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Charitable Planning and the new HNW Demographics – What Advisors Should Know

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Charitable giving is no longer a sidebar—an afterthought—in wealth and financial planning. One of the reasons for this is because the HNW worth client profile is changing dramatically. The multi-trillion intergenerational transfer of wealth is on its way into the hands of Gen X who, in turn, are adding to that inherited wealth through their own income generation, after years in the workforce. Millennials are also recipients of this wealth transfer and will certainly add to their inherited wealth as they achieve their professional potential.

There has been another dramatic demographic shift in terms of wealth accumulation; according to Boston College's Center on Wealth and Philanthropy, women will control 70% of the $41 trillion intergenerational wealth transfer. They also are the primary breadwinners in nearly 40% of households in the U.S.

What Does the Changing Demographics Mean for Advisors

To begin with, it is important to understand the expectations, perspective, and commonalities shared by these new demographic that is both inheriting and accumulating wealth. It is also important to know what they want from their Advisors, and that it **is not the 'old school' approach to professional services.**

The next generations, in particular, have grown up in the digital age and are heavily influenced by, and reliant on, social media and their peers. They are more aware than previous generations of the socio-economic inter-connectivity of the world.

Since a large percentage of the women who will be or are already controlling a significant percentage of the wealth are over 40, they may not be as impacted by social media as their younger counterparts, but they do share certain attitudinal qualities, particularly when it comes to their philanthropy and their wealth management. They want to be an active part of their wealth management planning, and they expect their advisors to be asking the right questions and providing direction and guidance. They are seeking more than tax advice and establishment of giving vehicles from their financial and legal advisors.

Across the demographic spectrum, they see their investment portfolio and their charitable giving portfolio as equally important and closely linked, which is why socially responsible and impact investing are so appealing to women and the next generation.

They are seeking to effect change with their charitable funds. There is growing interest in more strategic philanthropy—moving away from checkbook giving. They want their gifts to have meaning, and they want to see things happen *now* not later. They are often more actively involved with organizations they give to and more interested in the impact the organizations are achieving.

For many women, philanthropic conversations are tied to family, personal motivations, and long-term goals. Life events such as a windfall from a liquidity event, inheritance, and divorce often influence charitable engagement and decisions. Older women, new to the management of their wealth or that of their family often do not know what they have available for charitable giving during their life and as part of their legacy. They look for expert advice from a number of sources: their financial and legal advisors, nonprofit leaders and staff, other women donors, philanthropic advisors and their peers.

Women are now such powerful players in the world of philanthropy that the Women's Philanthropy Institute at the Lilly Family School of Philanthropy compiles an annual report on gender differences in philanthropy.

How Can Advisors Be More Effective Given the Demographic Shift

Since philanthropy is one of the priority interests of this new demographic, I thought it would be helpful to outline 10 things for you to consider. Some of these suggestions may already be in place in your practice, but they bear repeating since they can both deepen relationships with existing clients and help you build a practice that appeals to, and therefore will attract, a younger client base and more women.

1. Consider reevaluating how you listen and talk to clients and ask the right questions. Philanthropy should be an integrated part of your work with clients. Ensure that questions about charitable giving are included on intake or onboarding questionnaires. You stand to build a deeper personal and professional relationship with clients if you inquire about their values, and how they influence their financial decisions. Here are a few questions to ask right out of the gate:
    - Do you have philanthropic goals?
    - Are you currently involved with any charities?
    - What would you hope to accomplish with your charitable giving?
    - If the client is a parent – Do you hope to instill the value of giving back in your children's lives
    - How would you like to be remembered?
2. A larger percentage of Generations X and Y compared to Boomers consider themselves knowledgeable about investing. However, the question that is still on their minds is what are the best investment strategies or asset allocation to pursue if they are charitably inclined. Be sure to review the assets they have and will have available for charity and which assets, including non-cash assets, to use to fund their charitable contributions.
3. Discuss charitable vehicle options including the 'up sides and down sides'. Provide recommendations based upon your clients charitable intent as well as tax mitigation implications. While Donor Advised Funds are the vehicle of choice these days it will still be instructive to thoroughly explore the differences between DAFs and private foundations so clients can make an informed decision. This is an important conversation you want to have with clients as they often make this choice in a vacuum.
4. Discuss what they want to do with their wealth when they pass away. One advisor tells their clients that there are only three possible beneficiaries of the fruits of their life's work: Family, Charitable Institutions (and or giving vehicles) that support their beliefs, or 300 million strangers (taxes). Advisors do a major disservice to their clients when assumptions are made about their wealth transfer philosophies and the beneficiaries of the clients' wealth.
5. Collaborate with the client's other advisors around their charitable intent and giving strategies so all advisors are working as a team in service of the clients goals.

6. Once a vehicle is established make sure your client understands the operational and administrative requirements of the vehicle. For DAFs, advisors may want to review the documents that they receive from their DAF provider and ensure that the DAF is incorporated into the estate plan documents and that successor advisors have been determined.
7. Once vehicle(s) documents are processed and filed, do not leave clients hanging. It is one thing to have a charitable vehicle, but it is another to know how to 'drive' it. The more you understand about what your client doesn't know, or needs to know about ensuring the effectiveness of the vehicle of choice, the more you can help them find the answers. For example, consider referring clients to a philanthropic advisor to ensure that their charitable giving is meaningful, strategic and impactful. Clients assume that you are committed to ensuring they are successful and protected, so providing resources to 'make that happen' is paramount.
8. Pay attention to the charitable intent portion of your client's estate plan and revisit original philanthropic goals and objectives for both lifetime and legacy giving and any specific contributions or stewardship direction in the estate plan. Do named charities still exist? Are they still interested in making outright gifts to these charities or instruct their trustees to do so? Things change!
9. Consider innovative ways to reach out to clients, particularly the demographics you want to work with. Events that provide both information and peer interaction are particularly attractive to both women and the next generations. Consider a single topic discussion: philanthropy or impact investing, or combine the two to show how donors how to achieve a double bottom-line return on their investments and philanthropy. Bring together charitable thoughts leaders: social entrepreneurs and prominent women donors (for example) to share knowledge and experience. This will enhance your role as a 'relevant' advisor and resource.
10. Continually educate yourself! The more you know about what your target markets are talking about, the more you know what the 'hot buttons' are around philanthropy—relative to taxes and to issues of importance—the more dynamic your conversations will be. Another bonus; what you read or learn can be shared with clients as a way to keep in front of them and show that you are thinking about them.

As noted earlier, the 'old school' approach to working with clients where it is product or investment driven is not as appealing to the next generations of wealth or to women. They are seeking a dialogic relationship with their advisor. Having the tools in your toolbox to explore philanthropy, uncover current needs and provide solutions to problems clients have and opportunities they wish to seize will be paramount to successful relationships with all clients. It is a win-win-win for you, for your clients, and society.