

Unifying Families Through Philanthropy

Giving isn't just good for the world—it may be the secret to preserving multi-generational wealth.



It's often said that family and money don't mix well. Peter J. Klein, CFA®, author, challenges that notion. He literally wrote the book, *A Passion for Giving*, on the topic, providing practical guidelines to leverage family wealth for impactful philanthropy. Klein illustrates why giving is not just good for the world, but also integral to nurturing healthy family dynamics—and may even be the secret sauce to preserving multi-generational wealth.

Mission Philanthropy

Oftentimes as individuals build capital, they begin exploring how to leverage that wealth to make a meaningful impact that's aligned with their values, while leaving a lasting legacy.

The first step is crafting a philanthropic family mission statement. Klein recommends getting started by gathering multiple generations together in a values-oriented conversation. "Discuss the problems that spark passion amongst members of the family. We use a Venn diagram tool to map out the intersecting values of those seated at the table." To facilitate a constructive conversation, pose some of these questions:

- What does the family stand for, i.e., what's your DNA?
- Are you focused on identifying a solution to a particular issue?
Example: A disease a loved one suffered through, environmentalism, social justice, etc.
- What legacy do you hope to leave through your philanthropic efforts?

The resulting statement should be a tool that clearly, simply and directly answers the question, "What does your family's philanthropic efforts work to accomplish?" It should ultimately serve as your "elevator pitch" and help everyone stay on the same page.

TIP: This exercise can serve as a valuable investing tool. Klein says, "Take these values and apply them to guide which sectors to invest in. If, for example, you're focused on environmentalism, you're less likely to have mining and resource companies in your portfolio."

Moving the Needle

There is a trend Klein references, known as “shirtsleeves-to-shirtsleeves,” which describes the tendency for the third or fourth generation of wealthy families to overspend, resulting in wealth reduction. He believes, however, that giving may be the anecdote to disrupting this cycle. “Incorporating philanthropy early on disrupts that paradigm,” Klein says, adding, “Future generations are less likely to squander wealth when they see themselves as stewards of their family legacy with a greater purpose.”

Establishing a foundation is one of the most impactful ways for families to leverage their balance sheets to conduct charitable work and make program-committed investments. In fact, according to Klein, there are over 25,000 family foundations in the U.S. with assets less than \$20m. “While this approach is certainly for high-net-worth families,” Klein says, “you don’t have to be Bill Gates.” Regardless of how you give, Klein says, “We want to have an impact on a problem that we have the power to solve by bringing people together. It’s not about writing checks. It’s about writing grants that move the proverbial needle and holding non-profits accountable to meet the goals we set.”

To encourage family buy-in, it’s crucial to get the younger generations involved from the get-go. Klein recommends conducting site visits at the organizations you support and engaging in active volunteerism to strengthen those ties. The result of early activism? Klein sees “these children becoming more responsible, gaining skills such as learning about balance sheets, how to manage a company, and ultimately, gaining empathy and a zest for philanthropy.”



The Family Giving Formula

There's no one-size-fits-all formula to achieving harmonious family working relationships, but there are best practices that can help:

- 01 | Craft an Investment Policy Statement.** Essential to every family foundation, according to Klein, this document serves as an addendum that outlines the ideals, values and ethics that guided the organization's founding.
TIP: Complement this document with a video recording that communicates the family vision so that future generations can continue to do work in alignment with those goals.
- 02 | Unlock the language.** The foundation's structural language should be written broadly enough to allow for growth. As an example, Klein cites a foundation formed in the 1850s specifically focused on helping families in covered wagons settle the west. Years later, the mission was obsolete, but that language was locked and it took decades before the courts would allow the foundation to shift its focus.
- 03 | Find common ground.** It's not uncommon for families to have conflicting priorities. Where one family member sees the value of a blue chip company, another may hone in on the company's lack of sustainability. In those cases, Klein says, "You might take a closer look at a company and find that it is in fact investing a large portion of its income in renewable work or substitute it with a more sustainable option in the same sector." The key is finding space to agree and compromise.
- 04 | Circulate a state of the union.** A letter that provides a briefing on the foundation's operations, metrics and impact should be regularly distributed to family stakeholders of all ages to communicate accomplishments as well as the goals you are working toward.
- 05 | Do your due diligence.** Ensure the nonprofits you support are 501(c)(3) organizations and consult with resources like Guide Star and Charity Navigator to dig deeper. Klein also recommends site visits and active volunteerism.

Wealth comes along with the opportunity to get more structured, strategic and pronounced with giving. As Klein says, "Making donations is nice, but it's not to be confused with philanthropy. Philanthropy involves a mission to focus on. It means drilling down, doing the work and tasking nonprofits to be accountable to meet specific metrics. When the entire family works together to solve for a problem—that's beautiful."

Please reach out to one of our advisors for more information on philanthropic planning strategies.



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