Making Philanthropy a Family Affair

KEY TAKEAWAYS

- Family philanthropy can help patriarchs and matriarchs pass on family values to younger generations.
- Private foundations offer a level of control and permanence that can help create a family legacy of giving.
- Families can work together to support charitable intentions in a variety of ways.

For a growing number of successful professionals, there's a strong urge to "pay it forward" by financially supporting causes and organizations that are important to them. Many of you already make regular and sizable charitable contributions. And we know from our research that smart charitable giving is one of the key areas of importance for the affluent today.

Take entrepreneurs, for example. One key reason top entrepreneurs want to become even wealthier is to help other people increase their own success and advance in the world. Consider that more than 70 percent of successful business owners who say they want to be seriously wealthy are charitably inclined. By amassing greater wealth, they see themselves as being able to do more.

But ask yourself this: Have you gotten your *family* involved in philanthropy?

If not, you could be missing a truly massive opportunity to teach your children and other loved ones about smart financial decision-making and impart key financial values that can guide them throughout their lives.

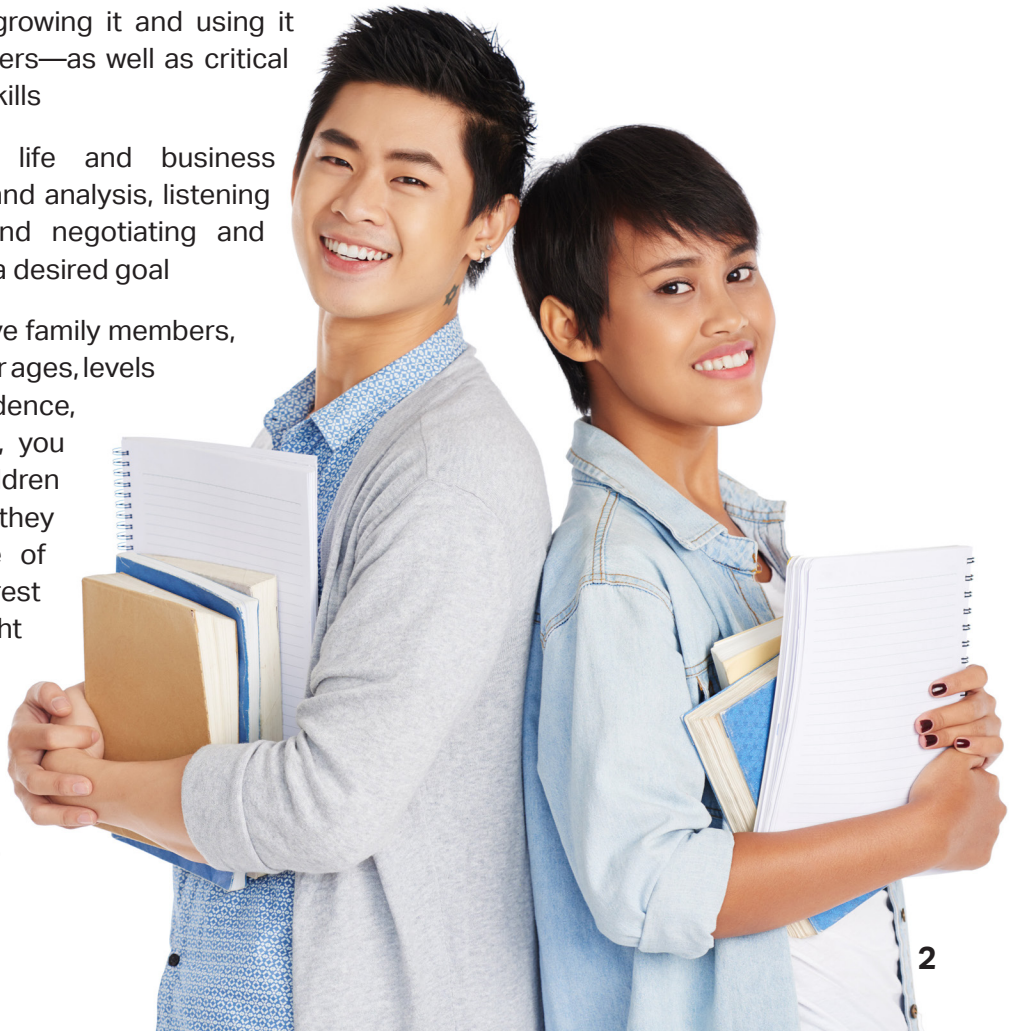
Bringing in the heirs

Research into the affluent reveals that many high-net-worth individuals belong to a personality profile called the Family Steward. That means their deepest financial concerns are focused on taking care of their family and ensuring they enjoy lives that are financially stable and financially responsible. Chances are, you have some or all of the key traits of a Family Steward.

Family philanthropy is one great way to fulfill your Family Steward role. That's because there are lots of benefits to engaging family in charitable giving, such as:

- Working together to define your shared values around wealth, community and building a better world
- Helping individual family members identify their own specific charitable values and intentions
- Making financial decisions as a team
- Learning about the power and responsibilities of wealth—building it, growing it and using it to positively impact others—as well as critical financial management skills
- Developing important life and business skills—critical thinking and analysis, listening and communicating, and negotiating and compromising to reach a desired goal

To decide how best to involve family members, consider factors such as their ages, levels of maturity and independence, and interests. For example, you might involve younger children only peripherally. But as they grow older and see more of the world— and if their interest grows with them—you might broaden their roles in and influence over the family giving. The point is that family members across the board can potentially be brought into your charitable giving to some extent.



The Super Rich and private family foundations

One tool that can both maximize charitable giving options and engage family in philanthropy at a deep level is a private family foundation.

A private foundation is a not-for-profit organization (i.e., charity) that's primarily funded by a person, a family or a corporation. The assets in a private foundation produce income. That income is used to support the operation of the private foundation and, most important, make charitable grants to other nonprofit organizations.

This approach to philanthropy is generally used by families with significant wealth, such as the Super Rich (those with a net worth of $500 million or more). While there are certainly costs associated with creating and managing a private foundation, there are distinct benefits of doing so. Three of the biggest—often interconnected—reasons why families with significant wealth often go the private foundation route are:

- **Caring.** At its core, philanthropy is about caring. A private foundation can be a very powerful way to convert caring into financial and related support for worthy causes. You need to care deeply about some charitable causes to justify establishing and running a private foundation.
- **Legacy.** Many people create private foundations to honor loved ones. Private foundations can be effective at binding family members together around something they all consider meaningful. Often, they are part of the education of inheritors in helping them become wise philanthropists. You should probably want to create a legacy—of one kind or another—if you choose to create and maintain a private foundation.
- **Permanence.** A private foundation can be established in perpetuity, which can help ensure that the charitable institutions and causes that are important to you will continue to be funded indefinitely. The ability of a private foundation to last forever (if desired) is a very appealing characteristic to many affluent families.

Note: Setting up a private foundation can be an intricate and involved process, as can its ongoing management. In this regard, running a private foundation can seem very much like running a business. Detailed accounting and the filing of tax returns are required. A variety of experts, such as legal and accounting professionals, are usually needed to handle regulatory and compliance matters. If you're overseeing the assets of the private foundation, investment professionals will regularly be engaged.

Key advantages of private foundations for family giving

To see why private foundations are especially compelling to wealthier families who are philanthropically inclined, consider the fundamental ways they differ from another, more commonly used charitable giving tool—the donor-advised fund—in the following key areas:

1. **Control.** A private foundation gives you significant control over your choice of charitable organizations you want to support. With a donor-advised fund, you're only making recommendations to a firm responsible for both managing and distributing the money. While it's unlikely that your suggestions will not be followed, there could be times when this will be the case.

   A private foundation enables you to make a wider array of grants than does a donor-advised fund. With a private foundation, for example, you can make pledge agreements to support one or more charitable causes over a period of time. The lack of personal control over a donor-advised fund makes that impossible. Private foundations also can make grants to specific individuals, something a donor-advised fund cannot accomplish.

   How the assets are managed also differs between the two. With a donor-advised fund, the assets are managed by the firm you entrusted with your money—often a mutual fund sponsor or similar investment firm, or a community foundation. In a private foundation, you—or the investment advisors you select—get to manage the assets as you see fit.

   Bottom line: Private foundations can be more creative than donor-advised funds in how they manage the endowment and how they give.

2. **Family involvement for generations.** In the case of a private foundation, the succession possibilities are unlimited. This enables the family to exercise control across the generations—helping business owners pass philanthropic values and specific goals (as well as money aimed at those goals) to children, grandchildren, great-grandchildren and beyond. In contrast, many donor-advised funds have limitations on succession. When that limit is reached, the money no longer belongs to the donor or his/her family. Instead, it's transferred into a general pool of the company or organization that sponsors the donor-advised fund.

   Bonus: With a private foundation, you can decide who sits on the governing board and how the funds are spent. In contrast, a board selected by the sponsoring organization governs the donor-advised fund.

Ultimately, if you're motivated to have your charitable giving live on after you—including permitting your descendants to take the reins—private foundations tend to be the more effective choice.

Conclusion

None of this is to say that private foundations are the only way to involve family in your philanthropy. Getting your sons and daughters (and nieces and nephews) focused on giving back can occur even through casual conversations at family events. But we find that formalizing family philanthropy in some way—through a specific plan or via a specific type of giving vehicle—tends to create a deeper and more lasting love of giving that continues through the generations.

The upshot: If you have the resources to pursue a private foundation, it's worth exploring—the benefits can be quite appealing. If not, you can still take a page from the playbook of the Super Rich by making philanthropy part of your regular interactions with your loved ones.

> ***Important:*** *As of the writing of this report, legislation introduced in Congress could significantly impact some of the features of private foundations. Consult with a financial advisor or philanthropic advisor to discuss the latest developments.*

VFO Inner Circle Special Report
By John J. Bowen Jr.

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