THE IMPORTANCE OF DISCUSSING PHILANTHROPY WITH YOUR CLIENTS

Studies have shown that, for various reasons, advisors tend to turn a deaf ear to the subject of philanthropy. Rewards can be gained for both client and advisor if the subject is discussed early on in the planning process

By Patricia Angus

One of the most interesting, challenging and rewarding parts of working as an advisor in private wealth management is helping clients with their interest in philanthropy. Unfortunately, most advisors do not feel adequately prepared to broach the topic or provide advice to their clients in this area. Practitioners and scholars have written extensively about the tax advantages of charitable giving, and most US estate and financial planners (and many non-US advisors), now have a basic understanding of the various vehicles available to minimise US income, estate and gift taxes. By contrast, little attention has been paid to the non-tax aspects of philanthropic planning. Indeed, discussing a client's interest in philanthropy has long been viewed by advisors as a "soft issue" and, therefore, not worthy of training or development.

This area is in fact more complicated than it appears, and recent studies show that more attention is required so that advisors can handle it well. Some ideas on why this is an important issue for advisors and some suggestions on how to engage in effective discussions with clients are presented below. In this article, the general definition of "philanthropy" (ie the effort to increase the well-being of mankind, by charitable aid or donations) applies.

Why should advisors discuss philanthropy with their clients?

It would be too easy to claim that advisors should discuss philanthropy with their clients because it feels good or is "the right thing to do." Rather, advisors should do so in order to respond to market demands and client needs.

According to recent studies, between US$41 and $136 trillion dollars will be transferred across generations over the next 50 years. At a minimum, about $12 trillion will transfer hands in the next 20 years and $41 trillion will pass by the year 2052. In this transfer, charitable bequests are estimated to reach at least $1.7 trillion in the next 20 years and $6 trillion by 2052. The demand for advice by those who will transfer (or receive) this largess is unprecedented.

> *"... a significant percentage of private clients report that they wish their advisors would focus on philanthropy more, as part of their overall estate and financial plans"*

The Philanthropic Initiative and the Chronicle of Philanthropy have conducted independent studies on the experiences of private clients and advisors concerning their charitable planning. The results show that a significant percentage of private clients report that they wish their advisors would focus on philanthropy more, as part of their overall estate and financial plans. Ironically, many advisors report that they feel they are discussing philanthropy adequately with their clients. In other cases they purposefully do not cover the topic with their clients and they claim a variety of reasons for this, including:

- "That's not my job."
- "I don't have the expertise."
- " I won't get paid for it."
- "The subject is too personal."
- "There is a conflict of interest."

Based on my experience and a review of these studies, I would reply to these statements, as follows.

"That's Not My Job"

The "job" of an estate or financial planner is:

- to assess the client's objectives;

- to inventory the assets available to meet those objectives; and
- to implement a plan to meet the objectives using the appropriate assets.

By focusing solely on investing assets or saving taxes, without learning about the client's other objectives (including charitable ones), the advisor misses the first step of the process and therefore cannot effectively develop or implement the appropriate plan. Once the objectives have been identified, the legal or financial advisor is in a unique position to be able to assist the client meet the client's goals. This can involve the advisor's trained analytical skills and ability to coordinate necessary resources.

"I don't have the expertise"
This will depend on the nature of the client's needs. If the client is trying to choose between two charitable organisations, a financial or legal advisor probably cannot provide an answer. However, the advisor should be able to make a referral to resources that will assist the client in making the decision and should be able to advise on a general structure. Some helpful resources are listed at the end of this article.

> *"There is now a wealth of information on everything from how to help clients determine their philanthropic objectives to the mechanics of managing a private foundation"*

"I won't get paid for it"
Legal and financial advisors may be concerned that the nature of the advice asked for is not technically "legal" or "financial" advice and may not be billable. Often, it is difficult to distinguish between the types of guidance requested by a client. Assessing charitable giving as a portion of the client's portfolio (and perhaps investing the assets he or she commits to charity, either in a private foundation or donor advised fund) can be both financial and "philanthropic" advice. I would suggest that the advisor and client discuss, up front, the nature of the advice to be provided and agree on whether it is billable or not.

> *"Legal and financial advisors may be concerned that the nature of the advice asked for is not technically "legal" or "financial" advice and may not be billable"*

"It's too personal"
Discussing philanthropic interests involves addressing taboo topics such as politics, religion, family values, and personal beliefs. It is hard to imagine that advisors in the private wealth management field are not already discussing these issues with their clients. These conversations are not only necessary to understand the client better, but also lead to a closer relationship with the client – a key part of the business.

"There is a conflict of interest"
An advisor should not promote a specific choice of philanthropy. As long as the client's needs are met there should be no conflict.

Some ideas on how to discuss philanthropy with your clients

Even if an advisor believes that discussing philanthropy with a client is appropriate, it is often difficult to know how to start or what to say. Here are a few ideas.

Simply listen: Effective communication is essentially a matter of perception. The recent studies show that there is a distinct conflict between the views of advisors and their clients on whether the clients are receiving the advice they seek. Too often, clients report that advisors

assume that the clients' only goals are to make more money and reduce taxes. It is important to be aware of your what your client wants, and to listen for indications that any previous assumptions may not be entirely correct.

Ask about philanthropic interests at the beginning of the process: Most lawyers and financial planners use some form of checklist or questionnaire at the beginning of the planning process. The questionnaire should include one or more questions, see examples below, on the client's philanthropic involvement (which often leads to giving), interests and goals.

- Are you currently involved in any charitable organisations?
- Do you currently contribute to any charitable organisations?
- Do you wish to include charitable giving in your plan?
- What legacy do you wish to leave?

The client may ask a follow-up question after completing the questionnaire, which should help an advisor who is uncomfortable with broaching the topic in a meeting. Otherwise, the advisor can ask for more information about the responses provided by the client. If a more in-depth discussion about determining philanthropic goals seems warranted, the advisor may need to refer the client to an organisation providing the appropriate service.

"Too often, clients report that advisors assume that the clients' only goals are to make more money and reduce taxes"

Reconsider contingent beneficiary provisions and alternative investments: Often, a client will name a charity as the contingent beneficiary of an estate. The assumption generally is that the charity will not receive anything from the estate because it is unlikely that the provision will ever apply. If a client mentions an organisation or issue of importance in this context, it may be appropriate to simply ask whether the client wishes to make a specific bequest to it. Further, a financial planner might ask whether charitable giving should be considered an "alternative investment" that will generate returns that differ from the rest of the portfolio.

Take advantage of available resources: Not many years ago, it was difficult for a lawyer or banker who was not already involved in the philanthropic community to find useful information on charitable giving and charitable organisations. This has changed dramatically. There is now a wealth of information on everything from how to help clients determine their philanthropic objectives to the mechanics of managing a private foundation.

Be patient and persistent: It is not uncommon for a client to take six months or a year to finalise an estate plan or develop an investment strategy. The "soft issue" of understanding and discussing philanthropy can require an even longer time.

In the end, the time and energy devoted to the process will certainly produce results (for both the client and society) and, for the advisor, it could lead to unexpected and meaningful rewards.

Useful resources

- Council on Foundations (www.cof.org); Regional Associations of Grantmakers (www.rag.org);
- National Center on Family Philanthropy (www.ncfp.org);
- Planned Giving Design Center (www.pgdc.org);
- National Charities Information Bureau (www.give.org);
- Guidestar, a Publication of Philanthropic Research (www.guidestar.org);
- Council of Better Business Bureaus, Philanthropy Advisory Service (www.bbb.org);
- The Philanthropic Initiative (www.tpi.org); and
- Strategic Philanthropy Ltd (stratphil@aol.com).