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THE PHILANTHROPY PATH FOR FAMILY OFFICES

By Kris Putnam-Walkerly

Big money is changing hands. As a family office leader and advisor to ultra-high-net-worth clients, you likely saw it coming: one of the biggest wealth transfers in history. A 2015 Accenture report stated that in North America alone, $30 trillion will flow from Baby Boomers to their offspring in the coming three to four decades. This is important, because the same Accenture study noted that the younger generation tends to manage wealth differently than did their parents. InvestmentNews Data estimates that 66% (some estimates say 90%) of adult children leave their parents' advisor after they receive their inheritance.

It is wise to shore up your relationships during times of change. Perhaps surprisingly, one of the best ways to build deepen your family office relationships is to support your clients' philanthropic goals. Even more surprising, it is a common — and costly — mistake for family offices to dismiss philanthropy. Let's look at how and why this occurs.

Mistake #1: Ignoring the conversation
I realise that some families seem more concerned with growing their wealth — or spending it — than with giving it away. But that doesn't mean family office executives should ignore the topic.

Many, if not all, of your clients might be intrigued by the idea of leaving a legacy through charitable giving, and they would want you to help them. Research from the U.S. Trust Study of the Philanthropic Conversation finds that 40% of high-net-worth individuals are more likely to choose an advisor who is knowledgeable about charitable giving, 57% expect their advisor to help them with their philanthropy, and 79% say their advisor plays an important role in their charitable giving.

But you have to start the conversation. Your clients will not ask you for help with philanthropy if they do not know you can address the topic — and they might find someone else who can.

Mistake #2: Agreeing too quickly
Be wary if your client's response is, 'Can you help me start a charitable foundation?' Answering with a quick 'yes' may do more harm than good to your advising relationship.

Starting a foundation is often the first thought UHNW families have, but it is not necessarily the best path to charitable giving. You should highlight the most important goal first. The transaction — how much money to give away, to whom, through which vehicle — should be secondary.

The first decision should be about transformation. What impact does your client want to make in the world? What type of philanthropic family do they want to become? What is the best way to achieve those goals? It might be wiser to donate to existing reliable foundations or to open a donor-advised fund (DAF), for example, than to pin the family name onto a new nonprofit that no one has the time or ability to manage.

Mistake #3: Waiting to involve the entire family
Talking with clients about leaving a legacy can feel awkward, so these big decisions are delayed and delayed again. Then the head of the family falls ill, and it's too late.

To successfully advise wealth management across decades, it is critical to involve multiple generations early and often. By including your clients' children and grandchildren in conversations about philanthropy, you naturally build rapport and deepen relationships with them. They come to know, like, and trust you. They will know how to reach out to you, and they will expect you to be there for them after your client passes.

Mistake #4: Letting fear steer decisions
Some family office executives avoid conversations about philanthropy because they worry charitable giving will result in fewer assets to manage. I say this with respect: That signals a scarcity mindset rooted in fear, and it can hold you back.

Instead, your office could earn a reputation among a widening circle of your clients' friends as the go-to philanthropy experts for would-be world-changers. You could gain more to manage from your existing clients, too: As you help them plan for charitable giving, they may reveal additional assets you were not aware of.

Some DAF sponsors allow advisors to manage assets, so if your client opens a charitable-contributions DAF, you can manage that money. Finally, charitable giving typically reduces taxes, which means your client has more money for you to manage.

One more thought about fear: Your clients themselves may be wrestling with it. If initial excitement about philanthropy gives way to hemming and hawing, don't give up quickly. Clients could be afraid of any number of things, including exposure (as a supporter of a particular cause or as a family with wealth), not being good stewards, or, of course, wasting money.

A solid philanthropic plan and skilled guidance will help your clients overcome these fears so that they can achieve the dramatic impact they desire.

Mistake #5: Not asking for help
The 'solid philanthropic plan' element may sound impossible if charitable giving is not your area of expertise. And you may be hesitant to ask for help from a philanthropy expert, because no one wants another consultant wooing away clients or eroding trust. But you can get outside guidance and you can also set the tone for the engagement:

A philanthropy consultant could advise you behind the scenes, serve as white-label support, or even work directly with clients as a trusted partner. Their services could include developing a giving strategy and plan, researching and recommending funding opportunities, identifying potential nonprofits to support, engaging the next generation in charitable giving, facilitating family retreats, and serving as a trusted coach and strategic sounding board.

Philanthropy is the secret to winning new business and retaining clients across generations. It provides a platform for your family office to expand your expertise and services, establish and deepen relationships, and grow your business.

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She was recently named Philanthropy Advisor of the Year by LUXlife Magazine, and published her second book, Delusional Altruism (Wiley). Her clients include the J.M. Smucker Company, David and Lucile Packard Foundation, Charles and Helen Schwab Foundation, and the National Center for Family Philanthropy.