When Retirement Planning Leads to Charitable Giving

by Jonathan Guyton, CFP®

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In my first column each year, I often look at bigger-picture planning issues that arise in retirement. This time, I focus on an exciting outgrowth of helping a client execute a strategy for sustainable income distributions throughout their retirement—namely, the multilayered aspects regarding the next purpose of their financial resources. It is a coming conversation that offers our profession and our clients a powerful opportunity to impact both the world of charitable giving and the lives of those who will come after us. One such conversation recently took place in our conference room …

" … *So, will I use up all the money I've saved?*" Jay asked.

We had just reviewed with Jay, now age 61, how withdrawal spending policies would work and be integrated with our recommended Social Security claiming strategy given his good health, healthy lifestyle, and family longevity. No, we said. A key aspect of our empirically based approach was that he should expect that there would be money remaining at the end of his life—even if he lived a very long time. This was magnified by the fact that our retirement planning work together had made it clear that Jay would not need to withdraw a lifetime income at what we considered his highest sustainable rate: the "faucet" wouldn't be set at its maximum safe capacity. In fact, the odds were good that his financial assets would be worth as much—if not more—at his death than when he retired.

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"Good; that's good," Jay replied. "You've been telling me that, but I think I am now finally about ready to retire."

Yes, we had been telling him that, we said. As we targeted quite a long time ago, his plan has been ready for him to "turn the faucet on," so to speak, for the last few years. We asked Jay about how he saw his future involvement with his arts studio.

"I've been thinking a lot about that. I want it to be an even bigger focus, especially since Pat and I split up. I have more energy for the studio than ever. If there could be that much money left, I need to find a lawyer to handle distributing it."

We had known for a long time that Jay's real passion was his art and that he'd always wanted a good portion of his assets to ultimately go both to his nieces and nephews, as well as to non-profits that shared his passion and focus. His comment about the lawyer's role was a bit perplexing, and we asked him to say more about it.

"The lawyer will need to decide the organizations to give it to. Do you know anyone who could do that for me after I'm gone?"

We hadn't previously explored the "how" of Jay's charitable intentions at this level. Well, we said to Jay, let's first consider the characteristics you'd want in this person. First, he or she would need to have experience with such a unique trustee-type role, and there are indeed such people. This person would also have to be familiar with the niche of the artistic world that you want to benefit. Otherwise—and I've seen this happen—he or she would be much more likely to just play it safe in giving away the money, mostly to endowments and foundations that could well manage and use the money as though it were the last money they would ever receive. We asked Jay what he would say to this person after his death if he could be a voice in this person's head.

"You're right," replied Jay, leaning forward for emphasis, "doing that is exactly what I wouldn't want. Playing it safe would mean giving money to places that need it the least. There wouldn't be much impact. You see, in artistic terms, I have direct ties to the first generation of where this art has been headed the past three or four decades. I would want the lawyer

to know who was doing this work and expanding it forward. I'd want money to go to people or groups in their early stages of growth, for things like creative planning and operations, rather than just for additional projects after their studio was already established. I realize some of them aren't going to make it, and that's okay."

Concept of Charitable Venture Capital

This conversation was now on an entirely new level. We suggested to Jay that what he sought to create was essentially an artistic and charitable venture capital operation. Finding a lawyer to do this wasn't necessarily a requirement to realizing his charitable vision, but a few other characteristics did seem to be: knowledge of and passion for the art Jay loved so well, relationship skills, project management and analytical abilities, and youth. (We all had a good laugh at this last realization.)

"I see what you mean," Jay nodded. "They probably don't teach that in law school! This isn't going to be as easy as I thought. What did you mean by your venture capital comment?"

Changing a part of the world that you care about and creating a living legacy is rarely easy, we suggested. As for the "charitable venture capital" comment, I simply meant that some charities view six-plus-figure bequests more like a retirement portfolio, rather than a chance to change the world in some way. Making sure that money is still around in 30, 40, or 100 years matters more than making a bold investment in a well-thought-out vision, so they use the money stringently, as though it's all they'll ever have; they want to feel safe in their ability to have it support them, well, forever.

We told Jay, that for him, this a very important consideration because his assets are, in fact, all he'll ever have to support himself. In the charitable world, however, this isn't true. As long as a charity's mission and vision continues to inspire others like him, there will always be new money coming in. They never retire and stop adding to their 401(k) like he will. This is the "endowment mentality."

The "venture capital" approach is much more assertive, confident, and less attached. It is focused on realizing a bolder (though not a careless) mission. It believes that resources will renew themselves with new gifts as long as the mission still resonates. And, at its boldest, it is comfortable with going out of business, should the need no longer exist.

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We told Jay that in the coming years, people like him who chose to give $1 million to $5 million to charitable causes would likely have an opportunity to shift the mindset of organizations devoted to the causes that mattered most to them. We then inquired whether Jay had ever mentored anyone with artistic interests similar to his.

"I have, many times," he said. "And not for the last time, it sounds like."

We asked Jay if he had any thoughts about how launching this venture could integrate with his retirement and financial life.

"I can see how it would fit around my travel and normal day-to-day living. It could take some time to find the right person or people. I always thought most of the money would be given away by the lawyer, after my death, but now it seems there is more ongoing than that. How would the money part of it work?"

We told him we'd want to have more conversations and do some planning, and that it wouldn't have to be all figured out at once. We have another client whose intentions came to mind in listening to Jay. In some ways, we told him, his ideas are further along than hers, but she's a bit further down the road on the financial details. We asked if Jay would like to hear a bit more.

"Absolutely. I like the sound of this already."

Establishing an "Artistic Fund"

We reminded Jay that each client's situation is unique and mentioned that, unlike his, our parallel client's focus involved musical performance; however, there were similarities.

We explained that a key aspect of Jay's situation was that he did not require a nest egg as big as he's accumulated to help fund his core lifestyle. This would allow him to organize his financial assets into two categories: a core savings amount that would be drawn upon exclusively and sustainably for his lifestyle needs; and the remainder as a discretionary or "artistic fund."

A key step to funding Jay's legacy would be to establish an artistic fund (technically a donor-advised fund) to which he could transfer money intended for organizations he wished to support. In time, he could name his protégé, and possibly other individuals, to act as a board to oversee its distributions. Establishing such a fund would allow him to receive valuable tax benefits while furthering his legacy. There would be, we concluded, plenty of time to work through all of this.

"That would be great," Jay concluded. "I can see that retirement isn't the end of the planning I want to do. It's been a long time since I've felt this energized at one of our six-month meetings!"

Jay wasn't the only one energized by our conversation. When financial planning is done well, a goal achieved often begets the next dream to help a client pursue. And we get the privilege of accompanying them on their journey to realizing it. ■