

Family Philanthropy

And the Intergenerational Transfer of Wealth



Tapping into the Power of Family Philanthropy in the 21st Century

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Introduction

As we move into the 21st century, family philanthropy is experiencing **significant growth** and offering **unprecedented opportunity** for community foundations.

AMERICAN FAMILIES GENERATED TREMENDOUS WEALTH in the latter part of the 20th century. As a result, America, at the turn of the century, is home to 276 billionaires, 350,000 deca-millionaires and more than 5 million millionaires. In addition to this new pace of wealth creation, a significant transfer of wealth will occur among the generations over the next 50 years. Recent estimates of this transfer range anywhere from \$41 trillion to \$136 trillion.

This research paper addresses the scope and characteristics of family philanthropy today, and suggests methods community foundations can use to increase their appeal to today's most important audience in philanthropy.

Why Focus on Families?

Reason #1: Families are a powerful and growing force in philanthropy.

According to a report released in October 2000 by the Foundation Center, family foundation giving totaled \$9 billion in 1999. This surpassed total giving by corporate, community and operating foundations combined, and provided close to half (49.8 percent) of all independent foundation giving. Family foundations also accounted for nearly half (46.6 percent) of independent foundation assets and nearly 90 percent of gifts received.

Family foundations are the single largest foundation category. Of the \$385.1 billion in assets reported by all U.S. foundations in 1998, family foundations accounted for two out of five asset dollars, or 40.1 percent.

And this category is growing rapidly:

- It is estimated that 1,000 new family foundations are formed every year.
- Two-thirds of the larger family foundations were formed in the 1980s and 1990s. In addition, assets available for family philanthropy will increase in the first half of this century.
- At least \$41 trillion will be transferred to the next generation by 2050 with \$12 trillion transferred by 2020. From this amount, it is estimated \$6 trillion will be transferred to charity in the next 50 years, with \$1.7 trillion given over the next 20 years.

“Philanthropy allows a family to **translate philosophy** into action or to put its money where its heart is.”

Why Focus on Families?

Reason #2: Community foundations are a viable option for many family philanthropists.

Family philanthropy has room — and a need — for alternatives to family foundations. Research indicates that the top one percent of family foundations provide half of all family foundation giving, and that three out of five family foundations held assets in 1998 of less than \$1 million. The majority of family foundations provide grants in their local communities, states or regions. Given the size and interests of these smaller foundations, and the cost and administrative complexity they involve, community foundations are well positioned to meet the needs of many families seeking philanthropic vehicles. This statement is supported by the fact that many community foundations report significant growth in the number of Donor Advised Funds established by families in the past five years.

Developing relationships with this key group can also benefit other community foundation development efforts as a community's leading families often set the tone for giving among other local audiences.

Why families should consider community foundations

By making charitable contributions through a community foundation, families can choose to stay involved in their philanthropic endeavors without the administrative requirements of managing a private foundation.

Plus...

- A charitable fund is easy to establish
- A family enjoys maximum tax benefits
- The community foundation offers grantmaking expertise
- A family's charitable intent can change as community needs change
- Administrative costs are shared with other donors and kept to a minimum

What Motivates Family Philanthropy?

While families give for many of the same reasons as other audiences, including tax advantages, personal satisfaction, and supporting a cause they care about, they also are motivated to give for a number of reasons unique to families. These include establishing a family legacy, developing a giving spirit in their children and grandchildren, creating stronger relationships among family members, and involving their entire family in supporting the community where they generated their wealth.

Creating a legacy

Each family has its own heritage of values, goals, and experiences. Constant, yet constantly evolving, this heritage forms the basis for family legacy. Many families seek ways to pass on this legacy and represent their vision of community. By practicing philanthropy together, families establish a means for fulfilling this vision, creating a living legacy as well as a guiding statement of their family values for succeeding generations.

Passing on a tradition of giving to children and grandchildren

Closely tied to the goal of creating a legacy is the desire to pass on a tradition of giving to children and grandchildren. Philanthropy creates a common ground and shared interest across generations, allowing all family members to share experiences and build something of value together. At the same time, children and grandchildren learn firsthand about social values, community issues, and balancing societal needs and wants.

“85% of Americans agree that **children should be introduced to charities by the age of 13**, and 94% feel that parents play a key role in getting children involved. Yet 70% of them admit their children are not involved in any charitable activities.”



2000 CONE/ROPER CHARITABLE CHILDREN SURVEY

What Motivates Family Philanthropy?


Unifying family through a shared cause

Many family leaders comment that philanthropy helps their families develop meaningful values and connect more deeply with one other. It provides a way for families to talk about what is really important. Families grow closer and learn about one another's character and values while working together to achieve common charitable goals. These positive, value-based conversations are likely to create greater intimacy between family members, and serve as a reason for families in different geographic areas to stay in touch.

Giving back to the community

A fourth motivator that plays an important role for families is giving back to the community. Many families create their wealth through businesses founded and grown locally. As business leadership passes on to the next generation, families that lead these businesses have the opportunity to celebrate and reaffirm their commitment to the community. This commitment can be expressed in terms of maintaining and expanding local business operations as well as through charitable giving that benefits any aspect of community life, be it youth, education, arts, culture, economics, environment, social programs, housing or health.

“I think [a charitable instrument] is a great way for children to have **exposure to community issues** and become involved in the community at a very early age... it is very hard to have an **understanding of what the world is really like** when you have the ability to live a very rich existence.”

 **ANONYMOUS DONOR**
AMERICA'S WEALTH AND THE FUTURE OF FOUNDATIONS

The Opportunity

The most conservative estimates indicate that \$41 trillion will be transferred among the generations over the next 50 years with \$12 trillion transferred by 2020. Philanthropy's opportunity as well as challenge is to convert a healthy percentage of this wealth into social capital. Community foundations are not alone in recognizing this opportunity. How to engage those with the means to act is the question all players in philanthropy are racing to answer.

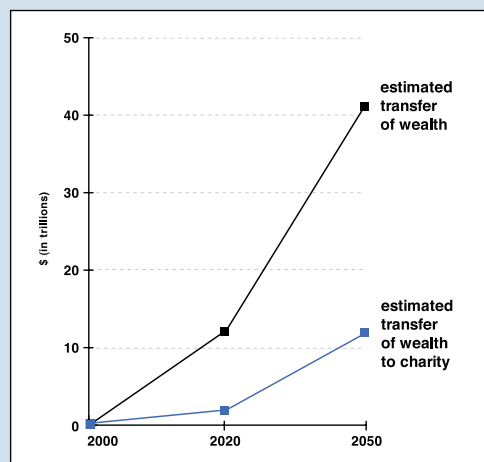
In 2000, charitable giving reached a new height of more than \$200 billion. Yet statistics show the wealthy still give away only a tiny percentage of their money during their lifetime, averaging half of one percent of their net worth. According to IRS statistics, only 19 percent of wealthy households (estates valued at \$600,000 or more) made charitable bequests in 1992, and the value of those bequests amounted to only eight percent of the donors' net worth after adjustments for estate expenses. Those with estates of \$600,000 to \$1 million gave 3.5 percent of their net worth and those with the largest estates (valued at \$20 million or more) gave about 26 percent.

In addition, as the wealth of the United States has grown over the last several decades, it has become more concentrated. It is estimated that the top one percent of the richest families hold nearly half of all the financial wealth in America today.

There are significant behavioral differences between donors who have inherited wealth compared to donors who earned it. Inheritors are more likely to be conservative in their scale of giving, consciously or unconsciously believing that the money cannot be earned again. For every \$1000 of entrepreneurial wealth, the entrepreneur gives \$4.56 to charity. For every \$1000 of inherited wealth, the inheritor gives \$.76 to charity.

The intergenerational transfer of wealth

2000-2050



The Opportunity

The philanthropy challenge in general, and the community foundation challenge in particular, is to increase the number of donor households as well as the amount that both wealth creators and inheritors give to charitable funds.

The case for giving can be made. It is up to community foundation marketing and development professionals to articulate it. For example, a prime target for charitable giving is the group of wealth creators who have reached their fifties. People in their fifties have made their big lifetime purchases, have achieved financial success, and are thinking ahead about their legacy. In addition to appealing to these interests, community foundations should work with these donors to involve children and heirs in their charitable giving. This role modeling encourages future giving and establishes a family culture of philanthropic stewardship.

The numerous options of giving mechanisms available through community foundations make philanthropy more convenient, appealing, and exciting to families. Among the fastest-growing segments of philanthropy are Donor Advised Funds. In 1992, Donor Advised Funds accounted for 25 percent of gifts to permanent funds in United States community foundations. By 1998, gifts to Donor Advised Funds accounted for more than 56 percent of all gifts to component funds. This type of fund is particularly attractive to families, as it allows them to play an active role in giving. Through Donor Advised Funds, they can express family values, join a larger network of donors, become involved in and contribute to the community, and pass on philanthropic values to the next generation.

“When I show clients that their choice is not between giving to their children or to charity but **giving to the government or to charity**, that’s when they become interested.”



MICHAEL MARION
PHILANTHROPIC PLANNING EXPERT

Segmenting Family Audiences

Many potential donors are open to becoming active in philanthropy, depending on their generation and financial situation. Following are some general guidelines for understanding the audience segments among families.

Family Audiences	Attributes	Messaging Opportunities	Charitable Giving Opportunities
Traditional Family Leaders (born before 1945)	<ul style="list-style-type: none"> • More patient in deciding how and to whom they give • Want to bring about real, long-term change • Willing to give up some control • Traditionally more philanthropic than younger people • More comfortable giving at higher levels than inheritors • May be unclear about amount of wealth they need for living 	<ul style="list-style-type: none"> • Establish a legacy of giving within your family • Provide for your heirs and your community • Give with your grandchildren 	<ul style="list-style-type: none"> • Bequest, including preferred charitable assets such as IRA, 401(k) • Charitable Remainder Trust • Charitable Lead Trust • Charitable Gift Annuity • Unrestricted Gifts
Baby Boomer Family Leaders (born 1945-1965)	<ul style="list-style-type: none"> • Current inheritors • Prefer cause-related rather than institution-based giving • May be suspicious of the philanthropic establishment • More focused on innovative approaches to issues that have not been solved by traditional means • Willing to move forward more quickly • Prefer smaller, community-based groups • Leaving a legacy that perpetuates their family name is less important • Want to feel in control of their giving • Like to participate actively in their charitable giving • Little experience with giving • Looking for impact and accountability 	<ul style="list-style-type: none"> • Take an active role in supporting your community • Put your values into action • Experience the impact of your giving • Build strong family ties through giving 	<ul style="list-style-type: none"> • Donor Advised Fund • Field of Interest Gift
Younger Family Leaders (born after 1965)	<ul style="list-style-type: none"> • Future inheritors • Often too busy with work and children to think about involving their family in giving • More conservative in scale of giving • Often have a peer network of other givers among family and friends • Prefer cause-related vs. institution-based giving • Leaving a legacy that perpetuates their family name is not important • Want to feel in control of their giving • Like to participate actively in their charitable giving • Prefer easy access to knowledge (i.e., Internet); will seek and analyze information on their own • Focus on results, seeking highly efficient and effective means of giving 	<ul style="list-style-type: none"> • Develop a giving spirit in your children • Take an active role in supporting your community 	<ul style="list-style-type: none"> • Donor Advised Fund • Giving Circles

(Primary source: Wingspread Conference, 1994)

Reaching Family Prospects

Community foundations can employ three “channels” to reach prospective family donors. These channels are:

Professional advisors to families involved in estate or financial planning.

Existing donors who have not taken full advantage of community foundation products and services for families.

Potential donors, including friends or associates of existing donors who may know very little about their community foundation.

Each of these groups is further described on the following pages, along with suggestions for moving donors and advisors along a continuum, as illustrated in the chart below.

	Awareness	Interest	Preference	Action	Loyalty
Audience	Acquire basic knowledge of community foundation.	Differentiate community foundation from other charitable options.	Make favorable comparisons with other options. Begin investigation of details. Have capability to act but insufficient motivation.	Motivated to act.	Satisfied with experience. Comfortable making referrals and additional gifts.
Approach	Publicity <ul style="list-style-type: none"> • Ads • Public relations 	Target Marketing <ul style="list-style-type: none"> • Group presentations (e.g., service clubs) • Mailings • Websites 	Programs and Events <ul style="list-style-type: none"> • Network meetings • Educational and informational materials • Professional advisor relationships 	Personal Interface <ul style="list-style-type: none"> • Face-to-face meetings • Consultation 	Personal Involvement <ul style="list-style-type: none"> • Recognition • Reinforcement • Involvement

Reaching Family Prospects

Professional advisors

Professional advisors to families include financial planners, lawyers, trust officers, estate planners and insurance agents. These advisors already have relationships with prospective family donors and are strongly positioned to help guide the philanthropic interests of their clients. The largest charitable gifts are typically planned gifts that involve advisors. By educating advisors about family giving, foundations can reach prospective new donors efficiently and effectively.

Community foundations can help educate advisors on the philanthropic issues and opportunities surrounding family giving.

Advisors should consider community foundations when a client:

- Wants to begin estate planning but worries about losing assets to taxes.
- Is concerned about how giving to charity will impact his/her children's inheritance.
- Wants to give but is concerned about running out of money.
- Is interested in setting up a charitable foundation.
- Wants to establish a scholarship for a special interest but doesn't know how to begin.
- Owns highly appreciated stock in a company about to be acquired.
- Has a private foundation that may not be distributing minimum grants.
- Has most of his/her assets tied up in a closely held company.
- Has substantial IRA and 401(k) assets within his/her estate.

Charitable giving questions professional advisors can ask their clients

- What are your **personal values**?
- What **principles** have guided how you raised your family?
- What **values and traditions** have been passed down through the generations?
- What **charitable interests** have you pursued as an outgrowth of these values?
- What are your **charitable priorities**?
- What role would you like **philanthropy** to play in your family?
- What **value** would it bring to your children and grandchildren?
- What **level of involvement** do you want your family to have in identifying charitable uses for your gift?

Reaching Family Prospects

Professional advisors

Action steps to take with professional advisors:

- Set up one-on-one meetings to talk about situations in which clients might be interested in hearing about charitable giving through their local community foundation.
- Develop a formal presentation on family philanthropy for advisors in your community.
- Encourage advisors to invite families to join them at a special family philanthropy seminar sponsored by your community foundation.
- Devote an upcoming advisors council to a presentation and discussion on the intergenerational transfer of wealth and the impact this will have on family charitable giving.

Professional advisor services

Attorney (Estate Planner)	<i>Estate planning and wills</i>
Attorney (General)	<i>Business succession planning</i>
CPA	<i>Tax preparation</i>
Banker/Broker	<i>Trusts and other long-term financial vehicles</i>
Life Insurance Agent	<i>Financial security planning</i>
Financial Planner	<i>Retirement planning</i>

Reaching Family Prospects

Existing donors

Current donors to your community foundation may give as individuals but may be unaware of the ways they could involve their families in philanthropy. Community foundations have a great deal of expertise in Donor Advised Funds and wills and bequests, two products often of interest to families.

Donor Advised Funds and Supporting Organizations. Talk to your donors about how Donor Advised Funds and Supporting Organizations provide an opportunity for the whole family to get involved in philanthropy.

Wills and Bequests. Because wills and bequests involve talking about death, donors may resist bringing up the subject. Talk to donors about the positives of wills and bequests: assisting family financial stability, creating a legacy, giving without altering lifetime spending, controlling the final distribution to support lifelong values such as family and community, and minimizing estate taxes.

Donor Advised Funds and Supporting Organizations

The Donor Advised Fund is the arrangement of choice for the philanthropist who desires an active role in the direction that the fund will take. The creator of the fund retains the option to recommend potential grant recipients to the foundation's board of directors. The board then initiates an independent review of the potential recipient and makes the final decision regarding the recommendation. While the board, as a public charity, is ultimately responsible for grantmaking decisions, the donor is able to enjoy a hands-on philanthropic experience.

A Supporting Organization can offer families a great degree of influence and flexibility. An alternative to a private foundation, it has the tax advantages of a public charity. The separate board of trustees (majority controlled by the community foundation) allows for grantmaking and operational policies that are important to the family along with the professional assistance of the community foundation.

One of the greatest advantages that a Donor Advised Fund or Supporting Organization offers is the opportunity for the donor to involve his or her family. A Donor Advised Fund is an excellent vehicle for teaching children and grandchildren the value of charitable giving. The increased involvement that this fund allows presents a unique opportunity to share the excitement and intrinsic rewards of philanthropy. Early lessons in charitable giving can plant seeds of civic responsibility that grow over a lifetime.

Wills and Bequests

While death is not an easy subject to broach, people are typically very comfortable discussing how they care for their friends, family and community. By establishing a will, a person can be sure that his or her estate is managed exactly as he or she intends, reducing the strain on surviving family members. What's more, charitable bequest provides an opportunity to express a love of community and giving values — a message that can last forever.

Reaching Family Prospects

Existing donors

Action steps to take with existing donors:

Publicity

- Place articles, such as legacy or Donor Advised Fund stories written from a family's point of view, in your publications.
- Publish stories of families growing closer together as a result of their shared philanthropic goals.
- Include information on Donor Advised Funds, Supporting Organizations, and wills and bequests in all your major communications.

Programs and Events

- Hold “family nights” in which families (parents and children) share their stories of giving with one another.
- Conduct family seminars on philanthropy, using them as a way to teach children and young adults about family values, community issues, balancing needs and wants, and financial management.
- Identify and invite a group of existing donor families to participate in a panel discussion/luncheon about involving their families in giving.
- Establish seminars educating existing donors on ways to transfer wealth that benefit their heirs and the community.
- Set up a program in which children of existing donors can learn more about charitable institutions and choose one to support.
- Set up a program in which your donors' older children (high school age) are chosen to form a grants committee and recommend awards based on their research, proposal reviews, and site visits.
- Establish a family giving program; hold meetings about community needs and educate donors on grantmaking.

Recognition

- Develop a legacy program to honor past family donors.
- Host an annual dinner event to recognize families and family businesses giving back to their communities.
- Create a charitable fund-giving history page on your website for each family fund.

Reaching Family Prospects

Networks

Family leaders are more likely to respond to invitations to learn about community foundations made through family friends and respected acquaintances. They are less likely to respond to mass communications or direct appeals from community foundation staff.

Many family leaders, especially those who own or manage businesses, have used networking all of their lives to pursue their professional and personal interests. As they decide how to invest some of their wealth in the community, most will look to their social or business networks for examples and advice. Your community foundation can participate in these networks by asking current donors who are family leaders if they would help introduce you to their peers in the community. Create a list of these referrals and identify families who can have a special impact on your networking efforts — typically those who have high visibility in the community and are connected to groups, clubs and associations you want to access.

Action steps to take with networks:

- Hold cultivation events inviting influential and wealthy families (both donors and prospects) to a reception/program that celebrates family giving.
- Hold network meetings to which a donor invites 10 to 20 friends to his/her home for an introduction to community foundations.
- See “Action Steps” in the *Existing Donors* section for more ideas.

When meeting high-potential family prospects, consider the following suggestions:

- **Ask questions** of family members early in the conversation:
 - *How/to what degree would you and your family like to be involved in philanthropy?*
 - *Is there a strong desire to inspire and train new generations?*
- **Talk about ways that children and grandchildren can be involved** in a Donor Advised Fund
- **Talk about shared experiences, traditions and values** of the family that could help create a family legacy
- **Don't overemphasize the tax implications.** Most donors feel that tax implications should not be the primary focus of any estate plan.
- **The term “philanthropy” may be off-putting to many.** Link questions to everyday concerns and interests, such as church, alma mater, and other organizations people care about and in which they are involved.

Reaching Family Prospects

Call to action

America's wealth is being transferred to a new generation of inheritors at a magnitude never before experienced. This \$41 trillion intergenerational transfer provides a major opportunity for community philanthropy. Community foundations need to reach out to family leaders and present the unique benefits of giving as a family. They should consider:

- Working with professional advisors to support families and help communicate their charitable giving options
- Communicating services directly to families with a special focus on wills and bequests, Donor Advised Funds, and Supporting Organizations
- Helping families discover ways they can create a legacy that will memorialize and honor family leaders while giving to the community
- Celebrating family philanthropy in special programs, seminars and events created just for this group
- Providing a venue for families to come together to share and learn about the joys of charitable giving
- Supporting activities that help children and young adults understand and appreciate the benefits of family giving
- Recognizing the importance of family and elevating it through special community recognition programs

Reaching out to youth

In addition to donors with families, community foundations should consider reaching out to children and young adults.

Young people exposed to community needs and philanthropy will be much more inclined to support community foundations later in life. Following are some suggestions on how to engage this audience:

- Set up a program where children can learn more about charitable institutions and choose one to support
- Set up a program where high school students are chosen to form a grants committee and make awards based on their research, proposal reviews and site visits
- Offer internships at your community foundation for high school and college students
- Work with area schools to integrate philanthropic education into curriculum
(*Learning to Give Project at www.k12edphil.org*)

To Learn More

Sources for this paper and opportunities to learn more about Family Philanthropy can be found in the following books, newsletters, articles and websites:

Books and periodicals

- Avery, Robert. "The Pending Intergenerational Transfer." *Philanthropy*, 1994.
- De Gaspé Beaubien, Nan-b. "Philanthropy: Put Your Money Where Your Heart Is? Translating Family Values Into Unity and Action." Business Families Foundation, <www.businessfamilies.com>.
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- "The Ten Trillion Dollar Intergenerational Transfer of Wealth: A Philanthropic Game Plan." Wingspread Conference, Sept. 1994.
- "What's a Donor to Do? The State of Donor Resources in America Today." The Philanthropic Initiative, Aug. 2000.

Other resources

The Council on Foundations offers several resources on family philanthropy to community foundations and advisors to families. For more information, log on to www.cof.org.

“One thing today’s family philanthropists can do is to **tell their stories** more publicly and openly, to circulate widely the values, lessons, and examples that will **inspire and enable tomorrow’s family donors** to follow in their footsteps...”



COLIN CAMPBELL
FORMER PRESIDENT, ROCKEFELLER BROTHERS FUND

