



INTEGRATING CHARITABLE & FAMILY LEGACIES

June 26, 2019

Presented by Lorraine del Prado

Presenter



**Lorraine del Prado, CSPG,
CFRE, FCEP**

Principal, Del Prado
Philanthropy

- ❖ Provides training and consulting services to help amplify the philanthropic practices of individuals, nonprofits and wealth advisors
- ❖ A Vice President of Thompson & Associates
- ❖ Has been in charitable planning and fund development for more than 27 years
- ❖ Prior to current role, served as Vice President for Seattle Children's Hospital Foundation
- ❖ Other past roles include:
 - President of Children's Hospital & Research Center Foundation at Oakland
 - Fundraiser at the University of California, Berkeley
 - Sr. Account Executive at New Boston Group
- ❖ Holds the designations of Certified Specialist in Planned Giving (CSPG) from the American Institute of Philanthropic Studies and Certified Fundraising Executive (CFRE) and is a Fellow in Charitable Estate Planning (FCEP).
- ❖ She earned a bachelor's degree in Humanities, *cum laude*, from the University of the Philippines and a master's degree in English Literature from Boston University



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Session Outline

- ❖ Benefits of Philanthropy in Families
- ❖ Charitable Gifts in the Context of Values-Based Planning
- ❖ Simple Ways to Integrate Charitable and Family Legacies in Bequests
- ❖ Real-Life Case Studies Using Multiple Charitable Strategies

Altruism's Gifts to the Giver



IT IS ONE OF THE MOST BEAUTIFUL COMPENSATIONS OF THIS LIFE THAT NO MAN CAN SINCERELY TRY TO HELP ANOTHER WITHOUT HELPING HIMSELF

-RALPH WALDO EMERSON



Altruism's Gifts to the Giver



Family Benefits



- ❖ Philanthropy is a great teacher of sound values.
- ❖ Giving inoculates heirs from “influenza,” the dysfunctional relationship with money
- ❖ Giving provides a psychological boost for those of inherited wealth, who suffer from guilt and low self-esteem
- ❖ Giving reduces the sense of separation from the larger world.
- ❖ A forum for meaningful intergenerational communication

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- Peter Karoff, Claude Rosenberg and Bob Braham

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Family Benefits – Family Wealth Succession

- ❖ Helped inculcate the right values in children
- ❖ Taught children to think about the mission of family wealth
- ❖ Taught children the importance of accountability
- ❖ Enabled younger members to make meaningful contributions
- ❖ Created a space separate from the business for the family to come together

-Study of 3,000 affluent families by Roy Williams and Vic Preisser, Philanthropy, Heirs and Values

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Family Benefits - Training Heirs

Lessons of Philanthropy

- ❖ Mission- and goal-orientedness.
- ❖ Thinking beyond one's self.
- ❖ Defining and reinforcing values.
- ❖ Forward thinking; dreaming big.
- ❖ Teamwork and mentorship.
- ❖ Problem solving and strategic planning.
- ❖ Maximizing limited resources.
- ❖ Demonstrating and demanding accountability.
- ❖ Active and vigilant citizenship.
- ❖ Creating concrete results.



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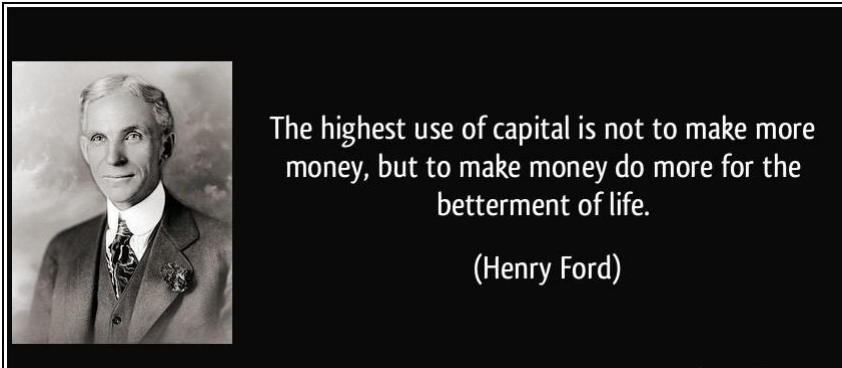
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CHARITABLE GIFTS WITHIN THE CONTEXT OF VALUES-BASED PLANNING

Money and Values

15

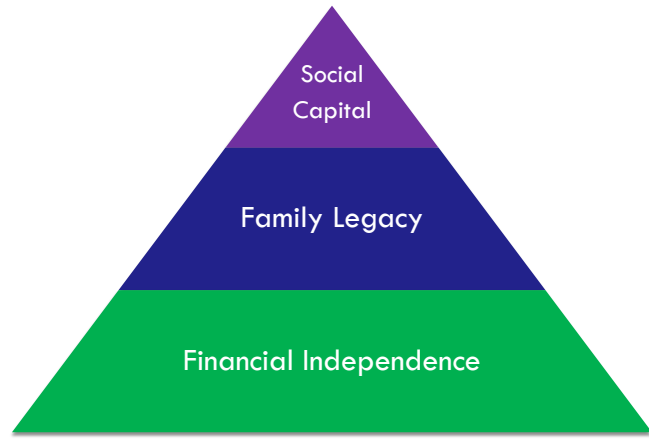


The Value of Money



- ❖ Money has no real positive value unless deployed to accomplish good in your life, your family and society
- ❖ Wealth is merely the means to attain your vision of an independent, happy and meaningful life
- ❖ The dysfunctions of accumulation without intention
 - ❖ Hoarding mentality
 - ❖ Scarcity and fear
 - ❖ Anxiety about heirs' unpreparedness to receive wealth
 - ❖ Separation/isolation from the world

Pyramid of Family Priorities

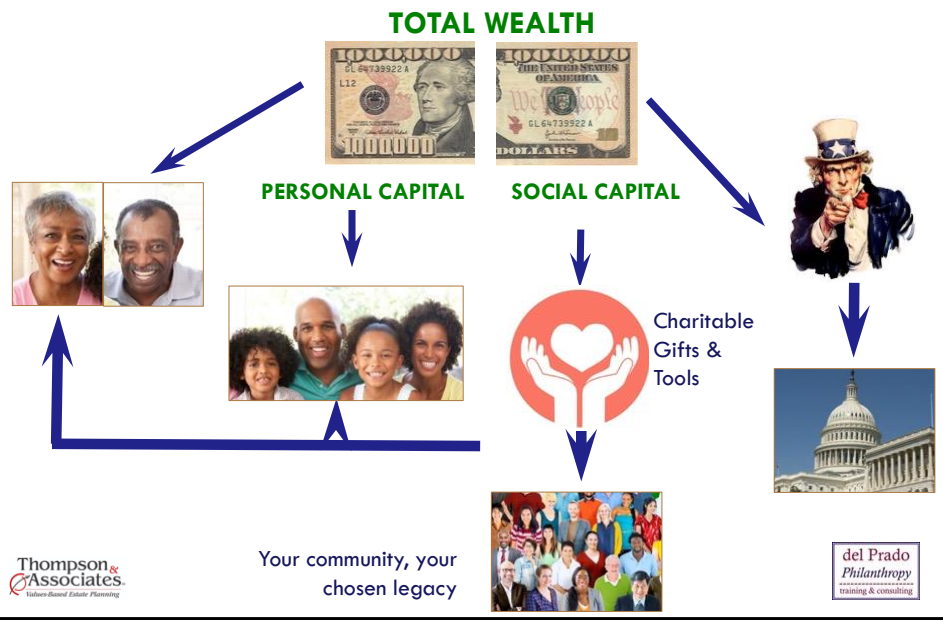


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Scott Fithian, Values Based Estate Planning

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Taking Charge of Social Capital



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Your community, your chosen legacy

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Planning Cycle

THE WHY: PEOPLE & FUNCTION

- Lessons and observations
- Struggles and opportunities
- Progress
- New circumstances
- Adjustments



- Who we are?
- Where we are?
- Where we want to be?
- What is the impact and meaning we desire for our wealth?

- Documents
- Plans
- Choice of advisors, trustees and institution partners

- Strategies, tools and techniques to help achieve goals

Based on Timothy Belber's *The Middle Way*

THE HOWS: TOOLS & FORM

Values-Based Planning Cycle - Output

THE WHY: PEOPLE & FUNCTION

- Periodic meetings and evaluations
- Adjustments, amendments or new documents



- Statement of Values and Objectives
- Vision Statement for Your Wealth
- Legacy Letter/Ethical Will
- Statement of Trust Purpose
- Statement of Donor Intent
- Family Meeting

- Signed Documents
- Map of entire plan
- Maintenance and review plan

- Wills, Trusts, POA
- Limited Liability Company
- CRT, CLT, CGA, DAF
- Private Foundation
- GST Trust, IDIT, ILITs, etc.

Based on Timothy Belber's *The Middle Way*



THE HOWS: TOOLS & FORM



What Values-Based Planning Accomplishes

- ❖ Helps crystallize how your estate plan can support:
 - ❖ Family's core values
 - ❖ Essential opportunities to launch heirs into productive lives
 - ❖ Flourishing, responsible and resilient heirs
 - ❖ Family harmony and cross-generational engagement
 - ❖ Supports a strong and vibrant community
 - ❖ How your family chooses to make a positive and enduring impact on the lives of others
- ❖ Contributes to deep satisfaction and peace of mind about the legacy you plan to leave and how you will be remembered

To Ensure Charitable Intentions Are Known



To share motivations behind and vision for philanthropy:

- ❖ Statement of donor intent
- ❖ Legacy letter
- ❖ Vision Statement for Wealth



SIMPLE WAYS TO INTEGRATE CHARITY AND FAMILY LEGACIES THROUGH BEQUESTS

Words that Work Research Findings of Dr. Russell James

24

Conclusions:

- ❖ Philanthropy is a social act that uses mechanisms of family bonding.
- ❖ Simple language, stories, use of social influence and tributes work better
than
- ❖ Technical, legal, contract and market terms

Probing the connection between family and philanthropy

- ❖ What organizations or causes have contributed in some way to the well-being and success of your family members?
- ❖ What causes have your family members supported in the past with their money and/or time?
- ❖ In order for your family and succeeding generations to thrive, what resources and conditions should their communities always have?
- ❖ Who positively impacted you the most in your family? Would you be interested in paying tribute to them in some way?
- ❖ How would you like your family to be involved in your giving/charitable legacy?

Some Recommendations

26

- ❖ Use simple and familiar language as opposed to technical formal language
 - ❖ Example: “gift in your will” instead of “bequest”
- ❖ Lead with the donor’s interests and concerns first
- ❖ Explain the benefits of a gift before even naming the type of gift
- ❖ Use the appeal of social influence by explaining how other people have done this too.
- ❖ Explore whether donor wishes to pay tribute to a loved one

Presumptive Approach



“Many of our clients like to leave money to charity in their will after providing for their loved ones. Are there any causes you care about?”

Tribute Approach

“Are there any people who meant a lot to you whom you wish to pay tribute to?”

How about designating a small portion of your estate to a charitable cause in their honor?”



Your Extended Family



“If you have X number of children, think of the community as your Xth child...”

Are there charities that greatly benefited you or your family?”

10% Approach

“Some of our clients feel that at least 10% of their estate should go to the community as a way of giving back and that 90% is more than enough for their kids.”

Quote from a donor:

“Your kids will do just as well with 90% as they would with 100%. If they can’t, then there’s something fundamentally wrong. Let’s not kid ourselves.”



Obtaining a Tax-Deduction from a Non-Taxable Estate

Language included in will:

“Though I leave everything to my children, it is my sincere hope that they consider giving a portion of their inheritance to charity. The size would be according to their discretion. They can make a gift to causes they care about or to _____ or _____, causes I supported during my life. I think it’s important to instill in them the need to give back to the community. Such a gift will also entitle them to an income tax deduction.”



**REAL-LIFE CASE STUDIES USING
MULTIPLE CHARITABLE STRATEGIES**



CASE 1: SIMPLIFYING FINANCES FOR THE SAKE OF A LOVED ONE

Marco and Maria Rossi's Situation

- ❖ Both 82 years old; own \$3M in assets; in assisted living facility
- ❖ Lost a daughter to neuroblastoma 50 years ago.
- ❖ Established an endowment focused on neuroblastoma research.
- ❖ Marco was recently diagnosed with a serious heart disease.
- ❖ He wants to simplify their financial plans to spare Maria any worries.
- ❖ Also have one daughter who is doing well financially.



Charitable Gift Annuity During Lifetime



TRANSFER \$500K STOCK WITH \$100K BASIS



IN EXCHANGE FOR 6.1% ANNUITY CONTRACT



Residuum for Endowment for Neuroblastoma Research

- ❖ Partial bypass of capital gain, saving **\$35,768** in capital gains taxes
- ❖ Receive **\$223,551** in income tax deduction = **\$62,594** in tax savings
- ❖ Receive 6.1% annuity or **\$30,500** (\$5,026.62 tax-free, \$20,105.38 CG, \$5,368 OI); estimated \$433,500 over her life
- ❖ Effective return of **7.9%**



Mirrored Testamentary Charitable Remainder Trusts in their Estates



IF MARIO DIES FIRST, ESTATE TRANSFERS MAJORITY OF HIS HALF- \$1 M



5% TESTAMENTARY CRUT FOR 2 LIVES

- ❖ Estate receives \$360,490 in estate tax deduction
- ❖ Maria receives \$50,000 in income in first year; she and daughter receive approx \$1.6 M over two consecutive lifetimes (@ 7% total return)

END OF TERM



Endowment for Neuroblastoma Research



Mirrored Testamentary Charitable Remainder Trusts in their Estates



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END OF TERM



**Endowment for
Neuroblastoma
Research**



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Unlimited Marital Tax Deduction Consideration

Please note: A charitable remainder unitrust or a charitable remainder annuity trust for a surviving spouse also qualifies for the marital deduction.

However, for the unitrust to qualify, it must include only the surviving spouse as a recipient of the annuity or unitrust amount. If the trust includes an additional beneficiary of the payout for lives or a term of years, there will be no marital deduction.

Marco and Maria did not have a taxable estate at the state and federal level, so this was not a concern for them.

If your clients have taxable estates, the non-spouse beneficiary can be provided for in a separate testamentary CRT or could just benefit from a separate bequest.

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Rossi Family Benefits from CGA & Testamentary CRTs

- ❖ Partial bypass of capital gains tax on the sale of appreciated stock
- ❖ Realized income tax savings
- ❖ Guaranteed payments for their lives from CGA
- ❖ Estate enjoys charitable deduction from testamentary CRT
- ❖ Income stream for surviving spouse's life from testamentary CRT
- ❖ Income stream for daughter from testamentary CRT
- ❖ Increased charitable legacy for neuroblastoma research
- ❖ Simplified financial plans and decreased worries

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CASE 2: SECURING PEACE OF MIND AND TOTAL ALIGNMENT

Byron Steele's Situation



- ❖ Own vacation property in Mendocino that's highly appreciated and no longer needed
- ❖ Worried about capital gains tax on sale
- ❖ Wish to provide for needs of wife should he predecease her
- ❖ Wish to provide for daughter's family
- ❖ Daughter currently working on teen pregnancy prevention efforts in community
- ❖ Exploring possibility of supporting local children's hospital



Charitable Remainder Trust + Irrevocable Life Insurance Trust + Long Term Care Insurance

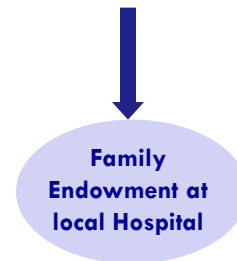


TRANSFER \$500K PROPERTY



**5%
FLIP CRT FOR 2
LIVES**

END OF TERM



- ❖ Avoid capital gains tax on sale of property
- ❖ Receive \$152,085 in income tax deduction
- ❖ Receive \$23,000 in income in first year; approx \$1,040,034 over lifetime (@ 8% total return)
 - ❖ Half of income – paid for premiums of life insurance in an ILIT for daughter's family
 - ❖ Half of income – long-term care insurance for spouse



Steele Family Benefits from CRT, ILIT & LTC

- ❖ Bypassed capital gains tax on the sale of property
- ❖ Realized income tax savings
- ❖ Unlocked income from illiquid asset
- ❖ Provided tax-free inheritance for daughter's family
- ❖ Provided long-term care benefit for wife
- ❖ Removed property from estate
- ❖ Created peace of mind and a charitable legacy that aligns with their values

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CASE 3: A COMPLEX INHERITANCE PROBLEM



When family and charitable considerations far outweigh tax benefits

A Grandfather's Dilemma



- ❖ Recently widowed: assets include \$2M in stock portfolio and \$750K residence (both enjoyed step-up in basis)
- ❖ Daughter used to have chemical addiction problem, but has been clean for five years and has a steady job as a social worker.
- ❖ Grandson just graduated from college and is employed by a CPA firm, but needs more experience before handling a lump sum

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A Grandfather's Dilemma

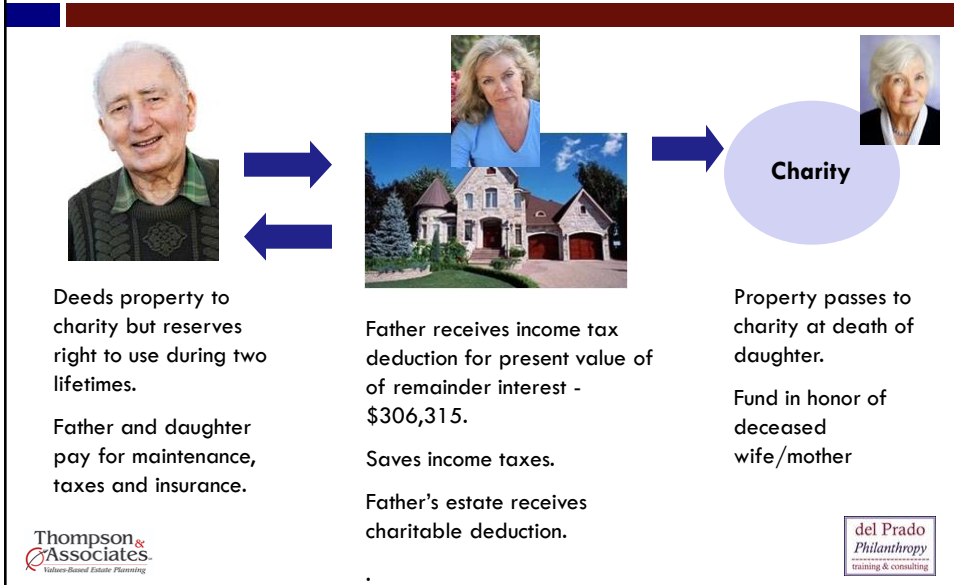


- ❖ Interested in providing for daughter and grandson in a suitable basis
- ❖ Would like to instill charitable values and behaviors in daughter and grandson
- ❖ Would like to pay tribute to deceased wife

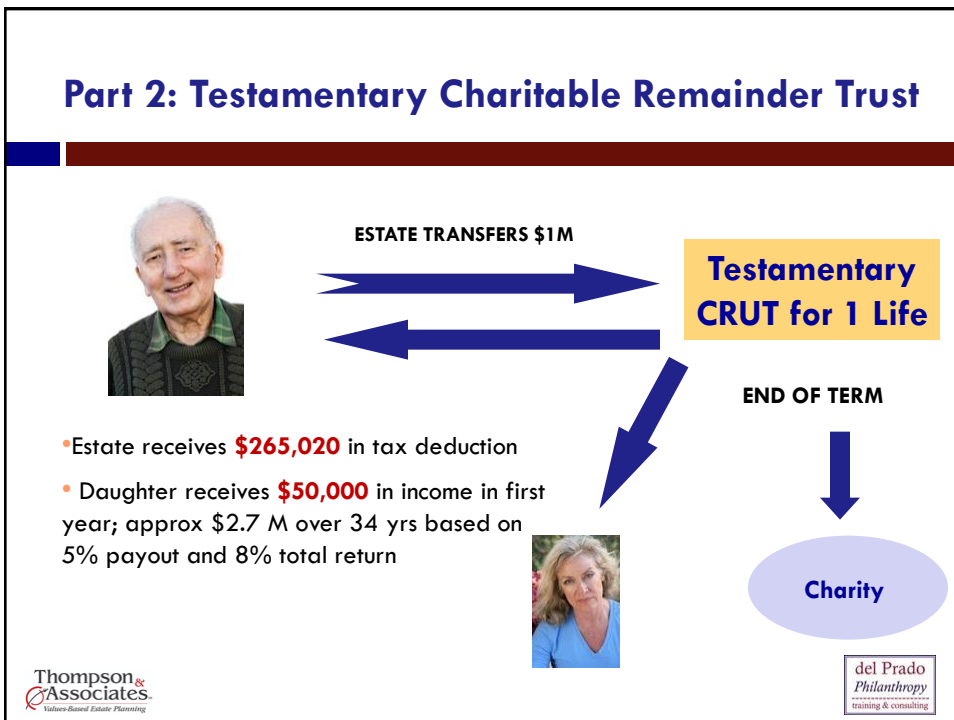
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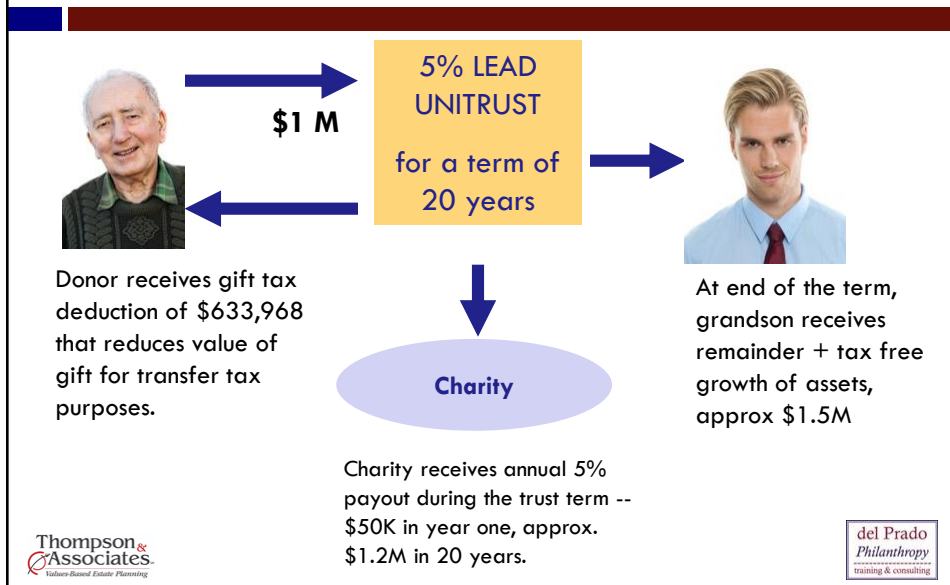
Part 1: Two Life Retained Life Estate – 80 year old father and 55 year-old daughter



Part 2: Testamentary Charitable Remainder Trust



Part 3: Charitable Lead Unitrust for Grandson



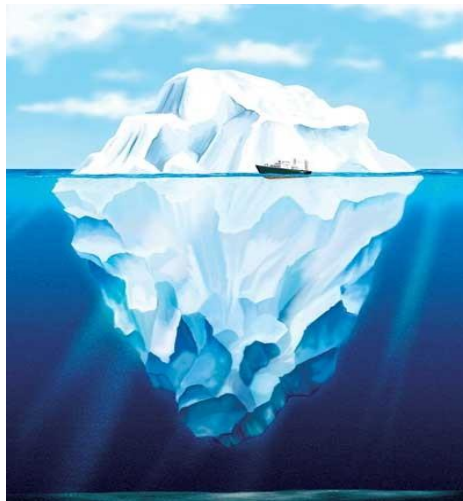
Benefits of a (Non-Grantor) Charitable Lead Trust

- ❖ Transfer assets of great value to heirs at minimal or zero estate/gift/GST taxes
- ❖ Diversify inheritance
- ❖ Benefit charity today
- ❖ Train heirs on the values of philanthropy and civic involvement
- ❖ Train heirs on prudent investment management

Summary of Family Benefits

- ❖ Father provides daughter with home for the rest of her life and extra retirement income upon his death but encourages her continued self-reliance through work.
- ❖ Grandson inherits almost \$2M after 20 years.
- ❖ Grandson also learns about prudent investment management from trustee of CLT
- ❖ Family establishes a philanthropic legacy.
- ❖ Daughter and grandson become involved in grandfather's charity and pay tribute to grandmother/mother through a named fund/endowment.

This is just the tip of the iceberg!



Philanthropy's Ripple Effect



“Like the proverbial pebble dropped in still waters, generosity generates ever-expanding rings of benefit that wash over many layers of society. It produces a virtuous cycle of self-reinforcing benefits.”

-- Claire Gaudiani, *The Greater Good*



Questions, Discussion



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Additional Questions

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