LAIRD NORTON TYEE

The Intentional Philanthropist's Plan for Giving

October 2009

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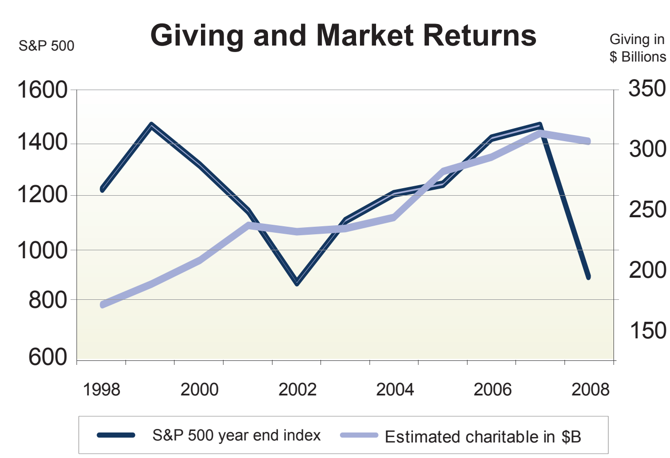
Coming out of the longest recession since 1929, we're all feeling battle-scarred regardless of whether our losses were "real" or just "on paper." Not such a great setting for addressing philanthropy – where we give our stuff away – or is it? Actually, it could be.

When we're feeling comfortable and financially secure, it is easier to retain old habits whether they are improvident use of credit, a sluggard savings rate, failure to carefully monitor our investments, or less-than-focused charitable giving. If our resources for giving are more limited today, actually or psychologically, than they were in previous years, then it is more important than ever that we make our gifts count, however we might define the term "count."

At Laird Norton Tyee, many of our clients are philanthropists and we talk to them a lot about the best ways to give. In the aftermath of the market meltdown, the basic question is "how do you retain your ability to be philanthropic and not feel that you are burning your financial candle at both ends?" Our basic answer is to try to be intentional, as in purposeful and strategic, and you'll feel that you are doing a lot more whether you give more or not.

Greater need calls for purposeful choices

In spite of the fact that financial returns have been dismal since the millennium, philanthropic giving has been sky high (see Giving and Market Returns chart). In fact, the data on charitable giving in the United States in 2007 and 2008 reveal that we gave over $300 billion each year. However, 2008 was only the second time since 1956 that giving measured in current dollars did not increase.[1] Most of that giving - 82% - was from individuals and their estates with the balance provided by foundations and corporations at 13% and 5% respectively.[2]



The outlook for 2009 giving is less favorable with early reports from non-profits indicating that giving this year is expected to be down considerably from last year while demands for services are up.[3] With actual and expected decreases in foundation giving and in federal and state grants, individual giving will be an even larger percentage of total giving than in the past. Historically, the growth in charitable giving has lagged the general economic recovery following a recession.[4] It remains to be seen what we'll experience as we pull out of the recession of 2009.

1. Giving USA (2009) and Giving USA (2008), publications of Giving USA Foundation TM, researched and written by the Center on Philanthropy at Indiana University.
2. Ibid – spell out .
3. "2009 Nonprofit Survey," Non-Profit Finance Fund, March 2009
4. "Charitable Giving During Recessions Doesn't Keep Up with Inflation," Giving USA Foundation. February 11, 2008.

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Some organizations that have struggled to make ends meet in past years will likely not survive. Individual philanthropists (that means you and me) will determine the survivors. And given that urgency some of us feel guilty thinking we "ought" to do more as expressed by Dave Gilson writing for Mother Jones:

"…I should – and could – give away a lot more money without giving up my cozy lifestyle. But seeing as I've got two kids, retirement funds in free fall, and a job in a field that feels like the buggy-whip industry circa 1910, I'm a bit wary of taking too much stuffing out of my financial cushion. Can I get back to you in a couple of years when this whole economy thing blows over?"[5]

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>
> \- Mother Jones

But with a depleted portfolio how can you act with good fiscal sense by continuing to give – or even consider ramping up your support to your favorite causes? Being an intentional philanthropist will help.

Are you into "buying" or "building?"

Being intentional is realizing that philanthropy is an activity that has real rewards- either now or later. Some people take pleasure in knowing that good was accomplished with their dollars *today*. They are more likely to support established charitable organizations with clearly defined and measured charitable accomplishments. Others feel rewarded when their dollars make a contribution to a better *tomorrow*. Supporting a new start-up organization or a new direction for an existing organization resonates with them. Some have referred to the two paths as ""revenue" and "investment" from the nonprofit's point of view[6] or "buy" and "build" from the philanthropist's perspective.[7] Considering these two paths of reward can help us become more purposeful in our giving. There's no "right" answer other than what feels right to you.

What's the difference between "buying" and "building" from the perspective of the intentional philanthropist? George Overholser wrote the seminal article on the "buy/build" theory in which he defined both. Essentially, "building" philanthropy focuses on providing capital for growth, close stewardship, and patience as the organization develops. The process has a high risk of failure but offers the philanthropist the opportunity to be part of something that could make a big difference. Builders want to start the project, get it up and running, then move on to the next thing.

On the flip side, "buy" philanthropy is not about radical changes or trying to do something new. It's focus is on "what work will be done for my money" and "asking the enterprise to do more of what it already does." And, as Overholser put it "buying is an ongoing thing, in the sense that if you buy something once, and like it, then you might as well come back for more."

5. "Give when It Hurts," Dave Gilson, Mother Jones, May/June 2009.
6. "Money to Grow On," William Foster, Stanford Social Innovation Review, Fall 2008
7. "Nonprofit Growth Capital – Defining Measuring and Managing Growth Capital in Nonprofit Enterprises, Part one: Building is not Buying," George Overholser

Both types of philanthropy are important. In fact, it's the "buy" philanthropy that keeps the just "built" organizations running by buying their services.

Many philanthropists do a mix of "buying" and "building." Here are some examples of organizations and causes that focus on these two paths of philanthropy:

Buyers	Builders
United Way	Gates Foundation
Feed the Children	Social Ventures Partners
Poncho	PATH
Heifer	Pangaea

Think about risk

When talking "buy" and "build," to some extent we can analogize to "risk" tolerance, a concept familiar in the investment world. Funding today's needs, the "buy" path of philanthropy, is likely to have an immediate benefit to society and to the giver. It is less "risky" because the gift will be used to meet a current existing need and is likely to have an immediate outcome. The gift to a start-up or new project, the "build" path, has a higher degree of risk – the start-up may not become established or the new project may be proved not feasible, and most likely the outcome from the gift will be deferred into the future.

Continuing the analogy to the investment world, one way to prioritize giving is to consider how much or how little "risk" one wants to take with their charitable giving. A high risk tolerance would indicate that the majority of giving is to organizations that are building for the future, both new organizations and established organizations that are moving in new directions or building infrastructure to facilitate future growth. These organizations need commitments in the form of pledges or promises of future giving so that they can plan and build infrastructure. Many of them also need the intellectual capital of their donors in the form of advice. They may attract entrepreneurs. A lower tolerance for risk would place the majority of giving with organizations that are established and having success in serving their charitable purposes whether that purpose is providing access to the arts, feeding the hungry, or educating tomorrow's leaders. These organizations benefit from volunteer labor but they need dollars as well from financial commitments because "you can't pay the utility bill with hours." They need to pay their professional staff and improve and maintain their facilities. You may feel that a mix of "building" and "buying" gifts is best for you.

You've found your style … now what?

So, let's say you've decided what kind of giving inspires you. Now you could match the style you've chosen (your mix of buy and build) to the causes and organizations that you care about. This process focuses largely on prioritizing, which sometimes is more difficult than it sounds. Consider which causes and organizations are important to you, and focus your giving, both in time and money there. It's a good idea to separate the prioritizing from the budgeting and just consider what is important to you. Perhaps you already know the causes or organization where you'll commit your charitable resources. If you don't, there are resources to help.

Community foundations are a great source of information about both needs in the community and how they are being served. If you want to be a builder philanthropist, a great way to start is by joining others in groups like Social Venture Partners, which has developed a process for helping nonprofits "build."

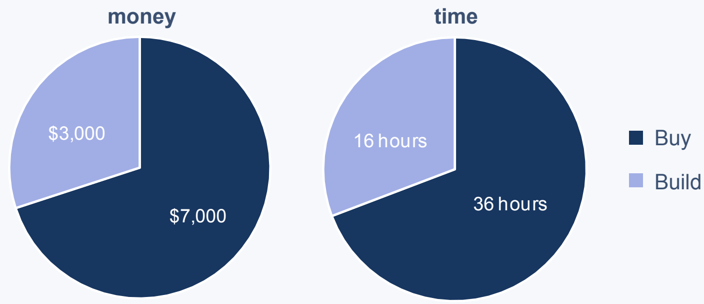
Make a budget

After determining your general priorities, a challenge of intentional philanthropy is being realistic about how many causes and organizations you can support in a way that is meaningful to you. For most people, figuring out how much money they can give is easier than determining how much time they'll have to volunteer. It is difficult to be realistic about how much time volunteer work will take and it is very difficult to be effective with your volunteer time and enjoy that time if you are over-extended. If you think that you can commit to 1 hour per week, 52 weeks per year that may mean serving on only one board and not committing to multiple volunteer activities.

Having set the budget, allocating among the prioritized causes is just math (see chart on next page). When you evaluate the dollars and hours in light of the number of organizations you want to support, you may need to make slight adjustments. Often being intentional results in narrowing the focus of your giving. You may find that the process is more rewarding to you regardless of the financial and time commitment you can make if you concentrate your giving and time to just a few organizations that you can really get to know and understand well.

Do the easy math

Say you want to give a total of $10,000 and 52 hours, and you want 70% to go to "buying" philanthropy and 30% to "building."



The point of the exercise is to be deliberate and thoughtful in your commitments not to achieve 10th of a decimal place accuracy. It is, after all, your plan.

Makes saying "no" easier

Intentional philanthropy can be challenging because it is sometimes difficult to prioritize your causes and organizations, and some research may be necessary to select the organizations you think will do best at meeting a particular need. If you are a "builder" philanthropist you'll have a bit more self-education and homework to do. But, being intentional and having a budget does make saying "no" a lot easier, if you want, when friends, a neighborhood child, or business acquaintances ask for gifts to their favorite organizations.

If charity events are part of your social network, when you are prioritizing your giving and budgeting time and money, you may want to carve out a category and a fraction of time and money for reciprocal gifts with friends and business associates. Again, having thought about that kind of giving as a "cause" and a category of your philanthropy budget for the year, makes saying "no" to some friends' causes easier.

Consider being an intentional contrarian

Let's talk a little more about the financial part of the budget within the context of the overall giving outlook in 2009. While it appears giving will be down this year, it's not a foregone conclusion that all donors will tighten the purse strings. It's true some will give less because investment income is diminished and retirement accounts have declined in value. Others just won't feel comfortable giving with depleted portfolios. But many, many individuals and foundations will give more. These people are called counter-cyclical philanthropists – those who give more when needs increase even if their financials resources are down. A classic example is the Rockefeller Foundation, which in the past gave more when economic conditions were weak and then replenished its assets during better economic times. More current organizations in this group include MacArthur and Gates Foundations, both of which have indicated that for 2009, giving will be up.[8] Untold numbers of individuals respond to need the same way as these foundations, just less publicly. Remember the huge outpourings of dollars and time to aid those harmed by natural disasters, regardless of the state of the financial economy at the time.

That giving feeling

Through all of your deliberation and purposeful planning and prioritizing don't forget the joy of giving. "People who give time and money tend to report greater well-being. And, in turn, those who have greater well-being invest more hours in volunteering and donate more money," wrote Jennifer L. Aaker and Satoshi Akutsu in their Stanford graduate school of business paper titled "Why do people give? The role of identity in giving."

While most of us are concerned about our own financial security, few plan to discontinue charitable giving. Why? We get pleasure from philanthropy. We might regret financial decisions and bemoan the downturns in the markets with statements such as "I could have just spent the money and had a good time" or "I have to save more" but we probably never say "I wish I hadn't given to that organization that feeds starving kids" or "Good Old U of Z can fail for all I care." In almost any set of circumstances that we face, our philanthropy is something that we do feel good about.

> "But we probably never say 'I wish I hadn't given to that organization that feeds starving kids'"

No doubt 2009 and 2010 will be watershed years for many organizations. Some will fail and some will succeed. We don't know where the financial markets are going in the future, of course. But we do know that with some forethought and a solid plan we can allocate our money to the causes that matter most to us in a way that accurately reflects our true intentions.

8. Foundations respond to crisis: Part 2," Ret Boney, www.philanthropyjournal.org, Nov. 17, 2008 and "Gates Group Plans to Give More in 2009 Despite Losses," Stephanie Strom, New York Times

Resources

Building v Buying

"The Equity Capital Gap," Clara Miller, Stanford Social Innovation Review, Summer 2008

"Nonprofit Growth Capital," George M. Overholser, www.nonprofitfinancefund.org.

"Money to Grow On," William Foster, Stanford Social Innovation Review, Fall 2008.

Countercyclical Philanthropy

"Managing Philanthropy in a Downturn," Maximilian Martin (December 20, 2008) Viewpoints, pp 110-126, 2009.

"The Nonprofit Starvation Cycle," Ann Goggins Gregory & Don Howard, Stanford Social Innovation Review, Fall 2009.

Intentional Philanthropy

"Philanthropy: Moving from Reaction to Pro-Action," Jennifer Ladd, www.SocialFunds.com.

"Intentional Innovation: How Getting More Systematic about Innovation Could Improve Philanthropy and Increase Social Impact," Gabriel Kasper and Stephanie Clohesy, for the W.K. Kellogg Foundation, August 2008

ABOUT THE AUTHOR

Kristi Mathisen serves as Laird Norton Tyee's in-house expert on tax and estate planning issues. She provides advice on philanthropic strategies to the firm's client service team and to clients directly. She is a CPA and has more than 20 years of finance-related experience, much of it in accounting.

Kristi has a bachelor's degree in business administration with an accounting concentration from the University of Washington and a Juris Doctor from the University of Washington School of Law. She is a member of the Washington State and King County Bar Associations.

ABOUT LAIRD NORTON TYEE

Laird Norton Tyee is one of the Pacific Northwest's largest privately held wealth management firms, with nearly $4 billion in assets under advisement. The organization serves goal oriented, high-net-worth individuals and families who want to make an intentional, positive impact with their wealth. Success is measured by clients' ability to achieve long-term financial results, reach personal and family goals and leave lasting legacies. Offering expertise in personal strategic planning, generation-to-generation wealth transfer and investment stewardship, Laird Norton Tyee's more than 40 years in the Pacific Northwest lends a unique multi-generational insight and approach to personal and family wealth.

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