

THE CHARITABLE CHOICE

Powering Better Wealth Planning Through Family *Unity and Shared Goals*



A family that gives together grows together—it is cliché, but critically important, and particularly relevant for those considered high-net-worth (HNW).



Understanding and solidifying a family’s common purpose and philanthropic passion can lead to shared experiences, emotional stability and stronger interpersonal relationships. It also can assist in the successful transfer of wealth between generations.

It’s sorely needed, as the majority of intergenerational wealth transfers currently (and shockingly) fail, mainly due to a lack of effective communication, understanding and agreement on family goals—financial and otherwise.¹

It’s a problem even in (and often especially with) HNW families in their quest to establish a meaningful and lasting legacy.

“A lot of families say they generally want this to happen or that to happen,” says Sophia Duffy, JD, CPA, Associate Dean and Assistant Professor of Business Planning at American College of Financial Services. “But getting them to actually sit down and articulate their goals, and then to prioritize those goals, is a huge problem. Yet it also represents huge value the advisor can add.”

So how is it done?

Through original research and interviews with financial, generational and charitable-giving experts, BNY Mellon’s Pershing, in conjunction with Beacon Strategies, identified the advantages and opportunities that can be gained from helping HNW families rally around a shared giving goal and common identity. For top advisors, building a foundation for legacy success, as well as attracting and retaining wealthy clients, is critically important.

The focus was on HNW individuals and families which, for the purposes of the analysis, were defined as those with between \$5 million and \$25 million in investable assets. The results, including the steps taken by advisors and families who have successfully maintained and transferred wealth through multiple generations, are detailed in this whitepaper.

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Health and *Wealth*

It is the giving, not the getting, that provides a sense of purpose and well-being—something that’s backed by science.

Research conducted by Carleton University found that individuals with a clear and defined purpose outlive their peers, and their attitude and energy transfer to those with whom they’re closely connected, namely family members.

It doesn’t seem to matter when people find their direction, it can be in their 20s, 50s or 70s; the benefits still hold, which reinforce the intergenerational assist.

The research controlled for other factors known to affect longevity, such as age, gender and emotional well-being. A sense of purpose outweighed them all, something defined as having a “compass or lighthouse that provides an overarching aim and direction in day-to-day lives.”²

Advisors play a catalytic role in helping individuals and families live lives of purpose.



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It's this connection of well-being to purpose that has been directly linked to family wealth preservation and perpetuation, with an impartial professional (read: advisor) often at its center.

For many high-net-worth families, it's more of a decision about impact. Advisors play a catalytic role in helping individuals and families live lives of purpose.

Instead of simply spreading money around, it's about truly leaving a legacy of philanthropy, which also involves their time and wisdom, something that "is nuanced, but important."

Not that it's always (or often) easy, but Duffy offers best practices to make it more so.

"One of the important things when dealing with wealthy families is to make sure that everyone understands the shared vision, and that they buy into it," she notes. "The advisor does it either by approaching each family member individually, or by convening a family meeting that is run almost like a business event. Ideally, however, the advisor should do both."

It might include a recap of the items discussed with each member individually, but a key tip for advisors is to make sure nothing in the open meeting is a surprise to anyone else.

Duffy says, "It's also wise to share relevant documents before the meeting that might also be of a sensitive nature, so people are able to prepare themselves for news that could be contentious, disappointing or surprising, so that it's mitigated beforehand."

When people are "put on notice" in this way, she says, they have time to think, and it becomes less of an emotional reaction and more of a practical decision as to how best to embed whatever it is into charitable vision, when appropriate.

For particularly sensitive and weighty topics, the use of clinical psychologists and counselors should not only be suggested, but also actively encouraged, by the advisor.

The advisor will take on more of a role of therapist and less of an investment professional. It will be less emphasis on speaking and teaching and more on listening and facilitating.

Open the conversation with these questions:

1. Tell me about organizations you support with your time.
2. Tell me about the organizations you support financially. How have these gifts been made in the past? In what amounts?
3. How would you like your children and grandchildren to continue this tradition?
4. Have you made any long-term financial commitments to these organizations?
5. Have you provided for these organizations in your estate plan or IRA?
6. How does your charitable intent coordinate with your life insurance and estate plan?

Start With The *Why*

It is a simple yet powerful and all-important question, most recently highlighted by business consultant Simon Sinek.³ It refers to the self-introspection that should take place before launching into anything of importance.

“Why?”

Sinek uses a vocational framework to illustrate the futility and emptiness of simply “punching a clock,” rather than identifying and acting on true passion. And as Duffy notes, it’s easily transferable to charitable giving, yet rarely asked.

“It’s incredibly critical to ask the question of why somebody wants to be involved with a particular organization or mission.”



Duffy relates the following anecdote to illustrate: Her colleague oversaw raising funds for a library. He visited with different donors, and one ended up gifting a sizable amount. Following the meeting, he invited her for coffee and asked why she donated such a large amount and what she loved about libraries.

The donor candidly revealed she had been physically abused in a previous marriage. To escape, she took her children to the local library, a place where they would be safe.

She also mentioned that no one had ever inquired why she gave to libraries. They simply asked her to donate, which she always did. This was the first time anyone asked about the motivations behind her giving.

“They may say that they support a cause, but what is it that they are really trying to do?” Duffy says. “Do they want to try and change something for the better within a particular organization, industry or population? If so, what’s the best way to accomplish that change? These are the questions advisors absolutely should ask at the outset as it will reveal true motivations behind the planned giving, leading to a greater chance for success.”

Push vs. *Pull*

Familial pressure is sometimes applied by parents who desire closer intergenerational ties and see charitable giving as a way to do it, which could be a problem, according to Ron Cordes.

Gift-giving is a great idea, he says, but only if the children want to do it.

He should know. Finding himself on the receiving end of a financial windfall from the sale of his asset management firm, AssetMark, in 2006, Cordes and his wife, Marty, co-founded the Cordes Foundation to make a positive impact. Representing the next generation, daughter Steph joined four years ago and serves as the organization's vice chair.



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Having experienced the process themselves, the Cordes family spends a significant amount of time working with multiple generations from HNW families. In fact, they recently hired a dedicated firm to perform “values exercises” to identify common themes family members find important.

“One generation should never try to force the next generation into philanthropy, but rather encourage and inspire them, and then work with an advisor to realize the vision,” Cordes explains. “You can’t push children into [charitable giving], but there are some very interesting ways to pull them in. One is the value exercises I mentioned, which bring together the older and younger generations to identify commonalities which the advisor can combine into a workable vision. Another is through impact investing, on which our foundation is based.”

He specifically points to the benefits of donor-advised funds (DAFs), which can be used to educate children in charitable giving from a young age by allowing for more and more discretion as they grow, both in the amount and type of gifting.

“Some of the families in that \$5 million to \$25 million range used to establish private foundations,” adds Ken Nopar, Vice President and Senior Philanthropic Advisor with American Endowment Foundation. Today, many of them are instead establishing donor-advised funds.

Those who already have private foundations are also setting up complementary DAFs, Nopar says. They do so for many reasons, but often because they or their heirs can give outside of the stated mission of the foundation. This is important to the next generation, who may have different interests than parents or grandparents. Plus, this enables the founders to “test” their heirs by funding DAF accounts to gauge their responsibility and dedication to charitable giving before promoting them to a role in the foundation.

The number of DAF accounts has doubled to nearly 300,000 today versus half that amount eight years ago, while the number of private foundations has barely increased from 75,000 to 83,000 in that time period.⁴

“Intergenerational wealth management should be about empowering the next generation, rather than constraining or disabling it,” Cordes notes. “Philanthropy, charitable giving and anything that makes a positive impact are incredibly powerful ways to do it.”

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11 Best Practices for Catalyzing Family Philanthropy

- 1. Clarify their philanthropic identity**—Clarify who they are as funders and what and how they want to make a difference through giving.
- 2. Prioritize their motives**—Is the primary motive for giving family togetherness or philanthropic strategy? Those who are unabashedly candid usually have better success achieving their goals.
- 3. Articulate their values**—Start by articulating the motivational values and core beliefs that underlie the family or board’s decision-making on giving.
- 4. Craft vision and mission statements**—Clearly stating the difference they want to make through grantmaking is a responsible way to give, especially when there are so many needs to be met.
- 5. Know their giving personality**—There is no right way of being a philanthropist, but help donors imagine how they want to conduct their giving.
- 6. Help them form a group identity**—Is the philanthropy an all-family affair, or will they invite independent, non-family members to participate?
- 7. Remind them of legal, fiduciary responsibilities**—Most donors are so excited about the honor of giving that they forget the responsibilities that accompany their opportunity to give.
- 8. Assign roles and responsibilities**—Giving people roles can level the playing field and enable those with less grantmaking experience the chance to feel included.
- 9. Establish governing process and procedures**—Organized chaos might work for the family in the home, but the more policies and procedures, the less conflict can arise.
- 10. Schedule an annual check-up**—Once all the thoughtful upfront preparation is organized, schedule an annual assessment to review.
- 11. Plan for succession**—Your next generation family members will thank you for the forethought.

Source: “11 Best Practices for Setting Up Family Philanthropy.” Sharna Goldseker, Executive Director, 21/64. Co-author of Generation Impact: How Next Gen Donors Are Revolutionizing Giving. This article was featured in The American Endowment Foundation, <http://www.aefonline.org>. Fall 2017.

Context Is *Key*

All well and good, but how does an advisor meet a family like the Cordes?

Joining centers of influence and partnering with other professionals (quarterbacking the team) are two of the widely discussed methods for gaining the necessary expertise and contacts to attract HNWI individuals and families as clients.

Often advisors who volunteer, are on a charity board or are donors themselves are more comfortable in discussing charitable planning with clients. These advisors can be very helpful to the non-profits by sharing their knowledge about gifting stock or other assets, utilizing planned giving options, or opening doors to colleagues or potential donors.



However, nothing substitutes for authenticity, says Katie Swain, Director of Wealth Solutions at BNY Mellon's Pershing.

"Advisors who I've seen successfully springboard into the space do so by way of a personal interest," she explains. "It might be helping the local animal shelter through a charitable event or hosting a concert to help raise funds for a particularly beautiful, historic concert venue. Whatever it is, if it's truly a passion, it will shine through and attract wealthy clients who share those interests."

"More advisors today are proactively engaging in the charitable conversation with their clients," Nopar says. "This discussion enables them to provide the best financial advice to their clients, knowing the extent to which clients want to support their favorite causes and charities during lifetime and after death. The advisors, clients and charities all benefit from this conversation—truly a win-win-win. Clients often will refer their philanthropic friends and family to their advisor, because they know that the advisor is not just interested in managing more assets, but is very interested in helping clients on a broader or deeper basis."

And the dollars are stickier. Charitable giving deepens relationships and introduces advisors to the children and grandchildren. Nopar says, "It mitigates all the statistics about how those assets typically leave with successive generations."

"Fifteen or 20 years ago, advisors actually thought that discussing charitable giving would lead to more assets disbursed and, therefore, less for them to manage," he claims. "Today, if the advisor isn't discussing it with their clients, someone else is, and that person typically ends up managing all their assets. I see it all the time. If there are multiple advisors working with the family, the one who has demonstrated a deep commitment to helping with the family's charitable giving will win out when it's time to consolidate."

The Business of *Giving*

Like Duffy, Swain has seen HNW families educate and align different generations by hosting charitable-giving business meetings.

“It was an annual family retreat, with very specific goals required of attendees,” Swain says of one. “The advisor helped to coordinate and attended the retreat. Younger generations came prepared with what they wanted to accomplish and even presented a business plan. Doing so gave them a sense of ownership over their charitable-giving idea. The event also fostered a common purpose as the different members learned how giving would individually affect them, as well as the family as a whole.”



It was a great idea and worked well, she concludes, but as critical and valuable face-to-face family meetings are, the reality is that not everyone can be at a particular location. If that's the case, don't shy from communication technology.

"Video chat, FaceTime, Skype, or whatever it might be, will at least maintain the discipline of including all family members regardless of location and having them set and keep the dates. This helps foster that involvement and consistency across generations," Swain adds.

A Legacy of *Largesse*

Encourage rather than force subsequent generations, empower rather than constrain, and seek to understand why they feel the way they do about a particular cause or giving strategy.

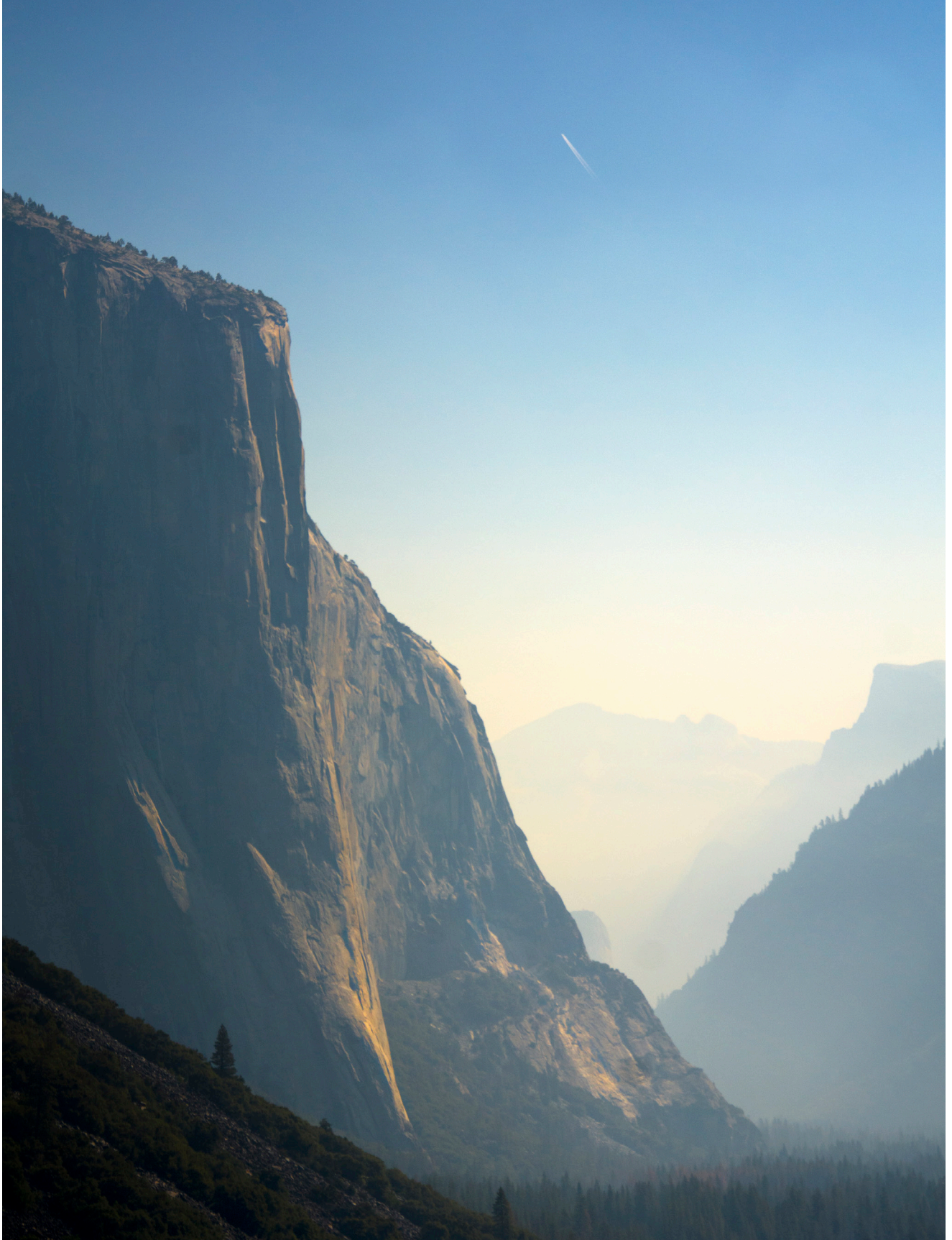
Helping to identify, encourage, organize and implement a shared charitable-giving strategy can lead to a sense of unity and purpose among all HNW family members, and increased trust and reliance with the advisors with whom they work. This can result in more sophisticated and rewarding service and, ultimately, a deeper advisor-client relationship.

¹ "5 Strategies to Keep Your Heirs from Blowing Their Inheritance." Kiplinger.com. November 2015.

² "People Who Feel They Have a Purpose in Life Live Longer." NPR.org. July 28, 2014.

³ "Start With Why" startwithwhy.com.

⁴ National Philanthropic Trust, November 2017 report.



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