

THE U.S. TRUST STUDY OF THE PHILANTHROPIC CONVERSATION:

Understanding advisor approaches and client expectations

OCTOBER 2013

Conducted in partnership with The Philanthropic Initiative (TPI)

Overview

The vast majority of high net worth (HNW) individuals give to charity, and many feel that philanthropy is an important aspect of their wealth experience. HNW individuals are increasingly relying on professional advisors for support with their charitable activity¹. However, the philanthropic conversations with and advice provided by their advisors are not always aligned to their needs. Several disconnects between HNW individuals and advisors center on the initiation and substance of their philanthropic discussions. Such discussions can play an important role in an individual's or family's wealth experience and have implications for their wealth planning and management. These conversations can also help advisors deepen relationships and grow their businesses by connecting with clients on something truly meaningful to them.

To better understand the extent and dynamics of philanthropic conversations taking place between wealthy individuals and their advisors, U.S. Trust recently partnered with The Philanthropic Initiative (TPI) on a study of advisors' approaches to and HNW clients' expectations of these discussions.

The following key findings from the study, conducted in August 2013, are based on an online survey of a random sample of more than 300 advisors—including wealth advisors, trust and estate attorneys, accountants and other tax professionals—and a random sample of 120 HNW individuals with \$3 million or more in investable assets who are actively engaged in charitable giving. The study was conducted by Phoenix Marketing International, an independent market research firm, on behalf of U.S. Trust and TPI, with all data tested for statistical significance at the 95% confidence level.

Key Findings

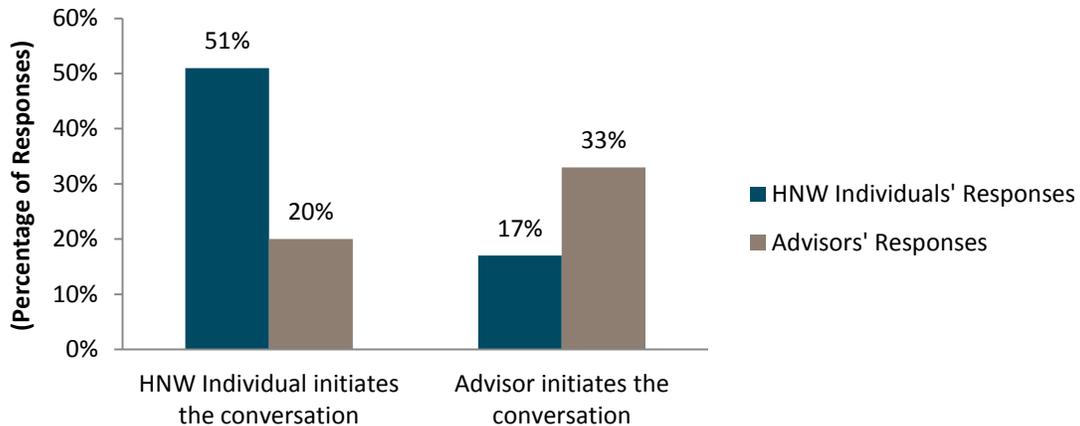
THE PHILANTHROPIC CONVERSATION: LOOK WHO'S TALKING

The study found that most advisors (88%) believe these discussions are important to have with their clients—with many (46%) considering them to be very important. In keeping with these findings, the study also found that most advisors (89%) discuss philanthropy with clients to some degree, and 71% make it their regular practice to ask clients about their interest in charitable giving. Perhaps because advisors deem the philanthropic conversation to be so important, 54% will revisit the subject even if their clients initially appear to be disinterested in discussing their charitable activity.

Professional advisors and the HNW clients they serve are in disagreement about the frequency of these discussions and who initiates them. Contrary to the fact that most advisors (89%) say that they discuss philanthropy with at least some of their clients, only 55% of HNW individuals say they discuss philanthropy with a professional advisor—with an additional 13% open to such discussions. Most HNW individuals (90%) say they do discuss charitable giving with someone, if not their advisor—often a spouse or partner (84%), other family members (48%) or friends (37%), or with a nonprofit organization to which they give (33%).

One-third of advisors (33%) say they are the one to initiate these discussions with their clients, and that clients initiate them just 20% of the time. However, among HNW individuals who report having discussed philanthropy with an advisor (55%), half (51%) say that they are typically the one to initiate the conversation, and that their advisor brings up the subject on their own just 17% of the time.

Chart 1: Who Initiates the Philanthropic Conversation: Depends on Who You Ask



What matters more to HNW individuals than who initiates the philanthropic conversation is that it be had in a meaningful way early in the relationship. Advisors indicate that they are more likely to bring up the subject of philanthropy once they have greater knowledge of a client’s personal (40%) or financial goals (47%), or when they are aware that a client volunteers or is active in the community (43%). However, fully one-third (34%) of HNW individuals feel the topic should be raised during their very first meeting, and virtually all (90%) agree that this discussion should occur within the first several meetings with their advisor.

Among advisors who discuss philanthropy with their HNW clients, nearly all (91%) encourage their clients to give to charity, with 41% of advisors doing so regardless of a client’s asset level. However, half (50%) of advisors prefer to wait until a client has accumulated at least \$500,000 in liquid assets before encouraging charitable giving, and one-quarter (24%) place the starting point at \$3 million or more.

Approximately half of advisors (48%) discuss their own charitable giving with their clients, which the study found to be a good idea. Many HNW individuals (34%) – whether they discuss philanthropy with an advisor or not – say that they would be more open to discussing charitable giving, or would perceive the value of philanthropic advice from an advisor to be greater (43%), if they were aware of the advisor’s own philanthropic engagement.

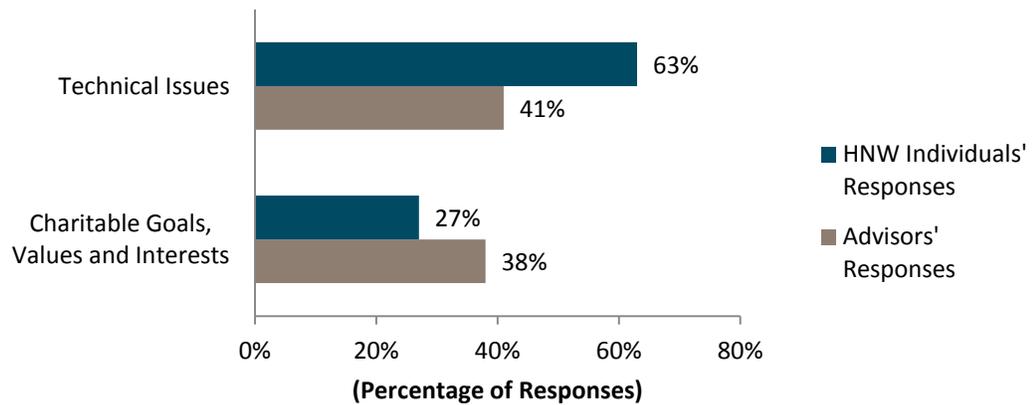
CLIENTS SEEK VALUES-BASED CONVERSATIONS: DEEPENING THE DISCUSSION

Less than half of HNW individuals (47%) feel that professional advisors are good at discussing personal or charitable goals with them. This feeling doesn’t improve all that much even among individuals actually discussing philanthropy with an advisor, with just 63% finding their advisor to be proficient at rendering philanthropic advice.

This may be one of the reasons why less than half of HNW individuals (41%) are fully satisfied with these conversations. Another reason may be that twice as many advisors (71%) say that they raise the philanthropic discussion from a technical perspective—focusing on tax considerations or wealth structuring, for example — compared to those who do so beginning with their clients’ philanthropic goals or passions (35%).

Once initiated, 41% of advisors say their further philanthropic discussions also center on technical issues, compared to 38% who tend to focus more on their clients’ charitable goals. HNW individuals report otherwise, with nearly two-thirds (63%) finding that ensuing discussions with their advisor about charitable giving tend to center on the more technical issues, while just 27% indicate that these discussions center on their charitable goals, values and interests.

Chart 2: Focus of Philanthropic Discussions: More Technical Issues than Personal Goals



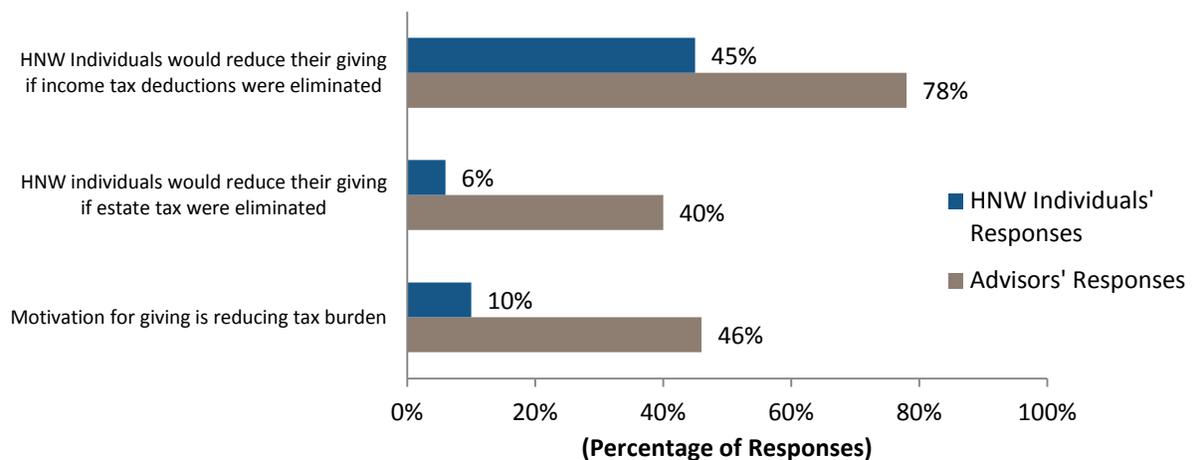
Despite this disconnect, many individuals (73%) who discuss philanthropy with an advisor still believe such conversations are important, and the vast majority (82%) still feel that their advisor plays an important, if not very important (33%), role in their charitable giving.

WHY PEOPLE GIVE AND WHY THEY DON'T: KNOWING WHAT MATTERS MOST TO CLIENTS

The top three reasons why advisors believe their HNW clients engage in charitable giving are consistent with the top motivations reported by HNW individuals themselves, which are: being passionate about a cause, having a strong desire to give back, and having a positive impact on society and the world. After that, however, reasons provided by HNW individuals and advisors differ significantly:

- The next three most cited reasons by HNW individuals were: to encourage charitable giving by the next generation (30%), religious or spiritual motivations (23%), and because they believe giving back is an obligation of wealth (22%). Meanwhile, advisors believed their clients' next most popular motivations would include: reducing their tax burden (46%), religious or spiritual reasons (41%), and creating a family legacy (30%). The study found that, in fact, just 10% of HNW individuals cite reducing taxes among their motivations for giving.
- Further evidence of a disconnect on the topic of taxes was found when advisors cited a belief that 40% of HNW individuals would reduce their giving if the estate tax were eliminated, and that 78% would do so if income tax deductions were eliminated— whereas just 6% and 45% of HNW individuals, respectively, indicated that they would reduce their charitable giving if these tax policy changes occurred.

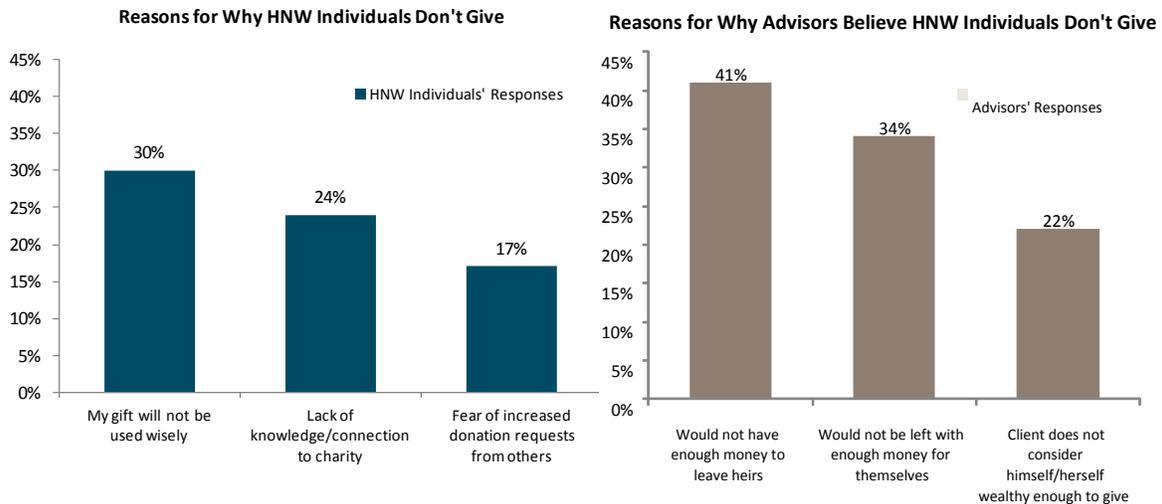
Chart 3: Tax Benefits as a Motivation for Giving: Less Important than Advisors Think



The reasons advisors and HNW individuals cite for why HNW individuals don't give or hesitate to give to charity differ even more starkly:

- Advisors are under the misimpression that the top reasons HNW individuals may shy away from giving are that they won't have enough money to leave to their heirs (41%), they won't be left with enough money for themselves (34%), and they don't consider themselves wealthy enough to give (22%). To the contrary, HNW individuals cite a concern that their gift won't be used wisely by a nonprofit recipient (30%), their lack of knowledge about or connection to a charity (24%), and fear of increased donation requests from others (17%).

Chart 4: Inhibiting Factors of HNW Giving: Advisors Perceptions Not Always on the Mark



UTILIZATION OF GIVING VEHICLES

According to the *2012 Bank of America Study of High Net Worth Philanthropy*, the majority of wealthy donors (71%) give strategically, and have a plan for their giving versus merely responding to requests for donations. This strategic focus has resulted in more HNW donors utilizing structured giving vehicles — such as donor-advised funds, private/family foundations and charitable trusts — to help achieve their philanthropic goals.

Our study here found that the use of giving vehicles is correlated with more advisor involvement — among HNW individuals who discuss philanthropy with an advisor, 47% use one or more structured giving vehicles when making donations to charitable organizations—while such vehicles are used by just 12% of individuals who don't discuss philanthropy with an advisor.

One-third (32%) of HNW individuals indicate that discussions with their advisor about philanthropy have included advice about giving vehicles and/or help in setting one up. And, among individuals who discuss philanthropy with an advisor, 84% feel confident that their advisor is knowledgeable about these vehicles.

ENGAGING THE NEXT GENERATION

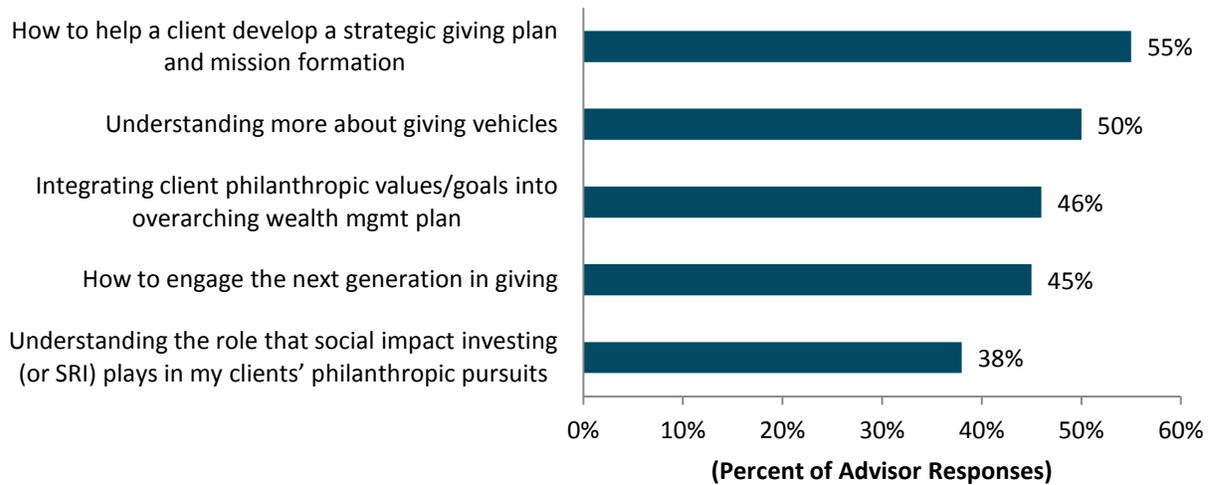
The study found that a mere 14% of advisors are likely to raise the topic of philanthropy with clients (who have children) for the purpose of helping to instill charitable values among the next generation. Affirming this, just 9% of HNW individuals report that their advisor has suggested involving children and grandchildren in such discussions. Yet nearly half (45%) of HNW individuals feel it is important to involve children and grandchildren in discussions with their advisor about charitable giving.

VALUABLE KNOWLEDGE

Nearly one-third of HNW individuals (31%) indicate that they would be more likely to choose an advisor who is knowledgeable about charitable giving. More than half of advisors (57%) plan to increase their knowledge about philanthropy and to better their ability to advise clients about charitable giving.

- Among advisors interested in becoming more proficient at rendering philanthropic advice, the areas they would most like to learn about are: developing a strategic giving plan (55%); understanding more about giving vehicles (50%); becoming better at integrating a client’s philanthropic values and goals into an overarching wealth management plan (46%); engaging the next generation in giving (45%); and the role that impact investing (or Socially Responsible Investing) plays in their clients’ philanthropic pursuits (38%).

Chart 5: Hot Topics: What Advisors Want to Learn About Philanthropy



GOOD FOR CLIENTS, GOOD FOR BUSINESS

Three out of four (74%) advisors say that discussing philanthropy with clients is good for their business for a variety of reasons, including that it: presents a more comprehensive and holistic approach to managing a client’s wealth (24%); demonstrates greater interest in their clients’ charitable goals and aspirations (18%); shows clients that they are interested in more than just their clients’ money (13%); and provides insights that help advisors better serve their clients (13%).

Many advisors (75%) find discussing philanthropy with clients to be an excellent way to deepen relationships and establish new relationships (54%). Many HNW individuals (40%) agree that discussing philanthropy with an advisor has, in fact, deepened their relationship.

More than half of advisors (56%) have also found that discussing philanthropy with clients has helped them build relationships with members of the client’s extended family – this proved most true among wealth/financial advisors (64%).

CONCLUDING THOUGHTS

The philanthropic conversation between professional advisors and their clients is important to have early and often. And while these discussions may be happening, they are falling short of their potential. HNW individuals are looking to advisors to help them fulfill their philanthropic missions, involve the next generation, and leave a legacy. They are also seeking more values-based discussions with advisors about their philanthropy — conversations that go beyond tax considerations and include life goals, values and passions — so that they can achieve their philanthropic ambitions for themselves, their families and their communities.

About U.S. Trust Institutional Investments & Philanthropic Solutions

U.S. Trust, Bank of America Private Wealth Management is dedicated to the philanthropic and nonprofit communities. Through U.S. Trust Institutional Investments & Philanthropic Solutions we put our strengths and resources behind every mission — be it a nonprofit organization or a philanthropic individual or family. We provide specialized advisory, administrative and investment solutions to both nonprofit organizations and private philanthropic clients that help transform their charitable goals into meaningful action. We tailor mission-focused solutions and offer ongoing advice and guidance through a close working relationship with a dedicated advisor, helping organizations and individuals turn missions into milestones.

About The Philanthropic Initiative

The Philanthropic Initiative (TPI) is an innovative philanthropic consulting firm that helps corporations, foundations and families develop and execute customized strategies to increase the impact of their giving. Working nationally and globally, TPI helps donors achieve philanthropy that is more strategic, effective and fulfilling, and helps professional advisors build the capacity to do the same with their own clients. Over the past 25 years, TPI has directed more than a billion in philanthropic dollars and influenced billions more.

¹ 2012 Bank of America Study of High Net Worth Philanthropy

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