ANOTHER STEP AHEAD – FAMILY OFFICE NEWSLETTER

Winning Thoughts from the PKFOD Family Office Collaborative

FAMILY PHILANTHROPY: BRIDGING THE GENERATION GAP AND WORKING TOGETHER

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Philanthropy is not just a “good” thing to engage in, it also provides a platform for establishing common ground and a means for perpetuating values. It is both a landscape that tolerates and encourages different perspectives and a context for deepening financial and business skills for younger people.

According to current research, approximately $10 trillion will transfer to the next generations between now and 2030. Based on historical data, a significant percentage of that money will go toward charitable gifts. In 2018, for example, $39.7 billion was given through bequests to charitable organizations across the country. If the rate of bequests remains constant and just 5 percent of the estimated wealth transfer is donated, over $400 billion will be made available for charities to make an impact.

Of significant importance is the fact that millennials and Gen Z are far more interested in lifetime giving rather than the legacy giving that has been the mainstay of boomers and their parents. Additionally, the rising generations want to see demonstrated impact and want to look at how to use as much of their financial resources as possible in service of addressing the issues they care about.

This view of philanthropy can create certain tensions in families, particularly if (a) family members are disbursed geographically; (b) there are multiple generations/ages and interests involved; and (c) because the philanthropic landscape has changed significantly. For example:

- The popularity of investing in social enterprises that integrates social good with financial return and aligning investment portfolios with social or personal missions for double bottom line returns.
- Donor-advised funds are being created at a rate almost three times that of private foundations.

- The globalization of giving.

- Charitable giving is more global than ever.

- A growing number of publicly held, private and family-owned companies that have incorporated philanthropy as part of their business and marketing plans.

- The Pandemic focused even greater attention on social issues: racial inequity and injustice, food insecurity, economics and environmental sustainability.

- The reliance of the rising generations on social media and peer conversations when it comes to issues that are important and where and how to make a difference.

- The fact that women and millennials (and soon Gen Z) are now managing family finances and investments. This dramatically changes the tone and texture of conversations with advisors. In fact, 78 percent of clients interviewed in a survey by Wells Fargo in 2019 said their children had never even met their financial advisors and 66 percent of children leave their parents' advisors upon receiving their inheritance.

If you ask someone who is 70 years old to articulate his or her values or talk about the legacy they want to leave, and then ask the same question of someone who is 25 years old, you know to expect different kinds of answers, if only because of the age differences. But, it is also about life experiences, motivations, and not just the number of years they have been alive.

So how can we overcome generational and experiential differences? What is needed to ensure and support sharing values, building successful multi-generational philanthropy and creating an environment that acknowledges the needs and interests of *all of the family members* who want to be part of the philanthropic journey?

Getting Started

Family philanthropy can help families:

- Perpetuate legacy
- Cultivate family values
- Strengthen family relationships within and across generations and geographies
- Provide valuable learning and growth for the next generation

But, family philanthropy isn't for everyone. There are important considerations to be explored before pursuing bringing the family together around the philanthropic table.

- Are there shared interests and values?
- Does the family get along?
- Does the family have the time and commitment to work together?
- Are there family members who might not want to participate?
- Is everyone in the same geographic location or living elsewhere?
- Who really wants the family to work together on philanthropy: 1st Generation (Gen 1)? Their children (Gen 2)?
- Have they talked about this together?

Success starts with a conversation about the values, levels of interest and engagement that guide each generation's life. This will not only be enlightening but it will also provide information that can shape subsequent conversations, not necessarily around philanthropy, and help determine an appropriate course of action as well as what kind of charitable vehicle would work best.

Legacy and family tradition inspire and strengthen family philanthropy, and often motivate family members who choose to participate. To cultivate this sense of legacy and commitment, consider:

- Including discussions of family history and legacy at family gatherings
- Promoting family storytelling, particularly by older generations
- Creating family legacy videos and other materials that provide context for future generations
- Encouraging Gen 1 to be a philanthropic role model
- Engaging in a values exercise that enables family members to express what is most important to them and agree on a set of principles to inform the family philanthropy

It is often helpful to have an outside professional facilitate this kind of family conversation so that all of the family members can participate equally. It is also important that everyone is heard, and the best way to do that is to have a non-family member guide the discussion.

Building the Capacity for Successful Philanthropy

There are a number of things to consider when formalizing family philanthropy. For example, choosing the most appropriate charitable vehicle. Family foundations are not the only option. Families are increasingly using donor-advised funds (DAFs), split interest trusts and other vehicles to carry out their family philanthropy. Decisions related to what is the most appropriate philanthropic vehicle(s) should respond to the particular goals and circumstances of a family, factoring in such things as:

- Asset size
- Desired level of collaboration and governance
- Ages of children and the number of generations that might be involved
- Goals and types of philanthropic strategies
- Interest in international giving
- Views on privacy
- Time horizon

Whatever the choice of vehicle, such as the governance structure, there are certain intrinsic factors that will ensure success.

Delineating the practical details of the philanthropic process and policies ensures and guides leadership and decision-making. When family members know what is expected of them and feel that there are fair and consistent practices in place, they are more likely to enjoy participating in the family philanthropy. There needs to be a structure for how families will work together and steward the family's philanthropic resources. Key considerations to think about include:

- What are the leadership needs, and how will they be met?
- What is expected of those who participate?
- How are decisions reached?
- How will the work be undertaken?

Develop a Philanthropic Strategy

Families who feel good about their giving, feel positive and committed to the family philanthropy, but the charitable giving will be more meaningful and effective if:

- There is a clear mission statement that articulates the purpose of their giving. Mission statements help ensure that family members are working toward the same goals and have an objectively agreed upon barometer for making giving decisions. A mission statement conveys the family's interests to the external world.
- It fosters good partnerships with grantees and includes clear parameters related to geography, size and types of grants given, and other grant-making strategies.
- If there is a formal process in place for identifying and assessing opportunities and making giving decisions.

Engage and Prepare the Next Generation

If the next generation will be assuming leadership of the family philanthropy, it needs to understand what that entails. Opportunities for meaningful involvement, and a succession plan that clarifies the future leadership of the family philanthropy, the trajectory for participation and expectations related to the leadership role are critical to success. Having a clear policy and plan for how future leaders are determined and integrated into the family philanthropy enables a fair selection and assessment process and helps ensure smooth leadership transitions.

Finance, Administration, and Accountability

While there is not as much administrative work involved for the family with a donor-advised fund, if the vehicle choice is a foundation, it is important that all of the family understand what is involved. The administrative work involved is often underappreciated, or even invisible to family members. However, this is one of the most important elements of a family foundation and can protect the foundation and its stakeholders from legal and tax-related matters. It is important to invest in the infrastructure of family philanthropies, to ensure adequate staffing, effective financial controls, operational policies (that are actually followed), as well as training and development.

In Closing

Ultimately, it’s all about managing family dynamics. While family philanthropy is a wonderful opportunity for families to work together, challenges can and often do arise when multiple generations and family members with a long history of relationship dynamics begin to make decisions together. Families who can openly discuss differing perspectives and constructively address conflict are more likely to succeed in family philanthropy. Family dynamics can be complicated. Helping to establish better lines of communication can have a positive ripple effect across the entire spectrum of family interests, including philanthropy, and will serve as an important step in securing the next generation of clients.

About the Author

Susan Winer is the Co-Founder of Strategic Philanthropy, Ltd. **(www.stratphilanthropy.com),** a global philanthropic advisory firm headquartered in Chicago and works solely with high net worth and ultra-high net worth donors. Since 2000 the firm has been at the forefront of helping individuals, families, closely held and family-owned businesses plan, assess, and manage their charitable giving to ensure that they achieve measurable impact with their philanthropic investments. Strategic Philanthropy, Ltd. works in partnership with the clients’ legal and financial advisors, providing customized support to donors whether just starting out, revisiting or revising their charitable activities.