Opportunities and Obstacles:
The role of financial advisors in charitable planning and decision making

As the number of affluent and high net worth clients continues to grow, investment advisors are finding increased opportunities to offer advice on charitable giving. But for some, significant hurdles may keep them from providing the complete range of services their clients increasingly demand.

Contents:

Americans have long been known as a generous people, and for decades that generosity has found its key expression in the form of organized giving to charitable and philanthropic organizations. Today, that impulse holds truer than ever. For the third year in a row, charitable giving in the United States has increased, reaching a record amount of more than $295 billion in 2006, according to *Giving USA 2007*, the yearbook of philanthropy published by Giving USA Foundation and the Center on Philanthropy at Indiana University.

Clearly, Americans are finding charitable giving plays an increasingly important role in their lives. And, like many other aspects of their overall financial and investment picture, these philanthropic individuals are seeking advice on how to best incorporate their charitable efforts into their financial goals. As a result, financial advisors such as registered investment advisors (RIAs) and registered representatives are well placed to offer critical advice to their clients on matters of charitable giving. However, while an August 2007 survey by Schwab Charitable and Penton Research has shown that nearly eight out of 10 financial advisors are talking with their clients about when, where and how to give, they are challenged to provide the level of assistance and expertise that their clients desire and are coming to expect.

"As more and more wealthy individuals and families focus their efforts on the world of philanthropy, the role of financial advisors stands to become increasingly important," says Kim Wright-Violich, president of Schwab Charitable in San Francisco. "This survey confirms that advisors are expanding into areas beyond stock picking, but are finding that some hurdles can stand in their way."

Methodology:

Between July 25, 2007 and August 2, 2007, 13,493 subscribers of *Registered Rep*. magazine received e-mail invitations from Penton Research to participate in an online survey. Subscribers were selected on an nth name basis from the following categories: Assets Under Management (AUM) of $50 million or more OR annual production of $500,000 or more. In order to increase the number of responses from Registered Investment Advisors (RIAs), an additional wave of e-mails were sent on August 23, 2007, to all subscribers who indicated their job function or firm type was an RIA. Only subscribers who provided an e-mail address and were not included in the initial blasts were selected for this subsequent survey wave. The total population for the study was 318, with 89 identifying themselves as RIAs.

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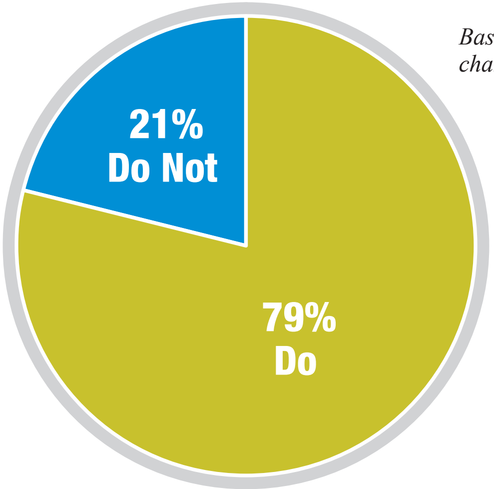
A Window into Giving

Any way you slice them, the numbers related to charitable giving in the United States are impressive. In 2006, donors gave an estimated $12 billion more than in 2005, a 4.2 percent increase over the 2005 total of $283 billion. Those dollars flowed to 1.4 million charitable organizations working to improve the lives of citizens both here and abroad. And the 4.2 percent increase jumps to 6.6 percent when the nearly $7.4 billion in extraordinary disaster relief given in 2005 is taken out of the equation.

As astounding as the raw numbers are, however, exactly who is engaged in giving is equally noteworthy. Even though 2006 was known as the year of the "mega gift," with Warren Buffet topping the headlines with his $1.9 billion down payment on his 20-year pledge of more than $30 billion, the bulk of charitable giving remained in the hands of those a rung or two down the wealth ladder. According to *Giving USA*, about 70 percent of American households give to charity, a number higher than the percentage that vote or read a Sunday newspaper. As well, giving by individuals remains the largest single source of donation, accounting for 76 percent of all estimated giving in 2006.

It's no surprise that wealthier individuals are among some of the most important drivers of this overall trend. For one, the number of them is growing. According to consulting firm Spectrem Group, the number of affluent American households—those households with $5 million or more in net worth, not including their primary residence—surpassed the one million mark for the first time ever in 2006.[1] Further, the rise of the so-called "mass affluent" bracket of investors, a group defined as having investable assets of $500,000 or more, has outpaced their wealthier brethren: there are now more than 15 million such households in the United States, with 9 million of them worth $1 million or more.[2]

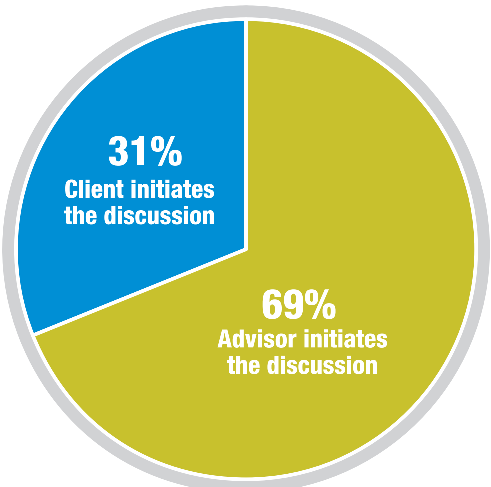
Most Advisors Discuss Charitable Giving with their Clients



Base = respondents who discuss charitable giving, 318.

Advisors Initiate Most Charitable Giving Discussions

For those clients with whom you discuss charitable giving, who initiates the discussion?



Base = respondents who discuss charitable giving, 251.

Where are these well-to-do individuals finding charitable giving advice? Not surprisingly, in some cases they're receiving it from their investment advisor. In an effort to better understand the relationship between advisors, their clients and issues surrounding charitable giving, this summer Schwab Charitable and Penton Research surveyed 318 subscribers to *Registered Rep* magazine. The goal was to measure the degree to which financial advisors initiate the topic of charitable giving with their affluent clients, as well as to investigate the criteria advisors use to determine when to initiate these conversations. In addition, the survey sought to explore advisors' perceptions of their role with regard to charitable giving and uncover differences in behavior and perceptions among varying advisor demographics. Advisors who responded have an average of $76.9 million in assets under management (AUM), with nearly one in five having $200 million or more in AUM. Their typical client has an average of $2.4 million in assets,

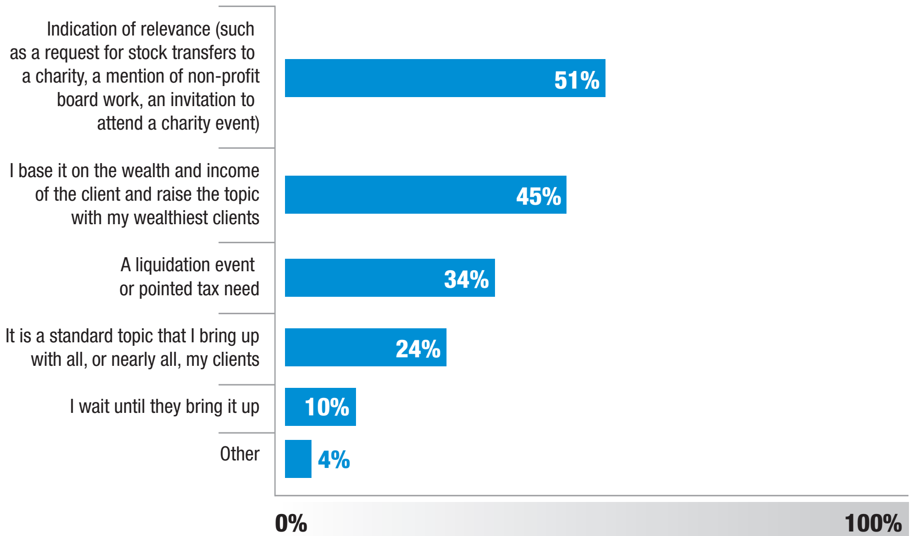
[1] "Affluent Market Insights 2007," Spectrem Group, www.spectrem.com.
[2] Ibid.

"Without exception, donors agree that philanthropy is no more personal than any other decisions that advisors help them make," the National Center for Family Philanthropy reported. That means that raising questions of philanthropy does not imply a moral judgment on the advisor's part. "It is part of the advisor's responsibility to ask all the questions relevant to a client's interests, including matters relating to philanthropy."

– "The Donor Advisor: The Critical Role of the Advisor in Family Philanthropy." National Center for Family Philanthropy, 2000 White Paper.

Charitable Giving Discussion Triggers

What triggers the discussion of charitable giving with your clients?



Base = respondents who discuss charitable giving, 251; multiple answers.

and almost all (94 percent) of advisors have clients with $1 million or more.

Among the study's key findings:

• **Nearly eight out of 10 advisors discuss charitable giving with at least some of their clients** (see chart on page 2)**.** 79 percent discuss charitable giving with some of their clients, 5 percent discuss charitable giving with all of their clients, while 21 percent do not discuss the topic at all. Respondents with high AUM ($100 million or more) discuss charitable giving with a higher percentage of clients than those with an AUM of less than $50 million.

• **Charitable planning discussions are initiated by both advisors and their clients.** Charitable giving discussions are initiated by advisors approximately two-thirds of the time and by clients approximately one-third of the time (see chart on page 2). Advisors are most likely to bring up charitable giving during the financial planning process or when discussing estate, tax or legacy planning. Slightly more than half of respondents (51 percent) say they listen to clients for indications that would warrant a charitable giving discussion, while less than half (45 percent) base the decision to bring up the topic on wealth and income levels.

• **Lack of expertise is the most common reason for not discussing charitable giving.** Thirty-seven percent of respondents indicated they are concerned with their own level of expertise regarding charitable giving, while 22 percent said clients do not expect to receive charitable giving guidance from them, and therefore it would feel presumptuous to initiate a conversation.

• **The majority of respondents have assisted clients with gifts to charity, including donor-advised funds and charitable trusts.** By an overwhelming majority–98 percent–respondents indicated they have provided assistance with one or more charitable planning services, while 93 percent offered one or more execution services and 77 percent offered follow-up services. More specifically, 69 percent reported assisting clients with direct gifts to charity, 60 percent assisted with one or more charitable trusts and 59 percent provided services to one or more donor-advised funds.

• **Advisors and the firms they represent are charitably-minded.** Almost all advisors reported donating money (95 percent) or time (87 percent) to charitable causes or community service organizations. When it came to their firm's behavior, the numbers were equally impressive, as three-fourths reported their firms gave to charity. Eighty-one percent believe their firms' gifts enhance the firms' reputation and 71 percent believe they enhance their firms' connections in the community. "If advisors themselves are giving, they are more comfortable with the topic and their credibility with their clients increases," says Wright-Violich. "Sharing personal experiences can serve as an opening to strengthen the relationship with the client."

A Wealth of Opportunity: Incorporating Charitable Giving into Client Discussions

While 67 percent of advisors say their

clients are interested in charitable giving, many are not taking the time to discuss charitable planning with their clients. In fact, 21 percent of respondents said they "never" discuss it and only 14 percent discuss it with over half of their clients. Only 5 percent say they discuss charitable giving with all of their clients.

For those advisors who are talking about these issues with their clients in one form or another (79 percent of those surveyed), the study found three key drivers for these conversations:

1. indication of client wealth and interest
2. triggering tax events, such as liquidation of highly appreciated assets
3. within the context of estate, tax or legacy planning.

Increased Client Wealth and Interest in Charitable Giving

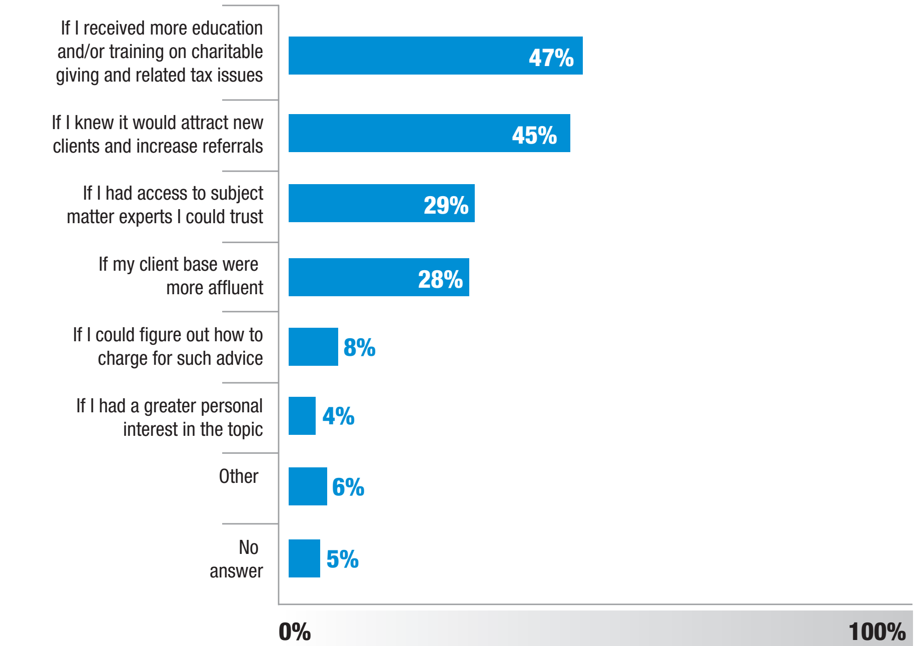
As Americans as a whole become wealthier, and as individuals and families find their own household or business incomes increasing, charitable giving takes on an added importance within the advisor/client relationship. As a result, 45 percent of respondents reported that they discuss charitable giving more often with their clients today compared to two years ago. Of those who saw an increase, heightened interest in giving during their lifetimes, a desire to enhance a legacy and their own personal economic prosperity were among the key reasons clients expressed new or renewed interest in the topic.

"Triggering" Events Enable Discussion

Despite the wide range of opportunities that can arise throughout the arc of the advisor/client relationship, the survey found the primary reasons discussions take place are rooted in "triggering events." And even though a solid majority of advisors—69 percent—say they initiate the discussions overall, more than half wait until an "indication of relevance," such as a stock transfer to a charity, a mention of non-profit work or an invitation to a charity event, takes place before the topic is raised. "What we see with some advisors is that they'll wait until their client brings up an event that has already happened before they feel comfortable starting a discussion," said Wright-Violich. "The problem is, that means they are being reactive instead of proactive."

Factors that would Increase Charitable Giving Discussions

Which of the following would encourage more client discussions about charitable giving?



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Charitable Planning Increasingly Incorporated Into Financial & Estate Planning

Advisors are more likely to bring up charitable giving when discussing estate planning, tax planning or legacy planning. Both estate planning and tax planning were used by advisors half of the time—52 percent and 49 percent, respectively—when determining whether to bring up the topic.

Studies have shown that for most Americans, the majority of their giving takes place while they are still alive, a trend known in philanthropic circles as "living giving." For example, according to *Giving USA*, charitable bequests—those donations dispersed after a donor has died—represented only 7.8 percent of total individual giving estimated for the year.

"For clients who are focused on their current goals – those who are asking 'Do I have enough money to be able to do basic things?' – the question is whether or not they include charitable giving as one of their basic expenses," says Linda Fitz, co-founder and partner at Kochis Fitz, an independent financial advisory firm based in San Francisco. "Some do. Others don't. But as soon as we know someone's charitable intent, then we definitely get involved in trying to maximize or optimize their opportunity to give."

Advisors Value More Education and Training

Given the increased interest nationally,

> "Philanthropy itself is being brought to the mass affluent through the use of donor-advised funds."
>
> –Jeff Colin, Baker Street Advisors LLC

and the rising levels of wealth among advisors' clients, why the hesitation and missed chances to open a dialogue?

This study provides some clues. Chief among these is a lack of education in the area of philanthropy, and a perception among advisors that either they're not qualified, or their relationship with the client does not permit such discussions. When asked what might encourage them to discuss charitable giving with their clients more frequently than they currently do, nearly half—47 percent—said that if they received more education and/or training on charitable giving and related tax issues, they would increase charitable giving discussions. Another 29 percent said that if they had access to subject matter experts they could trust, they would see an increase (see chart on page 4).

"Knowledge can make a critical difference in terms of an advisor meeting the needs of a client when it comes to charitable giving and the services it requires," says Wright-Violich. "It's difficult to bring up a topic with a client if you don't feel well grounded, or if you think you might make a mistake. Advisors increasingly need to have a bench of experts upon which to draw. They need to find out who they can trust as an expert on charitable giving planning and strategies and seek them out."

Concerns Over Pricing and the Ability to Charge Fees for Charitable Giving Advice not Important

When asked what the primary reasons were that the discussions were not taking place, only 3 percent cited insufficient fees as keeping them from talking about charitable giving with their clients, and only 8 percent said the need to identify how to charge for such advice would be a key motivator in increasing the frequency of these discussions. Further, more than half said they currently receive no compensation for their advisory role in matters of charitable giving.

Clients Expect Financial Advisor to Play an Increasingly Important Role

Some financial advisors wonder if it is appropriate for them to provide charitable planning advice. Forty percent of those polled, in aggregate, cited a sense of awkwardness or inappropriateness when it came to discussing the topic with their clients. Of these, 8 percent worried about whether they would offend their client, 10 percent cited charitable giving as being "too personal and values based" and 22 percent said clients did not expect to receive charitable giving advice from them, and therefore it would feel "presumptuous" to broach the topic.

Interestingly enough, advisors' reluctance to broach the topic may be one of the biggest disconnects of all between client expectations and advisor perception. For one, past research has shown that when it comes to charitable giving, clients want their advisors to initiate discussions, offer expertise and access to resources and provide leadership on the topic.

For instance, in a 2000 white paper entitled "The Donor Advisor: The Critical Role of the Advisor in Family Philanthropy", the National Center for Family Philanthropy found that among wealthy individuals and family members engaged in philanthropy, there was a marked interest in receiving information and guidance from their advisors on such matters. "Without exception, donors agree that philanthropy is no more personal than any other decisions that advisors help them make," wrote the paper's authors. That means that raising questions of philanthropy does not imply a moral judgment on the advisor's part. "It is part of the advisor's responsibility to ask all the questions relevant to a client's interests, including matters relating to philanthropy", the paper said.

As well, in 2002 the Boston-based Philanthropic Initiative surveyed 426 professional advisors to high net worth clients in an effort to determine the characteristics of clients who received philanthropic advice in California, along with advisors' perceptions of client motivations for giving. The study, released in 2004 and entitled "Doing Well by Doing Good in California", found that many high-wealth individuals increasingly expect their legal and financial advisors to be able to assist them with strategic philanthropy. "Donors wish their advisors were more knowledgeable about philanthropic planning and that advisors would take a more comprehensive approach to their giving, rather than focusing heavily on tax planning and specific giving vehicles," the Initiative reported.

Engaging Clients in Discussions About Charitable Giving

Some donors—even wealthy donors—can be resistant to conversations about charitable planning and giving. The most commonly mentioned concerns include worries about being able to take care of themselves and their families, the ongoing concern regarding health care and unexpected medical expenses.

While these are undoubtedly critical issues for some, many clients feel that charitable giving and philanthropy play a more permanent role in their lives, says Wright-Violich. "For many donors, charitable giving ends up more often on the non-discretionary side of the ledger than on the discretionary side. Americans view recurrent charitable giving as a true commitment to a cause and to its supporters, and will do away with discretionary spending if necessary to honor this commitment."

For Linda Fitz, integrating charitable giving into the planning of overall financial goals can help shed some light onto the topic for both the advisor and the client. "When clients are setting out their goals and they talk about living expenses, we regularly ask how much of their living expenses goes to charity," she says. "For others, if it turns out that they have more assets than they need to meet their goals as they have expressed them, we suggest other ways they can use the money, which would include charity. Charity is always part of that conversation, too."

The Future Looks Bright

As impressive as the recent numbers detailing America's giving habits are, they are likely to become more impressive down the road. That's because, as the baby boom generation begins to retire, the nation stands ready to engage in the biggest wealth transfer in history. According to "Millionaires and the Millennium", a 1999 study by John J. Havens and Paul G. Schervish of the Boston College Social Welfare Research Institute, more than $41 trillion in intergenerational wealth is set to be transferred, with $6 trillion already earmarked for charitable causes.

RIAs and registered representatives appear ready to face this coming wave. Seventy-eight percent of Americans who set up charitable vehicles and trusts do so on the recommendation of a financial adviser, according to the National Philanthropic Trust, an independent public charity that promotes charitable giving.[3] For RIAs and registered representatives, the data shows they are already offering a wide range of charitable giving services. For example, 98 percent of the Schwab Charitable study's respondents reported they typically help their clients with one or more planning services related to charitable giving, while 93 percent said they engaged in one or more executional services.

Choosing the Right Charitable Giving Vehicle

As interest in charitable giving increases, so, too, does the interest in the types of financial products most effective in making that giving possible. In this regard, advisors in the Schwab Charitable study demonstrated two identifiable trends: use of a wide range of charitable giving vehicles, and a desire to learn more about various products.

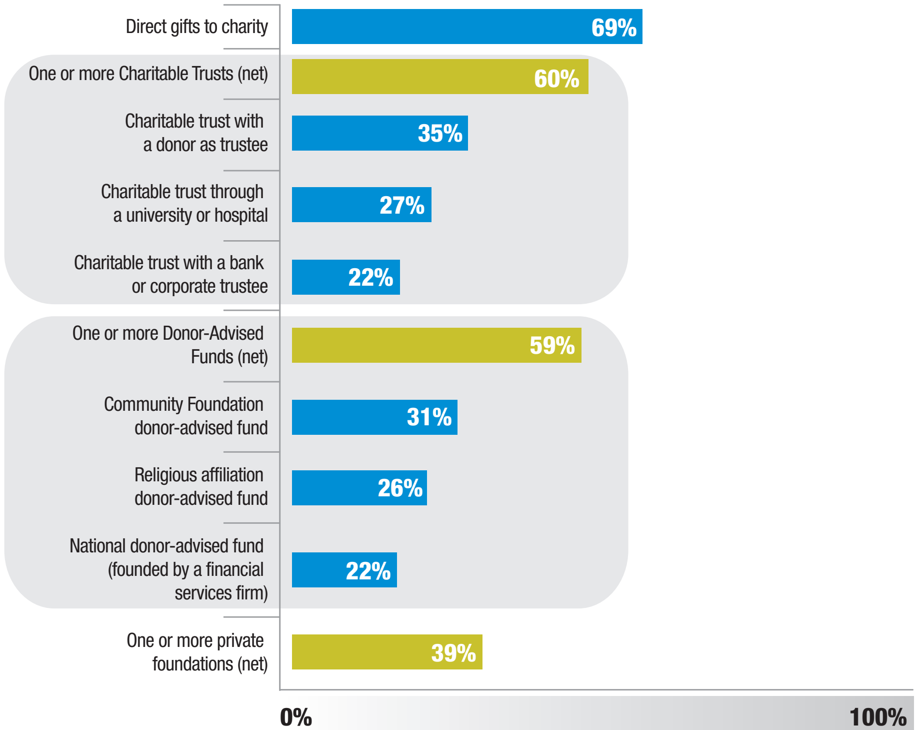
After direct gifts to charity, three main charitable vehicles were listed: charitable trusts, donor-advised funds and private foundations. Sixty percent of respondents indicated they had helped clients with one or more charitable trusts, while 59 percent had assisted with donor-advised funds and 39 percent had worked on private foundations (see above chart).

Of these, donor-advised funds have shown the fastest growth in assets and grants to charity the past year. Assets in donor-advised funds climbed 24 percent to $21.65 billion last year, making them the fastest-growing charitable vehicle, according to the National Philanthropic Trust. Last year, the average account in a donor-advised fund had $201,865 in assets, a 16 percent jump from the amount in 2005. By 2010, donor-advised funds will likely become the most popular charitable-giving tool in the United States, holding more assets than pooled-income funds, charitable remainder trusts (CRTs), and charitable lead trusts (CLTs), reports the National Philanthropic Trust.

Why are donor-advised funds enjoying such a boom? Unlike forming a private foundation, a donor-advised fund has no startup costs, excise taxes or annual tax-

Specific Charitable Gifts

For those clients that you have helped with charitable giving, with which of the following have you specifically assisted them?

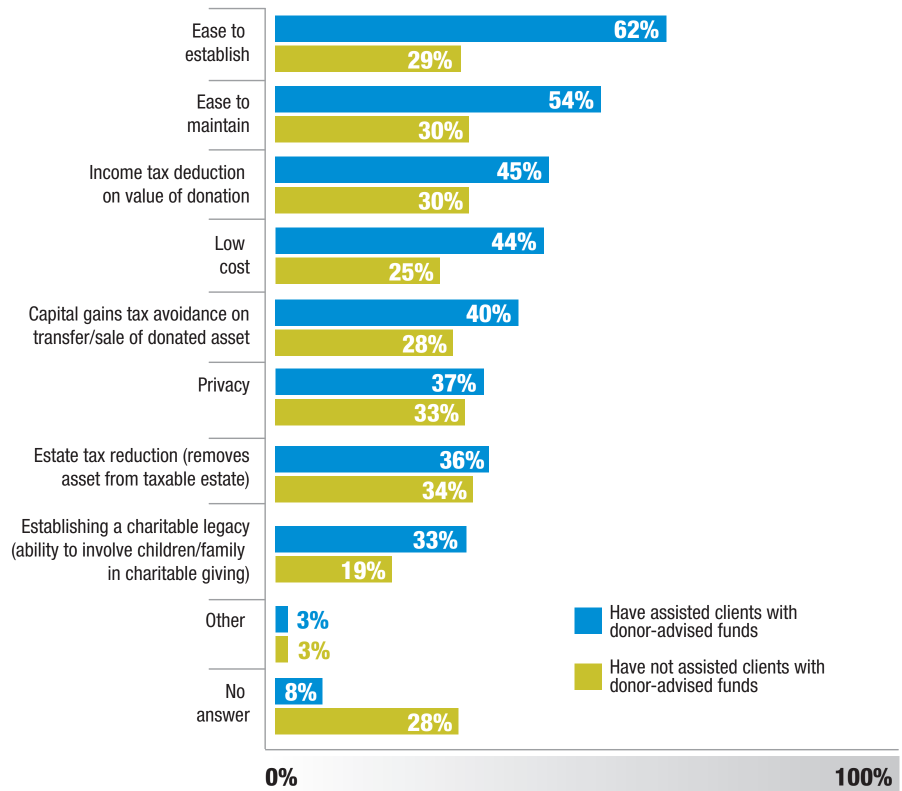


Base = respondents who discuss charitable giving, 251; multiple answers.

[3] "Donor-advised funds are seen becoming more popular," Lisa Shidler, Investment News, Sept. 17, 2007.

Advantages of Donor-Advised Funds

What do you believe are the biggest advantages of a donor-advised fund?



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reporting requirements. The funds also typically require a minimum contribution threshold of only $10,000, with some as low as $5,000 – quite modest when compared to funding requirements for other charitable vehicles. Further, all investment growth within a donor-advised fund is free of taxation, which can become a significant factor when compared to other giving options.

"Often, the question of what type of charitable giving vehicle is right for a client depends on the level that the client is willing to engage in," says Jeff Colin, managing partner of San Francisco-based Baker Street Advisors LLC, an outsourced family office practice. "At the level of wealth for our clients, they have a choice: they can have a family foundation, but that requires a fairly large commitment on the client's part – the family's part – to be involved in the philanthropic process. Or, they can go a simpler, more flexible route, such as a donor-advised fund, as long as the vehicle meets their tax and financial planning needs."

Because of their ease of use and tax efficiency, "philanthropy itself is being brought to the mass affluent through the use of donor-advised funds," says Colin. "The market understands how easy it is to use these vehicles, and how tax efficient and flexible they are."

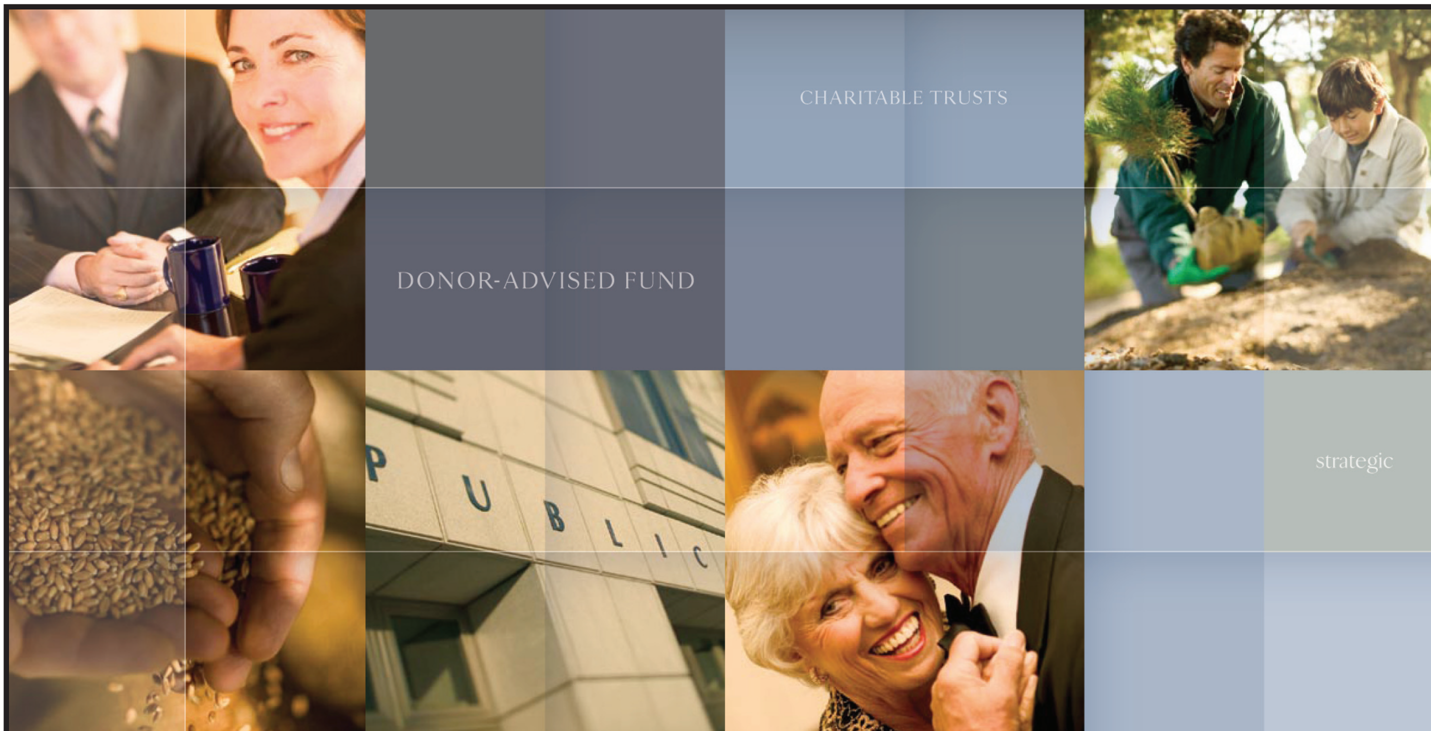
When it came to advising clients which assets to use when funding their charitable giving, nearly 9 in 10 respondents indicated their clients end up using publicly traded securities. Given the income tax benefits associated with such donations – the ability to claim a charitable deduction based at fair market value and the ability to avoid capital gains taxation on the donated securities – this is not surprising. In addition, cash (49 percent), IRA or retirement plan assets (43 percent) and real estate (37 percent) are popular charitable funding assets.

As America moves towards a world in which philanthropic endeavors take on even greater importance in both public and private life, financial and investment advisors are strategically placed to help educate and transform client behavior when it comes to charitable giving. That's because, as charitable giving moves to the forefront of affluent and wealthy donors' financial lives, advisors can help them understand the role effective charitable planning plays.

"For many people, charitable giving, non-profit board work and volunteerism are some of the most fulfilling aspects of their lives. Advisors who help their clients build and preserve wealth are doing a great job, but this study suggests that they should also strive to help their clients use their wealth in ways that express personal values and bring a sense of fulfillment to their lives by creating a lasting charitable impact," says Wright-Violich.

For more information:

As part of its mission to increase charitable giving, Schwab Charitable is happy to assist advisors seeking to build a philanthropic component for their wealth management offer. To learn more, please call 800-746-6216, or visit www.schwabcharitable.org.



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