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Five Reasons to Make Philanthropy a Family Affair

Getting your family involved in charitable giving can create a powerful legacy

A growing number of successful people have a strong urge to “pay it forward” by financially supporting causes and organizations that are near and dear to their hearts.

Many of you already make regular and sizable charitable contributions. And we know from research that one key reason successful people like you want to become even wealthier is to help other people increase their own success and advance in the world.

But have you gotten your family involved in philanthropy? If not, you could be missing a truly massive opportunity to teach your children and other loved ones about smart financial decision making and impart key financial values that can guide them throughout their lives.

Round up the kids

If you’re like many people we work with, your deepest financial concerns are focused on taking care of your family and ensuring they enjoy lives that are financially stable and financially responsible.

Family philanthropy is one great way to do this. There are five big reasons to engage your family in charitable giving:

1. Working together to define your shared values around wealth, community and building a better world
2. Helping individual family members identify their own specific charitable values and intentions
3. Making financial decisions as a team
4. Learning about the power and responsibilities of wealth—building it, growing it and using it to positively impact others—as well as critical financial management skills
5. Developing important life and business skills—critical thinking and analysis, listening and communicating, and negotiating and compromising to reach a desired goal

To decide how best to involve family members, consider factors such as their ages, levels of maturity and independence, and interests. You might involve younger children only peripherally, and expand their roles and influence over the family giving as they grow (and if their interest in it grows with them).

The family office approach: private family foundations

One tool that can both maximize your charitable giving options and engage family in philanthropy at a deep level is a private family foundation.

A private foundation is a not-for-profit organization (i.e., charity) that's primarily funded by a person, family or corporation. The assets in a private foundation produce income, which is used to support the operation of the private foundation and, most importantly, make charitable grants to other non-profit organizations.

While there are certainly costs associated with creating and managing a private foundation, there are distinct benefits for doing so. Three of the most important reasons family offices often go the private foundation route include:

- **Caring.** Philanthropy is about caring. A private foundation is a very powerful way to convert caring into financial and related support for worthy causes. You need to care deeply about some charitable causes to justify establishing and running a private foundation.

- **Legacy.** Many people create private foundations to honor loved ones. They're effective in binding a family together around something they consider meaningful. You should probably want to build a legacy—of one kind or another—if you choose to create a private foundation.

- **Permanence.** You can establish your private foundation in perpetuity. This ensures that the charitable institutions and causes that are important to you will continue to be funded indefinitely.

Setting up and running a private foundation can be intricate and complex. Detailed accounting and filing tax returns are required. A variety of experts such as legal and accounting professionals are usually needed to handle regulatory and compliance matters. And if you're overseeing the assets of the private foundation, investment professionals will typically be engaged.

To see why private foundations are especially compelling to wealthier families who are philanthropically inclined, consider the fundamental ways they differ from another, more commonly used charitable giving tool—the donor-advised fund—in two key areas:

1. **Control.** A private foundation gives you significant control over the choice of charitable organizations you want to support. With a donor-advised fund, you're only making recommendations to a firm responsible for both managing and distributing the money. While it's unlikely that your suggestions will not be followed, there could be times when this will be the case.

   A private foundation enables you to make a wider array of grants than does a donor-advised fund. With a private foundation, for example, you can make pledge agreements to support one or more charitable causes over a period of time. The lack of personal control in a donor-advised fund makes that impossible. Private foundations also can make grants to specific individuals, something donor-advised funds cannot do.

   How the assets are managed also differs between the two. With a donor-advised fund, the assets are managed by the firm you entrusted with your money—often a mutual

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fund sponsor or similar investment firm, or a community foundation. In a private foundation, you—or the investment advisors you select—manage the assets as you see fit.

2. **Creating a legacy.** Succession possibilities are unlimited in a private foundation. This enables the family to exercise control across the generations, helping them to pass philanthropic values and specific goals (as well as money aimed at those goals) to children, grandchildren, great-grandchildren and beyond. In contrast, many donor-advised funds have limitations on successions. When that limit is reached, the money no longer belongs to the donor or his or her family. Instead, it's transferred into a general pool of the organization sponsoring the donor-advised fund.

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