



PASSAGES Issue Brief

EXPLORING KEY ISSUES IN FAMILY GIVING

Transitions in Family Philanthropy

MARCH 2017

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All families experience transitions.

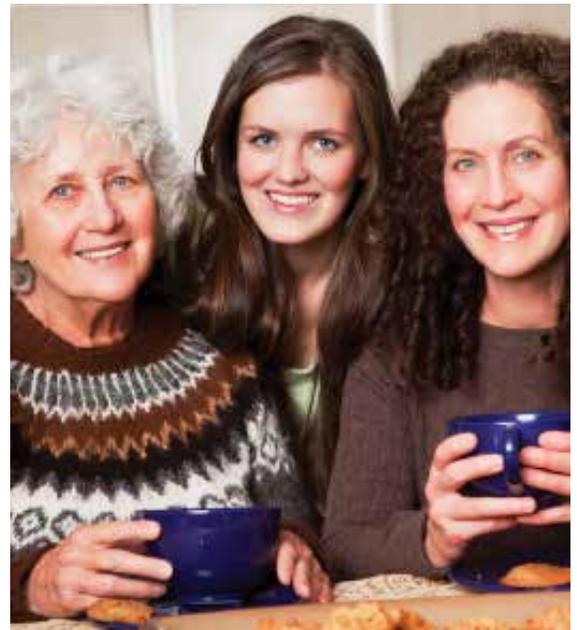
These transitions can be joyful occasions such as births, marriages, graduations, and retirements. They can also be intensely painful experiences caused by life events such as divorce and death.

No matter the intensity of the emotions they generate, transitions have the potential to affect the course of your family's life. These transitions also impact your family's philanthropy — and how your family chooses to manage its charitable giving vehicles, such as your donor-advised fund.

If possible, think about navigating transitions in the context of preventative medicine — not as emergency-room treatment.

If one of the goals is to engage your family in your philanthropy across multiple generations, it's important to recognize that transition is inevitable.

And rather than being caught off guard and being forced to make difficult decisions during trying times, it is never too early to start preparing for some common transitions.



If possible, think about navigating transitions in the context of preventative medicine — not as emergency-room treatment. The time to think about whether or not you want a son- or daughter-in-law to have a say with respect to your donor-advised fund is long before it's an issue — not when your daughter is engaged to someone you all dislike, because then it's a referendum on your daughter and her fiancée... and not about what's good for the donor-advised fund.

The following guide provides advice about how your family can discuss and prepare for the transitions that will invariably affect your shared philanthropy.

Critical Moments in Your Donor-advised Fund's Life Cycle

While your family's donor-advised fund will be affected by a number of different types of transitions, the most common transitions fall into two categories: those prompted by family circumstances and those prompted by changes related to your donor-advised fund. Family and fund changes present the greatest potential for impact on your philanthropy

Transitions prompted by family circumstances include:

- * The death of the founder¹ or a key figure in the family.
- * The presence of a new generation, especially one approaching adulthood.
- * Births and adoptions.
- * Marriages and divorces.
- * The geographic dispersion of the family's branches or members.

Transitions prompted by donor-advised fund related circumstances include:

- * A significant increase or decrease in assets.

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- * A change in roles and responsibilities among family members.
- * A change in mission or funding priorities.

In addition, your giving priorities may experience a shift as a result of major changes in one of your primary charitable giving focus areas or in a “legacy organization” — a nonprofit that has received long-term support, often as the result of a former commitment.

These kinds of changes to priority giving area or organizations include:

- * A change in chief executive or board chair of the organization funded.
- * A significant change in the organization's financial circumstances.
- * New information or development (a major change in focus, or even a scandal).



¹ “Founder,” as used throughout this article, refers to the donor who initially set up the donor-advised fund at the sponsoring public charity.

Transitions as Opportunities

It is understandable for your family to be apprehensive about change. If your family is happy and well adjusted, you don't want to disrupt that dynamic. If you've struggled through some difficult times, you might fear resurfacing old demons and exacerbating tensions.

But while it's common to feel uneasy, it's also important to recognize that transitions offer great opportunities for your family — and your giving. Below are three opportunities that spring from transitions:

Opportunity 1 | Determining Policies Based on Principles

Perhaps the most important opportunity associated with transitions actually should happen *before* the transition is upon you. Taking time ahead of transitions to make decisions about impending change can help ensure that you don't have to deal with these decisions in the midst of change. Planning ahead allows you to think about the best interests of your family and its philanthropy. Planned change usually factors in values, effectiveness, best practice, and healthy family participation. Change that is forced by dramatic circumstances is usually driven by that circumstance, with little time for considering the bigger picture.

Opportunity 2 | Reviewing, Reimagining, and Reinvigorating

Even the most well-functioning family giving vehicle can slip into lethargy if left unattended. A transition offers the chance to think about your achievements and what has created them. Look for “bumps” and how you might have handled them better or even avoided them. Maybe it's time for a self-assessment or to invite others to work with you to gain their insights?

Opportunity 3 | Balancing Respect for Legacy With The Needs of the Future

Perhaps the most frequently cited barrier to taking advantage of transitions is the concern that any change will disrespect the founders. The inspiration and values of the founders are, and should be,

constants in the life of any longstanding donor-advised fund. For many families, mission is also a constant. The future is built on these constants. Philanthropic founders are often entrepreneurs who succeeded because they had a strong sense of the future; they valued creativity, even risk taking. Your creativity and risk appetite, guided by values and hopes, can keep your eye on the future while grounded in your special past. Maybe it's time to review your mission and approach and ensure that it meets the current and future needs of the communities and causes your support?



Transitions as Challenges

While transitions are natural and can be healthy, they also bring challenges.

Even the best-prepared families must navigate hurdles as they deal with significant changes. These challenges include:

Challenge 1 | Maintaining the Inspiration That Prompted Your Giving

Your family was enthusiastic and energetic about philanthropy when it established a donor-advised fund. Often, the founder was responsible for those feelings. When that leader retires or passes away, the family can stumble a bit as it searches for new motivation for participation. Spend time understanding the legacy not only of the founder, but of your family as a whole. What motivates you to make a difference? Which talents can you draw from successors to advance your giving? How can you better appreciate the privilege of philanthropy, and draw inspiration from this work? These questions can help frame a helpful conversation during these and other important transitions.

Challenge 2 | Looking for Commonality, As Well As Difference

While your donor-advised fund is a single giving vehicle, your family is made up of distinctly different people. Geography, political beliefs, religions, age, and the makeup of your family can shape each individual's perspectives and opinions. All of this can make us feel very different, even isolated, from one another. In stressful times, we feel those differences more keenly. *Don't let an overemphasis on how you are different keep you from appreciating and building on how you are alike.* Doing so can lead you to decisions that split the family and the funding and keep you from working through difference to achieve extraordinary results.

Challenge 3 | Avoiding the Quick Fix

When thrust into a new situation or transition, it can be easy to make hasty decisions to help you get by. For example, you might choose to add the spouse of a recently married first child of the next generation to your family's advisory board. This might be a wise decision, but only if you have given thought up front to the overall concept of spouses and creating a policy for future in laws. In sudden transitions, there is often little time to consider long-term solutions. But, in such cases, you can develop an interim process to help consider the big picture.

Challenge 4 | Determining Policies Based on Principles

Yes, this is both a challenge and an opportunity. At its best, a family is a caring community and no one wants to see any member hurt. Members don't want to choose one over another and definitely don't want to hold one another accountable. In philanthropic work, that caring can lead to chaos. To keep the peace, we sometimes make choices that favor personalities over principle. It's important when making big decisions to ask: *What is in the best interest of the family's shared philanthropy?* Is the public trust inherent in the philanthropic commitment at odds with family interests? In almost every case, there is a solution that preserves the first and works for the latter.

“While transitions are natural and can be healthy, they also bring challenges.”

Three Tumultuous Transitions

While transitions can come in many forms, three stand out as the most frequently cited sources of tumult and tension for family funds:

- 1 | **The Retirement or Death of the Founder(s)**
- 2 | **Generational Inclusion and Succession**
- 3 | **Shift in Leadership**

The extent of that tumult and tension directly correlates to planning, strength of the family's commitment, and a strategy designed to advance the giving mission and impact. Here are some ideas on how families can navigate each of these big three transitions

1 | **The Retirement or Death of the Founder(s)**

The retirement or death of the founder is a critical leadership transition. Founders are typically integral to the leadership of the family's work with its donor-advised fund, and most families are not prepared for the significant impact that the loss of this individual entails.

The reasons for deferring planning for this transition vary, but almost all reflect some reluctance to think about the day when the founder will not be present. Founders themselves may be averse to thinking about such a day. Understandably, fear of mortality and concern for leaving family behind can be overwhelming.

Nevertheless, families that have the best experiences begin thinking about this transition long before it's necessary. Founders who hope to see even one successive generation participate in the philanthropy do well to *genuinely involve those family members as early as possible in the process.*

On the flip side, most founders don't want to leave their families to guess at their wishes after they are gone or flounder for leadership in the absence of a plan. Without such a plan and hands-on experience working through tough issues together, families sometimes "divide up" the donor-advised fund based on branches, interest, or geography.



But rather than worrying about cautionary tales, think instead about the benefits that come with planning ahead. The process offers an opportunity for you and your successors to understand the full scope of your aspirations and how those will shape policy and practice going forward.

Such work, with the founder at the table, is the best step for a start to the most genuinely collaborative stage of giving. Founders who allow for such collaboration are often very satisfied with the result.

So, while your founders are still active and committed, ask them their perspectives on questions such as the following:

- What are your motivations for philanthropy? What do you hope to accomplish?
- Why was the donor-advised fund established as a family philanthropy? Why not as an individual giving program—one where you simply wrote checks directly to nonprofits?
- How do you hope that other family members will be involved in developing the vision for the donor-advised fund?
- Is there a clear understanding of the “life expectancy” for the donor-advised fund? Will it go on in perpetuity or will it have a plan for spending down? Are family members expected to develop their own philanthropic vehicles or to contribute to this one?

2 | **Generational Inclusion and Succession**

If you want your family’s giving to have a legacy, there is nothing more critical than the process of passing the responsibility to successors.

At the same time, no issue is more sensitive than choosing successors among children, nephews, nieces, and grandchildren.

The nature of succession differs for each generation.

But rather than worrying about cautionary tales, think instead about the benefits that come with planning ahead. The process offers an opportunity for you and your successors to understand the full scope of your aspirations and how those will shape policy and practice going forward.

Transitioning to the Second Generation

Most second-generation family members are invited to participate while the founders are still very active in their philanthropy. They have the chance to work closely with their parents, even if it's in a fairly passive role.

Further, most second-generation family members grew up in the same house and, while some experiences might have been different and they may react differently to shared experiences, they have a common base of family history.

A number of other circumstances may make it easier to manage the transition to the second generation compared with future generational successions:

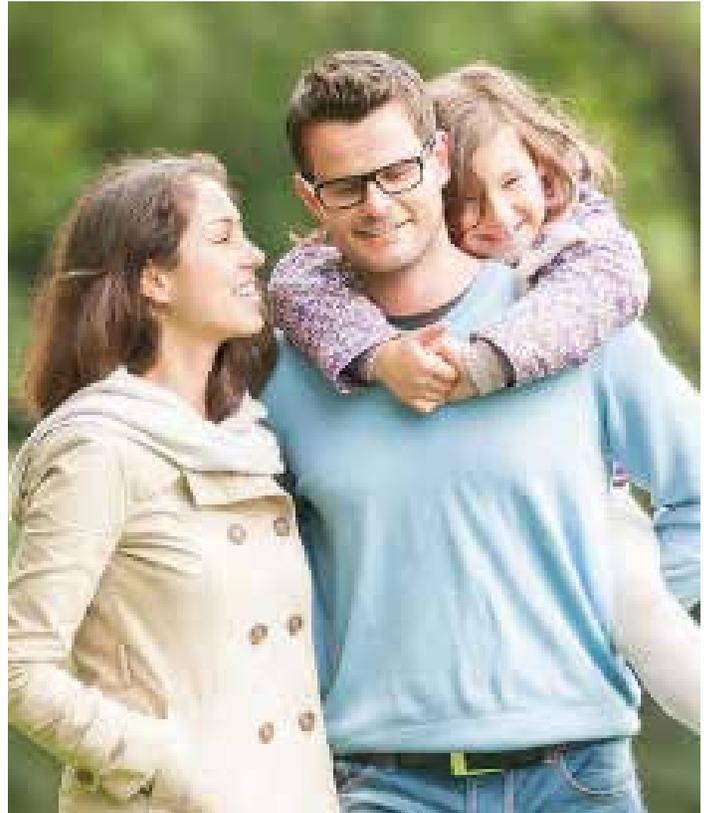
- * Most second generations have few family members, which makes it easier to manage participation.
- * The smaller number of participants makes it easier to support personal interests.
- * The limited number of family members makes it easier to include spouses as decision makers. Later generations may have to weigh inclusion vs. efficiency.

The second generation also often helps shape the family's values, mission, and governance practices for its donor-advised fund. Many thoughtful founders find opportunities to engage their children in these processes, which helps ensure that they are fully prepared to family's values, mission, and governance practices for its donor-advised fund

Transitioning to the Third Generation

The transition to the third generation is often the first big test for a multigenerational giving family. Grandchildren of the founders often do not all grow up in the same house — let alone the same region. While there may or may not have been close relationships between this generation and their grandparents, aunts, uncles, and cousins, this is the first generation that grew up with influences of different parents, homes, political persuasions, religion, etc. All have the potential to enrich families — but they can also create divisions.

Additional circumstances may add to the complexity. Perhaps most challenging is trying to establish policies that can be applied uniformly to a generation. For example, many third generation families have a significant age range, due to multiple marriages and the presence of adopted or step children. It is not unusual to be planning for succession to a generation that may range in age from 3 to 33.



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3 | Shift in Leadership

Choosing among family members for leadership positions can be complicated.

For some families, the dilemma is to choose “first among equals” — or what is perceived to be equal.

For others, an obvious candidate makes it easier; the most experienced, committed, able, and willing is regarded as such by all.

For others, leaders are picked by the founder and the anointing of subsequent leaders may continue as practice.

Families often fear these transitions because they don't want to risk offending or hurting any family member. Adding to the complexity is the impulse to seek fairness among factions within the family. Fairness is the most elusive goal any giving family can pursue — as it is a constantly changing target.

Nevertheless, at some point, you will likely have to make a decision about whether leadership and participation is based on representation or fit.

A number of families think that the way to avoid conflict or disappointment (or again, to be fair) is to rotate leadership among everyone. For some, particularly in the second generation, this may make sense. In the future, it's probably going to make less sense.

In difficult times, a capable leader can spare unnecessary complications or inaction. Consider the qualities you all agree you need in a leader and determine a nomination or selection process based on the ability to meet those requirements.

When all options have been exhausted (or, better yet, at the beginning), use the filter recommended above: What is in the best interest of our family's giving?

Planning Participation by New Generations

- **Think of your donor-advised fund as the legacy of one family.** Curiously, yet frequently, many giving families structure future participation along the branch lines of the second generation. While this can offer solutions to initial challenges, putting too much emphasis on differences or divisions within the family risks losing the sense of the founder's family as a strong collective.
- **Establish a multi-generational experience.** There is no point in time when the baton appropriately passes to the next generation. Given that we are living longer, healthier lives, that many older family members have more discretionary time than their younger relatives, and many generations have a significant age range, it makes great sense to plan for multi-generational governance.
- **Encourage young family members to develop a personal charitable identity and sense of purpose.** Giving and volunteering gives young people hands-on experience with community assets and problems as well as exposure to the inspiration of passionate nonprofit leaders.
- **Avoid setting the expectation that every young adult will participate.** Expectations of this kind can breed entitlement and impatience.
- **Transfer stewardship rather than ownership.** The first implies the privilege that comes from caring for a sacred trust or responsibility; the second implies possession or proprietary privilege.
- **Accept that the needs of the donor-advised fund will compete with the individual needs and wants of family members.** While compromise may produce a win/win, what cannot be compromised is integrity. In such circumstances, use a simple filter: what is in the best interests of the donor-advised fund.
- **Be clear about your goals.** Are you trying to raise charitable, socially responsible children? Are you trying to make sure your children know and appreciate your family's philanthropic legacy and values? Or are you trying to ensure the effective and responsible governance of your family's work with its donor-advised fund going forward.

Conclusion

It would be impossible to explore philanthropic transitions without looking at the family dynamics that both influence and are influenced by change. Family giving vehicles are sometimes criticized for the personal nature of this giving and critics point to the potential for family dysfunction. These same critics typically fail to account for the qualities of family that make this giving both effective and special: loyalty, community experience, caring, and many more.

What makes family dynamics work for or against great giving?

Largely, it is an understanding of how the same things that make you strong can lead to complications.

Here are a few examples:

Love. The principal gift of family, love, can also cause your family to refrain from action for fear of hurting someone's feelings.

Tolerance. Tolerance can help a family stay open to new perspectives and experiences. In

the extreme, it can lead to lethargy, including accepting poor performance.

Legacy. A family's philanthropic legacy is a source of inspiration, pride, and the values on which giving priorities and practice are based. In the absence of attention and renewal, it can also lead families to rely on history for reputation and a sense of self-importance.

The scope of these dynamics — and the impact of life cycles on your fund — cannot be thoroughly covered in any one issue paper. Each shift is worthy of greater study. But hopefully this summary encourages your own thinking, planning, and process.

One thing is clear: there is an emerging body of information on good, ethical, and effective practice and there is no one solution that fits every family for every transition.

But one there is one clear truism that works for all families: It is never too soon to begin to plan for a transition.

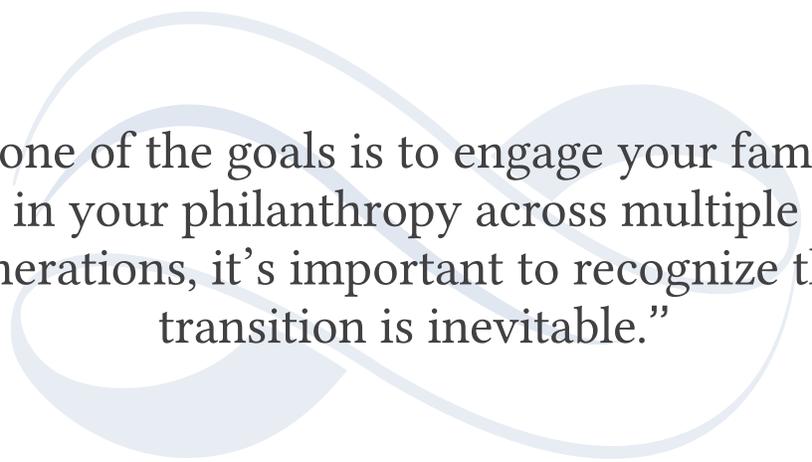
Resources

- *Generations Together*: a series of interactive, online modules that families can draw from as they walk young people through the process of learning about their family's history, understanding their values and traditions, and developing the skills and talents they need to become effective philanthropists.
- *Family Philanthropy Transitions: Possibilities, Problems and Potential*, National Center for Family Philanthropy, 2015
- *Choosing and Preparing Your Grantmaking Successors*, National Center for Family Philanthropy, 2010

- *Passing the Baton: Generations Sharing Leadership*, National Center for Family Philanthropy, 2008

You may also be interested in other guides in this Fidelity Charitable special series:

- Governance in Family Philanthropy
- Engaging the Next Generation
- Giving Together: A Guide to Managing Family Dynamics



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About the National Center for Family Philanthropy

The National Center for Family Philanthropy is the only national nonprofit dedicated exclusively to families who give and those who work with them. We provide the resources, expertise and support families need to transform their values into effective giving that makes a lasting impact on the communities they serve. Together, we make great things happen.

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Production of this Issue Brief has been generously provided by Fidelity Charitable.



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