

Philanthropy and the Financial Advisor



Three Reasons Why Advisors Do Charitable Planning and Four Reasons Why They Don't!

Secret Ingredients for Successful Charitable Planning, A Special Section On How to Market the Most Popular Planned Gift!

When financial advisors think about Philanthropy as a business opportunity, it is like the national debt: everyone talks about it, but nobody does anything about it. That surely isn't true of all planners, but I believe it is true for most. Philanthropy and charitable planning are held out as an important part of the work that financial advisors can perform for their clients. Why is it that, when it comes time to promote these things, advisors don't seem to do a very good job of it?

The fact is, philanthropy and charitable planning is almost the antithesis of financial planning. After all, what is the client thinking about when they do financial planning? Aren't they thinking of themselves and their families? So isn't that where the financial advisor concentrates effort - - on the needs, wants and desires of the individual and the family? Isn't it true that philanthropy is designed for the benefit of other people who are outside of the family?

If a client reacts in surprise when you start to talk about charitable planning, it is probably for good reason. You have never expressed to them that you are involved in philanthropy. Maybe that's because you aren't. If you were, they would surely have heard about it, because you would not have been able to hide your passion for what you do. We don't use the word "passion" lightly. You will see why.

It is fair to say that many advisors do address the charitable issues of families from time to time, but they don't make a career out of it, and they don't generate much of their income from charitable planning. That's almost reason enough for ignoring it. Why spend time on something that doesn't generate revenue?

Before we go further, it is important to address some common misperceptions regarding charities, especially local or small charities. This is important because these organizations are in serious need of funding and support and constitute a potential client relationship for you.

"It is more fun for us as advisors to work with families who have a passion for doing good things in their community, if they have their whole family involved in their philanthropy it is even better, because we become accepted as a part of the family."

George P. Brown PhD

Let's look at these perceptions, and score yourself, *True or False*:

<p>Charities are inefficient and should be run more like a "for-profit" business.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>	<p>Charities don't pay well enough to attract quality personnel.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>
<p>Charities don't know how to sell or market their services.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>	<p>Long range planning is not something that charities do well.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>
<p>Serving on a Board is a great way to generate sales prospects.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>	<p>Charities don't raise funds well or promote themselves well to the public.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>
<p>Charities are not supposed to generate a profit.</p> <p><input type="radio"/> TRUE</p> <p><input type="radio"/> FALSE</p>	



The fact is, no matter how you answer, you are probably right, from your own perspective. Surely, some of these statements can apply to a charity, but they can apply to a business as well. Don't ever assume that a local charity is weak in these areas until you know it for a fact. They will admit it soon enough if it is true. Most charities have great people, and excellent boards to support them. And yes, they all need to raise more funds. The lesson is, get to know the local charities, especially the ones who do things that might be of interest to you. Call them, or better yet, go visit them. There is not one charity that doesn't want to tell you their story.

"I never underestimate the talents of the people who are running a local charity. I have learned that running a charity is, in fact, a very different job than running a business, and it takes a different mind-set. There is a lot to learn from them."
Kevin Brown CEO

Suppose you are interested in learning how to generate revenue from charitable planning. Let's assume that you even know some advisors and clients who could benefit from your coaching them to do better and to do more with their charitable dollars. Would those people look at you as being qualified?

Let's use some analogies:

Let's say that you wanted to learn to fly an airplane. Would you want a flight instructor who has just read a book on how to teach someone to fly, or do you want a person who is fully certified and has a passion for flying, and is willing to get into the airplane with you? There are probably more of you out there who are golfers. Here again, do you want a golf pro who is into the game?

PASSION

So what is the common characteristic here? The answer is the word “passion”. Funk & Wagnall’s International Dictionary has 10 ways to define “passion”:

pas•sion: **1.** An intense or overpowering emotion **2.** An eager outreaching of mind toward some special object, as art, travel, etc.; fervid devotion. **3.** Ardent affection for one of the opposite sex. **4 through 10** are a bunch of other colorful emotions that we have all had from time to time.

The point is, if you are not passionate about something, your client will know it right off. But if you are, they will know that, too. If your client is passionate about something, and they see that you are passionate about something, they will love you. That is because they love to work with other people who are passionate.

While passion is the main ingredient, it won’t rise without the yeast of commitment. People can see your passion. But they can also see your commitment. In other words, they can see that you talk the talk, but they can also see if you walk the walk.

We estimate that only about 3% of the financial advisors out there are involved in charitable planning in a sincerely serious fashion about which they are very passionate. They may be passionate about golf or sports, which is fine and usually makes for some good conversation.

Here is what many successful charitable planning advisors say: “I can help a

successful person become more financially successful. But I don’t get very excited about helping someone accumulate enough money to buy another yacht. What moves me is helping another person accumulate enough money so they can make life better for others. That makes me a facilitator for good, and my life is meaningful. I feel like I am an important part of what they do.”

Now here you might say, “Well, I’m not sure I agree with you, I may not have a passion but I have done quite a few charitable remainder trusts, and some foundations for my clients, so I am doing charitable planning already”. Sure you are. What you are saying is “I know

how to use a hammer and a saw to build a house”. That means you know how to use some of the tools to perform charitable planning. But what kind of house are you building, and who does it serve? A craftsman is not an architect.

The question is do you catch the dream?

“Passion and Commitment are essential in the world of philanthropy.”
George P. Brown PhD

“Working with the executive leadership and the boards of local charities is an entirely unique channel to reach motivated high net worth families. The rewards are often intangible but gratifying, and the business relationships are built on trust and unity of purpose.”
George P. Brown, PhD



TEST YOURSELF

Here are some test questions and you can score points for each “yes” answer:

- Do you regularly volunteer some of your time for charitable activities? . . . **1** Point
- Do you volunteer to raise funds for any cause? **2** Points
- Do you serve on the board of a charity in your community? **3** Points
- Do you serve in some capacity at your religious institution? **4** Points
- Do you or members of your family have Charitable Gift Annuities? **5** Points
- Do you have your own Charitable Trust? **6** Points
- Do you help your clients with Charitable Gift Annuities? **7** Points
- Do you help your clients with Charitable Trusts? **8** Points
- Do you have your own Foundation? **9** Points
- Do you help other people set up their own Foundations? **10** Points

RESULTS:

If your score is **under 20 points**, then charitable planning may not be for you.

If your score is **over 40 points**, you are well on your way, and you should pursue adding charitable planning to your practice in a bigger way.

CHARITABLE PLANNING: Should You Become More Involved?

YES	<p>Here are the reasons why you <i>should</i>:</p> <ol style="list-style-type: none">1. You will find new ways to serve clients, especially higher-end clients with an emotionally gratifying service.2. You will establish a much stronger and more satisfying relationship with your clients that extends to their families.3. You will find a new source of revenue that often can come close to equaling or even exceeding your current income.
NO	<p>Here are the reasons why you <i>should not</i>:</p> <ol style="list-style-type: none">1. Charitable planning can be very time consuming and especially fruitless if the case is small or the motivation is purely tax avoidance.2. The learning process can be a long one if you don't have the right resources.3. There are perils that arise with improper design and poor administration.4. You could subject yourself unnecessarily to litigation if you become involved in "tainted" activities.

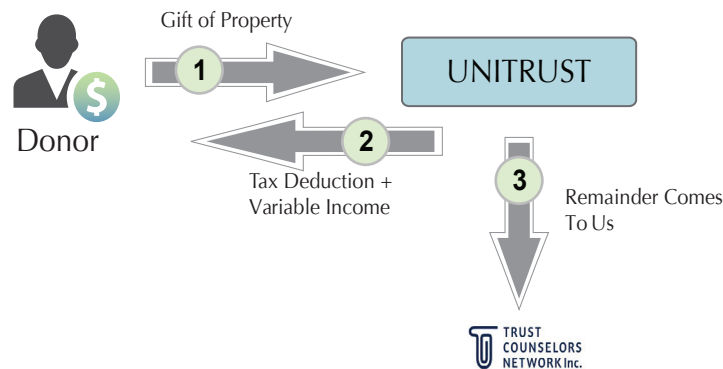
When you make a positive decision, there are essentially three major factors that you must deal with:

- Educate yourself on all the significant charitable planning tools
- Assemble the right team to support you.
- Create your own Foundation if you want to experience the joy of philanthropy.

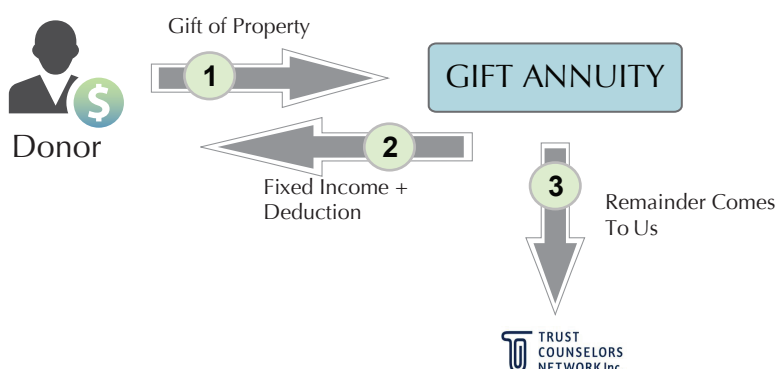
Education: (What do you need to know?)

The area of knowledge that covers Charitable Planning is usually referred to as “Planned Giving”. This involves the use of such tools as:

Charitable Remainder Trusts (CRT) – there are different kinds of CRT’s. There are Charitable Remainder Annuity Trusts, and there are Charitable Remainder Unitrusts. Among Unitrusts there are Net Income Trusts and Net Income with Makeup Provisions, just to name two variations.



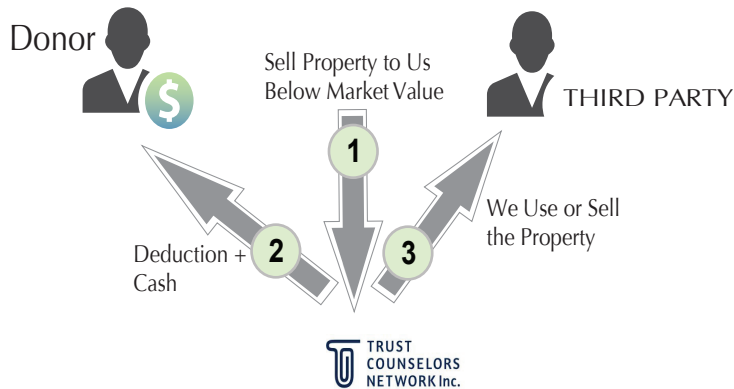
Charitable Gift Annuities (CGA) – there are immediate CGA’s and Deferred CGA’s, to name a couple of variations.



Charitable Lead Trusts (CLT) – where the charity receives income for a period of time and then the principal is left to heirs or returned to the grantor.

Pooled Income Funds (PIF) – which can look like conventional mutual fund portfolios or can be used by the charity to finance the purchase of real estate or serve other immediate needs.

Charitable Bargain Sales (CBS) – there are bargain sales and then there are installment bargain sales (**ChBS**), which can also have a deferred commencement date.



Foundations – which can be either public foundations or private foundations. The rules are considerably different, including the tax deductions limits for donations. There is a special version of foundations that are created under the wing of an existing public foundation, called a Field of Interest Foundation (FOIF), which permits operating like an independent foundation, but all the administration is done by the sponsoring public foundation.

Limited Liability Companies (LLC) – can be used in a number of ways, and include the relatively new concept called “Low-profit Limited Liability Company” (L3C).

Donor Advised Funds (DAF) – some people consider these to be included in the role of planned giving because a donor can take a charitable donation tax deduction when putting money into a DAF. We won’t go into the distinctions of this type of CRT. I refer you to our charitable and planned giving planning web site (www.trustcounselors.org) to do more research on these.

Form Your Support Team of Expert Talent:

- **Estate Planning Attorney** – you will need at least one attorney, but it doesn't hurt to have a relationship with several, including some in states like Nevada, if you need Nevada Law. You need to make sure you have an attorney who knows charitable trusts and Special Needs Trusts.

- **Certified Public Accountant** – In addition to the normally expected skills, you want to be sure that the accountant is experienced with Charitable Remainder Trusts and Foundations. You are also likely to have the accountant set up the recordkeeping functions for LLC's, since they may be used along with CRT's and foundations.

- **Trust Company** – if you are in the securities business you will want to work with a trust company that will allow you to continue to manage money that is placed in trust. If you are in the insurance business the same will be true with regard to the purchase of insurance policies inside ILIT's, which are customarily used as "Wealth Replacement Trusts". The trust company must be adept at administration of CRT's and CGA's. They must also understand the rules regarding investing for charitable trusts and charitable foundations, with particular regard to un-

related business taxable income.

- **Charitable Foundation Administrator** – if it becomes necessary you may need to find an administrator for a number of charitable tools. Usually an experienced trust company or outside administration company can administer Donor Advised Funds, CRT's, CGA's, ChIBS, Foundations and possibly L3C's, including any tax reporting required.



“As with any other ‘niche market’, the nature and volume of revenue you generate through charitable planning is what you make of it. If I position myself properly, that my job is to help the charity achieve its goals through planned giving, I find that the people go out of their way to make sure that my services are recognized with meaningful compensation.”

George P. Brown PhD

Generating Revenue:

So you ask yourself: How do I generate revenue from Charitable Planning? Why should I work hard to learn how all of these things work?

This is a “fee for service” business. There are opportunities for product sales and/or gaining investments under advisement or management. This money is sticky, meaning you will probably have it under management for a lifetime. If you work with high-end clients, your income will be greater than if you are working with moderate-income individuals. If you tie into local charities, some will need your services more than others. Some will be better connected than others. One thing is for sure, they all need money, now and forever. That means they need cash donations and donations that they will receive in the future.

Fees for fund-raising vary, and depending upon what you do, you may have to register as a fund-raiser in your state. If you are just doing planned giving, then you can



charge a consulting fee. There are ways to do this that are in conformance with the various laws, and you must be sure that you know what they are. What we recommend is that you offer fund-raising services through your own foundation, so you can more easily remain in conformance with regulations.

As a financial advisor, there is almost always an abundance of funds to manage through charitable trusts, gift annuities and foundation accounts. It seems the advisor fees are around 1% of the assets under management or advisement. If you are a typical charitable consultant, let's assume your Charitable Trusts might be for \$350,000, your Gift Annuities average \$100,000 and your foundation relationships might be \$300,000. It is not unusual to have a family relationship that has all of these, which could total \$750,000 or more. That means, just from investment management you might generate \$7,500 per year in fee revenue. With 20 such families that would total \$150,000 per year.

Consulting fees would be in addition, and although they vary, they might amount to 5% of the funds involved in the creation of trusts, gift annuities and foundations. For each \$1 million involved, from 3 to 5 cases, the consulting fees could be \$50,000. It is not unreasonable to expect up to 6 or 10 cases a year with fees ranging from \$100,000 to \$200,000. One top advisor we know earned \$1.2 million in one year, all-in fees, from just three major cases. Some advisors have more than \$30 million in charitable assets.

Marketing the Most Popular Planned Gift – Charitable Gift Annuities

There is a “heavy user” market among purchasers of charitable gift annuities. These are predominantly single or widowed women in the 75 to 90-age bracket. They will buy one or more charitable gift annuities each year as routinely as you and I buy groceries at the food market. You don't need to convince these people of the advantages of a gift annuity. They have come to depend upon them to minimize their income taxes and provide cash flow to put bread on the table. If I had to guess at the amount of each annuity, I would guess \$50,000 each.

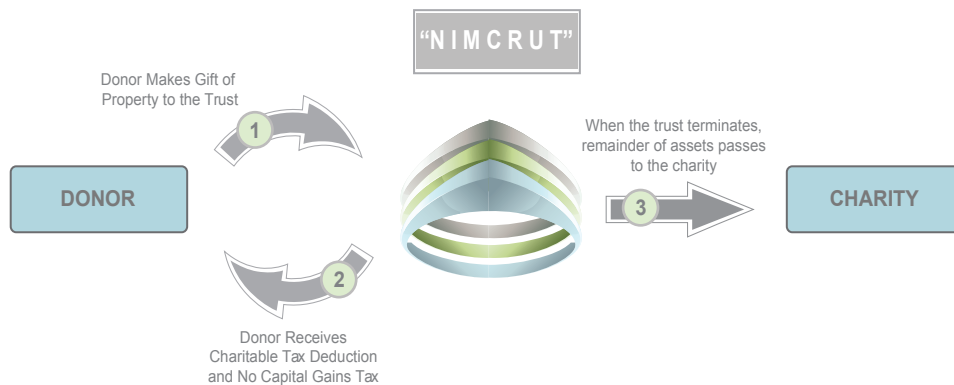
Pay Close Attention to Single or Widowed Women Within the 75-90 Age Bracket.

That may not be an attractive value for you, but it is meaningful to a charity. And if you have 40 or 50 people doing that each year, you have a meaningful amount of new money coming in. Furthermore, it helps you to spread your net by having these donor/clients refer their friends and relatives to you. It won't be unusual to open a lot of gift annuities amounting to \$250,000 or \$500,000, with a first time client.

In addition, the folks in the lower range of that 75 – 90 age bracket are very likely to have received a significant inheritance from a deceased parent or other relative. They know better than to keep several hundred thousand dollars in a money market account or CD earning 1% when they can earn a tax favored 5% or more. And their gross income may be \$100,000 or more, and they really like the whopping tax deductions they get.

Gift annuities are usually for amounts under \$1,000,000, but we have seen some for much more. The charitable remainder trust is more likely to be your recommendation when you are dealing with amounts over \$500,000. There is more flexibility in design and your client may have certain ideas and objectives that can be best met by something like a “net income with makeup provision charitable remainder unitrust” (**NIMCRUT**).

We won't go into the distinctions of this type of CRT. I refer you to our charitable and planned giving web site (www.trustcounselors.org) to do more research on these.



Become the Planned Giving Department:

The secret in all of this is to learn how to market planned giving effectively. There are many ways, but the one I favor is for you to become a "Planned Giving Department". You can do this for yourself, and for your own charitable foundation that you set up. You can multiply your effort by offering to become the planned giving department for other organizations. That is what we do. With your help, the following kinds of organizations can benefit from having their own planned giving department, which you would operate for them.



CHURCHES	CHARITIES	MINISTRIES
HOSPITALS	SCHOOLS	SENIOR CENTERS
CHILD CARE	FOUNDATIONS	LAW FIRMS
ACCOUNTANTS	WEALTH MGRS	LIFE AGENCIES
P & C AGENCIES	FIRE DEPTS	POLICE DEPTS
NURSING HOMES	ADULT COMMUNITIES	COLLEGES
UNIVERSITIES	LIBRARIES	CLINICS

Planned Giving is a professional career. Most major charities, including Universities and Hospitals, have a staff that employs professionally trained planned giving officers. The best of them raise millions of dollars for their institutions.

But there are more than a million smaller registered charitable organizations that don't have a planned giving department. These are organizations that you can serve as their planned giving department. There are also thousands of law firms and financial services firms that don't have a planned giving department.

Add to that the thousands of small ministries sponsored by local churches. The fact is, almost everywhere you turn, and there is an opportunity to set up a planned giving department.

In other papers we have written about how you can establish your own Trust Department. This was in regard to how you can establish a new function for your own firm, or for other firms, including law firms, wealth management firms, family offices, insurance agencies and even local community banks. Setting up a planned giving department has similar goals and objectives:

- Serve the clients better by helping them with their estate planning and charitable planning needs.
- Capturing more assets under advisement to build endowments and achieve capital and operational objectives.

With all due respect to the wonderful experts in trust companies and charitable institutions and Universities, there is an immeasurable need for these services that is going un-met, and un-served. There will never be enough talented people available for planned giving. Some of you see this need in your community and do something about it. We need to help local charities and foundations raise funds to help people learn how to support themselves.

Your “planned giving department”, even if it is only you, can help by showing people how the tools of planned giving work. This includes the simple and basic product of the trade, the charitable gift annuity. It also includes charitable remainder trusts and pooled income funds. We’ll talk a little about these later.

For now, let’s explore **two different approaches** to marketing planned giving. Professionals will tell you that there are many more ways.

- **First**, if the institution you choose to work with is large enough and holds an influential position in the community, you can conduct estate planning and charitable planning workshops sponsored by the institution. You can invite the public, and perhaps a prominent attorney to share the platform with you. You should also invite as attendees other lawyers and financial advisors as well as the prospective donors from the Institutions donor list. You should be able to make appointments with many of the attendees for a free, no-obligation one-hour consultation meeting. You should be able to take it from there.

- **Second**, if the community charity is not that prominent to sponsor a public seminar, you need to take a more personal approach. This is how we see it done:

Sit down with the leader of the organization. It won’t work if you don’t do this critical first step. Show the leader how a simple thing like a gift annuity works. Personalize this with an illustration of a gift annuity for him or her based upon his or her age. Then show how the charity gets an immediate benefit on every gift annuity they open, and how they benefit further down the road with a more significantly larger amount.

Prior to starting this process, you need to establish some ground rules with the charity. The charity must acknowledge that there will be some individuals who really like the idea of a gift annuity for themselves, but that they would also like to benefit another charity for some of the remainder interest. You can tell them that this can be done, that the ultimate benefit can be shared among several charities. So eliminate that issue

*How to Effectively
Market Planned Giving*



“I have basically two ideas for you as an advisor that will make you unique. I offer law firms and charities to be their ‘out-sourced’ planned giving department. I also offer law firms to be their ‘out-sourced Trust Department.’ Depending on your particular situation, you can also do this for some wealth management firms and family offices.”
Kevin C. Brown CEO

as an obstacle.

Next step is for you and the leader to meet with the head of the charity's development committee. Show the gift annuity to that person based on that person's age. Then meet individually with each member of the development committee. Make the same presentation to the key employees of the charity.



Now you can make a presentation to the board of Trustees, as a group and give them feedback on how the development committee and the key employees reacted to their individual presentations.

Finally, you must meet with each board member with a personalized presentation. This serves a dual purpose: you want to educate them, but you also want them to think about other people who might benefit from the use of a charitable gift annuity. It is very important that they can see how the gift annuity would work for them so they will be better able to speak to others that they may know.



Many board members have their own charities, and you need an agreement that you will be able to work with those other charities in a similar way, but that you will give first preference to the charity that is sponsoring this activity.

You must also reach an understanding in regard to how the gift annuity will be funded, and how much the charity will take from the donated amount up front. Your choices for funding depend upon your personal resources and how the charity feels about the topic. You have to decide if you are going to re-insure the gift annuities with commercial immediate annuities. You may offer that as an option, since the charity gives away the remainder interest to the insurance carrier. You could also fund the gift annuity with single premium deferred annuities, or with a balanced portfolio of equity and fixed income mutual funds.. An argument could be made for all these options, and you could decide on a case-by-case basis.



It is very important for you to know if there are any board members who would like to have a say about those choices. If so, that person is better to have as an ally rather than as an obstacle, so you need to meet with that person.

Finally you need to agree upon who will be used to administer the charitable gift annuity program, and who will be used as trustee for any charitable remainder trusts that are developed in the process. You will also have to determine what kind of support you require in the way of training and marketing.

When you have reached agreement on these matters you can then expose planned giving to all of the stakeholders related to the charity, as we described earlier. You will invariably talk to people who like the idea, but it is evident that a charitable remainder trust would suit them much better. What a great opportunity to show them a proposal, which will probably result in a significant planned gift.

“The family or business that establishes a foundation as the centerpiece for their collective giving will derive the greatest amount of satisfaction from their program of philanthropy.”

George P. Brown, PhD

What great fun you will have showing these people how charitable planned gifts actually work. You will become the “go to” person for these gifts. While we are not going to get into all the kinds of business relationships that can develop from this effort, rest assured, you will be meeting the kind of people who will have a common interest with you, who want to help build the organization and are often the kind of people that most advisors desire to have as clients. And at the same time, you are serving a worthwhile purpose. What can be better than that?



There is information available that provides more details on all the various tools for planned giving. No single white paper can do that justice. For more details on the various tools for planned giving, visit our affiliate website, www.trustcounselors.org/plannedgiving.

FREE CONSULTATION AND EVALUATION

We offer a free consultation by phone to help you evaluate whether planned giving will help you generate more high quality client relationships. Call us at **(800) 822-6711** or drop us an email at gbrown@summittrust.com to schedule a time to talk.



Where can you find a complete Platform that has what you need?

Because you will need several disciplines to support you, there is no one-place to find all your support. However, There is one place where you can obtain much of the administrative support you need for a successful charitable planning practice. The Trust Counselors Network, Inc. has a comprehensive platform. Established in 1991, the Trust Counselors Network, Inc. (TCN) is a public 501(c)3 Educational Foundation.

TCN provides marketing and administration services. Many professional advisors are associated and are referred to as trust counselors. TCN provides a facility for planned giving on the TCN web site. You may also form a foundation for your clients, which can range from a donor-advised-fund to a full operating foundation. No special licenses are required.

Charitable Planning and Administration is Summit Trust Company's strong suit. We believe no other trust company has the experience in designing and administering charitable trusts and foundations. For more information visit our two web sites: www.summittrust.com and www.trustcounselors.org



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