INSPIRED Giving

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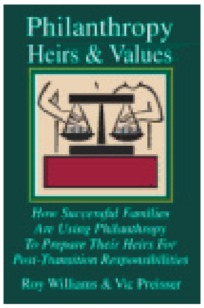

OUR VISION

❤ Our vision is a world in which millions of families connect their money to their meaning and transform communities through inspired giving.

❤ We, The International Association of Advisors in Philanthropy, are a forum in which professional advisors are dedicated to, and inspired to teach and empower their clients to effectively direct their philanthropic resources for the betterment of humankind consistent with the clients' deepest values.

OUR MISSION

❤ To inspire and educate advisors, helping them make philanthropic planning with their clients an integral part of their practice

❤ To create a unique network of support through collegial relationships among an intentionally diverse spectrum of professionals attracted to membership in our organization

❤ To promote the highest ethical standards in philanthropic planning

OUR PROMISE

❤ *Inspired Giving*

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❤ *Catching the Vision*

A BOOK REVIEW

PHILANTHROPY HEIRS & VALUES:

How Successful Families are using Philanthropy to Prepare their Heirs for Post-Transition Responsibilities by Roy Williams & Vic Preisser

REVIEW BY DEBBIE TINKLER, ADVISORS IN PHILANTHROPY

If you read Williams' and Preisser's 2003 book *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values*, you have read a good portion of this new release. Our authors have been on a quest for several years to discover why it is that 70% of wealth transitions fail. Failure was defined as an "involuntary loss of control of the assets." In dealing with the topic of using philanthropy to prepare heirs, some of the research findings were restated for the reader just joining the journey.

Their research and interviews of more than 3000 families and 100 family foundations found that

- 60% of the failure was caused by a "breakdown of communications and trust within the family unit"
- 25% of the failure was caused by "inadequately prepared heirs" and
- 15% of the failure was "attributed to ALL other causes such as tax considerations, legal issues, mission planning, etc."

Therefore, the reason for much of the failure in estate transitions lies "*within the family itself.*" How can you determine if your family is leaning toward success or risk? The research is compiled in a 10-question checklist in the book and on the author's website at www.thewilliamsgroup.org. To how many questions can you answer "yes"?

1. Our family has a mission statement that spells out the overall purpose of our wealth.
2. The entire family participates in most important decisions, such as defining a mission for our wealth.
3. All family heirs have the option of participating in the management of the family's assets.
4. Heirs understand their future roles, have "bought into" those roles and look forward to performing in those roles.
5. Heirs have actually reviewed the family's estate plans and documents.
6. Our current wills, trusts and other documents make most asset distributions based upon heir readiness, not heir age.
7. Our family mission includes creating incentives and opportunities for our heirs.
8. Our younger children are encouraged to participate in our family's philanthropic grant-making decisions.
9. Our family considers family unity to be just as important as family financial strength.
10. We communicate well throughout our family and regularly meet as a family to discuss issues and changes.

> *"Therefore, the reason for much of the failure in estate transitions lies 'within the family itself.'"*

Two other checklists are included to help assess how prepared the heir is. There is a self-checklist for the heir and one for the parent or owner as well.

The authors impress on the reader the value of creating a philanthropic mission statement that the entire family can support. They also give multiple age appropriate ideas on how to use philanthropy to better prepare heirs for future responsibilities. They point out the values to be learned, the importance of a mission and appropriate accountability of each age level. Stories of

CONTINUED ON PAGE 3 . . .

Giving too much money without proper guidance is asking for trouble

POSITIVELY IMPACTING YOUR GRANDCHILDREN'S LIVES

Grandparents love to give gifts to their grandchildren. And they love to be generous and share their blessings with their family. Financially successful grandparents have the challenge of having lots of resources from which to give. It is difficult to determine how much is "too much" when giving gifts. However, one way for grandparents to positively impact their grandchildren's lives is to limit the amount of money and gifts given to grandchildren.

Giving grandchildren anything (and everything) they want is not healthy for them. Although seeing them receive a "pile" of gifts on their birthday or Christmas may make the grandparent feel good, it will not necessarily make them happy. In fact, many children report feeling uneasy or embarrassed when they receive too many gifts. The truth is that giving too many gifts (or too extravagant gifts) will cause problems over the long-term—because it distorts the grandchild's perception of the value of things. They have no way of knowing how much it really "costs," in terms of work and effort.

> *"Young people need to learn how to manage money more than they need money itself. Therefore, it is better to give them a smaller amount and work with them to develop a plan for saving and spending wisely."*

Clearly, there is room for generosity and in occasionally giving a special gift to a grandchild. But moderation is preferred. The issue is not "I can afford it", but rather: "what is best for the child?" In a child's eyes, the size of the gift does not communicate how much the grandparent loves them, but whether thought was put into what they might like and putting effort into the gift-giving process.

Related to this issue, wealthy grandparents like to give their grandchildren money. There are several reasons for this. First, obviously they would like to share their abundance with their family. Secondly, there can be tax benefits from giving money now rather than after death. The third reason may be that the grandchildren have needs that the grandparents can help now and make the demands of life easier (and the grandparents do not really need the money like the grandchildren do).

But numerous older adults say, "I do not want to spoil my grandchildren." They go on to communicate their desire to help their grandchildren have opportunities (especially educationally) that they themselves never had. And they want to help out their grandchildren in other ways, to "make life a little easier for them." Many of those people, having grown up during or in the aftermath of the Great Depression, also state, "I do not want them to have to go through what I did."

It is understandable that older adults want to share their financial blessings with their family. They have the best of intentions—to share, to give, to make others' lives less stressful and less difficult. Unfortunately, what starts out with good intent can wind up bringing pain and negative consequences into lives of the young people they intended to bless.

The fact is: giving grandchildren lots of money, with no monitoring of how they spend it (or how fast) is asking for trouble. Young people need to learn how to manage money more than they need money itself. Therefore, it is better to give them a smaller amount and work with them (or their parents) to develop a plan for saving and spending wisely. As they demonstrate ability to properly manage the smaller gift, then larger gifts later may be appropriate.

When financially secure grandparents give excessive gifts to their grandchildren, these gifts can actually interfere with the process of learning significant lessons in life—which are more important for the individual's success in life than any amount of money or possessions they may receive. Therefore, consider the following principles in giving to your grandchildren:

- Discuss intentions and desires with the parents, to determine appropriate gifts (or amounts of money) to give.
- Give gifts which show you have put time and effort into selecting and obtaining the gift; this is often much more important to the child than the amount spent on the gift.
- Do not let the tax benefits of giving money override your judgment in how the gift may impact the child's life in other ways.
- Include time as a part of the gift, if possible. This can range from going out to dinner together, to planning and going on a vacation together.

In conclusion, strive to make giving a reflection of the relationship with the grandchild rather than a reflection of financial success.

Author: Dr. Paul White, Family Business Resources, Inc. ❤

Leave a legacy by creating the type of family foundation that is right for your family

CREATING A FAMILY FOUNDATION– WHAT ARE YOUR OPTIONS?

You have been fortunate. You enjoy a measure of success. You have managed your assets wisely. After the needs of your family are met, you give annually to your favorite charities. But you now feel you are in a financial position to do something special. You would like the satisfaction of creating a lasting legacy of philanthropy. You want to establish a family foundation.

Here is an overview of the three alternative ways to create such a legacy: a private foundation, a supporting organization and a donor advised fund.

PRIVATE FOUNDATION

The traditional private foundation is appropriate for individuals with substantial wealth and for whom control over their family foundation is an overriding issue.

But for many individuals control comes at a price. Set up can be costly and time-consuming. Tax benefits are more limited than those of gifts to a supporting organization or a donor advised fund. Foundation trustees must comply with stringent and cumbersome IRS regulations. Since the tax return for a private foundation is a public record, donors often are often inundated with grant requests, particularly when they may be new to charitable giving. The administrative responsibilities on the family of maintaining a private foundation over time may be burdensome and costly.

SUPPORTING ORGANIZATION

Another alternative, the supporting organization, is an option that may be appropriate for individuals who want the separate identity, independence and "feel" of a private foundation but also want the tax advantages of a public charity.

The supporting organization enjoys tax-advantaged status as a "public" charity because of its stated intention to support one or more public charities. For many individuals, the supporting organization option is not practical because of high set-up and operating expenses, regulation complexity, and control problems (the donor's family cannot control the supporting organization's board of directors).

DONOR ADVISED FUNDS

A donor advised fund is a family foundation created under the tax umbrella of a sponsoring public charity. Set up is simple and quick. There is no set-up expense. The donor makes an irrevocable gift of a minimum of $10,000. Because of the sponsoring organization's public charity status, the donor enjoys the highest tax benefits available (superior to those of a private foundation and the same as those of a supporting organization). The donor retains the right to advise the sponsoring charity in administering the affairs of the donor advised fund including naming the fund, managing its investments, recommending grants, and selecting a replacement advisor at the death of the donor. The organization sponsoring the donor advised fund does everything else, freeing the donor and his or her family to concentrate on the enjoyable side of family philanthropy.

Not all donor advised funds are alike. Some are more flexible and user-friendly than others. All will accept cash and marketable securities. Some will accept other assets such as life insurance policies, real estate, and closely-held stock. Some will allow the donor to select the financial advisor to manage investments in the fund. Some will allow a wide range of investment choices. Some will allow the fund to continue over successive generations.

"No one solution fits everyone. Each of these alternatives has its tradeoff regarding control, flexibility, simplicity, deducibility, privacy and cost effectiveness."

No one solution fits everyone. Each of these alternatives has its tradeoff regarding control, flexibility, simplicity, deducibility, privacy and cost effectiveness. Talk with your philanthropic advisor to help determine which solution best fits your unique situation. However you choose, you will have that special satisfaction that comes from knowing that your life's efforts have made a difference to the charities you support.

The table on page four compares the three alternatives.

Author: Philip T. Tobin, American Endowment Foundation (AEF), www.aefonline.org. ❤

BOOK REVIEW CONTINUED FROM PAGE 1 . . .

real families and the impact that philanthropy made on those families are shared to drive each point home. "Philanthropy turns out to be one of the enduring ties between generations. It also turns out to be a powerful forum for long-term communication between the generations."

The more prepared the heir is for the transition of wealth and values, the greater chance of family success. The more prepared the heir, the greater the likelihood that they will be equipped to manage their own future and be more thoughtful leaders of the *next* generation. ❤

Which family foundation option is best for you? Compare your options.

A COMPARISON
OF FAMILY FOUNDATION ALTERNATIVES

PRIVATE FOUNDATION	SUPPORTING ORGANIZATION	DONOR ADVISED FUND
High contribution minimums: Financial thresholds for private foundations are high. Many experts say that it makes little sense to start a private foundation with less than $5 million initial contribution.	**High contribution minimums:** Similar to a private foundation.	**Lower contribution minimums:** Minimum initial contribution $10,000.
Complexity: Many individuals find that the IRS regulations affecting private foundations are complex and confusing - including issues of tax deductibility, the 5% minimum payout requirement, the payment of excise taxes on investment income, tax reporting, audits and fiduciary oversight.	**Complexity:** IRS regulations affecting supporting organizations are considered by tax experts as the most complex and arcane sections of the IRS Code.	**Simplicity:** Donor Advised Funds are simple. The sponsoring charity provides fiduciary oversight, maintains records of Fund activity, qualifies grant requests, makes grant distributions, prepares donor statements, files tax reports, arranges audits and assures IRS compliance.
Lower tax benefits: Private foundations offer lower annual deduction limits as % of Adjusted Gross Income (AGI): 30% of AGI for cash contributions 20% of AGI for capital gain assets. Deductions in excess of annual limits can be carried forward over 5 years On gifts of appreciated assets (other than publicly-traded securities) valuation of assets limited to cost basis.	**Higher tax benefits:** Supporting organizations offer the maximum tax advantages available (same a donor advised fund). On gifts of appreciated assets, valuation is based on Fair Market Value.	**Higher tax benefits:** Donor Advised Funds offer the maximum tax advantages available: 50% of AGI for cash contributions 30% of AGI for capital gain assets Deductions in excess of annual limits can be carried forward over 5 years On gifts of appreciated assets, valuation is based on Fair Market Value
Control: Donor enjoys absolute control over investments, grants and Board succession.	**Donor cannot control:** Family members cannot exercise majority control over the supporting organization's board.	**Virtual control:** Donor advises. Depending on the flexibility of the sponsoring charity, the donor can achieve most of the advantages of a private foundation.
Lack of Confidentiality: Everything about a private foundation is a public record.	**Anonymity:** Donor can maintain anonymity.	**Anonymity:** Donor can maintain anonymity.
Expensive: The set-up expense for private foundation often exceeds $15,000. The administrative cost for salaries, investment oversight, board expense, legal expense, audit expense, tax compliance, and excise taxes can be substantial, not to mention significant time requirements.	**Expensive:** Similar to a private foundation.	**Efficient:** There is no expense to set-up a donor advised fund. Administrative Fees are modest in comparison (1% per year, less on larger funds). Donor advised funds are not subject to excise tax on investment income. More of donor's Fund is available for charitable grants.

INSPIRED Giving

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