people you are serving. That said, these goals are complicated and may require a combination of facilitation, tools, and family engagement to be realized. Philanthropy—and various charitable giving vehicles—can be powerful tools for certain clients.



Philanthropy as a Framework /

In many families, just a small group of people get complete visibility and transparency into money and finances. And for purposes of control and efficiency, that probably won't change. But philanthropy is an area that lends itself to broader family involvement and provides a framework for:

- Surfacing shared goals and passions
- Identifying core values
- Multigenerational collaboration
- Deploying assets in a way that creates impact
- Getting investments aligned with intent
- Helping younger generations develop the skills that prepare them for bigger roles in the family

Trending Toward a Life of Purpose /

At the same time, there are a number of interesting trends happening in philanthropy that create more opportunities for advisors. The first is that need skyrocketed in 2020 as a result of the coronavirus pandemic, widespread racial equity issues and natural disasters. As a result, many funders changed the way they give in response to that need. According to the *Chronicle of Philanthropy*, online giving exploded³ and our own client survey revealed that around 40% of private foundations reported a change in mission to accommodate emerging needs.⁴

The second trend, as reported by *The New York Times*, is that the current climate, in combination with the accelerated pace of wealth creation being driven by Silicon Valley, is resulting in a new kind of millionaire—one who wants to use their newfound wealth to live a life of purpose and create social value rather than the excessive lifestyle and consumption that was so prevalent in the early days of the tech boom.⁵

The Philanthropic Affluent are Underprepared /

So where does this leave us? In three studies with HNW individuals conducted over the last six years, we found that despite self-identifying as philanthropic, this cohort doesn't have a well-defined plan or relationships with the experts they need to make real progress on their charitable goals, which leaves plenty of room for more structure, process, and improvement. Additionally, 95.1% of single-family office executives believe that more formal charitable guidance would be in the families' best interest—and this is where wealth managers and their specialist networks can make a difference.



N VALUES: GOALS = 114; GUIDANCE = 67; ADVISORS = 239; BEST INTEREST = 61

Advisor Practices Regarding Philanthropy /

In a practice benchmarking study with advisors, we identified two sub-groups—one that considers tax-advantaged charitable giving a major part of their practice and another that said it wasn’t a major part of their practice, but they talk about philanthropy with their clients. The practices are obviously different, but they look identical in a few important areas.

The percentage of clients they work with on the charitable front is similar—which indicates that **talking about philanthropy is more important than specializing in philanthropy when it comes to client engagement.**

Both segments agree that their charitable clients make many more referrals than the rest of their clients. In some respects, this is not surprising; money can be a taboo subject for a lot of people, but philanthropy is a safe subject for mixed company—family members and non-family members—and often an area of great passion and emotion that sparks conversations and sharing. In essence, philanthropy can create a space and atmosphere where it is easy—and more comfortable—for clients to facilitate those valuable connections for themselves and for you.

	Tax-Wise Charitable Giving is a Core Part of My Practice	Foundation Source Annual Fee per Grantmaking Dollar
Knowledgeable about tax advantaged philanthropy	100%	67.6%
Regularly discuss charitable giving with clients	100%	40.2%
Percentage of clients making tax-advantaged charitable gifts	14.9%	13.5%
Charitably-inclined clients make many more referrals	59.8%	60.8%

To make this a success, there are three things you must do when augmenting your practice to include charitable planning services:

- 1 **Integrate various disciplines under the umbrella of wealth management** to create the best financial, tax, estate planning and philanthropic outcomes for your clients.
- 2 **Extend established processes**—like discovery conversations, investment policy formation, product evaluations, annual reviews, and periodic check-ins—and other touchpoints that occur in the normal course of business to engage with people around their charitable interests so you can spot which clients care about it and want help.
- 3 **Facilitate the conversations that drive results, relationships, and business**—most importantly the interactions between your team and clients, and the ensuing interactions between those clients and their social network that can create a closed-loop sequence that helps drive referrals and business expansion.

Three Cases for Philanthropy /

There are three common scenarios where philanthropy can provide a solution to specific challenges, and you may see these within your client base or in conversations with prospects.

- 1 **A planned liquidity event** where a business owner or equity holder is contemplating the next phase of life, starting to think about personal legacy and, of course, tax deductions.
- 2 **Leadership change or succession** from a strong founder or wealth creator to a more involved, professional collective that has the ability to sustain and scale. This scenario often involves a family-owned business.
- 3 **Family engagement** that would benefit from more governance and a framework to help to build shared goals and decision-making rather than a coalition of individual desires. This scenario can also provide opportunities for younger members to develop leadership and financial skills that will serve the family in the future.

So. Many. Opportunities. /

Broadening your wealth management practice to engage with clients (and potential clients) around their charitable interests creates valuable opportunities to realize the following benefits:

- Address unmet client needs
- Strengthen and deepen your relationships
- Create better financial outcomes
- Demonstrate value and alignment with your clients most critical goals
- Position the practice to capture newly created wealth
- Open new sources of referrals

In addition to the obvious advantages, these opportunities work together to help evolve your practice from one that's focused on delivering technical expertise to being an elite practitioner that delivers world-class client experiences.

About the Data

Unless another source is provided, the data in this report was compiled in conjunction with R.A. Prince & Associates, Inc., a specialty research and consulting firm known for building one of the largest, most comprehensive databases on the topic of private wealth and publishing a body of work representing the most complete empirical analyses on the same subject.

¹ An average of 69.9% of high-net-worth respondents identified as philanthropic or meaningfully involved in philanthropy in six separate research studies conducted between 2001 and 2020. N Values: 2001 = 239; 2009 = 184; 2013 = 254; 2014 = 114; 2018 = 81; 2020 = 239

² <https://newsroom.bankofamerica.com/content/newsroom/press-releases/2018/10/2018-us-trust-study-finds-high-net-worth.html>

³ <https://www.philanthropy.com/article/overall-giving-ticked-up-slightly-in-2020-but-online-giving-exploded-report-says>

⁴ <https://foundationsource.com/resources/hub/resource/2020-client-survey-year-that-changed-everything>

⁵ <https://www.nytimes.com/2021/03/08/technology/silicon-valley-techies-rich-pandemic.html>

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