

Understanding motivations

The power of a philanthropic plan



The reasons why people give differ by generation. Studies show that regardless of generation or level of wealth, having a planned approach increases satisfaction and confidence in philanthropy.

We often say that “philanthropy is biography.” To know what is important to a person, have a look at what charities or causes they support. This can provide meaningful insight into what they have experienced in their own lives that inspires their giving.

More than 91% of US households with a net worth of \$1 million or more are engaged in some form of charitable giving. In households with a net worth of \$5 million, that number climbs to 95%.¹

Giving often starts with the practice of “checkbook philanthropy”—of making cash donations to organizations. Donations in this category are often of a responsive nature—making a donation to a nonprofit’s direct outreach for a campaign, donating to a friend’s race efforts, attending a gala or other fundraising event. And included in this category also are the direct

donations to those organizations you have had a personal experience or connection with: your alma mater, local food pantry, the after-school program you attended as a child or your children attended, your place of worship, a local animal shelter and your favorite museum, to name a few.

What the recipient charities have in common in this category is that they are all personally meaningful and in close proximity to you, or they are important to the people who matter to you, and you donate to show your support to them. There is nothing wrong with either of these motivations, but the results are often less than optimal—you could be donating appreciated securities or giving through a charitable vehicle instead of cash, you don’t know what impact those donations are having and this approach to making charitable contributions is scattershot at best.

¹ 2016 US Trust® Study of High Net Worth Philanthropy.



Beyond checkbook philanthropy

Based on a *UBS Investor Watch* report called *Doing Well at Doing Good: Why there's more to giving than checkbook philanthropy*,² most millionaires consider giving to be very important and make significant donations, but they also give without a plan in place to do so. Simply responding to incoming requests leaves them feeling uncertain about their impact and results in lower satisfaction in terms of whether they feel they are benefitting their communities and broader society. In fact, the study found that only 20% rate their overall approach to charitable giving as highly effective.

The causes that philanthropists support, and the reasons why they give, also vary greatly by generation. While helping the less fortunate is the most important concern across generations, older investors such as the WWII generation and "Boomers" are more likely to support traditional institutions, e.g., religious organizations, alma maters and the arts. Millennials, on the other hand, tend

² *UBS Investor Watch* 4Q 2014, *Doing Well at Doing Good: Why there's more to giving than checkbook philanthropy*.

to rally behind causes focused on tangible outcomes, such as fighting diseases, breaking cycles such as those of illiteracy or poverty, and reducing harmful behaviors, such as bullying or climate change.

However, across generations and across the financial spectrum, adopting a planned approach to philanthropy increases confidence in giving strategies as well as satisfaction with approach and impact. This study indicates that satisfaction increases in some instances by more than 50% when a philanthropic plan is created and utilized.

Developing a philanthropic plan can help accelerate your philanthropy and expand beyond the first concentric circle of organizations and causes that you already know and are familiar to you. It also helps you start moving away from “checkbook philanthropy.” As part of your plan, you may want to begin developing a philanthropic

allocation or “bucketing strategy” that can help you decide what to fund and what not to fund. Predetermined amounts of money or percentages of your budget can be allotted to differing interests or specific causes. Another way to bucket is to separate out mission-driven from more “reactive” giving (feeling obligated to respond to unsolicited requests from personal connections) and setting limits on this segment. This allows you to dedicate more resources to those issues in which you strive to have the most impact, and to decline grant requests that are unrelated to your mission.

Please see our publication *Strategic Planning for Philanthropy* for more information.



A closer look: donor-advised funds and private foundations

As you begin to think about how to formulate a plan or a strategy, the question around which charitable vehicles are best suited to help implement your vision inevitably comes up. We often field questions such as “Should I set up a DAF or a private foundation?” These are two of the most frequently utilized charitable vehicles, so it is not surprising that this inquiry comes up with such regularity. But this question cannot be answered responsibly without having more information, and without more reflection on the part of the philanthropist.

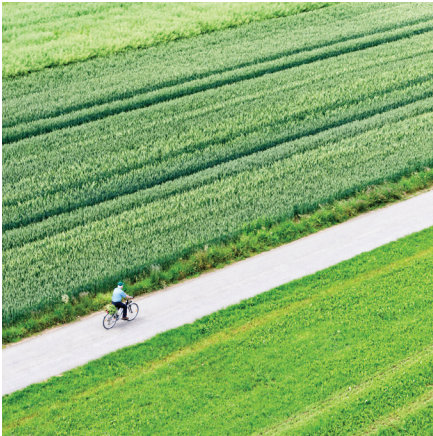


First, it is important to get a better sense of the “why” behind your philanthropy before we even get to the “what” or the “how.” Here are some foundational questions for consideration:

- What do you care about? What is most important to you?
- Why are these issues important to you?
- Do you give out of passion, responsibility or obligation?
- Do you want to honor a loved one?
- Do you donate to bring your family together or teach values?
- Do you want to change the world in which we live?
- Do you want to address a specific issue or protect something beautiful?

The “why” will help you to clarify and articulate your philanthropic purpose, and the “what” and the “how” will inform your philanthropic plan and help you determine how you want to allocate your contributions. Here are some key considerations to help further clarify your approach, leading also to the selection of charitable vehicle(s) to help you achieve your philanthropic goals:

- How do you usually give? What assets are you giving and do you already have a charitable vehicle (e.g., donor-advised fund, private foundation or other)?
- Will you give all the assets during your lifetime?
- Do you plan to wind down over a certain number of years?
- Would you like your family or friends to continue to give once you’re gone?
- Do you plan to add additional assets over time?
- Will you give away only the income of the investments or also the principal?
- How much capital do you need to apply to the problem you’re trying to solve?



Determining the right charitable vehicle

Now if we return to the question of which charitable vehicle is best suited to help you achieve your philanthropic goals, the answer may actually consist of a combination of two or more options. Even if you already have a donor-advised fund (DAF) or a private foundation, that one vehicle may not be able to fully or sufficiently meet your needs, depending on what you are hoping to accomplish philanthropically.

Thus, in addition to the above considerations, there are some important features and distinctions to note that exist between DAFs and private foundations that can help drive toward the right configuration (if either/both of these vehicles are being considered). They each offer many benefits and in many instances can complement each other. For example, a DAF and a private foundation can work together to fund anonymous grants, facilitate donations of special assets and simplify international grant-making and operational administration.

Below are two sets of questions that will help you to determine whether a donor-advised fund or a private foundation (or both) provide the right solution to address your philanthropic goals.



First set of questions:

- Are you interested in having complete autonomy and freedom in your grant-making?
- Do you envision hiring and paying staff (possibly including family members) to execute your philanthropic vision?
- Do you feel comfortable having an annual distribution requirement?
- Are you willing to take on administrative responsibilities such as issuing grants, handling all the related paperwork and filing tax forms? Do you have the time and interest to take this on?
- Do you want to be able to engage in more sophisticated grant-making activities, including but not limited to program-related investments (PRIs) or making grants to individuals?
- Do you envision making multi-year commitments and being actively involved with your grant recipients? (See section on venture philanthropy for more information.)
- As part of your legacy plan, is it important for this philanthropic entity to exist in perpetuity, for future generations to also become involved?

If you answered “yes” to one or more of the above considerations, then a private foundation may be the right vehicle for your philanthropic goals.

Second set of questions:

- Is your grant-making largely going to focus on giving only to registered 501(c)(3) charities?
- Are you comfortable with making recommendations for grant recipients, as opposed to having total control over how and to whom the funds are granted?
- Are you not interested in taking on significant administrative oversight and responsibility for your philanthropy?
- Is anonymity in making charitable gifts an important consideration? (Be careful—private foundations, although called “private,” include important information that is available to the public. Form 990-PF contains information on board members, on grants made to organizations and the associated dollar amounts, staff names and salaries, investment fees and total assets in the foundation.)
- Do you envision spending down all of the philanthropic assets in this vehicle in your lifetime, or possibly naming a successor advisor to help carry on your philanthropic wishes (but you are not interested in having this vehicle exist in perpetuity)?

If you answered “yes” to one or more of the above considerations, then a donor-advised fund (DAF) may be the right vehicle for your philanthropic goals.



The power of a plan

A philanthropic strategy should be reviewed on a regular basis—say, annually—and the philanthropic plan should be a living, breathing document. Engaged philanthropy is meant to be an iterative process, and revisiting both the strategy and the plan with regularity allows for shifts in your areas of interest as new issues arise or get on your radar, as well as allowing you to incorporate a growing knowledge about the causes you support. It also allows you to leverage technological innovations and new thinking from leaders in those sectors.

Another important component of your plan is the selection and activation of the appropriate charitable

vehicle(s). Whether you are looking to solve an issue, address an unmet need or provide unrestricted support to a beloved local charity, the right vehicle(s) will help you to achieve greater impact, enhance your philanthropic vision and ultimately make you feel more fulfilled in your giving.

Please contact your UBS Financial Advisor to learn more about developing your philanthropic plan and exploring which charitable vehicle(s) are best suited to help you achieve your goals and aspirations.

Additional reading:

Strategic Planning for Philanthropy, UBS Family Advisory and Philanthropy Services.

Building a Strong Family Foundation, UBS Family Advisory and Philanthropy Services.

UBS Philanthropy Compass.

Doing Well at Doing Good: Why there's more to giving than checkbook philanthropy, UBS Investor Watch, Q4 2014.

UBS centers of excellence

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