Brotherly LOVE

Getting kids interested in philanthropy when they're young teaches them important values and nurtures bonds between siblings and their parents

BY DANIEL AKST • ILLUSTRATIONS BY LEIGH WELLS

he Welles family made its money in doors. David K. Welles Sr. started Therma-Tru in 1962, and by the time the family sold the Maumee, Ohio, maker of residential entryways to Fortune Brands last year, annual sales were in the $400 million range.

But the Welleses believed in giving money, as well as making it. Georgia Welles, the founder's wife, believes especially in the importance of instilling philanthropy in the young. So as each of her 14 grandchildren becomes a teenager, the child is given a Granny fund: $1,000 to donate to charity, replenished annually. "We parents stayed out of it, and my mother stayed out of it," says David K. Welles Jr., son of Georgia and David Sr., explaining that the Granny fund youngsters have always been encouraged to pursue their own philanthropic interests. "The kids developed passions. They feel for others less well-off and know that the money they're going to inherit is a privilege, not a birthright."

Start talking to wealthy families about the benefits of getting kids involved in philanthropy, and they'll tell you the biggest beneficiaries are the kids—and their families. They say even young children who get involved learn the value of money, the limits of resources, and the need for tough decisions. It also helps cosseted youths meet and understand people who are less fortunate and provides a values-based structure for bringing families together year after year.

Financial advisers can play a big role in bringing all these benefits to a family. An adviser knows the client and, therefore, might be ideally suited to help figure out philanthropic values and goals, perhaps by formalizing them in a family mission statement. (For a comprehensive look at family mission statements, see "Point of Reference," December 2002/January 2003.) Advisers can also help clients decide the best way to structure charitable giving, according to how much money is involved and how much involvement the family wants, among other factors.

Perhaps the most basic question from clients is—at what age should kids be engaged in philanthropy? The overwhelming answer from those with experience boils down to one word: young. "As soon as you hear them say the word 'mine,' it's time," says Claire Costello, director of Citigroup Private Bank's philanthropic-advisory service in New York.

Teaching children the right lessons about wealth is a job that only families can do. In part, that's because most high schools and colleges do little to teach young people to handle money, says Susan Crites Price, author of *The Giving Family: Raising Our Children to Help Others* (Council on Foundations). It's especially easy for wealthy kids to avoid learning about delayed gratification, establishing a budget, or making hard spending choices. Unfortunately, Price laments, parents often fail to talk to their kids about wealth. An allowance can help, but the lessons of an allowance should include the lessons of philanthropy. "I think that's really critical," she says.

If your clients give their kids an allowance, they can start with the old three-jar rule: one for spending, one for saving, and one for giving. For an incentive, parents might offer to match what the kids donate. As the children get older, they can be given a modest pot of money, as little as $100 each, and then be asked how they might want to make the world a better place. Do they care about libraries? Animals? People with no place to live? If there are several children, they can meet to decide what causes to support. And when a cause has been identified, they can be taken to visit the potential recipient. Parents who donate their time to a philanthropic effort should have their children accompany them. These occasions are an opportunity to teach kids not only about giving but also how they should treat people. Voluntarism may be costly for parents whose time has high economic value, but it can pay big dividends for children.

Parents who don't get involved in philanthropy themselves can't reasonably expect the kids to get involved, says Douglas Mellinger, vice chairman of Foundation Source, a provider of foundation services in Norwalk, Conn. "You need to exemplify it," he says. And active parents need to communicate their involvement. Says Price: "I've talked to families whose kids said, 'I didn't even know my parents were philanthropic until I read in the newspaper that the

new hospital wing was being named for them.'"

One of the benefits of getting the kids involved is that family members start talking about the things they care about, which can help build trust and lower the level of any conflict over money. Greg Kuhn, a family-business consultant in Kalamazoo, Mich., says the biggest problem he sees is a lack of trust among family members, which inhibits succession planning and imperils family wealth. A family philanthropic effort, he says, is one way families can build trust concerning money. The younger generation gets valuable experience, and the older generation gets reassurance.

Clients can also build a sense of togetherness by weaving the act of charitable giving into family traditions, Kuhn says. "Create any kind of family ritual around giving," Kuhn urges, suggesting holidays and birthdays as occasions for philanthropic activity. Do the kids really need such an avalanche of presents, or would greater satisfaction come from a little giving along with all that getting?

It doesn't take much legal advice or other expertise to help young children get used to giving. But over the long run, wealthy clients interested in philanthropy will need a structure for giving that suits their needs, their pocketbooks, and their families. That's where advisers have a natural part to play. The main choice is between establishing a family foundation or relying on a donor-advised fund. Each has benefits and costs. The good news is that the expenses and headaches associated with both choices have fallen in recent years, and there are good

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Dos and Don'ts for Getting Kids Into Giving

- *Do* get them started young.
- *Do* model philanthropic behavior, and make it part of family activities and celebrations.
- *Do* give teenagers money that they can decide how to donate.
- *Do* volunteer and take the kids along.
- *Do* send your children to a school that makes service a priority and that will get the whole family involved.
- *Do* choose an appropriate vehicle, usually a family foundation or a donor-advised fund.
- *Don't* make your children's philanthropic decisions for them. But insist they think through their giving and do the research to support their choices.
- *Don't* expect teenagers to act philanthropically when you never have. Be an example.

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reasons for the two choices to coexist in a single family.

A family foundation puts clients in the driver's seat. The family gets to control the foundation's assets, set policy, and name board members. Having family members on the board can deepen familial bonds, and the foundation, at least theoretically, can exist in perpetuity. "As a family, it's brought us much closer together," affirms Sara Barrow, whose foundation involves her father, stepmother, husband, brother, and his wife. "We meet four times a year and talk all the time about this." Barrow, who is also program officer for Family Philanthropy Advisors, a foundation-services firm in Minneapolis, says she's also raising her own children to be involved in philanthropy. Her example illustrates an important point made by Citigroup's Costello: "Philanthropy is a platform for family unity."

Some foundations, such as the Frees Foundation in Houston, are establishing kids' boards, complete with a modest pool of money that the junior board members can decide how to allocate. Get the cousins working together, says Diane B. Neimann, president of Family Philanthropy Advisors. Teach them which questions to ask, see that they actually get out and visit charities, and hold everyone accountable. "Make sure there are more requests than funds, so the kids learn to say no," she adds.

On a practical level, family foundations can reimburse trustees for travel expenses to attend meetings and can pay the trustees "reasonable" fees for their work, so in a sense the foundation can underwrite family gatherings to discuss doing good deeds. And donations to a foundation are tax-deductible. "The family foundation is an extremely good vehicle when the family wants to be very much involved," says Neimann.

But some of the advantages of a family foundation can also be disadvantages. It can take a lot of everyone's time, for example. And all that control comes at a price; it can be expensive in terms of legal fees and other costs, including an excise tax on foundation earnings. Annual tax returns are required and become public records, which might matter to donors who prefer anonymity. Costello says that traditionally $2 million was considered the minimum necessary to make a family foundation worthwhile, but she believes this rule of thumb is no longer the case. Mellinger agrees: he says Foundation Source, for instance, is glad to service foundations with less than $250,000 in assets for a fee of $2,000 per year plus 30 basis points. That covers all compliance and paperwork plus a secure Website allowing foundation officers and directors to conduct their business. At those rates, a $250,000 foundation would pay $2,750 a year. Foundation Source will set up the foundation, including legal work and government filing fees, for just $4,750, Mellinger says.

Clients who want simplicity and are comfortable with less hands-on involvement may be better-off using a donor-advised fund. Sometimes operated by a community

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foundation, such as the Toledo Community Foundation that Georgia Welles has used for some of her Granny funds, a donor-advised fund can be established without a large initial outlay. Families typically can open a donor-advised account with just $10,000, but many community foundations will let donors start with less, making these vehicles ideal for the young. Also, most community foundations will give the money to pretty much any charity your client wants, as long as it is recognized by the Internal Revenue Service as a legitimate charitable organization.

With no board of directors or tax filings, donor-advised funds save headaches. And as public charities, donor-advised funds offer attractive tax advantages. Cash gifts to such a fund are deductible up to 50 percent of adjusted gross income, whereas gifts of securities are deductible up to 30 percent. For a family foundation, the maximum allowable deductions are just 30 percent of adjusted gross income for cash donations and 20 percent for securities. Another advantage: The investment income of a donor-advised fund is free of the excise tax that foundations must

pay on their earnings, notes Jon Skillman, president of the more than $2.7 billion Fidelity Charitable Gift Fund.

Skillman's outfit, which claims more than 32,000 donors and the most assets of any donor-advised fund, strives to offer a level of convenience that parallels what Foundation Source offers to foundations. Though clients need $10,000 to open an account, outbound donations don't have to be big; Fidelity allows donations to any IRS-approved charity in amounts of just $250 or more. If you use its Website (www.charitablegift.org), Fidelity will even save you the trouble of writing a check or licking a stamp. The site also offers help in choosing a charity, including detailed third-party reports on thousands of them.

Client funds on deposit at Fidelity Charitable Gift Fund are invested in pools of Fidelity mutual funds (there are four such pools to choose from, varying in aggressiveness), and Skillman says total expenses, including administrative and fund fees, range from 1.42 to 1.84 percent annually. For an account worth $250,000, that translates to roughly $4,000 per year—but that covers money management in addition to administrative services.

Donor-advised funds also have their disadvantages. Although Fidelity offers unlimited succession, many community foundations will allow only one or two generations to succeed the donor, after which donor influence is discontinued. Foundations make it easier to carry on a family legacy generation after generation. A foundation gives a family a sense of ownership earned through personal involvement. It forces families to lay out their values and goals and to face one another on the board. With a donor-advised fund, it is easier for family members to "phone it in."

And for most families, phoning it in is precisely what's not wanted. That's why so many experts recommend giving kids some money of their own to allocate. Mellinger tells of a Brownie Girl Scout troop in Denver that raised a little more than $100 and, with some adult guidance, embarked on a serious discussion of how to give it away. Some of the girls advocated an organization devoted to animal welfare, and soon the Brownies were debating whether it was more important to help animals or people. As David Welles Jr. says of his own family, "The real fun is to watch how engaged our kids get."

Skillman says children can be amazingly creative in putting charitable funds to use: "We had a young donor, 11 years old, who awarded a grant to a braille printing company so blind kids could enjoy Harry Potter."

Still, getting—and keeping—adult children involved can be a challenge if the older generation fails to take account of the children's values, which often differ from their parents'. Neimann observes that the older generation tends to focus on museums, colleges, and other institutions, often in the community where the family has roots. Young adults, she says, are more mobile and more international in outlook. Their philanthropic interests tend to run more toward environmental causes, civil rights, and community development.

Parents have to allow room in any family foundation for **the philanthropic passions of the young** to differ from their own. Older clients seem more aware of this: "People no longer want to control as much from the grave."

"The hard thing is to reconcile these differences," she says. Parents have to allow room in any family foundation for the philanthropic passions of the young to differ from their own, and family mission statements need to be broad enough to encompass these differences. The good news, she adds, is that older clients seem more aware than they used to be that they can't run a foundation forever. Says Neimann: "People no longer want to control as much from the grave."

As the Welles family of Ohio discovered, that can open the door to some creative solutions. For example, if the older folks want to fund a museum and the young ones care about education, perhaps all can agree to fund the museum's arts-education program. Or money can be divided up so there is some for the founder's passions and a portion for those of the new generation. Or there can be a separate fund for the young to give as they wish. Along these lines, Neimann emphasizes family mission statements that focus on broad values rather than specific charities or causes. "You have to get the generations talking to each other," she says. "I think they find that a rich experience."

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