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Helping Clients Help Charities

By Katie Kuehner-Hebert | October 28, 2015 | On Wall Street
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Baby boomers scrutinize charities far more so than their parents ever did – and advisors can help them in this endeavor.

"Baby boomer and younger clients are not only looking to be more deliberate and discerning with their charitable giving, but they're also looking to ensure they understand and measure the impact, and they're holding charities more accountable than did prior generations," says Gao-Wen Shao, retirement product manager with Merrill Lynch's Life Priorities & Longevity Solutions.

Indeed, according to the Merrill Lynch study Giving in Retirement: America's Longevity Bonus, released in partnership with Age Wave, boomers are more strategic, hands-on and demanding when it comes to how their time and financial contributions are used.

The study highlights the results from a survey of more than 3,600 respondents. Nearly half (49%) of boomers seek to understand how a charity uses its money before donating, compared to just 9% in their parents' generation; 44% of boomers prefer to specify how charitable donations are used, verses 15% of their elders; and 40% of boomers want to understand the impact of charitable donations, versus 11% of their elders.

EDUCATING CLIENTS

Advisors can play a role in educating their clients about online resources to research charities, including annual reports about their impact, Shao says. Advisors can then help clients develop a plan, incorporating these points as well as more general questions, such as what are their charitable goals.

Shao says she knows of one advisor who is very focused on philanthropy and conducts a monthly summit, typically over dinner, in which clients, their friends and colleagues can discuss philanthropic causes and how to be more effective.

"It's a great chance for people attending to share their experiences with each other, but it's also a great opportunity for that advisor to be engaged more deeply with his clients, as well as potentially attracting new clients by discussing very valuable priorities for them," she says. "It's much less of a hard sell if they're talking about giving."

As more baby boomers — the largest generation in U.S. history — retire and have more money and time to donate, giving to charities could top more than $8 trillion over the next several decades, according to the study. The firms got to the $8 trillion figure by combining the estimated $6.6 trillion in monetary charitable donations that are expected to be made over the next two decades with another $1.4 trillion worth of services that would be generated by retirees volunteering roughly 58 billion hours.

AN ‘ACTIVIST' GENERATION

Boomers generally can be described as more "activist" than previous generations, as many were involved in the social movements of the 1960s, and there is a real desire to have an impact and give back, says Raj Sharma, private wealth advisor and managing director at Merrill Lynch's Private Banking & Investment Group in Boston.

His group serves high-net-worth individuals who typically have been entrepreneurs, corporate executives or medical professionals, and may not have had the time to get involved in charities. They also may have needed to first save for their retirement or pay for their kids' or grandkids' college educations.

Sharma and his team first help their clients to determine what they are going to need financially if they live up to age 95, then what they want to leave for their kids and, finally, what kind of surplus they will have for philanthropy.

"Sometimes we find out that, due to their very expensive lifestyle, they may not have that much money for philanthropy while they are alive – but maybe they can be philanthropic after they are gone," Sharma says.

THE TAX ANGLE

The team also talks about the "tax angle," as an estate over $10 million would have to pay roughly 50% in federal and state taxes. However, if this estate left money for philanthropy, there would be no taxes due on that amount.

"I can't tell you what a big motivator that is; most people would rather give money to the Red Cross than the IRS," Sharma says.

Whereas previous generations "would just write big checks," today an increasing number of Sharma's clients are also interested in "active philanthropy" in their retirement – taking a board seat or at least spending time looking over a charity's financials "to make sure they are running it like a business and maximizing the nonprofit's value."

While the Merrill Lynch/Age Wave study reported on the charitable activities of younger generations, the firms focus on retirees because older clients typically have the most time and money to give. But many younger clients may also want to donate to charity, either through monetary contributions or by volunteering, especially if they have school-aged children, Shao says.

"Younger generations are focused on making an impact, and while they may not have the financial resources at that time, advisors can help them [plan] so they can have the resources later," she says. "Advisors can also discuss with clients about ways they can volunteer, or what the financial implications would be if they decide to have a career in the nonprofit world versus taking a corporate job."

Advisors can use conversations about giving to strengthen relationships with clients, Shao says.

"It's also a great chance to reach out to women, who are the charitable drivers in families," she adds. "Women are also going to increasingly control more assets over time, as their lifespans are longer and as they inherit, and this is a critical area for advisors to really focus on."

Indeed, the survey found that retired women are more likely than retired men to both contribute financially (81% versus 71%) and to volunteer their time (29% versus 22%) to charities, nonprofits and causes.