ROUND-UP

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A Broader Perspective:

Who Gives?

Young Millionaires Lead the Way in Philanthropy

By Mike McCann, CFP®, AIF®

Fourteen-time Olympic Gold Medalist Michael Phelps recently announced he will establish the Michael Phelps Foundation by donating the $1 million bonus he receives from Speedo® for winning eight gold medals in Beijing. His foundation will support charitable programs that promote water safety and empower children to live healthy, active lives.

The 23-year-old world champion is in good company among other young high-net-worth Americans with a bent toward philanthropy.

A recent survey showed that Generation X millionaires (those ages 28 to 42) are the most generous among their peers. They gave an average of nearly $20,000 to charitable organizations in 2006, according to the third annual Northern Trust *Wealth in America* survey of high-net-worth individuals and families. That's about twice the average for Baby Boomers (ages 43 to 61) and the Silent Generation (ages 62 to 77), who gave an average of $10,000. The online survey of 1,014 households with at least $1 million in investable assets was conducted in the fourth quarter, 2007.

The younger generation surveyed also said they planned to modestly increase their charitable giving in 2007 and 2008, while the older high-net-worth households expected their giving in those years to remain approximately the same level as in 2006.

Of course, high-net-worth individuals and families are not the only ones who contribute to charities. Many Americans give generously, and the amount they give has increased dramatically in recent years. According to *Giving USA*, a report compiled annually by the American Association of Fundraising Counsel, Americans set a new record in 2007 by giving more than $306 billion to their favorite causes, an estimated $11.5 billion more than they gave in 2006.

Why and How They Give

Overall, charitable giving among millionaire investors appears to be driven by altruistic goals, more so than family-related ones, according to *Wealth in America*. "Supporting a cause I personally believe in" ranked as the most important goal of 42 percent of the survey respondents, followed by "making a difference in the community/world," which was cited by 18 percent.

Motivation for giving is another area in which Gen X millionaires differ from their older peers. For example, "creating a lasting legacy for myself/my family" was cited as the main goal for charitable giving among 15 percent of younger survey respondents, compared with 4 percent of older respondents. In addition, 12 percent of younger respondents stated that "honoring a loved one" was their primary goal, compared with 5 percent of older respondents.

Regardless of their net worth or their motivations to give, the vast majority of people do not give in a *planned* way. Most employ a charitable-giving strategy often referred to as *checkbook philanthropy*. This really isn't a strategy, but rather the unplanned giving of small amounts to a variety of charities, commonly in cash and often in reaction to solicitations with the best pitches.

Planned giving, on the other hand, is an organized approach that evaluates one's personal values, selects charitable organizations and gift-giving vehicles that best reflect those values, and maximizes the financial and tax benefits of the gifts.

Charitable gift-giving vehicles run the spectrum from private foundations - such as the one Phelps established - to charitable remainder trusts, charitable gift annuity trusts, charitable lead trusts and donor-advised funds. Still, use of such vehicles is relatively small, even among the wealthy, according to the *Northern Trust* survey. In 2007, each of the vehicles previously named was used by 8 percent or fewer of those surveyed.

Why don't more people plan their giving? There are several reasons.

Among the most common is that planned giving takes time. Many people know little about the details or benefits of planned giving, so they put it off. Many also perceive planned giving as too complex and too expensive, and some worry about jeopardizing their own financial situation through giving.

According to the authors of *Giving: Philanthropy for Everyone* (published by Denver-based Quantum Press), making planned charitable gifts during your lifetime can increase the value of your estate to pass to your heirs, can convert non-income-producing assets into an income stream for you, and can delay capital gains taxes on the sale of highly appreciated property. It can also help you achieve specific education, business and family goals.

"Often, clients comment that the planning process has been a significant experience in their lives," noted Bernard M. Rethore, a contributing author of *Giving* and partner in the Phoenix law firm Pfarr & Rethore, P.C. "It has brought up old memories, mended some broken family fences, and provided a means to create lasting guidance and legacies."

Thus, those who plan their charitable giving (regardless of their net worth) can enjoy many tangible benefits, in addition to the satisfaction of assisting the charity of their choice.

What's the Plan?

Before you can develop a charitable giving plan, you must first understand the extent of your financial resources. This is realized through a detailed analysis of your current situation, as well as development of a retirement plan. The easiest way to accomplish this is to schedule some time with a Certified Financial Planner.

With regard to your current situation, your planner will review your net worth and cash flow statements. This is the starting point to determine the resources available to you. When developing the retirement plan, your planner will start with a series of projections of your future cash flows, coupled with your growth of assets. He will then compare that result with projected future expenses, taking into consideration variables that you cannot control, including inflation and return on investments.

One of the more common methods of factoring in these variables is referred to as a *Monte Carlo analysis*. Rather than making one assumption as to future variables (for example, assuming your rate of return will be 8 percent each year), the analysis examines scores of possible outcomes to determine the probability of reaching your retirement goals (for example, your first year you get a 5 percent return, the next year you lose 3 percent, the following year you gain 12 percent, and so on). The *Monte Carlo* analysis shuffles the deck, so to speak, on these possible outcomes and provides a percentage that expresses the likelihood of reaching your goals. While there is no way to predict these variables to a certainty, this approach provides a reasonable and thorough way to explore assumptions and forecast success. The same process can be applied toward inflationary assumptions.

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Only when you have a strong understanding of where you stand financially today can you determine the resources you need to sustain your lifestyle in the future and how much you can give.

Furthermore, charitable planning can actually help make your overall financial plan more successful. Incorporating charitable giving into your plans has many advantages:

- **Enjoy tax benefits.** Although many people make donations out of a genuine desire to give, tax benefits also play an important role. For one thing, the tax benefits often make it financially feasible for the donor to make a gift. Charitable remainder trusts and gift annuities, for example, provide the donor with lifetime income while ultimately benefitting the charity. Furthermore, as exemplified by the giving of appreciated property, the tax savings benefit the charity as well.

• **Use money efficiently**. This is perhaps the greatest benefit. Planned giving makes use of techniques that maximize the dollar amount that ultimately benefits the charity. For example, placing a highly-appreciated asset into a charitable remainder trust can provide a monthly income to the donor, while avoiding a significant tax bill that would otherwise have been incurred had the asset been sold outright. Thus, you receive current benefits from an asset that you would not otherwise have enjoyed, and the charity will receive a future benefit as a result of your planning.

• **Control your assets.** Many donors want to be actively involved in seeing that their money targets those charities they deeply care about. Those who plan their donations often establish various foundations or charitable remainder trusts, or contribute to donor-advised funds. Such gifts usually include legal documents and often require the assistance of a qualified professional advisor to complete. Because of the size and potential impact of such gifts, a donor should consult with his or her professional advisors before completing the process.

Many large charities and non-profit organizations, including educational institutions and hospitals, employ development staff to work with individuals who want to make a significant charitable gift. While this can be a nice resource, it is important to remember that the sole purpose of these professionals is to raise funds for their cause; they may not be as objective as you would like. Thus, independent advice is important.

A number of professional advisors are involved in the charitable gift-planning field, according to *Planned Giving Today*, a newsletter for gift-planning professionals. They include estate-planning attorneys, life insurance professionals, certified public accountants, trust officers and Certified Financial Planners™. By working with professionals from different disciplines, you gain access to various areas of expertise.

"No single advisor knows everything or is capable of being all things to all people," stressed Rethore. "Having a team of advisors is essential to creating a charitable plan that truly meets your philanthropic goals, and the collaborative approach allows our clients to achieve benefits far beyond what each of us, individually, could ever hope to accomplish."

Such a team could include your financial advisor, your tax advisor, your legal advisor and, of course, you, as the client. One advisor should be selected to lead the team, to coordinate efforts and assure clear communications among all parties.

Creating a thoughtful, well-informed plan – regardless of your net worth or philanthropic motivation – can help ensure your charitable giving will have the most positive impact possible.

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To learn more, visit his website at
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Perspective Financial is an independent, fee-only, Registered Investment Advisory firm that provides clients with broad-based financial planning and investment management services. The firm has been recognized in *Financial Advisor* magazine's "Top RIA Survey" ranking for the past two years. Perspective also has been listed by the *Phoenix Business Journal* among the top 25 independent investment advisory firms in Arizona.

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