

THE DIVERSITY OF GIVING: PHILANTHROPIC MOTIVATIONS



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You have attained a level of financial security that allows you the freedom to devote resources to causes that are important to you and to make a difference in the lives of others. But with opportunity comes challenge. Having made the decision – and commitment – to contribute to charity, you are now faced with determining how best to ensure your desired legacy is achieved.

At Northern Trust, we recognize that philanthropic giving is personalized and unique to every individual. Working with you and your other advisors, we can help you determine the course of action that will best accomplish your objectives. We can then help you implement your charitable strategy, ensuring that you and your family have as much – or as little – involvement in the day-to-day activities as you desire.

DEFINING CHARITY AND PHILANTHROPY

Both “charity” and “philanthropy” can mean taking actions, in a spirit of caring and generosity, to address the needs of others and to increase the well-being of humankind. *Charity* is commonly understood as a direct transfer of resources, typically money, with the intent of helping those in immediate need. *Charity* may be regarded as a temporary solution to a current problem. *Philanthropy*, on the other hand, is generally understood as giving that seeks to support lasting solutions to seemingly intractable social problems or to create institutions that will encourage self-improvement and social empowerment. *Philanthropy* need not be defined by the size of the gift and may actually extend beyond sharing money to include making gifts of time, effort and expertise. For purposes of this discussion, *charitable giving* and *philanthropy* will be used interchangeably.

PHILANTHROPY TODAY

There are currently more than 1,100,000 charitable organizations and private foundations in the United States, each with its own mission and method for addressing issues such as social justice, arts and culture, environmental conservation, education and health and human services. In 2014, these organizations collectively were the recipient of over \$358 billion¹ in contributions. In fact, giving in 2014 surpassed the peak last seen before the Great Recession, when charitable giving rose to an estimated inflation-adjusted total of just over \$355 billion.

Ultimately, your decision to give will be based on several factors, including but not limited to:

- Your desire to support charitable causes that you and your family believe are worthwhile
- The income and transfer tax benefits that you will receive from making the gift
- Your goals for transferring wealth to future generations
- The performance of the financial markets

¹ *Giving USA 2015: The Annual Report on Philanthropy for the Year 2014*, Giving USA Foundation.

If you currently are considering making a gift, whether large or modest, reaching a decision on which charitable causes to support and the optimal giving solution to accomplish your goals may be daunting. Fortunately, technological advances and social media have made charitable giving of modest sums easier and more accessible. Several apps and websites have been launched to help those who are charitably-inclined give money and in-kind contributions to charity. For example, One Today, an app created by Google, lists a different charity each day and provides users with a description of the organization's work, information on what each donation will fund and an impact report. If you're interested in contributing to the fight to end homelessness, an application called Spare Change identifies homeless charities and allows donors to contribute to the cause. Similarly, the shopping portal GoodShop contributes 50 percent of its referral fee from any website that you use to make a purchase to your designated charity.

But before you make a substantial charitable contribution or pledge, or establish a more permanent charitable giving structure, it would be worthwhile to spend some time reflecting on your underlying motivations for giving. Taking a moment to reflect upon what truly drives you to give can lead to more effective, focused and impactful philanthropy. Indeed, the decision of how much to give, to which causes, when to give and through which charitable vehicles, will naturally flow from your evaluation of why you want to give.

PHILANTHROPY BEGINS WITH A DESIRE TO GIVE

The desire to give is a shared human trait.

In his first major work, *The Theory of Moral Sentiments*, Adam Smith, the father of modern economics, focused on notions of altruism, ethics and human psychology. Smith stated that human beings, in certain circumstances, have propensities that include:

- A disposition to experience “fellow-feeling for the misery of others,” placing ourselves in another’s situation
- A tendency to want others to feel towards us in a way that harmonizes with our feelings about ourselves
- A disposition to want to be worthy of the approval of others²

In other words, Smith concluded that we all share an intrinsic capacity to give of our resources and, under certain circumstances, are motivated to do so.

While scholars, philosophers and modern philanthropists may debate Smith’s conclusions, American philanthropy is inarguably rooted in the belief or expectation that those with wealth should share such wealth with those who are less fortunate.

The desire to give – and in particular, to act on it – is woven into the fabric of our American traditions.

Since the founding of this country, Americans have made significant investments of time and money in support of social welfare, charitable organizations and mutual aid societies. Many of the charitable funds and philanthropic institutions that were started during the 19th century by Andrew Carnegie and John D. Rockefeller, for example, created the libraries, schools, hospitals and museums that continue to provide significant cultural and social services to our communities.

² Adam Smith, *The Theory of Moral Sentiments*, 1759.

In this century, philanthropy has been embraced by seemingly non-charitable entities such as governmental entities and conglomerates of private investors. In fact, a new breed of “social investors” or “impact investors” are interested in doing good and doing well – investing in nonprofit or for-profit entities that create social benefit and provide a financial return to investors. These social investors are also forming local and cross-border collaborations and partnerships with governmental entities and for-profit sectors to create new pathways for directing private capital and resources towards social and environmental causes.

The desire to give, ultimately, is extremely personal.

We each have our own charitable intentions and goals. Your desire to give may stem from altruistic notions, as described above, or your dreams of creating a better community for your children and grandchildren. Most donors and charitably inclined families will admit that their desires to give come from feeling deeply connected to others who may share similar life experiences. Ultimately, your ideas about giving and the expression of your charitable intent will be rooted in your values and your expectations for how your generosity can make a difference – now and in the future.

DIVERSITY OF PHILANTHROPIC MOTIVATIONS

Experience shows that philanthropy is more meaningful and productive when you first consider your reasons for giving. With forethought and deliberation concerning your motivations for giving, you will be in the best position to maximize the impact of your charitable giving.

Understanding the factors that influence your giving, as well as the goals that are significant to you and your family, is crucial not only to ensure that your philanthropic activities are effective, but to ensure that your charitable giving is aligned with your overall wealth transfer planning. The decisions regarding how much to give, when to give and to which causes are all closely intertwined. Determining *why* you are motivated to give is the key starting point. Because each individual – and family – is unique, specific motivations for giving can be complex and quite diverse. But there are several motivations that appear to be common among those inclined toward philanthropic giving, reasons ranging from deeply personal to highly practical. The result also may range from a tax deduction to a sense of deep satisfaction.

Altruism

The altruistic donor believes that everyone has a responsibility to give to those who are less fortunate, that giving is a moral imperative and should occur without regard to reward or recognition. Such donors base their giving on how they understand and share the feelings of others. A deep concern for human beings and helping others to maximize their potential is another aspect of this motivation.

Giving Feels Good

In the late 1980s, James Andreoni, an economist and professor at the University of California, San Diego, argued that the internal motives for giving might be more important than previously acknowledged. The name for his idea is – the “warm glow” theory – and this theory continues to be studied today. In the warm-glow view of philanthropy, for example, individuals are not giving money merely to save the Amur Leopard, a critically endangered species; they’re also giving money to feel the glow that comes with being the kind of person who’s helping to save the Amur Leopard. While Andreoni’s argument is

theoretical in nature, there has recently emerged a new academic field call the “science of generosity” which examines economic, neurological, psychological and sociological studies to determine why we give and how giving can lead to positive health benefits. Although this kind of research is still in the early stages, many philanthropists are clearly motivated to give by the positive emotional feelings they get from helping others.³

Social Stewardship

Some individuals are driven to give based on a strong sense of duty or obligation to fellow human beings and a deep concern for society to function fairly. This concern is sometimes referred to as “social stewardship.” Donors who see themselves as social stewards seek to support charitable causes that promote greater social stability by fostering democracy, human rights and the equitable distribution of resources. On a practical level, social stewardship includes the recognition that many institutions in the arts, education, science and medicine are worthy and necessary recipients of notable endowments.

Sense of Gratitude

Many affluent individuals are aware that they are the recipients of significant material benefits and they would like to acknowledge their good fortune by “giving back” in some way. These actions can be broad strokes or more focused acts of generosity rooted in specific experiences. For example, successful family business owners and entrepreneurs often give out of a sense of loyalty and gratitude to the communities that have supported their business efforts.

Personal Interests and Passions

If your life has been enriched by the arts, theatre, opera or classical music, you may be inspired to support museums, orchestras and similar institutions. Focused giving based on your interests and passions ensures that individuals will continue to have access to the programs and experiences that you have found to enhance your quality of life. Organizing your charitable giving in a way that is consistent with your personal interests and passions will ensure that your philanthropic activities are enjoyable and meaningful and will often inspire others to give as well.

Direct Experiences

Many charitable organizations have benefited from gifts from donors who first became volunteers with these organizations. These donors are motivated to give based on their involvement with a particular cause or issue, such as cleaning up a neighborhood park, assisting the homeless or improving local schools. Giving based on direct experiences affords the donor an opportunity to express empathy for others whose life circumstances may be quite different than the donor’s. Similarly, perhaps you or a family member have benefited directly from an educational experience or have received life-saving treatment from a nonprofit healthcare organization. A large percentage of the financial contributions received by health facilities come from individuals or the families of individuals who have received services in the past from such institutions. Donors often state that, as a result of their personal experiences with a particular cause or organization, they feel more connected to a collective charitable effort and more responsible for finding solutions that will benefit individuals, their community and society as a whole.

³ For further information, see the field experiments of John List, Homer J. Livingston Professor Economics at the University of Chicago.

To Honor or To Be Honored

Often, individuals are motivated to give because they wish to honor a family member or a friend who has made a positive impact in their lives. Some philanthropists will establish private foundations in their name or their family's name, during their lifetimes or at their death – to do good, most assuredly, but also to be acknowledged and remembered. The recognition that a donor receives by making a gift provides a reciprocal benefit that often encourages the donor to make larger and more consistent gifts. Moreover, giving that is motivated by a desire to honor a family's philanthropic legacy and perpetuates family ideals and values may encourage family members and others in the community to aspire to similar acts of generosity.

Instill Philanthropic Values in Younger Family Members

Another common motivation for giving is the desire to transfer positive values to younger family members. For many donors, charitable giving is a family tradition that they have “inherited,” just as wealth is passed to succeeding generations. Uniting family members around a purposeful mission or in support of a charitable cause may, in fact, strengthen family bonds and encourage the exchange of ideas across generations. The thread that will unite a family's charitable giving, now and in the future, is the shared articulation of the reasons for giving and an assessment of the resources that you wish to dedicate to achieving your philanthropic goals.

Parents and grandparents frequently view charitable giving as a meaningful way to teach their heirs about the value of money, volunteerism and the significance of philanthropy to society. In fact, research has shown that now, more than ever, families are using charitable giving as a mechanism to strengthen family values, preserve a family identity and teach their children to be more caring, helpful and responsible.

TAXES: TOWARD AN INTEGRATED SOLUTION

While often not the primary motive for philanthropy, the income and estate tax benefits of giving likely will influence your choice of charitable structure. A comprehensive review of your philanthropic motivations and how charitable giving can ease your tax burden will likely encourage consistent and long-term giving. Once you have considered why you want to give, you will need to explore the available tax-advantaged charitable giving vehicles and solutions in order to make the maximum impact. Striking a balance between what you need to maintain your lifestyle and what you want to give to your family and to charitable organizations requires a discussion with your advisor of the tax implications – during your lifetime and at your death – in the form of income, gift, estate and generation-skipping taxes. An effective wealth transfer plan should accomplish your charitable intent in a manner that is the most tax-efficient.

ACTING ON YOUR MOTIVATION

There are many reasons for giving beyond what has been discussed. More often than not, donors rarely have a single motive for giving. The process of “taking a step back” to answer the question, “*why give,*” is just as critical as identifying the charitable organizations that you wish to support. Once you have reflected on your motivations for giving, share these thoughts with your family. You also might want to share your motivations for giving with the development officer at the charitable organization that you wish to support. Most importantly, share your motivations for giving with your team of advisors, as such information will inform your deliberations concerning the legacy you wish to build for your family and your community.

A Lifetime of Philanthropy

Not surprisingly, your philanthropic activities will be affected by significant financial or life events, such as retirement, education funding or the birth or death of a family member. Age is also a major factor in how donors consider giving. Throughout your lifetime, you may periodically reconsider how to divide your resources among family, career and community interests. How you give, why you give and the causes you wish to support undoubtedly will evolve as your life situation changes. For example, a younger donor is often in a fortunate position to give his or her time and money, and will choose to volunteer with a single or several charitable organizations. As career and family obligations become more significant, finding time to volunteer may become more difficult. If you happen to experience a sudden liquidity event because you exercised stock options, sold a business or retired, you may find yourself with substantial assets and the freedom to make significant charitable contributions. You also may have more time to become directly involved in the operations of a charitable organization, lending your business expertise to help develop programs that serve your community.

Similarly, the receipt of a sizable inheritance may provide the opportunity to honor a parent or to explore your charitable interests. Often the death of a family member may prompt decisions about what to do with the family's assets, including making resolutions with your family about charitable giving. Indeed, motivations for giving will vary from person to person, within immediate families and from one generation to the next. And sometimes, individuals choose charities as the recipient of their benevolence, when there are no close relatives or friends to receive estate assets.

You may find that the foundation of your "philanthropic plan," even if you have never labeled it as such, is deeply embedded in the values, traditions and current volunteer activities of you or your family. In essence, your motives and opportunities to give will inform your family's philanthropic legacy.

Beginning the Journey

There are several basic questions regarding charitable giving that you may wish to explore. The answers to these questions will likely reveal your underlying motivations for giving and will help you identify the most appropriate gift vehicle(s) for your philanthropic activities.

- Why are you interested in charitable giving?
- What would you like to accomplish with your giving?
- Which charitable causes are you giving your time and resources to now?
- Are you likely to give to causes and organizations outside of the United States?
- How would you like to be involved in, or manage, your giving?
- Do your current charitable activities reflect your values and goals?
- How will family members or non-family members be involved in making gifts?
- Are there time-sensitive tax considerations influencing your giving decisions?

After clarifying your basic motivations and your true philanthropic interests, it is a good idea to share your answers with your tax, legal financial and philanthropic advisors. In addition, you may wish to discuss the following questions with your advisors. The answers to these questions may be more technical in nature, but equally important in determining the best way to achieve your philanthropic and wealth transfer goals.

- Are you concerned with the influence that significant wealth may have on younger family members?
- How important is it that, through your charitable giving, you create a lasting family legacy?
- How does your philanthropy fit into your overall financial and wealth transfer plans?

- What legal structure(s) and gift vehicle(s) can you use to make charitable gifts (as an alternative to, or addition to, making direct contributions) and what tax benefits are available?
- Are there opportunities to participate in social impact investing to achieve financial returns, as well as contribute to social benefit?

Developing Your Philanthropic Plan

Once you've gone through the process of identifying your motives for giving, understanding your expectations for transferring wealth and reviewing the legal and tax benefits of giving, you can begin to develop a strategy to accomplish your philanthropic goals. Many individuals will spend significant time developing retirement plans, estate plans and budgetary plans. While charitable giving is an equally important component of their resource allocation decisions, individuals and families may not devote as much time to developing a plan to support their giving. However, developing a philanthropic plan that addresses why you wish to give, how you will give, to what causes, when you will give and how much, will help you determine whether your charitable giving aligns with your family's principles, values and wealth transfer objectives.

One possible outcome of developing a philanthropic plan may be that you conclude that making substantial gifts to charity may not be appropriate given your current personal and financial goals, such as funding your retirement and providing for your family. Perhaps as you become more financially secure, charitable giving may become a more important part of your financial plan. Remember, developing a philanthropic plan is just one element of a comprehensive wealth transfer plan and must occur within the context of examining your balance sheet, your tax situation and your family's need for income.

But if you are stirred to give and giving is suited to your overall wealth transfer objectives, creating a philanthropic plan should not be overlooked. Many donors also will tie their giving to a family mission statement that expresses the traditions and values that they hope will guide and inform the charitable activities of succeeding generations.

As a necessary step to implementing your plan, you and your advisors will determine which structures to use, such as charitable trusts or donor advised funds, how to time your giving to maximize tax benefits and which assets to use to fund your charitable gift. You may even decide to adopt several charitable giving solutions to fully leverage your resources and provide opportunities to engage your family in all of your philanthropic activities. And, as you periodically review your overall wealth transfer plan, include a review of your philanthropic plan to make sure that it is flexible enough to address unforeseen events, shifts relating to your motivations for giving and changes in your financial circumstances.

CONCLUSION: SOWING THE SEEDS OF SUCCESS

Understanding why you are motivated to give is a necessary precursor to developing a focused and deliberate philanthropic plan for you and your family. Participating in the process of assessing your philanthropic and wealth transfer objectives can be immensely revealing and rewarding to you and your family; the conclusions you gather from this process also will help you set manageable priorities. Moreover, this process of self-reflection likely will trigger a meaningful discussion about your values and beliefs and lead to a deeper appreciation for familial traditions. Wealth transfer planning ultimately rests on your values and those of your family. Once your values are clearly articulated, you can create a wealth transfer plan and charitable giving strategy that is engaging, effective and focused on what really matters to you.

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Marguerite H. Griffin, National Director of Philanthropic Services, consults with clients, their families and their advisors on a variety of charitable giving strategies and grant-making practices. Her experience – including estate and charitable gift planning, private foundation administration and nonprofit organization management, impact investing and international grantmaking – has helped establish Marguerite as an industry recognized expert..

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Northern Trust Corporation (Nasdaq: NTRS) is a leading provider of wealth management, asset servicing, asset management and banking to corporations, institutions, affluent families and individuals. Founded in Chicago in 1889, Northern Trust has offices in the United States in 19 states and Washington, D.C., and 20 international locations in Canada, Europe, the Middle East and the Asia-Pacific region. For more than 125 years, Northern Trust has earned distinction as an industry leader for exceptional service, financial expertise, integrity and innovation. Visit northerntrust.com or follow us on Twitter @NorthernTrust.

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