5 best practices *for* philanthropists

Make an impact.

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For hundreds of years, across all cultures and lifestyles, philanthropy has been an integral part of society, forging the way for great educational and art institutions, human service organizations, and many neighbors giving their communities an extra hand. Today, those who choose to give to charity do so in new ways and for a variety of reasons. While the end goal has remained the same—positive, charitable impact—the road to get there now requires a commitment to intentional, thoughtful, well-planned giving.

Over the years, Vanguard Charitable has enjoyed working with thousands of philanthropists, many who have made a substantial impact and created a legacy of giving that is poised to continue for generations. We believe the key to their long-term charitable success is rooted in five best practices, all of which reinforce the importance of strategic choices that steer giving to what makes sense both now and in the future.

At the core, we define a strategic philanthropist as someone who:

- Sets and adheres to a well-thought-out, long-term plan.
- Uses resources such as time, money, and other people efficiently to make an impact.
- Identifies the right giving tool that enables an appropriate level of flexibility.

Following are foundational questions, pulled from our observed best practices and framed to help you consider the effectiveness of your own philanthropy. The answers, we hope, will serve as a guide as you develop giving strategies and ensure, over the long run, you optimize your donations, expand your giving, and fulfill your philanthropic plans.

1 How do I define my charitable success?

Most plans are made with an end goal in mind. A strategic plan, however, must not only focus on the end result, but should also include clear, measurable goals and thoughtfully noted steps to achieve them.

For charitable giving, this means drafting a mission statement that defines your purpose for giving and identifying goals and ways to gauge progress. By taking the time up front to plan and set the tone for your giving, you are more likely to make conscious, effective decisions in the future.

A mission statement can range from giving a certain percentage of assets to specific charities, to working to solve a social issue, or engaging heirs and passing core values to the next generation. Sometimes a mission is more financially focused and the objective is to plan for taxes, diversify your financial picture, or reduce the size of an estate prior to probate. The important piece to remember is that a mission statement can be brief or extensive, but it should always be unique to you, focused around your values, situation, and preferences.

Build out your mission statement by crafting goals that include key words or initiatives that specify how you expect to achieve success. This may involve breaking out donation schedules and determining if a percentage of assets should be gifted on a recurring basis; as a one-time, large gift; or earmarked for several specific causes.

Example mission statement: To increase educational access at my alma mater

Goal 1: Identify three specific scholarships to fund.
Goal 2: Invest charitable assets to grow portfolio while preserving principal.
Goal 3: Donate $10,000 a year for ten years.

Clear goals will help you stay on track and match giving behaviors with expected outcomes. They will also help you avoid mission drifts and filter out any giving-related distractions, such as a bombardment of ad hoc solicitations. Rather than reverting to "yes" every time you are asked for a donation, stop and think, "Will this help me achieve my mission? Is this aligned with my goals?" Leverage the mission statement to tactfully turn down requests that do not fit within your overall plan, and steer, instead, toward meaningful and deliberate giving.

If a significant change occurs, such as a favorite charity suddenly closes, switch any related tactics but not the overall strategy. While you are encouraged to refine goals as needed to improve progress, a mission statement should rarely change, and then, only carefully and with intent.

2 How does philanthropy fit into my overall financial plans?

Yes, philanthropy is in the budget. But before you begin giving a significant percent of assets away to charity, we recommend understanding how philanthropy fits into your overall financial plan.

In the broadest sense, individuals end up allocating discretionary assets to three areas: other individuals, the government, and charity. Knowing how much you intend for each connects to estate and tax plans, and plays a role in managing a financial windfall. Ultimately, to be effective, your financial choices should also align with your charitable mission.

Charitable giving often occurs at year-end when individuals can confirm their annual household income and make gifts in concert with tax plans. However, tax-effective philanthropy is not solely a December 31 decision. A financial windfall, such as a bonus, wealth transfer, or property sale, can happen at any time and may require you to give more in one year than the next. Savvy philanthropists often choose to prefund charitable gifts planned for the future when their investments have appreciated or while enjoying a steady income stream.

In addition to timing, consider what to gift, remembering that not all donated assets are equal. A straight cash contribution may reduce taxable income, but an appreciated security given directly to charity allows you to take a deduction based on fair market value and avoid a capital gains tax on the appreciation. Also, special asset donations, like hedge fund investments or insurance policies, may be difficult and expensive to gift, but they can be a good option for individuals looking to divest a section of their portfolios in an efficient way.

Risk tolerance and spending may differ greatly depending on the financial goal, such as retirement, college, or charity. Individuals who take note of this may opt to carve out a percentage of assets separately for philanthropy. This “decoupling” approach allows you to map investment allocation accordingly and stay committed to fulfilling your charitable mission, no matter what financial objectives may arise.

3 Who do I involve in my philanthropy?

For some, philanthropy is a quiet initiative, while others are more comfortable socializing their giving. When crafting your charitable plans, reflect on who you want to include (or exclude) from your philanthropy and to what extent, as well as how they will affect your giving goals.

When choosing who to involve, consider who you trust, such as your spouse or advisor; who is necessary to include, such as an accountant or lawyer; and who you want to gradually involve over time, such as your heirs. Even in instances of anonymity, when it is undesirable to discuss giving with others, we recommend working with an advisor or organization that respects your wishes and can be trusted to steward charitable assets appropriately on your behalf.

Effective communication is paramount to successful philanthropy. When working with others, remember to set expectations, maintain dialogue, and listen with an open mind.

– When meeting with an advisor, talk about how your financial plans align with charitable goals.
– If discussing giving with lawyers or heirs, ensure they are knowledgeable of your desired transition plan.
– When making a pledge, connect with the charity to document your long-term plans.
– Before donating to fill very specific organizational needs, work closely with charity representatives to earmark dollars correctly.

Keep in mind that the individuals you choose to involve during your life may vary from those who will manage your charitable decisions when you die. A formal legacy, or succession plan, can dictate a direct donation, such as a deferred gift or an endowment contribution, or be more intangible, like encouraging heirs to give.

Before you start your giving, decide if and how it will end.

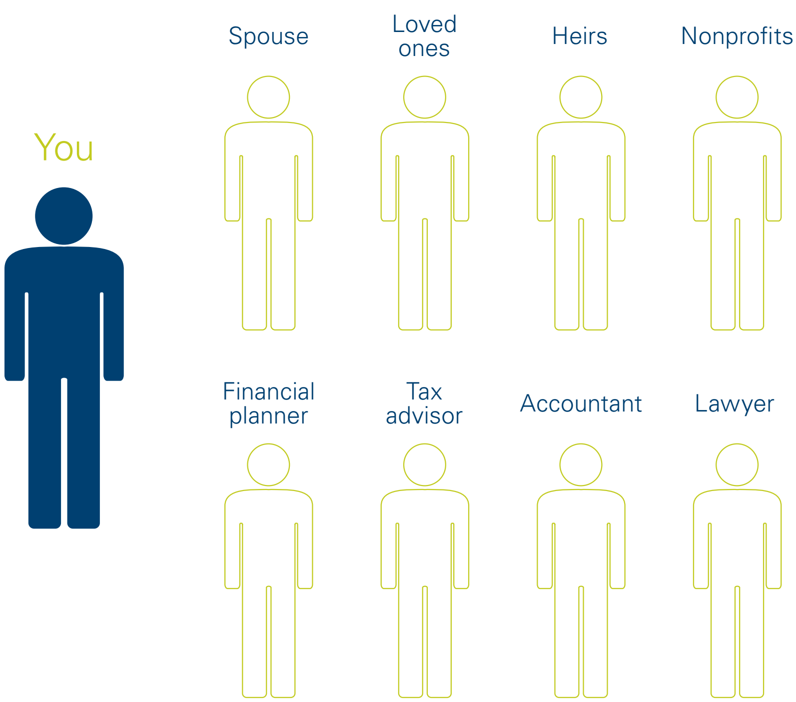
- Should my charitable mission continue, change, or end when I pass?
- If my mission ends, who will tie up loose ends? If my mission continues, who do I trust to follow through and support it?
- Do I desire intergenerational growth of the charitable assets in my giving tool?
- Do I want to pass assets, values, or both to the next generation? Should I earmark charitable gifts in my will?

A charitable legacy does not simply happen; rather, it is crafted throughout a lifetime. Make it a priority to establish your legacy by holding family meetings to prepare heirs, sending charities a letter of intent, working with professional advisors to document estate plans, and confirming assets are in a position to meet your objectives.

We cannot emphasize enough that if you desire to leave a charitable legacy, you must begin building your relationships with the recipient charities and individuals now. While the law will protect charitable wishes in regards to asset distribution, it cannot guarantee values are passed down.

Philanthropy and others

Individuals you may want to consider involving in your philanthropy:



4 Which giving tool is best?

The purpose of giving tools—whether a private foundation, donor-advised fund, trust, or other option—is to transfer assets to charitable causes, but choosing the right option for you and your mission can be a complex process. Rather than enter the debate over which giving tool is best, we encourage you to focus your decision-making on what best supports your preferences and giving goals—with an assessment of six key factors.

Rank each factor by importance to you (high, medium, low). This evaluation will, ideally, allow you to review the various giving options with an open and shrewd mind, attuned to what matters most to you and your philanthropy.

My giving preferences

Tax efficacy

High | Medium | Low

Outline the timing and types of assets you often gift, and ensure your giving tool allows for optimal tax deductions. Deductibility limits vary based on the asset donated, giving tool, and personal benefit derived from the gift. For example, a donation to a charitable gift annuity, which allows the donor to receive income, does not allow for as substantial a tax deduction as a direct gift. The most tax-effective assets to donate are also sometimes the most difficult. If relevant, choose a giving tool that supports liquidation of complex special assets or appreciated securities.

Cost

High | Medium | Low

Decide what you are willing to pay for philanthropy with the fundamental understanding that the more money spent on fees, the less is available for charity. Most giving options have associated administrative fees to cover startup, employee, and service costs, and others may necessitate legal or accounting expenses. Investment fees, often overlooked against other less subtle fees, play a crucial role in long-term giving plans. Over time, high expense ratios may erode returns and minimize charitable impact.

Control

High | Medium | Low

Determine how much direct oversight and decision-making power are needed for each aspect of your philanthropy, including areas such as grant-making, investing, or administrative work. Often, strict legal regulations will dictate a donor's rights or ability to exercise control with different giving tools.

Distribution to charity

High | Medium | Low

Ensure the giving tool allows you to support charitable causes in sync with your mission and, if desired, affords you the ability to give to multiple charities on a consistent basis or grant one large sum in the future.

Legacy options

High | Medium | Low

Leaving a philanthropic legacy is a personal decision that can take various forms, from bestowing assets to others, to naming a charity as a beneficiary in a will, or continuing a family tradition of giving. By their very makeup, some giving tools cannot support specific charitable wishes and intergenerational philanthropy after a donor passes (e.g., direct giving).

Recognition v. anonymity

High | Medium | Low

Legally, not all giving tools can be sensitive to wishes for anonymity, while some may be able to cater to specific recognition requests. For example, private foundations are required to file public tax returns that include information on grants, trustees, and employees, whereas grants from an account with a donor-advised fund can maintain donor confidentiality, when preferred.

After reviewing these criteria, visit our Resource Center for information on the most common charitable giving tools at vanguardcharitable.org/givingoptions.

5 How do I evaluate and monitor nonprofit organizations?

When you donate to a charity, you are not simply giving money; you are aligning yourself with its mission and values. Pick organizations that fit within your overall plans, both in how you identify with the causes and their practicality.

A basic first step before donating is to review an organization's IRS tax status, financials, and governance standards. You may identify with a cause based on emotional or personal connections, but do not be tempted to give on that alone. Rather, review how the charity spends money, its track record for success, and who makes important decisions. Good places to find this information include GuideStar, Independent Sector, a charity's website, and even other donors.

The next step is to determine if a donation should be used for a specific project or cause, or if it can be used at the discretion of the charity. If you choose to earmark charitable dollars for a specific project, work with the organization to confirm it understands the intent and is able to meet your expectations. If contributing to an endowment, review how those dollars will be used over time.

Many charities need donations to support general operating expenses, such as paying for employee salaries and technology services. While that may seem less enticing than funding a specific campaign or project, general operating funds keep many charities open and running.

The final step is ongoing and requires you to engage with nonprofit representatives after giving money to continue conversations and monitor results. When you take time to communicate with the recipients of your donations, you can start to identify where the greatest needs are and how you can better satisfy them; and if the charity proves to be an effective steward, you can give again more purposefully.

To avoid missteps with donations, consider granting gradually at first. While this will ease the strain on organizations that have difficulty managing large influxes of cash, it also gives you opportunity to react if money is used ineffectively. When it is, you may choose to give to a different charity or, if the cause is important to you, work closely with the organization to find a solution.

Conclusion

When answered thoughtfully, these questions will lead you toward more impactful philanthropy. All the information may not apply to your specific situation, but we hope it triggered in you a desire to be more sophisticated with your giving, more thoughtful about your gifting behaviors and, over the long term, more philanthropic.

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