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TO HELP CLIENTS TEACH HEIRS, TRY A 'FOUNDATION LITE'

By Kyle Brownlee

As many advisors know, financial assets are often a mere byproduct of a productive and focused life. And more and more affluent clients now seek to leave behind a legacy more lasting and meaningful than investment assets alone.

Given the choice between passing on a portfolio of financial instruments or helping the younger generation learn the importance of the client's own cherished core values, the overwhelming majority of investors would prefer the latter — to pass on the deeply ingrained beliefs and practices that helped them achieve success, and which can also help their heirs lead lives of fulfillment and service.

NEXT GEN CONNECTIONS

I often suggest that clients use a donor-advised fund to establish a "foundation lite," with themselves and their heirs as nominal board members. By doing so, clients can get their children, grandchildren and other beneficiaries involved in long-term charitable giving as part of their estate planning process.

As the younger generation takes a key role in directing the fund's charitable contributions year after year, they gain the opportunity to internalize the core values that helped the fund's founding investors achieve success and fulfillment.

To make sure the younger generation has plenty of incentive to take part, clients can link participation in the fund's mission to each beneficiary's eventual inheritance.

These efforts also give advisors extraordinary opportunities to build more meaningful relationships with clients and their heirs. We are frequently asked to help the board members define and pursue the fund's goals and, in many cases, facilitate meetings to determine giving decisions.

LESS DOCUMENTATION

Clients can often establish these funds with as little as $10,000, and without having to file extensive legal documentation or a separate tax return for the fund itself.

It's important to note that the "board" has no true legal authority or responsibility under this approach; responsibility for the fund's decisions rests solely with the fund's owner/grantor. Heirs' involvement is typically outlined through a nonbinding letter of understanding or other informal process document that reflects how "board members" will provide input on giving decisions. There is no actual transfer of authority or fund assets to the heirs, however, so there is no need to file additional paperwork for the fund.

For all these reasons, the donor-advised fund as "foundation lite" is gaining traction with investors: Approximately 78% of donors to Fidelity Charitable, which operates such funds, said in a June 2014 survey that the causes they supported through their funds reflected input from family members.

CHALLENGE FOR ADVISORS

While setting up a donor-advised fund with these goals in mind can be relatively straightforward, helping clients use these vehicles effectively can be a more complex challenge — especially for advisors who may be considering introducing clients to these funds for the first time.

As any parent knows, teaching strong values is a multi-year undertaking, requiring patience, planning and commitment.

One good way to start is by helping clients articulate the core values they hope to pass on. While it may sound obvious, most clients have never taken a step back to think about questions like, "What does it mean to be a member of our family?" or "What are the three key values I would like my heirs to learn (or to learn a deeper appreciation for) from me?"

Even if clients don't need a formal "mission statement" for their donor-advised funds, identifying an easy-to-remember list of the values that they believe are most important can help guide younger participants in directing contributions to causes that align with and advance these core convictions.

To put it in familiar terms, the list of values serves as a benchmark for the fund, both for the founders and their beneficiaries.

There's another benefit of this exercise: It creates an opportunity for advisors to get to know clients on a deeper level. Even clients who go back years — or decades — with an advisor may have hopes or priorities they had not previously articulated. For example, one memorable guiding principle we learned from one investor was, "I don't do anything unless it makes me smile.” Such guidance can help the advisor gain a better perspective on how to help the clients achieve their objectives.

OFFER COACHING

Imagine being the 15-year-old grandson or granddaughter of a successful investor and being told that you need to present a compelling case on your favorite charity to other members of your family (oh, and to your grandparents’ financial advisor) at an upcoming meeting. Many people in this scenario — regardless of age — would have no idea where to start.

To bring clients and other participants up to speed, let them know that you are available to coach them on presentation and due diligence skills.

An advisor’s skills can be the perfect resource to help fund participants learn and grow from this challenge. Advisors can facilitate meetings for clients and their beneficiaries with leaders of various nonprofits to discuss the groups’ operations, purpose and efficacy. And by discussing the takeaways from these conversations with clients and their heirs, advisors can help fund participants learn to apply the founding values of the fund to their giving recommendations, and teach them how to make a convincing case for the causes they would like to support.

LONG-TERM VIEW

One more issue to think about: Clients should define the fund’s goals clearly enough to be effective, but broadly enough to allow younger participants to find and support causes they care about.

Many clients start off supporting specific causes with which they have personal experience — and where they hope to make a difference through their charitable contributions. The founding investor may have suffered from or lost a loved one to a particular disease, for instance, and will naturally want to devote the fund’s resources toward finding a cure.

As with any organization, this strong sense of purpose can be essential, especially early on, in helping to develop the practices, culture and institutional knowledge that the fund and its board members will need. Yet as the fund grows and its board members begin to develop a broader understanding of the various charitable groups they might like to support, the younger generation may want the freedom to support a wider range of worthy causes.

In general, the more restrictions are placed on the ability of the fund’s younger participants to support the causes they personally care about, the less interested they may become in participating in the foundation. Past a given point, it may be less important to support specific causes or organizations and more important to foster the habits, traditions and values the fund was set up to teach by giving the younger generation more of a free hand.

Transferring financial assets to the younger generation in the most tax-efficient and thoughtful way possible is clearly a crucial goal for clients. As part of the broader estate planning process, however, investors may find that the more effective way to leave behind a true and lasting legacy may be to set up a simple donor-advised fund, with their beneficiaries as “board members” or directors. Linking participation in the fund’s mission to each beneficiary’s eventual inheritance can create a profoundly effective mechanism for teaching the values and habits for which clients would prefer to be remembered. In the process, advisors can find entirely new ways to put their skills to work for clients — and, as a result, find their relationships with these clients and their heirs becoming stronger than ever before.

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