Delaware Financial Experts Offer Advice on Charitable Giving

Local wealth management advisors weigh in on how philanthropy benefits the world at large, and the bottom line.

BY MICHAEL BRADLEY

Published: 07.26.2019

Mike Sicuranza, president and senior financial advisor at Affinity Wealth, encourages clients to think like Warren Buffet when it comes to giving./Photo by Leslie Barbaro

When Mike Sicuranza, president and senior financial advisor at Wilmington's Affinity Wealth Management, brings up the idea of his clients giving back, he doesn't have to conjure a fairy tale. He just has to tell everyone to be like Warren Buffet—famous for pledging to give away a significant chunk of his wealth—once he convinces them they will be able to pay for their prescription drugs in 30 years.

"You have to ask the right questions and then turn the talk to philanthropy and charitable interests," Sicuranza says. "But I don't agree with the idea that advisors should force clients into it. If they are inclined, our job is to show them the path forward."

"Also, it's important to learn what clients are passionate about and help them uncover possibilities to take advantage of that," he adds. "A lot of people who are successful are hard drivers who don't feel

they have the time or bandwidth to think about those things. Our job as advisors is to show them what's possible."

But before Sicuranza can discuss charitable contributions or the establishment of foundations with his clients, he must do a little reassuring. Even the wealthiest people are looking for someone capable of looking into the future. They need to know if everything's going to be fine.

Of course, that's impossible to predict, but it's easier when the client in question is a high-net worth individual. Even the most uncertain healthcare climate or volatile economic forecasts can't thwart the hopes of people with considerable cash in the bank.

"Clients want to be assured they will be okay," he says. "Then, we can look at the bigger picture."

A tradition of giving

Part of that broader view includes philanthropy. Although Americans have a fairly good understanding that their expenses are going to keep growing and that they will need more money than ever to handle what will almost certainly be on average longer retirement stretches—not that they are all saving that way—there is still a significantly healthy culture of giving throughout the United States. And it continues to grow.

According to Giving USA, Americans gave $410.02 billion to charity in 2017, the first time the nation surpassed $400 billion and a 5.2% increase from 2016. Those impressive figures are part of a long-term trend that has seen numbers swell over the past 62 years to seven times their 1957 levels. Corporate giving is up. Foundation giving is up. And so are individual contributions. That includes wealthy individuals. According to Indiana University's Lilly School of Philanthropy, 90 percent of them contributed to charities, at an average of $29,269 per household.

It's not as if the wealthy don't have some impressive role models in philanthropy. Nearly 200 of the ultra-rich, including the likes of Bill and Melinda Gates, Buffett, Barry Diller, Diane von Furstenberg and Elon Musk, have pledged to donate at least half of their net worth to charity. And they aren't just doing it for a big tax break. There's the knowledge among these top-earners that with great wealth comes great responsibility.

Along with providing counsel on investment options, retirement programs, estate planning and succession strategies, wealth advisors encourage and guide their clients toward philanthropic initiatives that allow them to support causes that are important to them, while cultivating a culture of giving in their families. Oh, and there are those tax benefits, too.

Fred Dawson, a financial advisor at Bassett, Dawson and Foy, says it's often advisors who initiate conversations about charitable giving./Photo by Leslie Barbaro

As the statistics show, this is certainly not a fad. People are sharing their success with a variety of charitable organizations and foundations in attempts to provide assistance to those in need. But providing that help isn't as easy as writing a check, although that old-fashioned approach still brings favor by those looking for donations. Today, there's a variety of options available, and advisors are willing to explore them in order to find the right fit for clients. But like all good wealth management, it begins with a conversation designed to discover goals and preferences.

"It must begin at a high level with a conversation surrounding their aspirations and wishes as they relate to charitable contributions," says Michael Paregian, who has spent 22 years as a financial advisor, the last two at Lau Associates in Wilmington. "What kind of legacy are they interested in leaving? What are they passionate about?"

Those are key questions, because folks who merely write big checks to charities are doing good, but they aren't creating a plan for sustained giving that will benefit them and their families for many years. Therefore, it makes good sense to have a plan that benefits those in need but also allows the investor to gain, both from an altruistic standpoint but also in terms of the financial advantages that are available.

"[The advisor] is the one who is the initiator of this often," says Fred Dawson of Bassett, Dawson and Foy in Wilmington. "I try to learn as much as I can about goals and objectives and try to get to know the clients as people. If they have charities that they favor, we dig into how they can help them easily and cost effectively through highly appreciated stock, real estate or another form of gift."

Tempering the tax man

Susan Lehnerd doesn't want people thinking her approach to charity is purely based on financial benefits reaped by those who contribute to worthy causes, but she doesn't hide that clients are looking for an advantage come April 15.

"Typically, it starts with the tax return," says Lehnerd, director of financial planning for Newark-basedMallard Financial. "Clients are always looking for tax benefits, and charitable donations are one way to [maximize those]."

The tax reforms of 2017 changed some of the deductions people can take on charitable contributions. In 2019, standard deductions for single and joint filers rose to $12,000 and $24,000, respectively, which includes a flat $10,000 deduction for state and local taxes and mortgage interest. A couple that gives $10,000 annually to charity will end up with $20,000 in deductions on their tax return (the charity total, plus the flat tax/interest deduction) and would likely just take the $24,000 standard option. However, by "bunching" two years of charitable deductions into one, the couple could exceed that threshold and get extra tax savings.

Susan Lehnerd, director of financial planning at Mallard Financial, says tax benefits are a major consideration in charitable giving. Photo by Leslie Barbaro

In other words, by giving $20,000 to charity and adding it to the $10,000 tax/interest deduction, a couple could realize $6,000 in savings over one year while still getting the full $24,000 benefit the following year, even without giving any extra money to charity.

"If you double and triple up, you can get a bigger tax break in one year and still benefit moving forward without doing much," Lehnerd says.

Another way to create a benefit for charities and clients is for advisors to help them find ways to donate their mandatory IRA distributions that begin when people hit 70-and-a-half years old. Since contributions to IRAs and 401(k) plans are not taxed when they are made, but are when funds are withdrawn, it makes sense for some to take their monthly checks and donate them to charity. That way, they can do some good and keep some money away from the federal treasury.

"A lot of the clients we work with have the means to support themselves without the income from their retirement funds," Paregian says. "They can make a decision to help fund some charities."

Investing with good in mind

There are many people who have clear, specific charitable goals, and for them, providing money in either of the previous two ways makes perfect sense. However, for those who are trying to decide which worthy causes are most important to them, donor-advised funds are a way to go. Established in the 1930s, these vehicles allow investors to contribute lump sums to a fund under the direction of a custodian (Fidelity, Schwab, etc.) and reap immediate tax benefits. Then, over time, they can direct all or portions of the total fund—which grows under an advisor's direction—to causes they feel are worthy. They can continue to add to the fund over time, gaining the benefits come April 15 and continuing to support charities.

"This works if someone is looking to start small and build over time," Sicuranza says.

Another opportunity for those interested in contributing but not sure exactly about the best targets for their largesse is a community foundation, such as the Delaware Community Foundation. It has already developed relationships with a collection of organizations that are worthy recipients of donations.

"They do a lot of hand-holding for donors," Paregian says. "They will take you to a charity, walk you through and make introductions. If you have an idea of helping in the education sector, they have already vetted the charities and can tell you if your money will be put to good use."

Paregian also says a good advisor is capable of doing some of the investigating, too. He or she can look at tax returns and other information of potential giving targets, and determine how much money they are raising and how they are putting it to use.

> "A lot of the clients we work with have the means to support themselves without the income from their retirement funds. They can make a decision to help fund some charities."
> *—Michael Paregian, Lau Associates*

If people have purchased stock that has appreciated over the years, a sale will trigger the need to pay capital gains taxes on the increase above the cost basis even if someone wants to donate the proceeds to a charity. If, instead, the stock is donated before the sale, the beneficiary receives the full value of the stock, and the person making the contribution pays no tax and can take the entire value of the equities as a charitable donation. It's a win-win-win. The organization gets a substantial gift. The person making the donation pays no taxes. And he or she can claim the entire amount of the stock as a deduction, rather than the value less the amount of tax paid.

It's also important to know that all charitable activity doesn't have to involve direct gifts or other vehicles designed to benefit organizations through specific contributions. Investors interested in helping companies that have corporate missions aligned with them can engage in Environmental, Social and Governance (ESG) investing, which was once an outlier but is now common on Wall Street. ESG funds and companies allow investors to choose options that fit their beliefs. However, it is important to be vigilant when choosing a fund, because there is no universal standard for determining what kind of corporation belongs in the ESG category. Therefore, some companies whose approaches don't align can be included. Investors who dig deeply into funds' makeups to find out who is included are able to make an educated decision.

For those families interested in creating a way to bring everyone together around a common cause, the establishment of a private foundation is one way to go. The concept allows families to work together to be actively involved in the raising and distribution of assets over time. It's a more complicated concept that often involves the establishment of a board, gaining 503c status and sometimes the hiring of employees to handle the day-to-day operations and responsibilities. Despite the extra work, it can help create a shared mission for a family and can promote greater togetherness, if only because of the need for regular meetings to handle foundation business and to discuss potential beneficiaries of accumulated assets.

"You can run it like a nonprofit," Paregian says.

The alternative beneficiary option

Kimberlee Orth had a client who just liked to make money. He lived modestly and did not splurge on many luxuries, so he was able to accumulate a large portfolio. As time moved on, the client started to face some questions about what he was going to do with all of the assets he had acquired.

"He didn't have many family members, and he was struggling with how he was going to distribute his wealth when he died," says Orth, who is a private wealth advisor for Wilmington's Orth Financial Group, a private wealth advisory practice of Ameriprise Financial Services.

Since the client wasn't interested in bequeathing his riches to friends, he had to find another avenue. Orth spoke with him about looking at charities that might interest him as a way of putting the money he had earned to the best use.

"We talked about what he valued, and it turned out that he had a bunch of pets," Orth says. "I asked him, 'Have you ever given to the SPCA or Faithful Friends?' I told him to go take a tour of one of those organizations and see it's run and what kind of impact you can make. He started making gifts to one of them."

In addition to providing investment advice, estate planning and other services, Orth tries to show her clients that supporting an organization by volunteering and donating can help provide a sense of satisfaction but also

create comfort that assets will move on to causes clients believe are important. They can spread things out or just make a significant difference for one.

One couple that Orth advises has so much money, "they couldn't spend it all in three lifetimes." They have two children, but they don't want to spoil the kids and drain their incentive to work by leaving a large portion of the money to them. So, they set up a plan that would provide $1 million for each child and direct the rest to charities.

"We talked about where their passions lay," Orth says. "There are a lot of ways to do it. You can make a huge impact on a small organization, even without a whole lot of money. It's a neat thing to talk about with clients."

Kimberlee Orth of Orth Financial Group says charitable giving is a way for the wealthy to share their largesse after death without bequeathing it to family./Photo courtesy of Orth Financial Group

When it comes to how people decide to direct their estates, Dawson is a stone pragmatist. He understands that no matter how much people talk about the meaning of family and how important it is to develop strong relationships with children and grandchildren, nothing can be guaranteed.

"Sometimes, loved ones aren't that loved," Dawson says.

That's why he encourages clients to spend a considerable amount of time thinking about what they want to happen with their assets after they die. He encourages "soul searching." And he sets up annual reviews to make sure whatever is set in place remains the priority year after year. "Once it's in place, it's done," he says.

One vehicle that has become popular in the estate planning world is planned giving. It used to be that strategy was designed to help mitigate estate taxes. But now that the threshold is so high ($11.4 million), that isn't necessary in the vast majority of cases. It's more a case of people wanting to help worthy causes with their assets after death. One of the methods is an insurance policy. By directing some money from a pension or IRA/401(k) toward a policy, people can pay premiums over a period of time with a specific charity listed as the beneficiary. Orth says it's a way to "supersize" the gift.

"A policy like that can make a big difference for an organization," Orth says. "You have to think about what you want to have happen. You want to take care of your spouse. You want to give something to your children, but you want them to be successful on their own. That's when you think about a charitable organization.

"And you can think big."