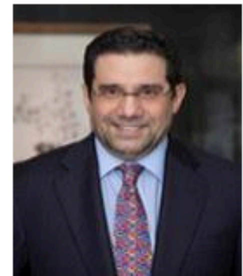
Personalized Philanthropy: Fixing the Flaw in Your Business Model - Part One

Doing the right thing for charitable clients does not have to kill your business model

By Steven Meyers

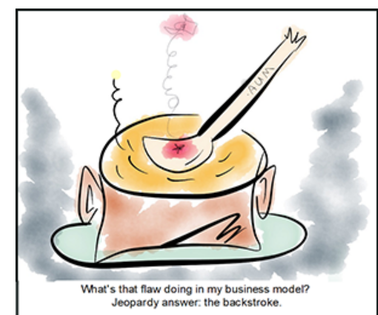


Steven L. Meyers, Ph.D.

The gift design strategy embodied in "Personalized Philanthropy" is a kind of Holy Grail for charities and fundraisers. It awakens the possibility that donors' impact and recognition can begin now, and it makes giving while living so much more satisfying than gifts that must be deferred until after death, as is so often the case. Many of the wealthiest donors simply cannot make the larger gifts they'd like to establish during their lives. The "killer apps" of personalized philanthropy accomplish this alchemy by leveraging the concept of endowment spending rate. This article suggests how that technique can also fix inherent flaws in the financial and investment manager's business plan that might otherwise make charitable giving a nonstarter.

Key Takeaways:

- What's that flaw doing in my business plan?
- The "dirty little secret" of conventional financial planning is the disincentive to engage in meaningful charitable gift planning because it places at-risk assets under management (AUM).
- Under the conventional business model, why would an advisor actively encourage a donor to give away investment-producing assets—not just the fruit of the tree, but the tree itself—indeed, the entire orchard?
- Personalized philanthropy is leading edge. Could the grail of fundraising also be the grail of financial managers, incentivizing "giving while living" for philanthropic clients?



What's that flaw doing in my business model?
Jeopardy answer: the backstroke.

Note: Steve Meyers' recently published book, Personalized Philanthropy: Crash the Fundraising Matrix, ishelping inspire a number of cross-disciplinary collaborations and "fusions" between philanthropy and finance. One of the most productive is between Steve; Phil Cubeta, dean of philanthropy at the American College for Financial Services; and Timothy Belber, a generational wealth consultant who heads the Alchemia Group. After having read Tim Belber's most recent article on four essential charitable conversations, Meyers reflects on a recent posting by American College's Phil Cubeta, in his *blog post about philanthropy and AUM.*

> *"Often investment advisors are held back in serving the client's philanthropy by the fear, partly justified, that the gifts to charity, if significant, will come at the expense of assets under management."*
> *—Phil Cubeta*

This observation exposes a basic but rarely acknowledged truth: The deck is stacked against a financial advisor whose clients want to be philanthropic—especially during their lifetimes. Advisors implicitly have to set a balance between serving a client's desire to be charitable and serving their own model of retaining assets under management. Is there a way to redress any imbalance that might result? I think so, and there's a growing cadre of advisors, gift planners and donors who agree.

While helping clients part with significant assets to favor their charitable causes may be the basis of a good values-based practice, isn't it just bad business to give away assets under management? At the very least, you could say there's a conflict for primacy amongst primary tasks.

Till death us do part

There are plenty of charitable and tax-wise vehicles that defer the moment of parting with assets, charitable remainder trusts, charitable bequests, insurance policies and other strategies to enable donors to make charitable gifts upon their deaths cost-effectively. The charitable elements often facilitate other kinds of transfers for family and business purposes. These kinds of transactions enable the advisor to live from day to day and year to year while continuing the management of the funds. One of the reasons for the success of these investment vehicles is that they *perform*, upping the size of the "ultimate" gift for charity, even if putting it off for a generation or two, or three.

Confronting your AUM fears

It's not uncommon for advisors to fear the loss of AUM to charity, even if those assets go to a foundation that might be managed by the same advisor. Still another fear, more potent because it is so well-documented in studies, is that the descendants of the wealth-creator will also depart. They leave in droves to find another wealth manager, if the documentation is to be believed. If you Google the search term--***"Studies show that more than 95% of heirs change advisors after they inherit assets"***--you'll receive over 37,000 hits.

So the parting of ways is not only with assets under management, but with ***clients under management.*** The standard business model can only do so much to defer it, if not entirely prevent it.

Solution

"Values-based" and "fusion collaborations" are gaining favor among clients. These are highly client-focused specialized practices with professionals who want to deliver lasting value and impact to client families and wealth creators. Here, "wealth is more than money." Advisors consider clients and families with a more holistic and multidimensional approach. A trusted advisor (and there may be more than one) may lead a team in a purposeful fusion practice, gathering around the table with a lawyer, banker, money shrink and philanthropic gift officer, all in the interest of serving a client's interests. But even this enlightened practice shares the common flaw of the original business model: Divesting client assets, even for charitable giving-while-living, is not consistent with advisor prosperity.

Personalized philanthropy and the leading-edge business model

Perhaps there is model better suited and even designed for advancing philanthropy—one that can help turn "divestors" into "investors." Phil Cubeta predicts that "we are on the cusp of a major historical opportunity to help boomer business owners in transition from success to significance, and also greatly increase and retain assets under management."

Under the conventional advisor model, financial planners tend to discourage the divesting of assets to be managed by charity. Under the personalized philanthropy model, planners themselves have the opportunity to manage and control vehicles from which charitable funds are dispensed. That is not the solution itself though. With personalized philanthropy's "killer apps," the charitable funds are delivered to the charity in a staged and intentional manner.

The aim here is to connect what's often called the "social capital" of the client, which comes from good planning, with the societal impact that comes from the client's connection with engines of philanthropy—the causes that work on the issues they care most deeply about. *It's the staging and distribution strategy that make the difference.*

The vehicles of personalized philanthropy are sometimes described as killer apps because they dramatically shift the focus from the institution to the donor with respect to how gifts are created and managed. These personally designed gift applications allow donors much greater impact and recognition during their lifetime than would otherwise be possible. The killer apps are actually flexible endowments variously named "virtual endowments," "philanthropic mortgages," and "step-up gifts." They take shape in the form of "umbrella gift agreements" that use a number of familiar building blocks of philanthropy that are staged over time and that combine current and future gifts in novel ways.

Conclusion

As we'll see in Part Two, what distinguishes these powerful and flexible strategies—the killer apps of personalized philanthropy—from all that have come before is that each strategy leverages the power of "spending rate."

Part Two

Doing the right thing for charitable clients does not have to kill your business model. Three powerful gift designs show you how.

Key Takeaways:

- Show clients how personalized philanthropy enables them to tap into their lifetime charitable capacity at precisely a moment of their choosing—creating charitable impact and recognition that begins immediately and scales up over time.
- See how personalized philanthropy converts your fear of "divestor" clients into a cadre of "investor" philanthropists.
- Techniques such as the virtual endowment, philanthropic mortgage, and step-up gifts can dramatically change the way that you, your clients and their beneficiaries think about giving.

In Part One of this article, we discussed the importance for advisors of setting a balance between serving a client's desire to be charitable and serving their own model of retaining assets under management. Here we'll explore three "killer apps" of personalized gift design and the nuances of spending rate.

Three personalized gift designs—from the *advisor's* perspective

To discuss the full impact of personalized philanthropy is a bit beyond the scope of this article. However, American College's Phil Cubeta gets the difference that personalized philanthropy can make in the practices of financial and investment managers.

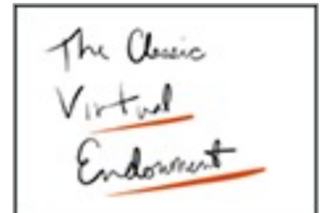
"Instead of making a huge gift, for an endowed program, and having the charity hold the principal and spend the income ('the spend rate') on the program, the newer idea is for you—the advisor—to hold the money and dole it out in stages and installments, as the work is performed."

That should make business sense, right? "Rather than give the charity the whole lump and trust it in perpetuity, we pay it as they go along," added Cubeta.

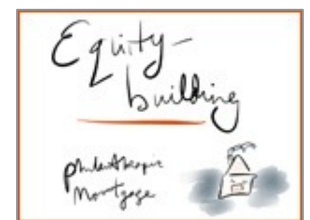
So now, think about how this new "technology" of gift design could change how we connect to our work and our world.

The three personalized gift designs—killer apps

1. Virtual Endowment. Here a donor combines, and in effect "chains together," a series of current gifts of a *spending rate amount that will maintain a program* with a future gift (a bequest or other balloon payment) to endow the program. For the first time, this approach means that even modest gifts can *matter* much more than you and your clients ever would have thought.



2. Philanthropic Mortgage. Here a donor's annual gift commitment covers an amount greater than that needed for maintenance of the program (the "spend"). The surplus amount is used to gradually *build equity in an endowment* or a legacy fund until it is fully established and able to sustain the program for the future. It's the same idea in this personalized and advanced form of philanthropy.



Why should you have to wait until your *gift* is fully paid to enjoy being a benefactor. You don't have to fully pay for your new house before you move in, do you?

3. Step-up Gifts. Here a donor establishes a gift at a certain starting level with an outright gift or, alternatively, current spending rate annual gifts ... and then steps it up. The *impact begins now, with the assurance that scaling up,* you will achieve your greatest goals over time (e.g., growing your support from a master's scholarship to a doctoral scholarship to a professorial chair).

Endowment and spending rate

Endowments, very broadly speaking, are gifts such as investment funds in which the principal is expected to remain intact while investment income is used for charitable efforts. Donors can also express specific preferences for the use of the funds, leaving ultimate discretion to the organization. Charities usually designate a "spending rate" as a certain percentage of the assets to be used each year, which may also include interest and principal as necessary to fulfill that purpose.

When you focus on core needs and the heart of the mission, what matters to most donors is finding a source of funds to enable the mission to be carried forward.
Of course, you can support the mission by making current contributions that are to be expended immediately, or you can make a major outright gift when they have a special campaign, or you can make a planned gift through your estate plans. But often, an institution's most highly valued source of such future streams of support comes from endowment—or endowment-like—gifts.

You might think about endowments as a "machine" for producing annual support. Endowments are often established through planned gifts such as bequests or charitable trusts, but can also be funded with outright or major gifts.
The link between current and future needs seems compelling, natural and organic. However, in the conventional fundraising and development office, that link is broken. Conventional fundraising and institutional advancement offices divide donors and fundraisers into separate departments—channels for annual, major and planned gifts. The connection between current dollars and future dollars is often severed or never even established.

The personalized philanthropy breakthrough

Personalized philanthropy is a radical rethinking of endowment, as well as annual/major/planned giving.

The strategies are all about repairing and restoring this connection by eliminating the channels and gaining a clear view of the donor's big picture over their lifetime of giving. That allows us to *access the entirety of a donor's capacity and devise new kinds of gifts that can actually bridge the gap* between the current and future dollars. That means we can target and design gifts that can meet the organization's most enduring and important needs.

The vastly underestimated power of spending rate

Each one of the game-changing strategies above leverages the power of what institutions call spending rate, the percent of the corpus of your gift that can be expended annually to support your program.

As noted earlier, the entire point of endowment and other approaches for building legacies is to create a stream of annual revenue to sustain your program. While it may not be possible to obtain the corpus initially, it may be much easier to provide that stream of annual gifts to maintain your program. In fact, you may *already* be giving the funds, though in a less decisive or intentional way.

The Grail of Fundraising

With this simple approach—focusing on the stream of annual gifts first—many programs can be established that would otherwise never see the light of day. And, these gifts can start having impact right away, as well as scaling up over time. That’s the grail of fundraising.

For example, a traditional endowment of $100,000 produces $5,000 of spending, with a 5 percent spending rate. Many more donors can give $5,000 per year than $100,000 as a lump sum. Multiplied by ten or 100, it still works. Thus, even modest annual gifts (in the context of lifetime and estate giving) can have all the impact and power of major gifts. Spending rate is magic.

Conclusion

If the annual spending commitment precedes the formal establishment of the endowment, then who is to say that is not just as valuable as having the endowment itself? Take a look at personalized philanthropy. And then take another look at your business model.

About the Author

Steven L. Meyers, Ph.D., is Vice President of the Center for Personalized Philanthropy at the American Committee for the Weizmann Institute of Science. Steve is a primary developer of personalized philanthropy, based on his mantra of “the right gift, for the right purpose, for the right donor.” Steve’s innovative donor-focused gift designs, especially a series of arrangements he calls “killer apps,” combine the full spectrum of current and future gifts so that donors can create a lasting legacy where impact and recognition are able to start up right away.