

# Less Affect, More Effect: Rise of the Strategic Donor

Today's philanthropists set their own agendas, deciding which charities to support and often choosing to get personally involved.

**W**ith the economy mired in recession, it's probably not surprising to discover that charitable giving declined in 2008. Actually the real surprise may be that the numbers weren't much worse. It is true that two-thirds of public charities receiving donations saw decreases last year, and this during a time of mounting financial challenges. But it is also true that — despite the struggling economy — individuals, corporations and foundations managed to provide more than \$307 billion to causes they support. And while individual giving slipped 2.7% from 2007, it is worth noting that individuals remain by far the single largest slice of the donor pie. In fact, in 2008 individuals accounted for 75% of all charitable giving, and that number jumps to 82% when we include charitable bequests.<sup>1</sup> Moreover, if history is any guide, individuals are likely to continue giving, even in the current challenging economic environment.

But today's donors are giving differently. "Their causes are many, and so are their personal motivations, but they are increasingly looking to be more strategic, focused, intentional and results-oriented in their giving," says Gillian Howell, a Bank of America Merrill Lynch private philanthropy executive. "Interestingly, a recent Bank of America study reveals that 65% of high-net-worth donors would like

to be giving more strategically but only 35% are actually doing so, mostly because they have yet to be asked."<sup>2</sup>

So exactly why and how are people giving strategically? And how can they do it most effectively?

## TODAY'S DONOR

"Where the traditional donor funded strategies that were brought to them by nonprofit organizations, today's donors

already have great strategies or find them on their own," Howell explains. "The traditional donor made gifts and was more or less content to do good at arm's length. Today's more proactive donor makes investments, assesses the impact and tends to be actively engaged with philanthropic partners."

"These days more donors want their fingerprints on the work they're doing," adds Don Greene, a Bank of America Merrill Lynch philanthropic management product and strategy executive. "They have specific ideas about their goals and the methods they'd like to use to accomplish them."

What are these goals? They are as varied as the individuals themselves, but it's probably fair to say that for many wealthy donors, philanthropy is about much more than simply giving money away — it is about the impact on the communities in which they live and give, and deep personal and familial fulfillment.

## TWO POPULAR GIVING VEHICLES

Today's donors can use a large number of charitable giving vehicles — direct gifts, donor-advised funds, supporting organizations, charitable remainder and charitable lead trusts, charitable gift annuities and giving circles, among others. Two of the more popular vehicles are the private foundation and the donor-advised fund.

## THE PRIVATE FOUNDATION

A charity established, funded and usually controlled by a single donor or family, the private foundation offers wealthy individuals and families with significant charitable inclinations control over the timing of charitable distributions and the ways in which they are made. It also provides ongoing control over the foundation's investments.

Explains Greene: "Foundations can maximize the impact of donor dollars through focused strategic giving. Through their governance structure, private foundations also create opportunities to involve family members in giving — and to build a sense of family identity around the foundations' purpose."



<sup>1</sup> Giving USA 2009, *The Annual Report on Philanthropy for the Year 2008*, Giving USA Foundation.

<sup>2</sup> The 2008 Bank of America Study of High Net Worth Philanthropy. Researched and written by The Center on Philanthropy at Indiana University, March 2009.

On the other hand, compared with other philanthropic vehicles, private foundations can be costly. Moreover, they entail complex reporting requirements, receive the least favorable treatment of charitable deductions for income taxes, and are subject to strict excise taxes that add to the cost of formation. That said, for those wealthy individuals with a desire to exercise control over their philanthropic endeavors, a private foundation could well be the preferred alternative.

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#### THE DONOR-ADVISED FUND

The donor-advised fund (DAF) represents an easy-to-establish, flexible and cost-effective alternative to a private foundation. Donor-advised funds are the fastest-growing charitable-giving vehicle in the United States, and a few of them are among the nation’s largest charities.

DAFs are public charities with individual donor subaccounts. “The donor-advised fund is a way station for the donor’s contribution,” says Greene. “The donor contributes money into the donor-advised fund, where it sits in a segregated account until the donor indicates which nonprofits should receive grants, allowing for an immediate tax deduction. However, the donor’s stated preference is only a recommendation, as legal authority for distribution resides with the donor-advised fund. An important consideration is that this gift can be made anonymously, if the donor so desires, or attributed to the donor’s named account,” he says.

“Compared with a private foundation, a donor-advised fund offers considerable administrative convenience, cost savings and tax advantages,” adds Howell. “For instance, because the donor-advised fund is housed in a public charity, donors receive the maximum tax deduction available while avoiding excise taxes and other restrictions imposed on private foundations. It also al-

lows for end-of-year tax deductions for those who have not yet decided which charities to support,” he says.

“A donor-advised fund,” Greene notes, “can make good sense for someone looking to make a gift of appreciated assets — for example, publicly traded securities, real estate and intangible assets such as artwork — as a donor-advised fund would maximize tax benefits for contributions of this type and effectively increase the amount the donor can give to charity.”

There are potential downsides, however. Beyond the limited control they offer, DAFs can give only to nonprofits, not to individuals. And many DAFs allow donations only to U.S.-based charities. “Still, for some people,” Howell says, “given the ease of setup and administration and the lower associated costs, they’re a really effective way to begin involvement with philanthropy.”

#### THE COMBINED APPROACH

Private foundations and donor-advised funds offer distinct and complementary advantages, and sophisticated donors often use both strategies in combination.

Recalls Greene: “I remember when one well-known business owner sold his company and used a portion of the proceeds to create a private foundation. But the client maintained a donor-advised fund as well. Given that the foundation’s grants would be a matter of public record, he and his family used the donor-advised fund to make anonymous gifts to causes they regarded as particularly personal or that some might view as controversial.”

In other instances, Howell notes, donor-advised funds are used as a kind of training vehicle for younger family members — a way for them to begin philanthropic giving independently before they become involved with the family foundation.

#### “WHAT’S BEST FOR ME?”

“Philanthropic giving can be dauntingly complex, but working with philanthropic specialists can help to reduce these complexities,” says Greene.

“At U.S. Trust, we begin by sitting down with clients and their families to understand the client’s core values and philanthropic goals,” explains Howell. “We walk clients and their families through a process of articulating objectives. It’s a matter of asking the right questions and then using those answers to guide us. Once we’re clear on goals, we can structure and implement the most appropriate philanthropic plan. Once a plan is implemented, we employ various monitoring techniques to help ensure that the chosen vehicles are achieving the client’s philanthropic goals.”

Clients interested in establishing or running a private foundation “might consider Bank of America Merrill Lynch Foundation Advisory Services,” says Howell. “For a donor-advised fund, Bank of America Charitable Gift Fund is one option. If they want education, we offer programs and workshops geared toward families, women and children.”

“Today’s donor has an ever-expanding number of giving options,” says Greene. “Not only do appropriate choices exist for every donor — for every level of giving and desired degree of control — but the odds of donors achieving their specific goals and having a measurable impact are greater than ever.” ■

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