RIAs Add Value With Charitable Strategy Advice

Clients need help understanding donor-advised funds and more *By Richard Stolz*

Robert O'Dell,
Founder of Wheaton Wealth Partners

You can't take it with you—a fact well understood by charitably inclined clients. Their desire to fulfill their philanthropic goals effectively creates an opportunity for independent Registered Investment Advisors (RIAs) "to add value by suggesting a range of charitable giving strategies," notes Matt Judge, Director of Wealth Management Solutions for TD Ameritrade Institutional.

Although charitable giving is an ongoing activity for many clients, it often becomes a more urgent priority for those who have had a significant cash infusion, such as from the exercise of stock options, an inheritance or the sale of a business, according to Robert O'Dell, Founder of Wheaton Wealth Partners in Wheaton, Ill.

He also says that clients who elected to complete a Roth IRA conversion last year and are spreading the tax hit over 2011 and 2012 may be in search of tax-deductible charitable contributions sooner rather than later.

Charitable Giving Strategies

The simplest approach to charitable giving—writing a check or donating property to a public charity—may not be the best approach for planning purposes. For high-net-worth clients, charitable giving strategies may often involve the use of a charitable trust, a private foundation or a donor-advised fund.

Charitable trusts exist in many forms, and can be crafted by estate planning attorneys to achieve different purposes. Private foundations are another option, and give the donor considerable control over the underlying capital. However, they tend to be relatively complicated, potentially expensive to establish, and must disperse at least five percent of their assets each year. In addition, tax returns filed by private foundations are public documents, creating potential privacy issues for donors.

A third alternative is the donor-advised fund, a vehicle favored by O'Dell. "They're easy to set up and to operate, and the administrative fees are low," he says. While not new, the legal framework for donor-advised funds was somewhat murky until Congress provided clear guidance in 2006 in the Pension Protection Act.

A Role for Advisors

Depending on the type of fund, donor-advised funds can also create a role for advisors. In particular, advisors can manage the assets of donor-advised funds if the umbrella foundation organization that holds the assets before they are disbursed elects to retain the advisor for that purpose. That's how it works with the Hudson, Ohio-based American Endowment Foundation (AEF), a national independent sponsor of donor-advised funds established in 1993. (TD Ameritrade Institutional maintains a strategic relationship with AEF.)

AEF, like other donor-advised fund entities, is a 501(c)(3) public charity; tax benefits for the donor accrue at the time of the donation. Strictly speaking, donors are irrevocably contributing these assets to a public charity. However, the donor can recommend which charities are to be supported with funds originating from the donor, as well as the timing of the distribution. If the recommended recipient is a legitimate charity, the donor can reasonably expect that his wishes will be fulfilled.

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Some donor-advised funds are administered by local community foundations, large national charities, investment management companies and independent charities like AEF. Unlike some fund entities, AEF has the capacity to receive donations of real estate and closely held stock.

Business Opportunities

In O'Dell's experience, donor-advised funds can create opportunities to get to know clients' children—a good idea in general—when children become involved in decisions about which charities to support. "It creates very positive family dynamics," he says.

Concludes Judge: "Donor-advised funds and the alternatives may offer different pros and cons; the advisor can help the client make an informed choice."

To support advisors in offering a slate of charitable giving products that can be tailored to their clients' needs—including donor-advised funds, charitable trusts and private foundations—TD Ameritrade Institutional works with AEF and other third-party fund entities. See Veo®>Resource Center>Practice Management>Affinity Services>Investment Solutions. ■