CALAMOS® WEALTH MANAGEMENT

What Sets Philanthropy Apart from Charitable Giving? Strategy.

The word *philanthropy* derives from a Greek word meaning "love of mankind". Philanthropic acts, therefore, imply a humanitarian vision—a kind of "seeing ahead" toward an objective.

The word *charity*, on the other hand, comes from the French word *chrité*, meaning "providing for those in need" or simply "generosity and giving." Here, the connotation is responding to a present and apparent need.

While the two words have obvious overlap in common usage, drawing a distinction between them is helpful in my experience to families seeking to maximize the impacts—and amounts—of their giving.

Here's one simple example:

> *After a hurricane, writing a check or volunteering one's time can be considered charity.*

> *But for some people, hurricane preparedness becomes a humanitarian cause. Their charitable intent transforms into philanthropy when they begin to strategize about how to maximize their impact over time.*

In my experience, when families have firmly established priorities and their financial house in good order, they want to increase their charitable giving. Though they may not think of themselves as "philanthropists," that is nonetheless what they are preparing to become. They are ready to move beyond responding to planning. Facilitating this evolution is one of the satisfying things I do as a financial advisor.

Following are some simple steps I use to guide my clients who are making the transition from charitable donor to philanthropist.

Step One: Create a simple philanthropic strategy

Before writing a check or setting up a charitable trust, create a philanthropic strategy:

1. Create a Family Mission Statement that includes general categories of strategic focus—for example, education, health, art, research, children, philosophy or natural disaster responsiveness—as well as some specific goals you'd like to accomplish in one or more of those categories.
2. Identify the number of organizations you want to benefit this year.
3. Commit to a dollar amount for your annual contribution (to be reviewed each year).
4. Engage your children to prepare them to carry forward the family philanthropic mission and vision.

A philanthropic strategy doesn't have to be complicated. It just needs to be sufficient to help you stay focused on your philanthropic mission. That shared focus can bring families together periodically to review philanthropic decisions and review new requests in an established context. This gives the entire family a sense of connectedness in the process. When you meet to review the strategy, ask each family member to name his or her favorite charity.

Think for a moment about how this kind of simple but profound embrace of strategy could transform giving. In my experience, the amounts given to causes tend to increase when a family's intent is grounded with a clear strategy. This can set up a win-win situation, because the family is both giving more and also more satisfied about that giving. Over the course of my work, I have seen philanthropy bring families together, provide personal satisfaction, increase mental, emotional and spiritual health and help create global connections.

Research bears this out, too. For example, here are some key findings from a 2017 study conducted at Indiana University's Lilly Family School of Philanthropy:

Giving makes us happy. The study found that giving to charitable organizations is positively related to life satisfaction. The more a household gives as a percentage of income, the higher the household's life satisfaction. … Across marital status (single women, single men, and married couples), giving to charitable organizations is positively related to a household's life satisfaction.

Step Two: Focus on impacts and transfer of values

There are great tax benefits to those who give to qualified charitable organizations. However, today's philanthropists are more directly involved. In addition to financial giving, they make gifts of time and talents to help their communities.

In my work as a philanthropic strategist, I've also witnessed a change of mindset about recognition. In the past, many buildings—from schools, libraries, hospitals to museums and more—carried the name of the family making the gift. Today, visibility and recognition for gift-making is less important to philanthropists.

Instead, they are more interested in the impact the gift will have in the community. Philanthropists want to learn about a recipient charitable organization at a deeper level. They want to know who is leading the organization, understand its finances, to meet its board members, to learn about the its outreach programs and reputation in the community.

And beyond all this, true philanthropists dedicate time to create a sustainable process that can be shared with the next generation thus allowing the next generation to become socially responsible and involved in ways that make a difference and fulfill the life purpose of the charity.

That generational transfer of values is what I see families desiring more than anything. It starts at home with values-driven discussions that can form a "family mission statement," which should in turn inform the philanthropic strategy. Then, direct interaction and participation with carefully selected charitable organizations will be inherently connected to the family's expressed values.

Step Three: Actual giving

With an overall strategy and "impact mindset" in place, it's time to (a) get specific about implementing the strategy in the current year, and (b) make actual gifts.

In both cases, what's needed is both vision*—the very heart of philanthropy itself—and* discipline *to execute a strategy.*

There are many tools available to make financial gifts to charitable organizations. Following is a brief overview of some of the most common mechanisms involved in implementing an overall financial-giving strategy.

> Cash
A gift in cash is the simplest form of charitable giving as the tax deduction will be equal to the amount donated without any retained benefits. If you contribute $250 or more, you must prove to the IRS that you (a) made the donation and (b) you didn't receive any benefits.

> Stocks
Gifting stocks directly to a charitable organization is tax-efficient for the grantor, especially if the gift consists of long-term appreciated securities. There will be no capital gains taxes on the transfer, and the gift can provide a charitable deduction in the grantor's income tax return in the year of the gift. The deduction can equal the full fair market value of the stock, up to 30% of adjusted gross income.

> Donor-Advised Funds (DAFs)
These are investment accounts that are easy to establish. Many are administered by a charitable sponsor, such as a community foundation, a financial institution or other non-profit charity. A simple account application and a name for the fund—such as "Smith Family Foundation" or "Smith Family Giving Fund" or any name you want—will create the account. There is no start-up cost, and minimum contributions start as low as $5,000 depending on the sponsor's guidelines. The grantor and other family members can serve as advisors or successor advisors and make recommendations for distribution out of the account to non-profit organizations at any point in the future. However, the tax deduction for amount of the initial contribution is realized in the year it is given.

Some sponsors will accept contributions to the DAF in the form of appreciated stock, real estate and other unique assets. There is an immediate tax deduction for the full, fair market value of the gift. Because DAF sponsors are public charities, contributions to them receive favorable tax treatment, including a tax deduction limit of 30% of AGI for gifts of stock or property, compared with a 20% limit with a private foundation as defined on IRC Sections 170(b)(1)(C) and (D).

One attractive feature of DAFs is that distributions from the funds can be made across multiple charities and there is no specific amount or number of charities required. The money in the DAF grows tax-free and there is no legal payout requirement. (Private foundations, on the other hand, require an annual payout rate of 5% minimum, as below.)

> Private Foundations

These are formalized charitable accounts with a higher degree of regulation than DAFs. Private foundations require similar formalities as corporations, including annual board meetings, bylaws and documentation. They allow individuals to retain control of donated assets and only distribute a minimum of 5% out to qualified charities. Assets in a private foundation can be directed in whole or in part to a Donor Advised Fund.

> Charitable Trusts

These arrangements require the creation of Charitable Trusts agreements yet allow you to create a lifetime benefit to the grantor or others through a payout distribution and with a split interest to a charity or family depending on the type of charitable trust. There are two types of charitable trusts: the Charitable Remainder Trust (CRT) and the Charitable Lead Trust (CLT).

Charitable Remainder Trusts (CRTs)

These have been around for decades, and many families create them during their lifetime or at death. They allow for a transfer of appreciated assets, avoidance of capital gains and an immediate charitable deduction. The lifetime beneficiaries (grantors) receive a payout for life or for a term specified in the trust documents. At the end of the term or grantor's death, the remainder is paid out to charities. This is an attractive planning vehicle for those with highly appreciated investments who want to diversify their holdings without paying substantial income taxation and still enjoy the inflow in the form of annual payouts. As you create the CRT documentation, you will be able to identify your preference to receive annuity payouts that are either fixed ("CRAT"), or variable. Variable amounts can fluctuate or adjust based on the growth of the portfolio on an annual basis; these are called "unitrust" payouts ("CRUT").

Charitable Lead Trusts (CLTs)

These have many similarities to CRTs since they have a split interest feature; however, in the CLT, the stream of income from the assets gets paid to a charitable organization each year as opposed to the grantor. Each year the grantor receives a gift tax deduction on the value of the income stream since the charities are receiving the annual income flow. The remainder reverts back to the grantor or a family member at the end of the trust term. This is a great strategy when using cash or assets with growth potential. As with CRTs, the payout going to charities can be fixed payments ("CLAT") or variable payouts based on the portfolio valued annually ("CLUT").

The only additional consideration when creating charitable trusts is that they require annual administrative management and tax reporting of expenses.

Other type of charitable arrangements that can be helpful depending on your individualized situation include:

> Gift Annuities

Many large nonprofit organizations, including universities, offer charitable gift annuities. You can support a cause by making a gift to a charity and receive a deduction the year of your gift. The following and each successive year thereafter, you and another person will receive distributions. This is a simple contract you can create directly with the charity. A portion of the annuity payments is tax-free for the life expectancy of the grantor. This may be helpful to donors looking to increase their retirement income and as an alternative to a charitable remainder trust.

> Pooled Income Funds

These are charitable gift options that allow you to generate income while giving a small portion to charity. You can "pool" together different securities and even cash to create a larger amount of money and produce income for your lifetime. The remainder of the pooled income fund is donated to charity. Some charitable deductions for tax purposes may be available.

> Retirement Asset Gifting

Retirement accounts may also be a good vehicle to pass to charities at death or during a lifetime. The "IRA Charitable Rollover" offers tax benefits to individuals who are 70-½ years old to donate up to $100,000 to charitable organizations directly from their IRA money, without that donation counted as taxable income when distributed. The gift must come from a traditional IRA or Roth IRA, and gifts must be made directly to a qualified charitable organization. Additionally, no consideration must be received in exchange for the gift. A receipt must be obtained from each charity to which a donation is made.

A potential further benefit to the contributor is fulfilment of Required Minimum Distributions (RMDs) from IRAs. If the gift-giver does not need the income yet RMDs are necessary, then channeling the funds to charity via "Qualified Charitable Distributions" (QCDs) can be an ideal tax-advantaged strategy. Be sure to request distribution checks made out directly to the charity—though it's permitted for the account owner to receive the check and present it personally to the charitable organization.

> Life Insurance Gifting
Charitable organizations may be named as beneficiaries of your life insurance policies, and the gift will be completed at your death, providing charitable income tax deductions.

Conclusion

American individuals, bequests, foundations and corporations gave an estimated $427.71 billion to U.S. charities in 2018, according to Giving USA 2019: The Annual Report on Philanthropy for the Year 2018.

There's tremendous impact wrapped up in that overarching figure—and there's even more impact that can be achieved as families make the jump from "charitable donor" to "philanthropist," at least with respect to the causes closest to their hearts and values. And it's not just impacts in society—there's also impacts to consider within the families themselves as generations come together to carry on a family's legacy.

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