

# DIVERSITY OF GIVING: PHILANTHROPIC MOTIVATIONS

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.

## **DEFINING CHARITY AND PHILANTHROPY**

Both “charity” and “philanthropy” can represent actions taken in a spirit of generosity to benefit others and 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 provide a temporary solution to a current problem or fill a long-term need such as a gift of a home or car.

Philanthropy, on the other hand, is generally understood to be giving that provides solutions to seemingly intractable social problems or creates 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 the purposes of this discussion, charitable giving and philanthropy will be used interchangeably.

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At Northern Trust, we recognize that philanthropic giving is 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 partner with you to implement your charitable strategy, ensuring you and your family have as much – or as little – involvement in day-to-day activities as you desire.

## 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,” and 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 others<sup>1</sup>

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 expectation that those with wealth should share it with those who are less fortunate.

### **The desire to give 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 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.

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 both 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 is extremely personal.**

We each have our own charitable intentions and goals. Your desire to give may stem from altruistic notions 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.

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## PHILANTHROPIC MOTIVATIONS

Experience shows that philanthropy is more meaningful and productive when you first consider your reasons for giving.

Understanding the factors that influence your giving as well as your and your family's significant goals is crucial to ensuring the effectiveness of your philanthropic activities and the alignment of your charitable giving to your overall wealth transfer planning. Decisions regarding the amount, timing and recipients of gifts are all closely intertwined, and your motivations for giving are the key starting point. Because each individual and family is unique, motivations can be complex and diverse. But there are several common motivators, ranging from deeply personal to highly practical, among those inclined toward philanthropic giving.

### Altruism

The altruistic donor believes we all have a responsibility to give to those who are less fortunate. For these donors, giving is a moral imperative and should occur without regard to reward or recognition. Such donors may base their decision to give out of a deep concern for human beings or with a goal of helping others maximize their potential.

### 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 were more important than previously acknowledged. His resulting "warm glow" theory, which continues to be studied today, shared the example that individuals do not give money merely to save the critically endangered Amur Leopard species, but also 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, a new academic field called the "science of generosity" has recently emerged that examines economic, neurological, psychological and sociological impacts to determine why we give and how giving can lead to positive health benefits.<sup>2</sup>

### Social Stewardship

Some individuals are driven to give based on a strong sense of duty to fellow human beings and a desire for society to function fairly, 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 fields of art, education, science and medicine are worthy and necessary recipients of notable endowments.

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### Sense of Gratitude

Many affluent individuals are aware that they have been 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 based on 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 helps ensure individuals will continue to have access to the programs and experiences that you have found to enhance your quality of life.

### 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.

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 frequently state that, as a result of their personal experiences with a particular cause or organization, they feel connected to a collective charitable effort and feel responsible for finding solutions that will benefit individuals, their communities and society as a whole.

### 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 on 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 a donor receives by making a gift provides a reciprocal benefit that may encourage the donor to make larger and more consistent gifts. Moreover, because it is motivated by a desire to honor a family’s philanthropic legacy and perpetuate family ideals and values, this giving may encourage family members and others in the community to aspire to similar acts of generosity.

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### **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 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 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 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**

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, share your thoughts with your family as well as 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 they will be crucial to your approach to building the legacy for your family and your community.

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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.

Technological advances and social media have made charitable giving of modest sums easier and more accessible today. The following apps and websites have been launched and can help those who want to engage in microphilanthropy give money and in-kind contributions to charity:

- One Today, an app created by Google, lists a different charity each day and provides users with information about the organization's work, details on what each donation will fund and an impact report.
- Charity Miles turns your active lifestyle into active giving. Log the number of miles you run, walk or bike, select a cause to support and corporate partners will donate an amount for each mile you report.
- Donate a Photo, in partnership with Johnson & Johnson, rewards you for sharing photos on its network by donating \$1 for each photo to your designated charity.
- Instead sets challenges – such as brewing coffee instead of buying – to help you decrease your consumption.

### 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. Your age could also be a major factor in how you 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 can often give their time more readily, and will choose to volunteer with a single or several charitable organizations. But, as career and family obligations become more significant, finding time to volunteer may become more difficult.

In the case of a sudden liquidity event such as exercising stock options, selling a business or retiring, an individual may have immediate access to substantial assets and the freedom to make significant charitable contributions. A retiree also may have more time to become directly involved in the operations of a charitable organization, lending business expertise or helping to develop community programs.

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.

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How you give, why you give and the causes you wish to support undoubtedly will evolve as your life situation changes.

You may find that the foundation of your “philanthropic plan,” even if you have never labeled it as such, is informed by your or your family’s values, traditions and current volunteer activities.

### Beginning the Journey

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

- Why are you interested in charitable giving?
- What would you like to accomplish with your giving?
- To which charitable causes do you currently give your time and resources?
- 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, more technical questions with your advisors to determine 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 you create a lasting family legacy through your charitable giving?
- 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 in 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?

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### Developing Your Philanthropic Plan

Once you've identified your motives for giving, defined your expectations for transferring wealth and reviewed the legal and tax benefits of giving, you can develop a strategy to accomplish your philanthropic goals. While many individuals spend significant time developing retirement plans, estate plans and budgetary plans, they may not devote as much time to the equally important component of charitable giving. 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.

As one possible outcome of developing a philanthropic plan, you may 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. This might shift as you become more financially secure, making charitable giving 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 will tie their giving to a family mission statement expressing 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, timing your giving to maximize tax benefits and identifying which assets to use to fund your charitable gift. You may 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 ensure it is flexible enough to address unforeseen events, such as shifts in your motivations for giving and changes in your financial circumstances.

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### **SOWING THE SEEDS OF SUCCESS**

Understanding your motivation for giving is a necessary precursor to developing a focused and deliberate philanthropic plan for you and your family, and can be immensely revealing and rewarding. The conclusions you gather will also 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 uniquely built around your philanthropic goals.

## ABOUT THE AUTHOR

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 garner Marguerite recognition as an industry expert.

## ABOUT NORTHERN TRUST

Northern Trust Corporation 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 22 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](http://northerntrust.com) or follow us on Twitter @NorthernTrust.

## ADDITIONAL RESOURCES

Paul Brest and Hal Harvey, *Money Well Spent: A Strategic Plan for Smart Philanthropy*, Bloomberg Press, 2008.

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## ENDNOTES

- 1 Adam Smith, *The Theory of Moral Sentiments*, 1759.
- 2 For further information, see the field experiments of John List, Homer J. Livingston Professor Economics at the University of Chicago.

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