Morgan Stanley

Family Philanthropy Breeds Harmony

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In 35 years working with many hundreds of families define and achieve their philanthropic aspirations, I have seen what works. I believe that families who use a thoughtful process can groom future leaders, foster stewardship and give back to the community all at the same time. I believe that the following will help achieve these goals.

The Basics

1. Decide what causes you want to support. Education, medical and religious are among the most common recipients. Whatever you support, giving advance thought to whom and why you want to give is smart. Doing so goes a long way to help you and your children know how to respond when approached for donations. It is an easier to decline a request that is outside of your pre-defined parameters than it is to just say "no". The former method lets people know you are thoughtful about your philanthropy and are not rejecting them personally if you decline their solicitation.

2. Maximize your charitable dollars. The tax code allows for contributions of appreciated assets with unrealized, and therefore untaxed, gains.[i] One way to help maximize your charitable impact, establish a fund that can receive appreciated assets (more later). Avoid writing checks from your personal account.

3. Donor Advised Fund of Foundations? There are many types of charitable vehicles, each with unique tax treatment and limitations. These include many estate-planning techniques, which will not be discussed here. I will only list a few of the more common choices that offer greater opportunity for family involvement.

a. Donor advised funds are probably the most popular. Offered by many mutual fund companies, the donor contributes liquid securities, i.e. stocks, bonds, mutual funds or cash, into a fund. The donor then "recommends" a recognized charity to receive funds. As long as the IRS recognizes the organization as a qualified charity, the recommendation is granted.

b. Community foundations. This is very similar to the donor advised mutual fund option above, but may allow the donor a little more influence over how the funds are managed and may offer more public recognition supporting the local community.

c. Private family foundations. Allows for more control over many aspects of the management and disbursement of funds, but requires more oversight, and usually a lower tax deduction. Family foundations are more common with larger gifts. They also can offer an element of insulation from unsolicited requests for donations.

Involving the Family

The level of formality is less important than communicating and following a few important steps.

4. Charitable mission statement. Writing few sentences on the purpose of the funds is really important. It sets the stage for why money is being donated and to whom. Families who desire participation from multiple age groups are wise to incorporate feedback from all participants. People in their 20's often want to support causes different from those in their 70s. Families with a variety of interests should list several areas to support. This signals everyone's perspective is valued. The more inclusive the process, the more effective it will be in the long run.

5. Administration. A few sentences on who is responsible for the paperwork is a good idea. This can include family members or external advisors and doesn't need to complicate matters. Rotating the responsibilities every few years broadens the involvement and educates in the process.

6. Grant making. Write down how much you plan to annually give away, who will get the money and who and how it will be decided. It is also worth a sentence or two whether or not you plan to try to measure impact of your contributions and, if so, how.

Administration and Investments

Family philanthropy is an excellent training ground to prepare the next generation for the less glamorous but essential aspects of affluence.

7. Finances, forms and filings. When a charitable fund is established there are forms to file and investment decisions to be made. Use the process as a teaching opportunity. Learning the vocabulary and concepts can take years to master so start early and go slowly.

8. Red flags and limitations. The IRS has strict criteria as to what expenses can and cannot be bourn by the foundation. If you establish a family foundation be especially careful. Consult tax advice to avoid unintended misuse of funds. It can be embarrassing if it becomes known outside of the family and may question the viability of the entity. Salaries to family members and travel to exotic destinations are always closely scrutinized.

Traditions

Families of charitable means often use the foundation as one more way to bring everyone together. Traditions can be formal or informal and can range from destination family meetings to simply being included in discussions. Asking the next generation about the traditions they would like to start for their future families is always a lively discussion.

9. Avoid the Classic Trap. Parents who want children's involvement but won't cede control can create ill will. The classic example is where mom and dad want to support the ballet, museum or opera while the children want to support environmental initiatives. One way to deal with differing ideas is to establish segments of the foundation that will be allocated to interests.

Success Story for Handling Changes

After selling a successful business, two parents followed their passion and established a foundation dedicated to building small gardens in blighted, urban neighborhoods. They established a grant process where requests would be considered, awarded and fund the building of beautiful "open spaces". As their children came of age the parents wanted the adult children to take over the reigns of the family foundation.

After a year of being in charge, the children went to mom and dad with an observation and recommendation. Creating these open spaces was a noble cause, it just was not the passion of the children. The children recommended they spend all the money and get it all in place right away. The public would get much more benefit right away as opposed to trickling it out over a 20 year period. At first the parents were upset, but it soon turned into pride because of the way their children handled the conversation.

Successful Families Talk With Each Other

Family foundations can and should be more than a planning tool to reduce income and estate taxes. Studies have shown that families that describe their own wealth transitions as successful, the primary reason they gave was good communication among the family, not high investment returns or clever tax strategies.[ii]

No family is immune to the risk of discord. When weekly Sunday dinners are no longer an option due to time and distance, family philanthropy can play a pivotal role in fostering harmony today and for years to come.

Is this all there is?

These findings apply to most situations, but not to all. A body of knowledge has been gathered through thousands of interactions with accomplished professionals. Further detail is reserved for clients.

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i "26 U.S. Code § 170 - Charitable, etc., contributions and gifts", Cornell University Law School
ii "Wealth Transfers: How To Reverse The 70% Failure Rate", Carolyn Rosneblatt, Forbes December 2011

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