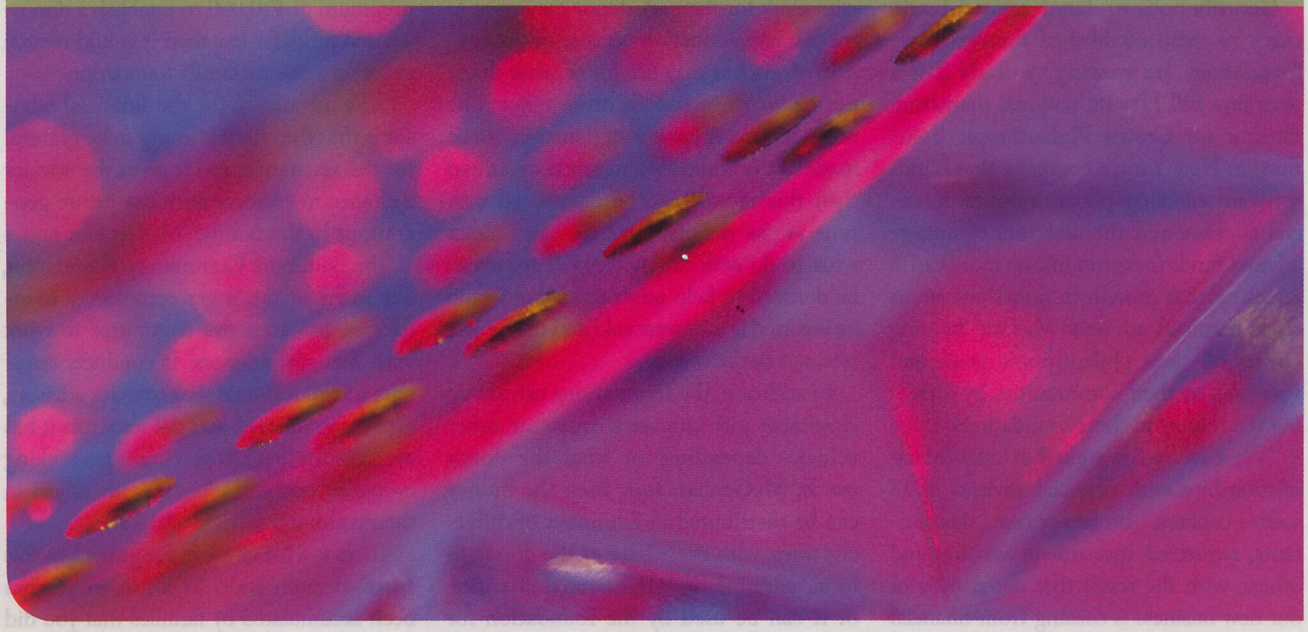

# **Reducing** Guesswork

Community foundations can make it easier for advisors to help a client screen charities and achieve philanthropic goals.

**By Karen DeMasters**

**RANDOLPH BRINTON, A FINANCIAL** advisor and senior vice president at Ferris, Baker Watts Inc. in Baltimore, had a client who wanted to give 10 different charities $5,000 a year each by selling some securities and other assets. It was a doable job, but a time-consuming one for both the advisor and the client. The solution was to give the lump sum to the Baltimore Community Foundation and let it sell the assets and dole out the money.

To use an overworked cliché, it was a win-win solution all the way around. "Giving the money to the Baltimore Community Foundation was a simple way for us to accomplish the client's goal, and it helped the foundation and it strengthened my relationship with the client because I helped him accomplish what he wanted," says Brinton, who works frequently with the foundation.

Helping wealthy clients set up charitable giving plans or donor-advised funds through one of the 650 community foundations that now exist in the United States is becoming more popular with financial advisors as they learn the advantages of working through the community groups. Community foundations know the local charity needs, they say, but also understand the national and international not-for-profit community, and they can simplify the process of achieving philanthropic goals for the wealthy.

Despite the current flagging economy, charitable giving is expected to total more than $2.7 trillion over the next 10 years, with a significant part of that going to donor-advised funds, and many of those funds will be set up through community foundations.

These entities started more than a century ago as vehicles for families or individuals to give to local charities or causes. Then, in the 1990s, say foundation members, some people started questioning the reliability of some not-for-profits to deliver charity where it was needed. Thus, the community foundations began to grow as a way to help donors screen charities, assure that more money went where the donors wanted it to go and assure that it helped the people in need. Donor-advised funds, which are charitable-giving vehicles administered by a third party on behalf of the donor, became a part of that.

Contributions to donor-advised funds, many of them established through these foundations, are growing by nearly 25% a year, says Bill Hewitt, national marketing director for Crown Philanthropic Solutions in New York, a company that builds software enabling philanthropists, financial advisors and the directors of donor-advised funds to communicate more easily. Much of that growth in donations stems from financial advisors who are helping clients fill their philanthropic goals and give back to their communities by directing the money to these foundations.

"We have really worked at establishing relationships with financial advisors of all sorts—bankers, broker-dealers, accountants, registered investment advisors and others, with the result that about 60% of our new business is coming from financial advisors," says Kenny Emson, vice president for development and donor services for The Community Foundation for the National Capital Region in Washington D.C.

Kelley McGeehan, philanthropic services officer for the Baltimore Community Foundation, one of the larger community organizations in the nation, adds, "We have a lengthy history of partnerships with financial advisors, but there are still a lot who do not know who we are or what we do.

"Many advisors ask why they should refer a client to us when they can manage the assets themselves, but there are several reasons why we can be good partners," McGeehan says. "The Baltimore Community Foundation can deal with cash contributions, but we can also accept any kind of assets: real estate, stocks, appreciated securities and many others."

The community foundation can hold the assets or reinvest them and then distribute them over time to the charities the donor prefers. Technically, because of IRS regulations, the donor cannot direct the investment or the distribution; he or she can only "advise" the foundation. But Nancy Fax, chairwoman of the Montgomery County (Virginia) Community Foundation, says, "I have never seen a situation when a donor wanted something done, that his or her wishes were not honored. We would always do that."

There are several advantages to donating through community foundations, say those who work for them. A donor may want to make a large donation because of tax considerations, but may not know what charities he wants to benefit or how much he wants to give. A lump sum donation can be made to the foundation in one tax year, and then this money can be distributed over time as the donor makes decisions about what to do with it. Appreciated assets can be donated to help offset taxes that would be incurred if they were sold and the money retained by the owner.

In addition, the foundations can set up charitable gift annuities, trusts or other vehicles depending on what the donor needs, McGeehan says, then the money can be distributed in a number of different ways, with the advice of the donor, to local, national or international charities, or it can be used by the foundation for some of its own grants to needy groups or people. Community foundations also often hold and manage the endowment funds for not-for-profits.

"We can do the back-office work for the donor and the charities if they do not want to do it or do not have the expertise," McGeehan says. "For us, 90%-95% of our funds go to organizations or causes right here in Baltimore. We have a staff that knows the nonprofit segment here and knows the needs of the community. But we can also direct giving worldwide.

"We work with one financial advisor with a client who wants to help communities in Ethiopia. The advisor is not going to have the information on how to do that, but we can go through our domestic partners and find out how to make those donations to the segment of the community the client wants to help," McGeehan says.

For instance, those donations can be directed toward impoverished women and children or elsewhere. "We can also facilitate microloans both domestically and internationally that are directed at geographic regions or certain segments of the population," she adds.

Establishing donor-advised funds through a community foundation can give the donor "the same type of name recognition and legacy that establishing a private foundation can achieve, but at a much lower donation level," says McGeehan. The Baltimore Community Foundation requires a minimum of $10,000 to establish a donor-advised fund, far less than it would require to set up a private family foundation.

"The advantage for the financial advisor is that the client is going to be grateful for the assistance, and it gives the advisor a chance to connect with the future generations in the family," McGeehan says.

The Baltimore Community Foundation, like many of the larger community foundations, has an active committee to work with financial advisors. It conducts seminars and educational programs for advisors, explaining its work and the resources it has available for them. It also holds networking events to connect advisors with others in their community, McGeehan says.

There is a lot of room for growth in this space. Brinton adds, "A lot of wealth has been accumulated by families that you did not have a generation ago, and they want to give back to the community. And because of that, charitable donations are growing at a rapid rate. But a financial advisor may be stymied by not knowing how to help clients. The advisor can establish a relationship with a community foundation that assists the client in selecting and directing their charitable giving to the community."

Barry Glassman, a CFP and the senior vice president of Cassaday & Company Inc. in McLean, Va., works with community foundations and notes that the financial advisor can retain control of the funds until they are actually distributed by the foundation. In working with a community foundation for a client, the advisor will want to determine the foundation's fees, see who in the community is on the foundation's board and evaluate the returns the foundation receives on its investments. Glassman says he has established an effective way of broaching the subject of charitable giving.

"Most families practice what I call 'checkbook philanthropy.' It is reactive. I ask clients to start from scratch and tell me what kind of change they want to see in the world. Then we work from there, and maybe a community foundation will fit in the picture. Community foundations know the community and know where the money goes." FA