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Understanding the Anatomy of Giving

Research shows giving is not a tax strategy, but a life strategy.

The protracted wrangling over deficit reduction and tax codes in Washington in recent years has raised concerns about the negative impact on charitable giving. Would the elimination of tax deductions act as a disincentive for the wealthy to give, possibly crippling the non-profit sector?

Such fears appear unfounded, according to recent research from SEI. Taxes are not the main driver behind philanthropic giving, at least among the wealthy. Multi-millionaires share their wealth because it's part of who they are. It defines them as individuals and gives purpose to their wealth. In fact, most wealthy individuals would give even more if they could develop a strategic approach to their philanthropy and see clear evidence their gifts are having the appropriate impact.

That's among the findings of SEI's most recent research into the attitudes and behaviors of wealthy individuals. More than 200 multi-millionaires with average net worth of nearly $11 million completed the online survey in November 2012. The research provides keen insights into how and why wealthy individuals share their wealth.

If you're among those who have struggled with developing a sound approach to giving, you'll find this article useful. In the following pages, we'll share these findings:

- The wealthy are intrinsically generous, driven mostly by the need to give purpose to their wealth.
- They're willing to give more—up to twice as much—regardless of the tax environment, at least within the limits of their wealth, however vast that may be.
- There are notable barriers preventing individuals from stepping up their giving. Mostly it's a need to move beyond an impulsive, tactical approach and to implement a well-thought-out giving strategy.
- They could benefit from professional assistance in balancing the risks and rewards of a long-term strategy.

> "The greater the blessing, the greater the responsibility to give back.
>
> —Survey respondent"

Why aren't people giving more?

Today, wealthy individuals collectively give several billions of dollars each year. Individually they are allocating more than 12% of their wealth to causes annually. Notably, women are likely to give one-fifth more than men, while those over 50 can afford to give more than the young.

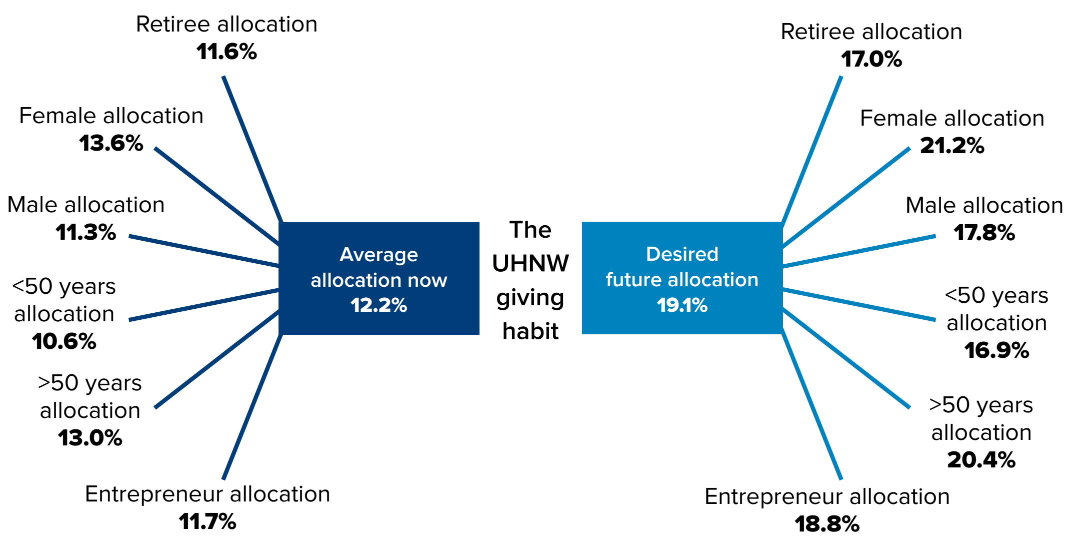
However, when questioned about how much they would like to allocate to causes, the numbers jump dramatically (Figure 1). The average desired gift rises to more than 19% of total wealth. What's holding them back? The need for stronger evidence their gifts are making a difference.

But while this concept of "impact giving" tops the charts as a decisive influence, it's not the only factor. Giving touches the core of an individual's psyche. About 78% said giving is central to their lives and 85% believe it makes them feel more connected to their wealth.

Giving is also important to family and community. While an individual's level of wealth will always be important in the equation of determining how much to give, the sense of purpose transferred to families cannot be underestimated. Bringing the family closer together, recognition among peers and developing a legacy all play a part.

But the question remains: How much is enough? How can donors step up their giving without jeopardizing their wealth? Given the desire to increase the giving amount, what is holding them back?

Figure 1: Enormous potential for increased giving



The graphic to the left shows the average charitable allocations among various subsets of the ultra-high-net-worth market. As you can see, as a group, they are generous in sharing their wealth. What's impressive is what these individuals would like to give pending the removal of certain barriers. The overall size of the allocations increases 63% on average. (Source: Scorpio Partnership and SEI)

Determining when enough is enough

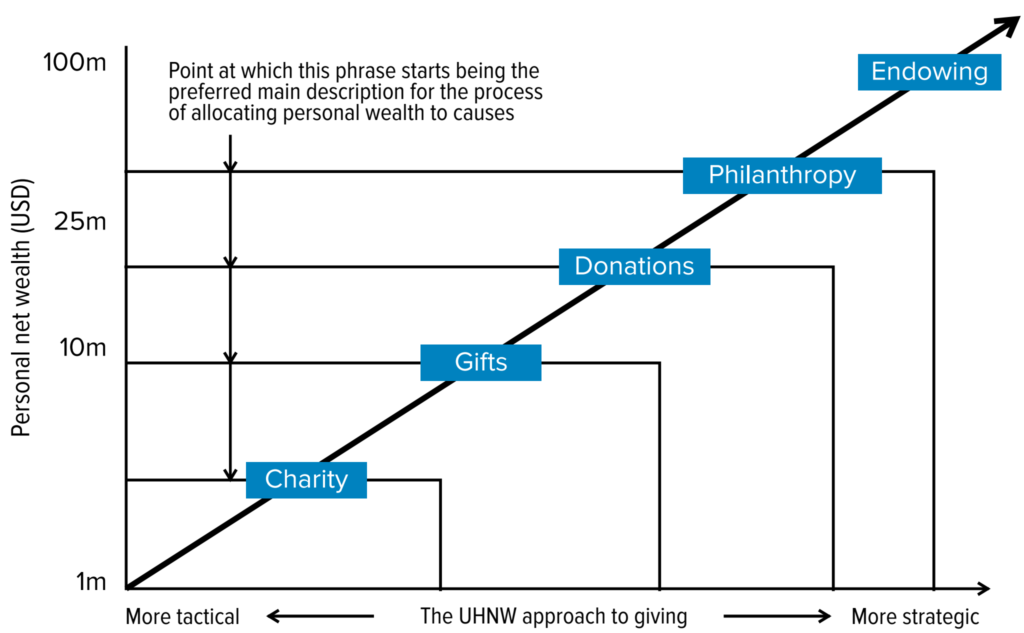
A partial answer can be found in the nomenclature of giving. There is a strong connection between wealth, the size of a gift and the approach to giving. As you see in Figure 2, giving becomes more strategic with the degree of wealth and the size of gifts (Charity, Donations, Philanthropy, etc.). Words like “charity” and “gifts” connote a more tactical, passive approach, while “philanthropy,” and “endowing” are considered more strategic, active and business-like. The question is: How can we be more strategic regardless of the size of the gift?

In fact, words like “charity,” “giving” and “philanthropy” appear to be shorthand for the giver’s **mind-set** when allocating funds to causes. Getting the words right helps us understand a giver’s motives. As wealth increases, impulse-based giving, such as participating in established programs or reacting to various requests, gives way to a more planned, entrepreneurial strategy.

However, it is not a simple matter of the size of the bank balance. For example, women, on the whole, are more inclined to use the word “philanthropy” at whatever wealth level. But they typically qualify the statement by stressing that their approach to giving is typically not as impulsive as men’s.

Beyond the mind-set of the giver is the perception they are driven by tax considerations. The research is clear that taxes are not a major factor in the decision-making process. As few as 25% consider the tax benefits an important influence in their decision to allocate. This might seem high, unless you consider that nearly twice the number of respondents said tax benefit issues have no influence on their charitable decision making.

Figure 2: The nomenclature of giving



Research shows that words matter in the language of giving and provide a signal to how the ultra-high-net-worth approach it. Words like “charity,” “gifts,” and to a certain extent, “donations,” connote a more tactical approach. Words like “philanthropy” and “endowing,” however, appear to be more strategic in nature. It’s clear that people who approach it more strategically tend to give more. (Source: Scorpio Partnership and SEI)

> “I don’t give solely for tax purposes, but I want to maximize my tax benefits and the tax law is complicated and changing.”
>
> —Survey respondent

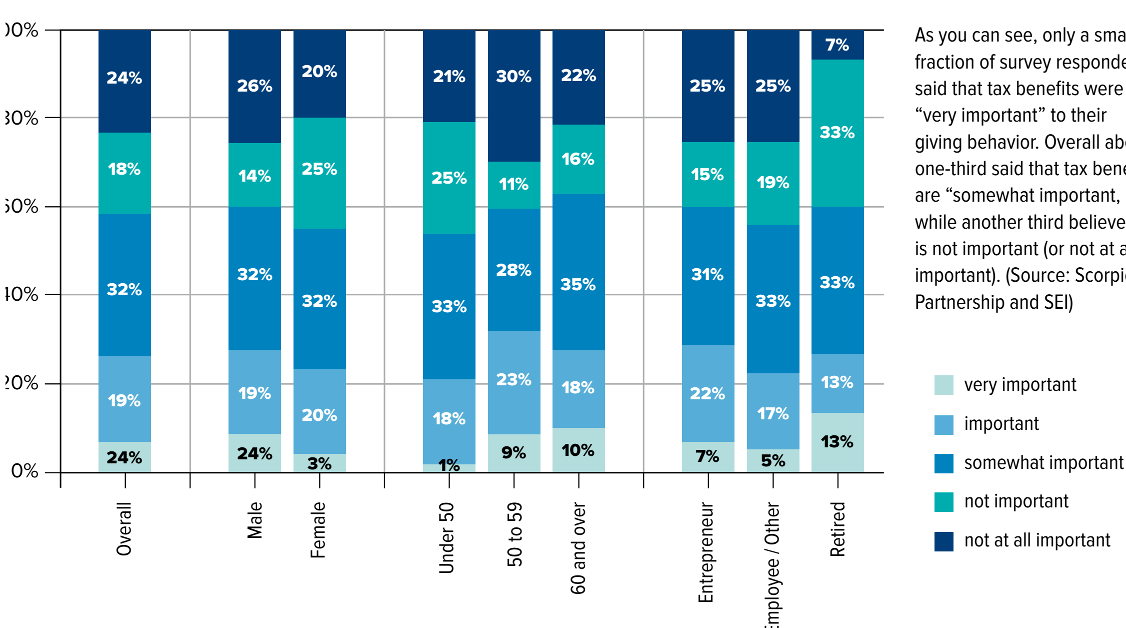
Eliminating the federal “middle man”

Overall, while only a tiny proportion of wealthy individuals consider taxes to be “very important” in their actions (Figure 3), many consider their contributions as “directed funding” equivalent to how the federal government uses taxes for social improvement. Indeed, several survey respondents hinted their giving was a more effective means to directly help society because the federal “middle man” was removed from the equation.

This finding does not mean, however, that wealthy individuals totally discount the tax benefits of giving. While some may be attracted to the write-off advantages, just as many would gladly forgo the benefits or directly transfer them to the causes they support.

It’s also clear the complexity of the tax code is an issue. Some see it as an obstacle to giving more, while others are put off by the entire process. Consequently, the professional advisor, and in particular, the wealth advisor, can have a guiding role in the philanthropy process.

Figure 3: The influence of tax benefits on decisions to give



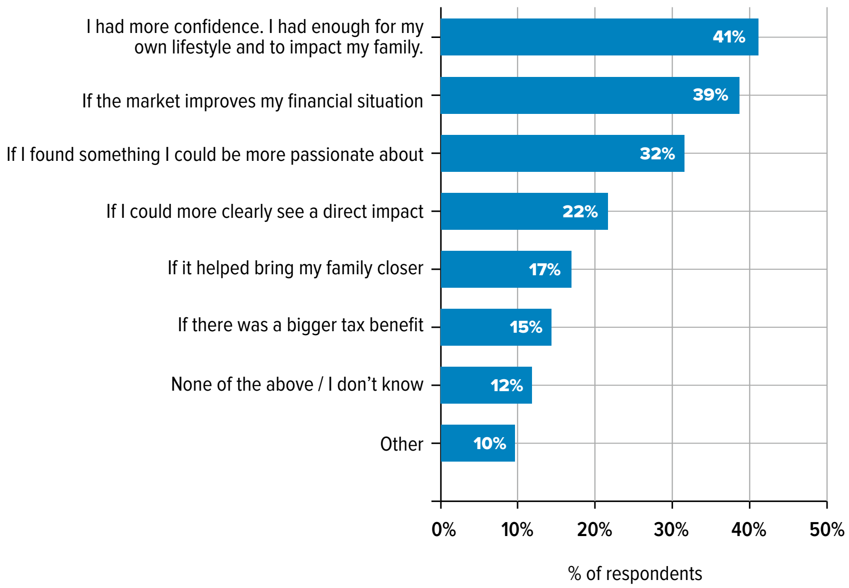
As you can see, only a small fraction of survey respondents said that tax benefits were “very important” to their giving behavior. Overall about one-third said that tax benefits are “somewhat important, while another third believe it is not important (or not at all important). (Source: Scorpio Partnership and SEI)

What drives the urge to give?

So if it's not taxes, what drives the impulse to give? The challenge for wealth holders is to know they are doing the right thing and that they're making a difference. Just as important, they strive for a sustainable giving strategy that won't negatively impact their personal circumstances (Figure 4).

This issue of confidence is critical. Wealthy individuals will instinctively ensure their capital is deployed well to preserve their own long-term wealth security. This act of self-protection is not selfish. They must be able to maintain their wealth in order to continue giving long term.

Figure 4: The drivers of giving

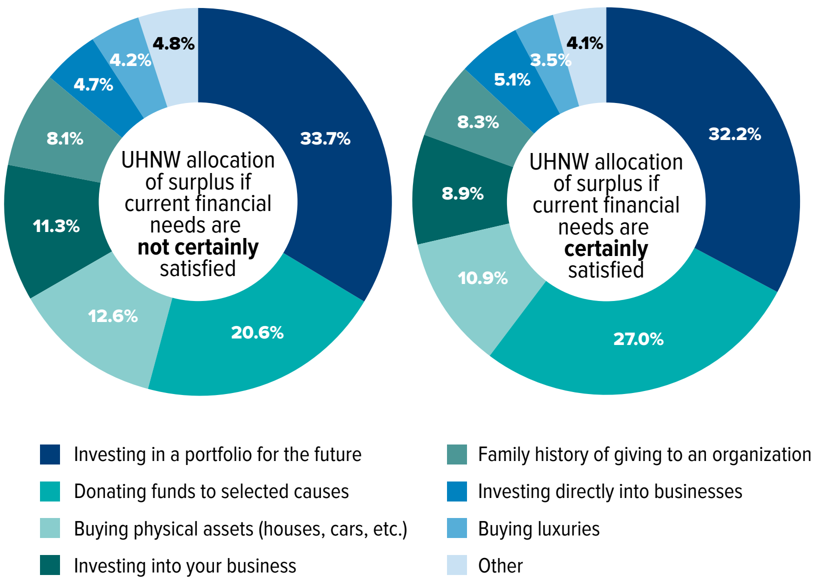


SEI's research suggests that even wealthy individuals must consider their own financial circumstances when deciding how much to give to a cause. The performance of the markets is also a factor. Beyond personal circumstances and markets, giving is about being passionate about a cause and having confidence in the impact of the gift. Bottom line: Instilling passion in the giver, and allowing him or her to see the results, will prompt more giving. (Source: Scorpio Partnership and SEI)

Once this top priority is assured, the focus shifts to redistributing wealth. Research suggests that a small change to their fortunes can be the tipping point for a total change in behavior around giving. When an individual feels comfortable with their personal finances, they will likely increase their giving by as much as 60% on average.

> "Instilling passion in the giver, and allowing him or her to see the results, will prompt more giving.
>
> —Source: Scorpio Partnership and SEI"

Figure 5: Wealth distribution preferences based on capital adequacy



Source: Scorpio Partnership, SEI.
Note: responses are based on two questions: (Left Pie Chart) If you received one million dollars today and could do anything with it, thinking about your current needs, how much would you allocate in the following areas? (Right Pie Chart) If you received another one million dollars today and had no immediate financial needs, how much would you allocate in the following areas?

Once the personal risk equation is assured, wealthy individuals are driven by where they believe their funds can make a difference. Such causes will inevitably vary based on a multitude of personal and social factors. The more committed contributors remarked their causes were often part of a long-term family legacy or, as was often the case, a focal-point issue such as religion or ethnicity.

The research clearly shows that when considering what to do with giving funds, the majority of wealthy people will instinctively seek out the big issues in society. Topics such as welfare, education and health topped most rankings.

Top five areas where UHNWs plan to provide financial support over the next 12 months:

1. Homelessness
2. Education
3. Society
4. Health
5. Human Rights

Seeking guidance, building strategy

So how can you adopt a more strategic approach to giving? How can you be assured your gifts are having the intended effect? And how do you balance the need to share wealth without risking wealth? Clearly there are professionals you can turn to for guidance and leadership.

Unfortunately, "philanthropy consulting" is a relatively new field. Research shows the wealthy are unsure where to turn to for help. However, when pressed, a professional advisor can be of valuable service in four areas. These are:

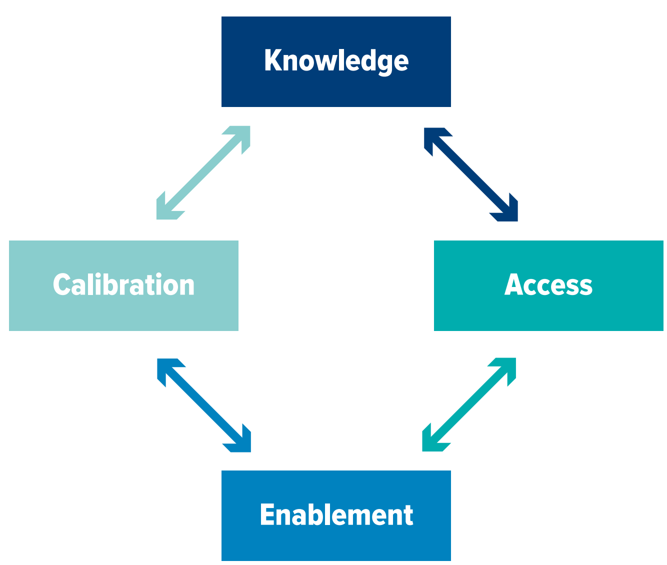
- Knowledge
- Calibration
- Enablement
- Access

Knowledge—A wealth advisor can help you quantify how much you need to give in order to make a difference without jeopardizing your personal situation.

Calibration—This involves linking your giving strategy to your investment strategy. What is the impact of your allocation of capital to charities versus the allocation of capital to your financial plan? Essentially, an advisor can help you apply the same risk-based assessments used in your investment portfolios to your philanthropy portfolios. Just as your advisor helps you establish a level of investment risk you can live with long term, so he or she help implement a long-term giving strategy.

Enablement—Wealth Managers can also provide innovative thinking around the entire giving process. How can you better benefit from your gifts? By this we do not mean financially, but personally. What's the return? Is it personal satisfaction? Stronger family ties? The value of making a difference? Balancing risk and return—a central element of investing—is just as central to giving.

Access—Retaining a professional advisor can also expose you to other philanthropists, the broader philanthropic community and other funding opportunities. What better way to resolve your giving questions than to get plugged into giving networks?



Taking the broader view

The focal point of these findings is a shift from a narrow view of wealth accumulation as a means for personal gain to the broader view of wealth as a means to redistribution for society's gain.

Simply put, but not simply achieved. The key is to address the questions posed at the beginning of this paper. Why do people give at all? How can they adopt a more strategic approach? How can they be assured their gifts are having an impact? And where can they turn for help?

Clearly, most wealthy individuals are passionate about giving and the causes they support. This paper provides clues for turning passion into effective action, and ensuring every dollar is making a difference.

The operative word is balance. Wealthy individuals seek to balance this compulsion to give with the personal—and understandable—need to maintain an accepted standard of wealth.

> "It's harder than I thought to determine what to contribute to. I'm learning."
>
> —Survey respondent

Additional notes

* About the sample:

A total of 202 ultra-high-net-worth individuals residing in the USA took part in the survey. The respondents were drawn from a range of independent sources. 53% were self-classified entrepreneurs. The average total financial assets of the individual respondents was $10.9 million with, for the vast majority, less than 20% constituting their residential assets. The average annual income was $421,000 with individuals worth more than $10 million having an average income $1.1 million per annum. The sample had an average age of 53 with the largest portion (37%) living in the Northeast. In terms of gender split, this was consistent with the previous samples of 63% male.

This sample size is considered relevant in size and response levels for the community of UHNW investors. The quantity in this latest survey was, in fact, the largest of all four surveys in this series to date. Indeed, overall, this survey program continues to be among the largest of its kind ever undertaken. This, therefore provides a very special window into the belief systems and requirements of an extremely difficult-to-reach client segment.

SEI Private Wealth Management provides individuals and families with an innovative approach to wealth management. Our approach starts with knowing our clients. To that end, we have sponsored a series of surveys, peer round-table discussions and other work, all designed to uncover and share the insight of wealthy individuals. The Anatomy of Giving Survey was conducted in partnership with Scorpio Partnership Limited, an independent research firm.

For more information, call **1-888-551-7872** or via email **SEIPrivateWealth@seic.com** to reach a team member. To learn more about SEI Private Wealth Management, please visit **seic.com/privatewealth**

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