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By John Churchill

ADVISORS CAN HELP THEMSELVES BY HELPING CLIENTS WITH CHARITABLE GIVING

It's no secret that wealthy individuals give large amounts of money to charity every year. Yet, many financial advisors don't know the first thing about charitable giving. And if they do, advisors are often afraid to bring it up for fear of encroaching on a wealthy client's religious or other deeply held views. Advisors who ignore philanthropy are missing an opportunity that boosts their value and integrity in the eyes of clients, and helps solidify client relationships and those with future generations, experts say.

Americans gave \$248 billion to charity in 2004, a record year, according to GivingUSA, a foundation that supports philanthropic research. That's great, but a study released this week by Fidelity titled, *Charitable Giving Behavior: Wealth and Advice*, found that the amount could be greater.

Why? Fido's study found that only 33 percent of households with \$1 million to \$5 million in liquid assets had discussions with their advisors about charitable planning. Among those with \$5 million or more—the ones responsible for more than half of the \$248 billion donated to charities last year—only 52 percent discussed charitable planning with their advisors. Either wealthy clients are getting the advice somewhere else, or are being underserved by their FAs on this topic, especially since mitigating taxes (legally, of course) is a primary reason why wealthy people seek advice from financial advisors. (In fact, a recent *Registered Rep.* survey of 1,400 high-net-worth clients—defined as having \$500,000 and up in liquid assets—found that most of the high-net-worth clients do give to charity, but in a

way best described as “checkbook” philanthropy—they write checks when solicited.)

Advisors are missing a golden opportunity, experts say. For one, many high-net-worth clients view donations as “making a difference” and not just tax dampening strategies. Advisors who can help them are, for one, demonstrating financial planning expertise, and, more importantly, helping enhance their usefulness to the client. “To the extent that advisors are trying to be wealth managers, planned giving is an essential part of that holistic approach advisors are striving to provide,” says Jay Quinn, author of the report and senior vice president of fundraising and outreach for the Fidelity Charitable Gift Fund, an independent public charity and the largest donor-advised fund in the country.

Philanthropy means more to clients than just tax savings—it often represents their core values, beliefs and even dreams. And that's perhaps why so many advisors find it difficult to talk to a client about religious convictions, his “role in society” or his “goals for the community.”

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job description—to be discussing philanthropic hopes and dreams,” says Stephen Johnson, vice president of The Philanthropy Institute, and author of several research papers examining the obstacles between advisors and clients in this particular area. Many advisors also fear embarrassing clients or themselves. “Many think clients will perceive the question as presumptuous, as if they’re

making a moral judgment,” says Dianna Smiley, program director for education and outreach at the National Center for Family Philanthropy.

If advisors can get over these humps, clients are usually welcoming, say the experts. “Our families say, ‘Philanthropy is part of our lives, so it is definitely something we want our advisors to talk with us about,’” says Smiley. Some questions Johnson suggests using to begin a charitable-planning conversation in a tactful manner are:

- **How do you view your wealth in connection to your community? To society?**
- **What role has philanthropy and charitable giving played in your family? What role would you like it to play? What value would it bring to you, your children, your grandchildren?**

Beyond the initial conversation, the variety of planned-giving vehicles available to advisors and clients is broad. Donor-advised funds and private foundations are the most popular.

Donor-advised funds, now numbering more than 80,000, according to the *Chronicle of Philanthropy*, have gained in popularity in the last several years largely because of the need to get rid of appreciated stock. Retail clients in the Fidelity study liked donor-advised funds primarily for the immediate tax benefits (43 percent) and simplified record keeping (42 percent), but they also tend to have lower minimum investments and don’t require minimum distributions each year. The Fidelity fund, with nearly \$3 billion in assets, requires a \$10,000 initial investment, while the minimum for Smith Barney’s domestic donor-advised fund is \$25,000.

Private foundations are equally popular and now number around 64,000. They offer more control over the assets to clients than donor-advised funds do, but are more expensive to set up and maintain, so they’re generally recommended for those with at least \$1 million to \$3 million earmarked for charitable giving. However, Foundation Source, a Fairfield, Conn., firm, offers outsourced support services for private foundations, and says \$250,000 is all that is needed to run a private foundation effectively and efficiently.

There are also charitable remainder trusts, charitable lead trusts, pooled income funds, charitable annuities and supporting organizations. Overwhelming? Perhaps, but clients don’t expect the advisor to be the expert, just the facilitator/quarterback that will find the experts. When choosing vehicles, advisors must also keep in mind that clients don’t want to be sold philanthropy, they want to have a conversation, says Johnson. And in the end, it benefits everyone: “It’s good for your client, (it helps them express their values, hopes, and dreams), it’s good for you (it can result in tremendous gratitude and even more assets) and it benefits society. It’s a triple win for advisors.”

Now go have a conversation.

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