

## Teaching My Family to Give

*How women can and do lead their family's charitable involvement.*

There's a great deal of truth in the old saying that philanthropy flows from a loving heart and not an overstuffed pocketbook. Contrary to popular opinion, it doesn't take huge resources to make a monumental difference. All it takes is a strong social conscience – a sense that there's an intimate bond among all people, even those unknown to us, that benefits us all collectively – and a commitment to actively work towards making a difference.

Over the past two decades, research studies have shown that both the motivations for giving as well as the approaches to philanthropy are different for women and men. Of course, as with any generalization based on gender, ethnicity or socio-economic status, it can be a challenge to separate the facts from mere stereotypes.

One fact, however, is clearly validated by the results of a recent survey conducted by BMO Private Bank. Despite the financial turmoil experienced over the past few years, women are and remain inherently philanthropic. An astonishing **96% of high net worth women plan on making charitable contributions in 2013**. And **84% of them say that compared to their pre-financial crisis donations in 2008, they plan to give either more or the same amount.**<sup>1</sup>

<sup>1</sup> Source: BMO Private Bank, *The Changing Face of Wealth*, April 2013

### What drives the philanthropic behavior of women?

Women tend to have very different priorities, concerns and values than their male counterparts when it comes to managing wealth. Historically, women have tended to be somewhat more risk averse and cautious in making financial decisions. Even though this is changing as more women take control of financial decision-making, both at work and at home, asset protection still remains an important concern.

But for many women, wealth management isn't just about finances, it's also about family. Regardless of how you define a family – whether children, grandchildren, cousins, or nieces and nephews – they worry about the negative impact wealth will have on the next generation. There's a deep fear that wealth acquired without hard work will result in a generation that lacks the necessary characteristics that produce good citizens.

**“Service is the rent we pay for living.”**

*Marian Wright Edelman*

*Founder and President, Children's Defense Fund*

The good news is that by successfully channeling the philanthropic impulse so many women possess, they can make a tremendous difference. Philanthropy can provide a great platform not

only to teach and empower the next generation about managing their wealth effectively, but also to put them on the path to becoming empathetic, generous and active members of the community. And undertaken as a family, it can help teach younger children values-based financial independence, and/or bring adult siblings and cousins together to strengthen their relationships.

### Generosity is a learned behavior

While it can be a meaningful and enjoyable experience that helps family members of all ages discover that there's more to life than accumulation and consumption, many women question what the best way to act as a role-model for charitable behavior is. What strategies work well to teach the value of helping those less fortunate? How do you foster that strong "sense of self" that comes with contributing toward the betterment of others in an overly materialistic world?

Where Women Give <sup>2</sup>	
Cause	Percent Who Donate
Religious Institutions	53%
Health programs/Disease research	48%
Children's Charities	29%
Local programs in my community	27%
The Arts	27%
Education Programs	24%
Animal Welfare	23%
The Environment	20%
Political Causes	19%
Foreign Aid	5%

<sup>2</sup> Source: BMO Private Bank, *The Changing Face of Wealth*, April 2013

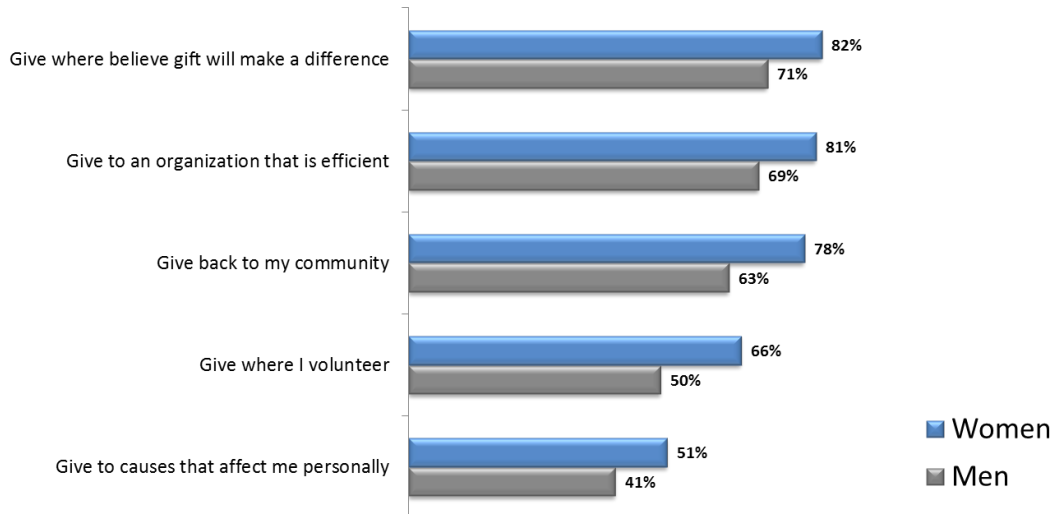
Philanthropy doesn't happen by chance. Charity and compassion are learned behaviors that require role-modeling and active participation in order to nurture the giving impulse. It requires not only a strong desire, but also an ongoing commitment, a well thought-out strategy and trusted advice. But it doesn't have to be complex and it doesn't require extensive financial knowledge.

There's really no right or wrong way to give. It's as individual as a fingerprint, and driven not only by the extent of a family's wealth, but also by the causes they feel most passionate about. ***What matters most is that future generations are exposed to the variety of ways in which they can become charitably engaged*** (beyond simply giving money away) as a means of helping them explore the world and find their place in it.

### How women give

For many women, philanthropy is far more personal than simply writing a check – it's as much about time and community engagement as it is about money. To a considerably greater degree than men, women give where they believe their gift will make a difference (82% vs. 71%), when

they know the organization is efficient in its use of donations (81% vs. 69%), and in order to give back to the community (78% vs. 63%). Women are also significantly more likely than men (66% vs. 50%) to give to a charity because they volunteer at the organization, particularly when it's involved with issues that affect them personally (51% vs. 41%).<sup>3</sup>



<sup>3</sup> Source: The Center on Philanthropy at Indiana University, December 2011

As a result, women volunteer to a far greater degree than men, kicking the tires to ensure that the charity is effectively delivering on its stated mission. This type of active engagement helps to model important behaviors both for the family and for the community as a whole. Whether donating a weekend to work on a *Habitat for Humanity* project or spending an afternoon stocking shelves at the neighborhood food pantry, volunteering together may be one of the greatest gifts women can give to future generations.

“*Kitchen table philanthropy*” offers another simple approach to charitable giving that provides immediate financial support to those important causes where women volunteer. It’s as easy as carving out an hour to sit down and talk about the causes and issues that are important to each member of the family. Perhaps it’s homelessness, the environment, the arts or something else entirely. Find a common interest and identify two or three charities that are actively addressing that issue. If possible, plan a family visit to each of the organizations over the ensuing weeks, and then discuss your impressions of each group and decide which one(s) you want to financially support and how your charitable dollars will be allocated.

Once you’ve determined **where** you want to give, the next question is **how** you want to give. You may want to consider donating appreciated stock from your investment portfolio, rather than cash, as it may offer you additional tax benefits. While the fair market value of the stock is used to determine your charitable deduction for the donation, neither you nor the charity are required to pay capital gains tax on the appreciated value of the securities. In essence, it allows you to “*double up*” on the tax benefits of your deduction. Similarly, there may be tax benefits to naming your favorite charity as the beneficiary of your IRA. Although the value of an IRA will still be included in your estate, the estate can take a charitable deduction. And unlike individual beneficiaries, when a charity receives a distribution from the IRA, they pay no income taxes. So,

if you're planning to leave part of your estate to charity and part to individual beneficiaries, the individuals may be better off inheriting non-IRA assets while the charity receives the IRA.

Keep in mind, however, that there may be instances where outright gifts are **not** the best solution for your family. Perhaps you're concerned about giving away assets that might be needed later should some unexpected financial setback arise. Fortunately, there are ways to structure your giving to help alleviate this concern. Many families opt for planned giving vehicles as a desirable way to benefit both you and the charity from a financial, tax and diversification perspective.

### **Planned Giving: Adding structure to your charitable endeavors**

Planned giving vehicles offer several benefits beyond basic outright gifts. First and foremost, they enable assets to be irrevocably gifted and sold in a tax-efficient manner, while still providing you or your family with an income stream. They also allow the assets you've gifted but not yet granted to continue being professionally managed so they can potentially grow and provide an even bigger gift to the charity. And in some instances, they allow you to remain anonymous, should that be something you wish.

### ***Donor-advised funds (DAFs)***

One of the most readily available types of planned giving vehicles, DAFs can generally accept a wide variety of assets from donors, including cash, appreciated stock, bonds, mutual funds, restricted and closely-held or non-publicly traded securities, real estate, limited partnerships, deferred gifts and other illiquid assets. They don't require extensive financial resources to set-up (most can be set-up with an initial contribution of \$10,000 or less). And they alleviate all of the administrative obligations such as separate tax returns, regulatory filings and grant accounting reporting that comes with more complex vehicles like private foundations, enabling you and your family to focus attention on where and how much to give.

### **How DAFs work:**



### ***Charitable remainder trusts (CRTs)***

The establishment of a CRT may help in balancing your philanthropic desires with your family's long term financial security. These irrevocable trusts can also be used to generate an income stream for you or your beneficiary either for a set period of time (20-year maximum), or for the beneficiary's life. At the end of the trust period, the remaining assets transfer to the charity. CRTs are often funded with appreciated stock because of the potential tax benefits they may

afford. But equally as important, they can offer you a welcome balance between personal financial security and a desire to give back to the community.

### ***Charitable lead trusts*** (CLTs)

These trusts work similarly but are the reverse of a CRT, paying a fixed amount or a percentage of the trust assets to the named charity or charities for a set number of years. At the end of the trust period, the remaining assets are either retained by the donor or given to a non-charitable beneficiary, usually a family member. While they don't offer the security of a current income stream, CLTs may offer significant estate and gift tax benefits.

### ***Family foundations***

For families of considerable wealth, foundations offer complete control over grantmaking and investment management, as well as provide the means to create a visible legacy and sense of identity for the family. Anyone who watches PBS or listens to NPR is probably familiar with a host of foundations – such as the *Bill and Melinda Gates Foundation* and the *John D. and Catherine T. MacArthur Foundation* – that provide program funding grants to those organizations. More importantly to many wealthy women, a private foundation can serve as the means to foster a strong community-minded ethic among family members and strengthen family ties by engaging relatives in a constructive, positive charitable endeavor.

Foundations can be costly to run, often requiring professional guidance and full-time oversight, and they can be time-consuming and complex to administer. There are no hard and fast minimums, but at BMO Private Bank we often recommend a DAF rather than a family foundation when the planned funding amount will be less than \$5-10 million.

### **Legacies take shape when intent meets action**

Giving—whether of time, assets or both—is a vital issue that's front and center in the minds of many women as they increasingly gain financial might. And women are uniquely positioned to demonstrate and instill what may be the single most important legacy that anyone can impart to the next generation: a selfless desire to support the causes they care deeply about.

The professionals at BMO Private Bank are ready to listen and recommend appropriate solutions to help you put your philanthropic wishes into action. And we'll help you involve your entire family each step along the way, whether through simple hands-on approaches to giving, more structured giving vehicles like donor-advised funds, or even through the establishment of a family foundation.

In her book *Raising Financially Fit Kids*, author Joline Godfrey sums up the critical importance of encouraging philanthropic engagement: Those “who feel they are making a difference, that they are part of something greater than themselves, will become more grounded and self-confident...wherever their passions lie, feeling a moral imperative that connects their own interests and privileges to the needs of others will give them a greater sense of community and connectedness throughout their lives.”

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