PHILANTHROPY: A NEW WAY TO BUILD CLIENT/ADVISOR BRIDGES

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When the client is a philanthropist, financial advisers find themselves dealing with matters of the heart along with investment returns.

And that alters the chemistry as advisers get to know clients in a deeper way, says Eileen Heisman, CEO of National Philanthropic Trust. The Philadelphia-area charity manages all aspects of donor-advised funds.

"Once people start talking about what's really important to them, it's a different kind of conversation," Heisman said.

Advisers can suggest multiple avenues for philanthropy, she says, including donor-advised funds, private foundations, charitable trusts, and bequests.

Different giving vehicles offer different advantages, Heisman says. Donor-advised funds offer the maximum tax benefits allowed by law, but donors have to relinquish some control of the assets. Private foundations are costly to establish and run, but can provide more control over investments and grant-making.

Philanthropy is nothing unusual in the world of financial advice.

"Charitable giving has become a normal part of the menu in the industry," Heisman said.

That's particularly true for the very wealthy.

"Charitable goals, investments and taxes all are intertwined for the high net worth and ultra-high net worth client," Heisman said.

But there's room for improvement. A 2013 survey found that only 41% of high net worth individuals are satisfied with the advice they receive, though 89% of advisers, attorneys and accountants discuss philanthropic issues with them. The study was by the U.S. Trust Institutional Investments & Philanthropic Solutions and the Philanthropic Initiative, a charitable consultancy.

Moreover, setting up philanthropic efforts for clients can be complex. There are times when advisers need advice, she says.

"Have in your arsenal of experts those who have longtime expertise in these areas," Heisman said.

The alternative is for advisers themselves to become very knowledgeable about philanthropy. Only a minority have done the latter, but it has paid off.

"I run into advisers who have taken the time to become experts in philanthropy, and it has really benefited their practice," Heisman said.

Advising philanthropic clients can be boiled down to two basic steps, says Ralph Segall, chief investment officer of Chicago investment management firm Segall Bryant & Hamill. The firm manages $9.5 billion. A quarter of its clients donate $50,000 or more annually.

The first is "largely to make sure that your client's marching orders to you include their annual philanthropy budget," Segall said.

When the budget gets client approval, advisers move to the next step. Segall says they should determine if clients with large charitable gift budgets and stocks that must be sold for investment reasons would consider giving such stocks to a charity rather than selling them.

The more serious the philanthropists, the more likely they are to give directly to charities rather than via foundations or charitable trusts, Segall says. That's because in giving larger sums to charities, these clients have a greater interest in knowing how their money is allocated. Because the sums are larger, a charitable institution will also be more receptive to listening to how the money's used, Segall says.

Younger donors, or those who have made their money in tech, apply the same business rigor to charities as they do to their own businesses, he says.

"They demand accountability," Segall said.

More and more philanthropic clients want their dollars to go to "impact investing," says Patricia Farrar-Rivas, CEO of San Francisco-based Veris Wealth Partners.

Impact investing addresses environmental, human rights, global health or social justice issues, with a view to real-world solutions, Farrar-Rivas says.

"I have never seen more philanthropic clients focused on impact investing than I do now," Farrar-Rivas said.

Eight of the 24 new clients her firm added in 2013, all with portfolios ranging from $2 million to $30 million, were philanthropists, she said.

Advisers need to help clients see whether their investments are aligned with their philanthropic goals, Farrar-Rivas says. That can mean making sure a client who supports alternative energy knows what the natural gas company they own stock in is doing.

"They don't want their investment dollars to be working counter to their granting dollars," Farrar-Rivas said.

Philanthropist clients sometimes turn out to be experts in their fields or areas of interest, she says.

"Often with philanthropic clients, you have to recognize they have deep expertise, and you have to prepare yourself for that and do research on the issues they're concerned about," Farrar-Rivas said.

Sometimes clients know only the general area they want to give money to, say arts or education. But they don't have specific destinations for their dollars in mind. That's the time to call in a philanthropy consultant, she says.

Then there's worldview. The philanthropist client might have a very different one from the adviser. And that's the client's business, Farrar-Rivas says.

"You want to go in very respectful, and leave your particular perspective at the door," Farrar-Rivas said. "You're trying to help them achieve their philanthropic goal, not yours."

Challenges do exist in advising philanthropist clients, says Ken Fink, president and CEO of Tamar Fink, a Minneapolis financial services firm working primarily with high net worth individuals and families. The company also does consulting for charities.

Bad Heir Day

Philanthropists may have children who aren't thrilled with their parents giving away what they think should be set aside for them, Fink says.

"There can be a conflict between what Mom and Dad want to do and Junior's inheritance," Fink said. "I call that a 'bad heir day.'"

Advisers don't want to see decisions made that will lead to family drama down the road, he says.

They can take a couple of steps to avoid that scenario. One is getting buy-in from their clients' children. Another is providing children with "wealth replacement vehicles" such as life insurance.

"They can engage clients' children in the conversations about their parents' financial intent and find ways to make everyone happy," Fink said.