

## Cultivating Philanthropy Across Generations

Many of the families we work with are passionate about philanthropy and we are often asked to help them think about how to create the best environment for collaboration with the next generation. We sat down with Sharna Goldseker of 21/64, a non-profit consulting division of the Andrea and Charles Bronfman Philanthropies, to talk about her experiences helping older and younger generations work side by side in family philanthropy, so we could share them with you.

*Pitcairn:* Can you provide us with a backdrop for what it means for families to take on the challenge of engaging multiple generations in their philanthropic efforts?

*Sharna Goldseker:* Let me start by giving you a sense of scale of family philanthropic efforts. According to Schervish and Havens' research from Boston College's Center on Wealth and Philanthropy, there is over \$43 trillion of wealth transfer underway. Of that, \$20-some trillion is philanthropic dollars. With so much at stake, it is as important as ever for families to learn how to work together.

In family philanthropy there are two words: "family" and "philanthropy," each with a different significance. The families that we work with at 21/64 have the dual goals of wanting to build and maintain family relationships while also making an impact with their philanthropy. Often, as families expand and disperse geographically, elders want to utilize philanthropy as a way for extended family

members to get to know one another and learn to work together. If this is the primary goal, I often remind families that such relationship building will trump their philanthropic goals at the outset. By working together, far-flung family members across different branches and generations can build relationships, trust, and cohesion for the benefit of the family. As those relationships deepen, emphasis on achieving philanthropic goals can play more of a role.



One tool we use to encourage interaction across generations and geographic lines is our *Grandparent Legacy Project*. We interviewed 15 grandparents across the country and invited them to share what they hoped to pass on to future generations through their philanthropy: their desired legacy, lessons learned, values held. We assembled these testimonials into a book along with a workbook that we use with families to encourage younger generations to ask similar questions of their elders. While most of the older generation members we've spoken with assume

their stories will be perceived as "ancient history," they enjoy having the opportunity to communicate about their role models, hopes, visions, and experiences. As the younger generation members deepen their relationships with their elders, they also gain knowledge of what they're inheriting and can use that knowledge to shape their sense of self. Through the lens of philanthropy, the younger generations are able to forge unique bonds with their elders, while at the same time starting to clarify their own philanthropic identity.

*P:* How do you help prepare newer generation members to engage in family philanthropy? How do older generation family members get ready to make room for new ideas?

*SG:* In families where there is a tradition of philanthropy across many generations, the incoming generation often feels a sense of responsibility to what exists as well as a desire to create their own chapters. It can sometimes be difficult to reconcile these two desires, but we recognize that it is essential for incoming family members to know the legacy they are inheriting and also to develop a vision for the legacies that they aspire to create. Elders are often surprised by how respectful the next generations are of wanting to honor their parents and grandparents by furthering their philanthropy, if so desired. The challenge is then helping the next generation family members to articulate their own values and interests, identify the skills that they can bring to the organization, and determine the

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## From the Chairman

Forget about the dog days of summer, we've certainly had a wild few months. Along with rollercoaster-like turmoil in the markets, we experienced a downgrade of the US credit rating, an earthquake on the east coast, a hurricane shortly thereafter, and droughts and fires in Texas.

In unsettled times, I advise others to step outside of the moment and focus on finding balance. My personal method of collecting and organizing my thoughts is to return to Stephen Covey's *7 Habits of Highly Effective People*. This book, more than any other I've read over the years, has had an incredible impact on me both professionally and personally. My only regret is that I didn't read it sooner. I recall how reading it for the first time changed my thinking and reinforced my values. Returning to its foundational concepts that have served me over the years helps me maintain focus and a clear head regardless of what the world has in store.

In this edition of *Pitcairn Update*, we reached out to some of our most trusted colleagues and asked them to share with us a few of the books that have had an impact on them. We were so honored by their thoughtful responses, which we compiled into a fall reading list that promises to educate and entertain. We also spoke with Sharna Goldseker of 21/64 about the challenges of engaging next generations in family philanthropy. Finally, our Tax Director Dave Nave provided some ideas about tax planning in advance of the end of year.

These ideas and thoughts have sharpened and guided our thinking. We hope you find them as useful as we do.

Warm regards,

# Tax-Efficient Charitable Giving

by David R. Nave, Tax Director

As we say goodbye to summer and enter the fall, it is an excellent time to focus on year-end tax planning. One significant area of planning is charitable giving. Here are a few strategies that you might consider to increase the tax efficiency of your charitable donations.

## Give Property

As a general rule, gifts of appreciated property have a double tax advantage: 1) you get a charitable contribution deduction for the full appreciated value of the property, both for regular tax purposes and Alternative Minimum Tax (AMT) purposes; and 2) you avoid paying the tax on the capital gain you would have if you sold the property. You might also consider donating property to a donor advised fund.

When securities have gone down in value, you can sell them and contribute the proceeds to a charity. Your deduction is the same whether you gift the proceeds or the securities, but by selling the securities and then giving the proceeds, you can establish a capital loss deduction. Bear in mind that the capital loss deduction is not available for personal use assets (e.g., personal residence, automobiles).

## Set Up a Charitable Remainder Trust (CRT)

You can set up a CRT and transfer appreciated property, such as land and stock. A CRT allows you to retain a life interest in the income from the property and give the remainder to the designated charity. You don't pay any federal or state income tax as the result of the transfer of the property or the sale of the property by the trust; except if the trust is established in either Pennsylvania or New Jersey, then it is possible that it may be subject to state income tax. You get a charitable deduction for the value of the remainder interest when you set up the trust.

## Donate via a Formula Clause

A formula clause is a technique which guarantees that if the IRS questions a valuation discount on a gift or estate tax audit and succeeds in reducing the amount of the discount, the difference will not go to the IRS in the form of estate or gift tax,

but rather to one or more charities named in the estate plan.

For example, assume Tom gifts limited liability company (LLC) interests equal to his \$5 million lifetime gift tax exemption "as finally determined for federal gift tax purposes" to his daughter with any remaining LLC units passing to a named charity. Tom obtains an appraisal valuing the LLC interests at a 50% discount and transfers the entire \$5 million gift tax exemption to his daughter based on the appraised value. With a formula clause, if upon audit, the IRS and Tom agree that the 50% discount was too high and the appropriate discount should be only 30%, the difference in the discount goes straight to Tom's favorite charity. While this strategy was approved by the Tax Court, it is still subject to IRS challenge.

## Support Your Favorite College

If you donate funds to a college booster club or a similar program, you can deduct all or part of the payment as a charitable contribution, depending upon the giving program.

The tax law states that if a taxpayer gives a gift to a college program that entitles the donor to buy tickets to an athletic event, the taxpayer can still deduct 80% of the cost of the donation. Any part of the payment that goes toward the actual tickets is nondeductible. If a taxpayer receives tickets as part of the donation to a booster club, he or she must deduct the cost of the tickets before applying the 80% rule.

These are just a few ideas to keep in mind when considering your charitable giving and how it fits into your year-end tax planning. We also remind you of the new substantiation requirements that apply to cash donations—including gifts by check or credit card. Usually, you can deduct the full amount of cash gifts made to charities. However, in order to do so you must obtain a bank statement, receipt, or written communication from the charity. The written communication should show the charity's name, the date of the contribution, and the donation amount.

As always, contact your Personal Financial Manager to discuss in greater detail these and other strategies to achieve your charitable goals in the most tax-efficient manner.

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impact they want to have on the future. To strike a balance between the sense of expectation down the generations and the sense of possibility for the future, we encourage families to craft a shared vision statement.

We went through this process recently when a family's active third generation asked us to help them bring the fourth generation into the family foundation. The transition began with dialogue. First, the 15 members of the third and fourth generations that would be working together discussed the legacy they had inherited from the first and second generations. Then they discussed what they each brought to the table and what they hoped to accomplish together. Using our *Picture Your Legacy* cards, each family member articulated their vision for their philanthropy and how they saw themselves contributing to the family foundation. From those discussions, a small working group of members of both generations crafted a values and vision statement that served as a guiding statement for the family's philanthropy. Instead of assuming that the incoming generation would step into what the generations before had created, the two generations came together to consider their evolving legacy. While it's new for many parents to work with their children as peers on such a task, the time and attention given to listening to the views of each generation created buy-in from all family members and a shared sense of ownership that will serve them well as they learn to work together for years to come.

*P:* What are the biggest challenges that the different generations face as they set out to work together?

*SG:* In a family philanthropy setting, this idea of parents and children learning to work together as adults is a profound shift for most families. In family philanthropy, it is often the case that members of different generations have equal responsibility as trustees or directors of a board. This differs from family businesses where there is delineation between owners and managers and a hierarchy of decision-makers. Successful family foundations have board members who build respectful peer relationships. They develop empathy

Families that commit to prioritizing their fundamental unifying values over their generational differences strengthen family bonds and foster acceptance of differences, which is essential for tolerating the difficult conversations that naturally occur. Family philanthropic endeavors thrive when all generations of the family come together with the intent to honor both the family legacy and one another.

*P:* What do you see on the horizon for family philanthropy?

*SG:* Given increasing lifespans, there are on average four generations above the age of 21 living in North American society.

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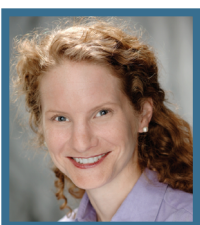
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toward each others' experiences and perspectives, appreciate each others' generational personalities, and learn to communicate effectively across their generational differences.

One strategy that enables family members to communicate and work productively together is to draw on values that are transcendent across the generations. While each generation brings a unique perspective, values of responsibility, compassion, and justice—for example—are often passed down from parents to children. These values can serve as a basis upon which grandparents, parents, and children are able to build a common understanding and develop a common language that will allow them to make decisions together.

This means that family foundations will need to make more room around the table and learn to communicate across multiple generational divides. Additionally, as global connectedness, advances in technology, and language fluency evolve, families are challenged to expand their work across the country, sometimes across the globe.

I see families are searching for new and different ways to work together despite their increasing size, geographical dispersion, and different generational perspectives. By understanding their inherited legacy and planning their shared vision, while remembering to treat each other as valued equals, families can be certain that no matter what direction they choose, they will move forward together.



**Sharna Goldseker** is Vice President of the Andrea and Charles Bronfman Philanthropies where she directs 21/64, a non-profit consulting division specializing in next generation and multi-generational strategic philanthropy. In that capacity, Sharna facilitates Grand Street, a network of ninety 18-28 year olds who are or will be involved in their family's philanthropy; speaks and consults on generational transitions using 21/64's uniquely developed tools such as the Grandparent Legacy Project and Picture Your Legacy; and trains other grantmakers and advisors on 21/64's approach to multi-generational philanthropy.

# News & Events

## Pitcairn on the Radio...

On September 7, 2011, Chief Investment Officer **Rick Pitcairn** was a guest on *Bloomberg Radio's* "The Hays Advantage" with Kathleen Hays. Rick shared his outlook on the market and the steps that he thinks the Fed and government can and should take to reinvigorate the economy. Additionally, he discussed Pitcairn's role as a family office and how we tailor our investment approach, position our client investment strategies, and pick managers to ensure success for client portfolios, particularly in these tumultuous times.

## Pitcairn Sponsors...

Pitcairn co-sponsored a Family Office Exchange workshop on September 7 and 8, 2011. Managing Director **Rebecca**

**Meyer** participated on a panel entitled *To Outsource or Not to Outsource... That is the Question*, offering Pitcairn's perspective on how outsourcing the CIO role and investment activities can benefit single family offices needing to reevaluate their current structure in order to achieve compliance in the wake of new SEC regulations.

On June 7, 2011, Pitcairn co-hosted a breakfast in Washington, DC with Arabella Advisors to introduce the findings of the Family Wealth Alliance's *Third Annual Single Family Office Study*. Pitcairn was represented by Managing Directors **Rebecca Meyer** and **Bill Rankin**, as well as Vice President **Danielle York**, who shared best practices for sustaining generational wealth, focusing on investments and the evolution of the family wealth structure.

## Back to School Reading List

Over the summer, we reached out to some colleagues and advisors, asking them to share with us some of their favorite reading material. We were overwhelmed by their thoughtful and thought-provoking responses, which returned a long list of fiction and non-fiction books, articles, and blogs that will keep us reading well into the new year.

Their suggestions run the gamut, from Henry Kissinger's *On China*, recommended by François de Visscher as "an excellent essay on China and the world our children and grandchildren will inherit," to Keith Richards' autobiography *Life*, which Wayne Farmer thought was, "The best business book of the year on how to build a brand, not a band." There were even a few overlaps; several of our colleagues suggested Michael Lewis' *The Big Short* and Mark Daniell and Sara Hamilton's *Family Legacy and Leadership*. Here are a few suggestions that piqued our interest:

1. *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It* by Michael E. Gerber

"It is a classic that has been updated and shows how entrepreneurs start companies, distinguishes what processes work for the most successful, and really teaches that you have to work 'on' your business and not 'in' it."—Claudio De Vellis, Smith, Gambrell & Russell, LLP

2. *Philanthropy 2173 Blog* ([www.philanthropy.blogspot.com](http://www.philanthropy.blogspot.com)) by Lucy Bernholz

"I enjoy reading Lucy's thoughts and commentary on the wide space of philanthropy. A self-described 'philanthropy wonk,' her passion is making philanthropic investments and building

philanthropic capital markets. Lucy is clever and funny as she writes about the books she's read, the conferences she's attended, and her experiences in the field."—Teresa Araco Rodgers, harp-weaver, LLC

3. *Practical Wisdom: The Right Way to Do the Right Thing* by Barry Schwartz

"While the book is written for a broad audience, so far it looks like 'must reading' for anyone serving as trustee."—Hartley Goldstone, Trustscape, LLC

4. *Getting to Yes: Negotiating Agreement without Giving In* by Roger Fisher and William L. Ury

"This is a great book that I particularly like recommending to assist people in understanding the views of others and succeeding in effectively communicating. It is a classic."—Ronald Weiner, Perelson Weiner

5. *When Your Parents Sign the Paychecks: Finding Career Success Inside or Outside the Family Business* by Greg McCann

"A self-development book for young people who grow up in a business family and wonder how they can prepare themselves."—Dennis Jaffe, PhD, Saybrook University

We've shared with you only a few of the many excellent recommendations we received. For more reading material, we invite you to visit the complete list posted on [www.pitcairn.com](http://www.pitcairn.com) in the resource section.

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