Mary Vandenack provides the transcript from Legal Visionaries podcast on Philanthropy.

TRANSCRIPT:

Mary: On today's episode, my guest is Kim Cappellano. Kim is one of the founding partners of Private Wealth Asset Management. She's been in the high-net-worth private bank business for 20 plus years. Majority of her career, she has been walking alongside high net worth clients, helping them plan and execute in line with their values and objectives. At Private Wealth, she's the director of philanthropic services. She feels she has the best job working with individuals and families on ways they can impact lives through their philanthropy. I ask Kim to participate in this episode today to discuss philanthropy. Thanks for joining me today, Kim.

Kim: Thanks Mary for having me. I'm extremely excited to be here and I do still feel like I have the best job.

Mary: What type of trends are you seeing in our topic area today?

Kim: I think it's always all over the news, but you see bigger and wider trends in philanthropy. What I mean by bigger and wider is technology is going to continue to help and aid in the democracy of how we give today. The other piece is you've noticed that with the wealthiest individuals out there, they've made a declaration that a majority, if not all, of their wealth is going to charitable interests. When I say bigger, that's the bigger component and the wider is the technology. The other piece I would say is the outcome focused. You've got donors now realizing that they need to be less restrictive on when they give to an organization because they want the outcomes and they want the flexibility for those organizations to actually get those results, which is quite different from many, many years ago when you see a lot of restricted funds that almost handcuff an organization to get the results or the outcomes that they need to get to impact the community.

I think those are two big trends. Then I will say that philanthropy was down a little bit in 2022 compared to 2020 and 2021, but down is slightly ... Covid really increased people's desire to give when we were going through such a challenging time. That was impressive to see that we still hold quite the generosity as Americans here today.

Mary: It's a country of community, although sometimes politically you don't see that, but I think if you take politics off it we see that. I do want to just ask you a follow-up question on the technology. How is technology making that change?

Kim: Oh, yeah, I think we saw it with people who got the GoFundMe pieces. I will also put a caveat out there that we have to be very careful about which technology we engage with. You've got people that came out with GoFundMe, you've got people making sure that their websites are more user-friendly or how you can give is more appropriate and in line with what I call the younger generation wants to give through their social platform. Nonprofits continue to evolve with how they utilize social media, how you can give through social media. Then also I feel as a donor, you have to be careful about which platform you choose to give on to make sure that unfortunately we do have situations that aren't always appropriate in the sense that money doesn't go to where it needs to go. Make sure you vet the platforms when you're giving, but it's a great opportunity. It's easy to do. I think most of the younger generation, they live on their phone. That's how they want to be able to give and see the impact.

Mary: Well, and I'd acknowledge that I today have a cause that I support and I've been like, oh, I'm going to write them a check. But then I got an email where I could click a button and I made a gift. I'm like, "Oh, finally got that check mark for the year." Right? What are some of the common giving strategies and vehicles?

Kim: So, I like to break it up into two categories, giving while living, and then the other component, second one is giving and generating income. When I think about giving while living, I think about your donor-advised fund and your private foundations. First, your donor-advised fund is an extremely flexible vehicle. We don't give tax advice, but you recognize that gift in that year especially is great to do in a high-income year is to utilize the donor-advised fund. When you think about engaging the next generation, a nice flexible piece of the donor-advised fund is it's your kids, your grandchildren, their kids, their grandchildren. It just keeps going. Private foundations in this space, again giving while living, come with some guardrails, they are attractive.

I tend to lean towards $10 million and above. I know some research will say $5 million and above, but you have to know that there's set up requirements. There's also how much you need to give per year. There's a lot more structure to a private foundation. What I have found when working with families, it can be a great tool, but you have to make sure you know what the engagement's going to be with your family, future generations and what we've also found by that third generation, a lot of times it dissolves. It doesn't make it through.

Mary: The goal of using a private foundation is passing on really the philanthropy to family members. You can have them on board members. Well, with the donor-advised fund, you can do that to some degree as well. The private foundation has some advantages, but it also has some disadvantages. I will have to mention, one of the things that have written about and talked about is that I'm an advocate for the mini private foundation. The reason is that I'll remember when I first graduated from college, and I didn't have very much money and I wrote what I considered a very small check to a charity. I got a thank you note from the president which I'm sure was a personally handwritten thank you note. I remember I gave you this little itsy bitsy amount and I've written a check to them every single year since then because I just recall that thank you note when I gave this really small amount, and I know enough about the whole trying to raise capital that you try and get the big amounts first, but I think small givers become big givers.

I came up with a vehicle that I call the mini private foundations. You have groups of people who have their little stock clubs, and I've put together groups with the mini private foundation where people didn't have a whole lot to give, but they could almost make it a social club and that you can do that. So, I just throw that out there for thoughts. It's not always the greatest tax strategy, but it is a strategy that I've seen work and create a social get together where you decide to fund charities. And there's actually now a group in the state of Nebraska, women investing in Nebraska they call it that accepts much smaller donations.

Then there's others who give bigger donations but engages everybody in the grant making process. I just want to throw out there that I like to help small donors become bigger donors. Let's just talk a little bit about funding these vehicles. Private foundation, donor advised fund, and I like the concept you did mention the direct gifts. The direct gifts is always the simplest, easiest. I just write a check and then I'm done with it to the extent you want the involvement, you look at one of the other strategies.

Kim: Yeah, I feel that we try to educate our clients also about the tax benefit. Again, engaging with a professional, but check is easy or cash, but really trying to utilize appreciating assets when you're funding these types of vehicles. They can also look at, when I think about the net worth of the individuals we work with, it might be private company stock, private equity, restricted stock insurance assets. There's a lot of ways to fund your charitable giving. I think getting away from just the only way I can give is cash. Let's be thoughtful about is that the best way to give and does that have the most impact for what you're trying to do? Those are other things I like people to consider is those other funding types.

Mary: One of the things I like about both the donor-advised fund and the private foundation is you might have a really huge income year. It's a good year from a tax perspective to make a big donation, but you want to be involved with respect to that donation over a period of time. By doing one of those strategies allows you, if you do a private foundation, there's a certain amount you have to give out every year, but you don't have to do it all at once. But you've gotten the benefit of a donation. The appreciated assets work for either, except if it's closely held stock, the private foundation doesn't work, the donor-advised fund does.

Kim: Correct.

Mary: What's one thing you would wish if you said this is what donors should avoid? What would that be?

Kim: I realize avoid is probably a strong term, but checkbook philanthropy can work. It also can be less strategic. What I find is when we're having conversations with our clients that their intent isn't always to say yes, yes, and yes to everything they're asked. From my perspective, it's being equipped to have that conversation to be able to say no, but in a way that emphasized how you plan to give in the future. For example, you have somebody reach out, they want you to sponsor a table or something else. You say, I have found that our family is really passionate about child hunger or financial education for children. If you have a program in the future that involves those two things, please contact me.

I feel that a lot of our clients, it's not that they don't want to give, they want to start giving in a way that aligns with their passions, but they don't know how to have that conversation. So, checkbook philanthropy, again, can work, but for a lot of our clients, we're trying to make sure that they're aligning their values and their passions with how they're giving.

Mary: I just want to take that and clarify that was the concept. I'm a charter advisor in philanthropy, and I hadn't really thought about it, but I believe what you're saying when you talk about the checkbook approach is you write a little bit here, a little bit there, a little bit there, and that you don't really have a strategic plan for what you're doing. But if you have particular causes, you might have more impact by focusing on those causes rather than every cause that knocks at your door or makes the call to you.

Kim: Yes, because you'll find a lot of times people look back and they'll realize, oh, I don't even know who I gave to or what the last year looked like, but I know that maybe four out of those eight causes are something I'm really passionate about. Did they really make the impact they want to make for their own family and their story?

Mary: You have somebody considering a philanthropic strategy. What do you recommend that they think about before they use the strategy?

Kim: I definitely recommend engaging with their wealth management team, their CPA, attorneys come into play, obviously depending on the vehicle that they want to utilize. I believe each professional has a different perspective. Having your team at the table is very critical when you want to make sure that you execute based on your wishes. As many conversations that need to be had prior to that to get to where you need to go, but please engage your team.

Mary: Team together at the same time is what I like to see because it is always a challenge when you talk to one advisor and say, "Oh, hey, Mary said this." "Oh, Kim said this." If we're all at the table at the same time, those perspectives can get together and really evolve into a good strategy. When you talk about what your role is when you're working with an individual or family, what does that look like?

Kim: We enjoy walking alongside our clients through this process. I want to just give an example. We had a client in the Midwest net worth $50 to $60 million. A lot of real estate, and I'd even say farmland was a big component of it, $20 million liquidity. She's got two sons. She wanted to walk through what are all of her options. We talked about, well, what are your two sons like? Where do they live? Are they married? Do they have children? Do they have the same passions? Are they going to feel the same about whatever they want to support? And it was very much, "No, they don't align with their passions. They have separate giving." We walked her through, "Hey, here are the types of vehicles." Similar to what we talked about earlier, the donor-advised fund, private foundation, and she was even looking at her community foundation in Iowa. Long story short, donor-advised fund was the best for her in her family, it was the most flexible. It provided an avenue for both her sons to have a voice after something would happen to her and her husband. It also provided something for her grandchildren. She could separate out 50-50 or however she wanted to lay that out. It was a great tool, but I call it a conversation and walking alongside our clients to just help them figure out what they're looking to do and accomplish.

Mary: I do always think it's important to point out with the donor-advised funds, although most of the funds you do get a continue and they do listen to you, there are some cases where you might ask for something. You have given those funds away. And I think the Fidelity case, I believe it came out of California, was one of those. So, I just always mention that and say it usually works, but you just have to be aware that you can't do anything and everything and you aren't totally in charge.

Kim: You're right, you've got to review that paperwork. Sometimes it can also end after the second generation and people don't know that. Where does the flexibility lie? They need to know that.

Mary: Know exactly what the terms and conditions of the donor-advised fund you're going into, and that's where I assume having you on the team helps them because otherwise they might not know that. Let's talk a little bit further just about how do you bring philanthropy to life? Somebody's interested, wants to bring it to life. How do they do that?

Kim: There's a little bit of homework with the family and the individual. I break that into three pieces, which is making the plan. Second piece is roles and activities. The third piece is bringing philanthropy to life. Going back to the first part of making a plan, a little bit of the individual homework is what are your values? Putting that down on paper, the family exercise is bringing everyone together and saying, "Do your values align as a family?" Then narrowing the focus after you've identified those values as an individual and then as a family. Then you start to formulate what I call the family's mission statement and then set a goal and budget for that. The second piece is understanding those roles and activities. Who will participate? How often, how will we make decisions, how often will we meet? Then knowing that each family member has a role, and I like these roles, like you have people that are good at organizing or researching or they're networkers or their decision makers or visionaries. Knowing where your family fits in that process. The third component when you talk about bringing philanthropy to life is when you host that family meeting, prepare an agenda, do something fun together, whether that's a book club and you share what you learned through that book. It's a cause you've supported, and you go visit that site, you volunteer together, but have that meeting, dedicate that time and investment to it, and then also spend time connecting with your family and doing something fun that brings that philanthropy to life.

Mary: And the next question I was going to ask is when and how you get your children involved. But you've talked about a little of that in the context of having a family meeting, and it might depend, but one of the things that I learned from another advisor at one point was to talk to your clients about involving children earlier, even if you're only giving them a hundred bucks that they're in charge of and bringing them to the table and they can ask, "I want this to go to Charity X." But they need to review the financials and present on that organization. That's one of the things I've seen in terms of the how. But I want to ask you the when and any additional hows.

Kim: Yeah. I like that perspective. I break it into three categories when it comes to getting your children involved. I have a six, a three, and six month old twins. This is very important to me is how do I teach my children what it looks like? I group it into three categories. Toddlers and preschool, school aged kids, and then the third category, high school and college aged kids. Think about your toddlers. Let them see you involved in the community, let them see you attend meetings, volunteer. Second pieces, and I see this with my own daughter who's six. She's grown out of her clothes, her books, her toys, she loves to donate. I've made it exciting. What does that look like? "Okay, honey, some other young child is going to benefit from this. You remember how excited you were?"

The other piece I saw from one of my coworkers is their birthday parties, the only gifts that are allowed is the child picks a charity and the gifts are given to that charity, whether it be gloves or a jacket or hats or diapers. The next component, you think about the school age kids, similar to what you're talking about, which is spend some, save some, and share some. Get those buckets. Teaching them how to share some of the money that they've accumulated through their allowance. Then you get into the high school age kids and college kids, it's getting them to volunteer and then establish a giving account similar to what you just said. You've got a hundred dollars in this account. What does it look like? Who are you going to give to? I would just say, at every stage, have them share their experience on how they felt and remind them about that feeling as they continue throughout life to give them that nice reminder that giving and helping others is a critical piece to being kind.

Mary: And I want to ask a question too. So, you're actually with a wealth advisory firm, but the firm holds itself out as being a bit of a family office. And rather than, I'm not asking for a commercial on the firm rather than more a question for listeners who might have an interest in philanthropy and sounds like you really can walk alongside and help somebody find that path. But I wouldn't necessarily think of a family, a wealth advisory firm as who I would call for assistance with that. If somebody's interested in this and they're like, "I'm really interested in philanthropy, I want to learn more about it." And we talked about this, how to really make that happen, and you gave a really great breakdown of the steps to do that, why would somebody find you?

Kim: Well, a lot of times it's how we work with our clients today. Many times it turns into a referral. We walk them through this process because I'd say 90% of our clients are philanthropic. When you think about the type of philanthropy that they want to give, this process can be interactive. It's a great experience. It engages their children and then they tell their friends about it who are also philanthropic, and it leads to that opportunity. That's typically how we're found is word of mouth on having those conversations.

Mary: If somebody is interested in pursuing a path that involves more philanthropy, they should ask others who are doing something to look for a referral.

Kim: I think a lot of times the family office, when you think about the net worth we're working with, they do that naturally. Right? They're at an event, they're having a glass of wine, who are you talking to? What are you doing? That's how it comes about. You're right, if we generally don't go out and market a commercial or something like that, we also keep our amount of clients that we work with is generally a little bit smaller than your typical advisor. Again, to be able to provide all of these experiences in a family office, you have to keep the scope and the number of individuals and families you work with a little bit smaller than the typical few hundred individuals and families.

Mary: Do you have a last piece of advice for our listeners?

Kim: Yeah. I'd say start having conversations now. Your kids are never too young. Have those conversations, get them involved. And then the key component that I'll continue to stress, engage your professionals and your team alongside you. I think that there's a lot of value there. You'll see it when they collaborate, and they'll help you make great decisions. And that leads to education and great advice leads to sustainability.

Mary: And I know as somebody who does work with a lot of clients who engage in philanthropy, it's an amazingly rewarding thing to do. Well, I want to thank you for joining me today. As we reach the end of our episode, I want to thank our sponsors, Interactive Legal, Foster Group, Veterans Victory and Housing Centers, and Carson Private Client. That's all for now. Thanks for listening today's episode and stay tuned for our weekly releases.