

**Leaving Wealth and Imparting Values:
*The Role of Philanthropy in Creating Responsible Heirs***

Pittsburgh Planned Giving Council, September 12, 2017

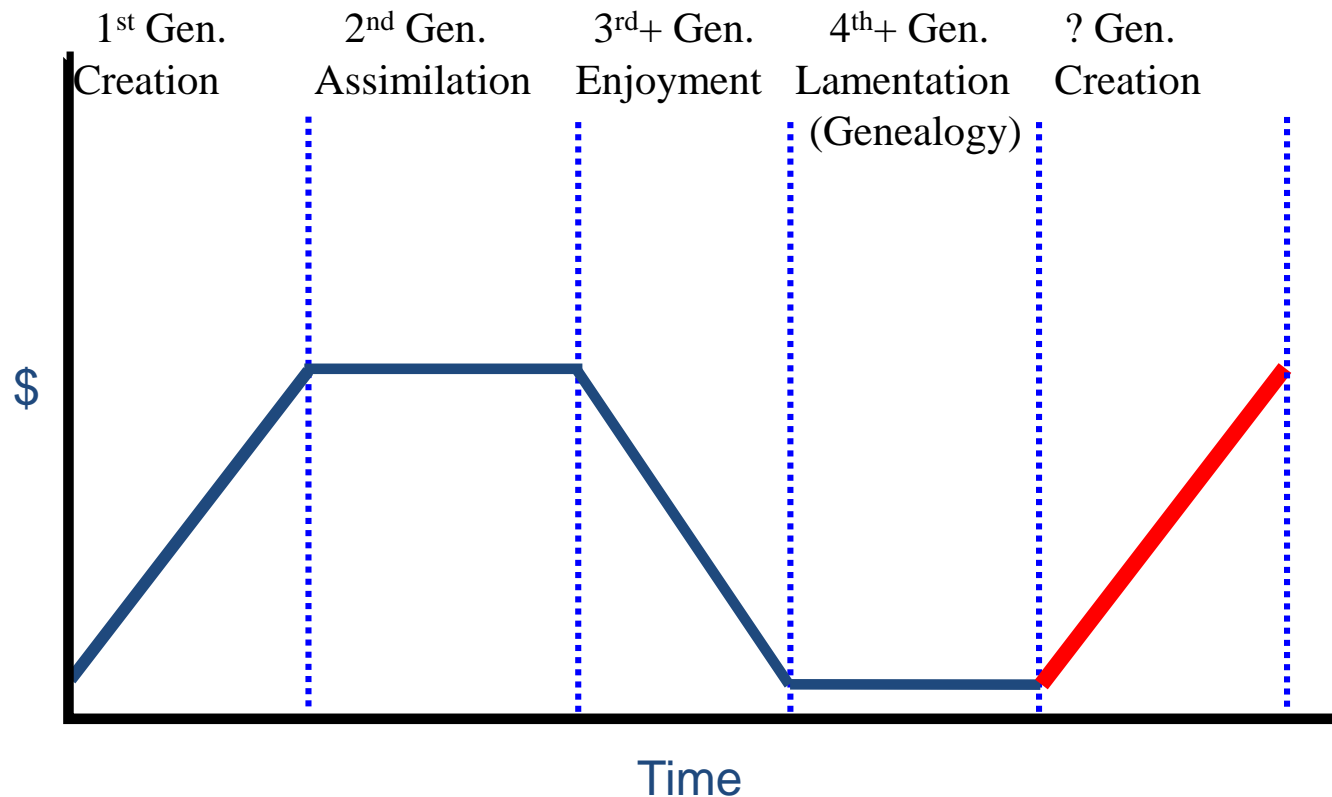
Pete Eberhart, Henry Armstrong Associates, Inc.

OVERVIEW

- Challenges of Family Wealth
- Role of Philanthropy in Family Wealth
- Charitable Techniques

CHALLENGES OF FAMILY WEALTH

Wealth Erosion - most family wealth is gone by the end of the third generation



Challenges of Family Wealth

Notes on Wealth Erosion and Transfer

- Wealth erosion: uniquely American?
 - Peasant shoes to peasant shoes (India)
 - Rice paddy to rice paddy (China)
- All generations want wealth to grow
- Parents want to pass on financial capital
 - Want to pass on values a life experiences more
 - Children who inherit only financial wealth are seldom happy

CHALLENGES OF FAMILY WEALTH

Challenges for Next Generations

- Isolation - I'm different because of my wealth
- Guilt – I didn't earn this wealth
- Lack of empowerment - I'm just a beneficiary and have no control over the wealth
- Lack of motivation – I don't need to challenge myself

[I]nherited wealth . . . is as certain a death to ambition as cocaine is to morality.

- William K. Vanderbilt, grandson of Cornelius Vanderbilt

CHALLENGES OF FAMILY WEALTH

Successful Families Act Differently Toward Wealth

- Focus on human, intellectual, and social capital of the family
 - Human capital: unique abilities, talents, health, character
 - Intellectual capital: education, traditions, life experiences
 - Social capital: care, community, responsibility, purpose
 - Financial capital: cash, stocks, bonds
- Address governance
- Communicate about money – ***family meetings***

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- Address governance
- Think horizontally
- Create caring/motivational structures, not care-taking structures – ***family bank***
- Create mentor-like relationships in family entities
- **Integrate philanthropy**
- Give younger family members as much responsibility as soon as prudent

LEAVING YOUR HEIRS WEALTH WITH VALUES

Family Meetings

Family meetings can

- Create venue for communication
- Provide extended family a reason to get together – be creative!
- Centralize management of assets
- Include all generations
 - Discuss financial situation
 - Discuss estate plan and expected inheritance
 - Emphasize that there are no guarantees

Family mission statement – a good idea, in theory

LEAVING YOUR HEIRS WEALTH WITH VALUES

Family Bank

A family bank is a trust structure that:

- has a well defined mission – values
- might make provisions for regular distributions – necessities
- makes provisions for discretionary distributions – opportunities
 - enrichment, investment, enjoyment, etc.
 - governance
 - reporting
- might complement charitable plan – societal issues

ROLE OF PHILANTHROPY IN FAMILY WEALTH

Role Of Philanthropy

- Establish family dialogue
- Introduce process, governance, structures
- Involve all generations
- Develop understanding of financial concepts: investment management; due diligence; and analytical evaluation
- Promote working together, making joint decisions, and problem solving
- Encourage public speaking and professional comportment
- Address insecurities and anxieties of children and grandchildren

Paradoxically, families often learn more about long-term wealth preservation through the process of learning to give away than by the process of learning to accumulate and spend.

– From Family Wealth by James E. Hughes

ROLE OF PHILANTHROPY IN FAMILY WEALTH

How to get started with philanthropy?

Families Successfully Integrate Philanthropy by Answering One Question

How much is enough?

I want to leave my children enough so that they could do anything, but not so much that they could do nothing.

– Warren Buffett

ROLE OF PHILANTHROPY IN FAMILY WEALTH

How much is enough for:

1. Me

- Financial planning
- Estate planning

2. My family

- Gifting
- Inheritance

3. Community

- Philanthropy
- Volunteerism

ROLE OF PHILANTHROPY IN FAMILY WEALTH

First Steps

- Model the behavior
- Discuss the values behind the behavior
- Encourage giving from young age, but don't force it
- Family volunteerism
- Kitchen table philanthropy
- Philanthropy Day
 - Family members must have planning role
 - Age appropriate activities
 - Direct engagement with generations
 - BUT avoids administration

ROLE OF PHILANTHROPY IN FAMILY WEALTH

Building a Long-Term Strategy

- Define core values
- Choose giving vehicle
- Plan for entity administration
- Create process for evaluating impact
- Engage in succession planning
- Consider trends in philanthropy

ROLE OF PHILANTHROPY IN FAMILY WEALTH

Trends in Philanthropy

- Explosion of new non-profits
- Increasing power of non-profits
- Generational differences
 - Traditional giving – large, national charities
 - Targeted giving – more local charities, hands-on involvement
 - Impact of internet – more grassroots, micro-giving, global scale

CHARITABLE TECHNIQUES

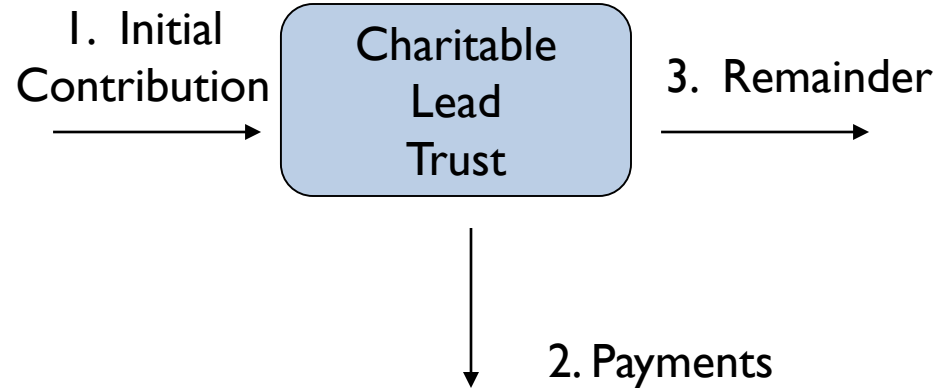
- Outright Giving
 - Easy
 - Immediate
 - Recognition
- Private Foundations/Donor Advised Fund
 - Legacy
 - Family education
 - Administrative challenge
- Charitable Trusts
 - All of the above!

CHARITABLE TECHNIQUES



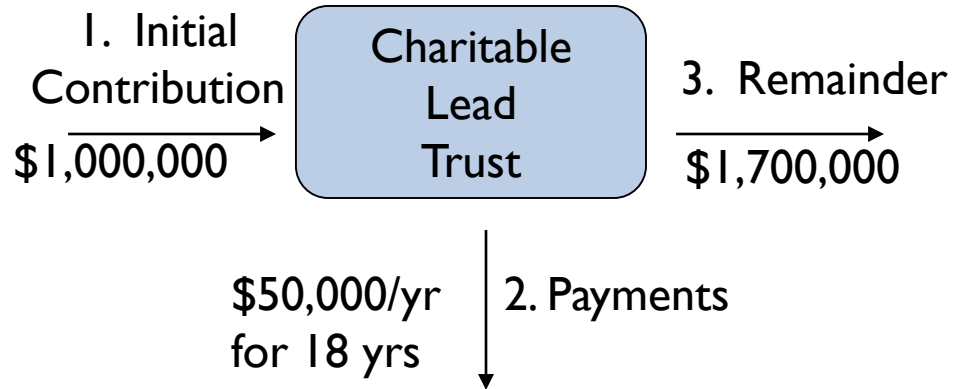
CHARITABLE TECHNIQUES

Charitable Lead Trust



CHARITABLE TECHNIQUES

Charitable Lead Trust

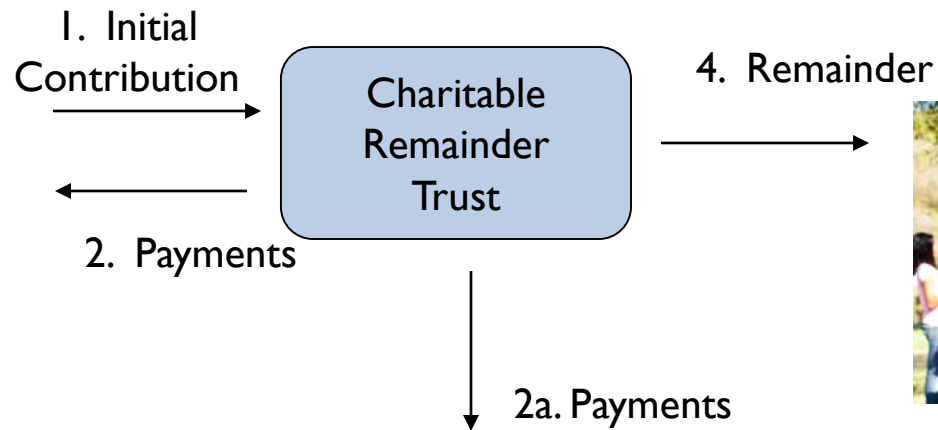


Assumptions:

1. Both donors are 70
2. Life expectancy is 18 yrs
3. AFR is 1%, growth is 7%, initial pmt is 5%
4. Taxable gift is approx. \$206,000

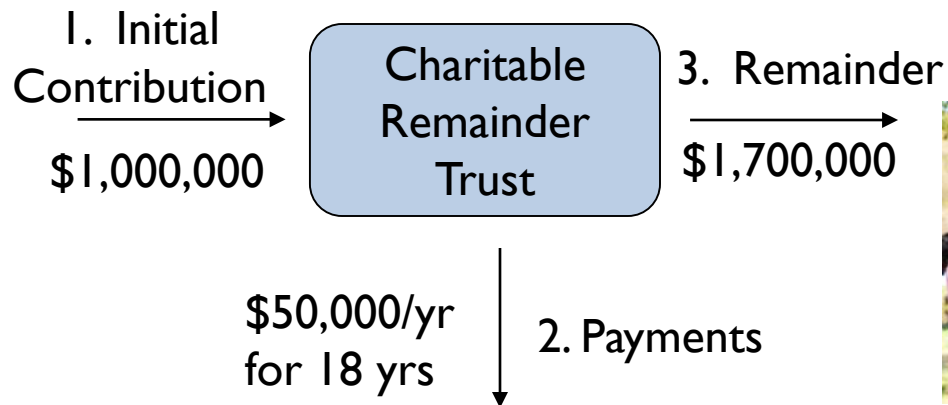
CHARITABLE TECHNIQUES

Charitable Remainder Trust



CHARITABLE TECHNIQUES

Charitable Remainder Trust



Possible income tax deduction of \$177,500

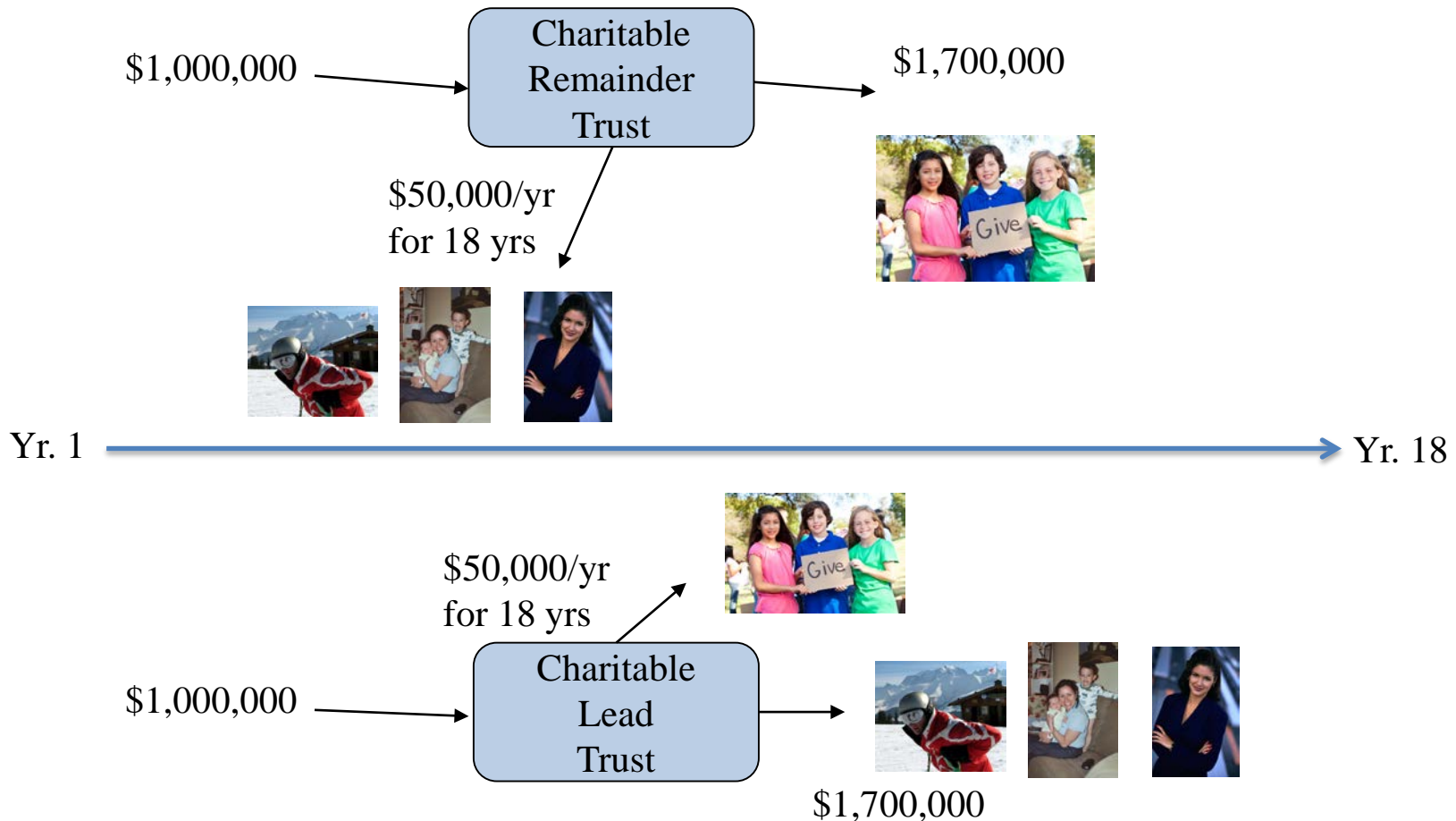


Assumptions:

1. Both donors are 70
2. Life expectancy is 18 yrs
3. AFR is 1.2%, growth is 7%, initial pmt is 5%
4. Gift tax of approx. \$805,000

CHARITABLE TECHNIQUES

Charitable Lead Trust and Charitable Remainder Trust in Concert



CHARITABLE TECHNIQUES

Charitable Lead Trust and Charitable Remainder Trust in Concert

Financial Benefits

1. \$2,600,000 to charity
2. \$2,600,000 to heirs
3. \$2,000,000 removed from estate
4. \$177,500 of income tax benefits
5. \$790,000 of gift tax benefits

CHARITABLE TECHNIQUES

Benefits of Charitable Trusts

- Offers forum for family values and governance
- Benefits favorite charity (or charities)
- Offers potential income and estate tax benefits
- Generates predictable income source
- Provides creditor protection for beneficiaries
- Provides opportunity for family input and financial education

Charitable Lead Trusts and Charitable Remainder Trusts can be tailored and tweaked to meet innumerable financial goals, but they are complicated. Please seek competent legal, tax, and investment counsel before implementing any charitable strategy.

CONCLUSION

Family wealth presents challenges

Philanthropy can be a powerful tool for managing wealth and serving family

Charitable trusts are interesting alternatives – particularly in low interest rate environment

The material in this presentation is for general discussion purposes only and should not be considered tax, financial or legal advice. Please consult with your personal advisor before implementing any financial planning strategies.