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Mission and Markets Episode 23

Speaker: Hello and welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management. Hosted by CAPTRUST's Heather Shanahan, each episode shares research, resources, and recommendations from industry insiders.

So your nonprofit can focus on what's most important, the mission.

Heather Shanahan: Hello and welcome to episode 23 of Mission and Markets. My name is Heather Shanahan and I'm your host. And today I'm delighted to be joined by Spencer Brown, one of our wealth advisors. We hear a lot from our nonprofit clients that there's a tremendous amount of pressure around fundraising, which is not new.

there's certainly been a lot of volatility in the last several years between COVID and policy changes and tax law changes. One big, beautiful bill act and a lot of nonprofit organizations are tired and reeling and. We're seeing consolidations across multiple industries as well as a pretty serious, intentional focus on fundraising strategies and how to make changes.

So we thought it would be interesting given that CAPTRUST represents three business lines, retirement planning, wealth, and then our institutional business that focuses on endowments, foundations, and nonprofit practices. We thought it'd be interesting to lean across the aisle and tap a wealth advisor who has

Experience sitting on the same side of the table as our wealth clients to really learn from him what their considerations are, what they're thinking about, what they're concerned about, and hopefully shed some insight for our nonprofit clients along the way. So Spencer, thank you so much for joining us.

I always like to ask our guests to tell us a little bit about themselves and introduce themselves. So if you'd give us a little bit about you and your background, that'd be helpful.

Spencer Brown: Yeah. thank you Heather. looking forward to our conversation today and discussing charitable giving and, our conversations on the wealth side. as you mentioned, I'm a wealth advisor at CAPTRUST, CFP and our clientele. Consists a lot of, high net worth individuals and, helping them manage their retirement and navigate retirement, but also helping them accomplish their goals,

Heather Shanahan: So in preparation for this discussion, we sent a pulse survey out to wealth advisors within our firm for just some feedback on five questions. We had 154 responses,

So we're gonna talk through those responses and lean into Spencer's experience So first of all, Spencer. What do your conversations with clients around charitable giving look like? How do these conversations go and is this a conversation that you typically have annually?

Spencer Brown: Yeah, they are conversations that we have annually we Focus and center our client relationships around the planning process.

we start every relationship with establishing goals and priorities and really trying to learn from the client. What matters most to them and what do they want to prioritize, throughout their working life and then through retirement as well. So as we're looking through tax returns and getting deeper into their financial situation, Opportunities tend to present themselves to us, A lot of times charitable giving is a topic that comes up.

It's typically in most of our clients' top three priorities.

many times clients aren't aware, that there are more efficient ways to give. A lot of people are just giving, when they're at church or when they get a letter from a charity

And it's our job. To bring those solutions to them.

Heather Shanahan: Have you found that your conversations around charitable giving have changed over the last few years, and if so, what types of things do you believe are prompting those changes?

Spencer Brown: Concentration in specific, stocks has become more and more of a conversation as we've seen what's happened in the market over the last five

or six years. we see a lot more clients with a lot more concentration risk, but beyond that, there's been a ton of legislative changes in the tax law and estate planning that have.

Contributed to changes in charitable giving. So if you rewind the clock 10 years ago, the Tax Cuts and Jobs Act, had significant impact on individuals tax planning strategies because it doubled the standard deduction. So in one year, individuals that maybe were getting a standard deduction of around \$13,000 went to 26,000. Because of that a majority of the US was itemizing on their tax, up to that point, which means you're capturing those charitable contributions and, taxes that you're paying and mortgage interest. And then that essentially went away overnight. And a majority of the US started taking the standard deduction.

And so there was less incentive from a tax perspective. To give to charity, and so when this happened, we as advisors had to get more creative. and helping people accomplish their charitable giving

that's where we started seeing more donor-advised fund usage when we started seeing strategies such as bunching, Where we can accelerate deductions that you may have gotten before, all into one year and, maximize deductions over a two year period. So I think, giving and that landscape has absolutely changed and we've just had to get a little bit more creative

Heather Shanahan: That's helpful context. Thank so let's circle back to our survey, The first question was. Which giving methods are your clients using most frequently? So aside from giving cash gifts, donors have. Other tools for giving? Can you walk us through what some of those tools are and then the results of our survey, what were the top giving platforms or giving tools that we see with our clients?

Spencer Brown: top three most common ways to give according to our advisors was cash gifts. Donor advised funds and then qualified charitable distributions. So qcd. and I think that today those are still the top three. that really hasn't changed, but. How we utilize those has changed. so

cash gifts, that's just essentially where someone at church on a Sunday, or. gives to charity via a check. they're giving cash to the organization. a donor advised fund is a little more complicated. That's where, you can contribute different types of, cash.

Appreciated securities. And you can also get into other real items as well. It doesn't have to just be those, you can give artwork, you can give, old cars. Anything with value you can give to a donor-advised fund for the most part. And then, qualified charitable distributions or qcd is essentially where you give directly from an individual retirement account or an IRA.

And when you do this, you lower the tax liability that you have on your tax return. So for example, when someone reaches required minimum distribution age or RMD age, they have to take out a certain amount from their IRA every year. And when you do so, you then pay tax on that amount of money instead of someone taking the money.

For themselves and turning around and giving cash to a charity. What we can do is give directly from the IRA to the charity and then you get a direct deduction or reduction, of how much you have to report on your tax return. So a very easy example, let's say you have a \$50,000 required minimum distribution, and you give \$5,000 to charity.

if you take all of that out of your. A you pay tax on the full 50,000 and then because of the standard deduction, if you're not above that amount, you don't get the tax benefit for your charitable giving. So instead what we recommend is giving directly from the IRA to the charity. So using the same example, give \$5,000 to charity, we send that directly to them.

And then you fully distribute the 50,000 still in total, but you only report 45,000 of taxable income. So it can be a really big benefit to clients, to still give to charity, but also lower the tax liability that they have.

Heather Shanahan: one other vehicle that we didn't ask our advisors about, but that we see a lot of. And certainly we, provide investment advice on a lot of private foundations. do you wanna speak to any clients with private foundations and how that works?

Spencer Brown: private foundations, they get a little bit more complex. They get a little bit more expensive. but where we see those typically is when, we have ultra high net worth families and they're wanting to get the entire family involved in giving. you have to have board meetings, and the cost to run a private foundation is a lot higher than something simple like a donor-advised fund.

If someone is just wanting to give a few hundred thousand, \$500,000 away, a lot of times we steer them more towards a donor-advised fund versus a private

foundation, just because of the complexity of private foundations and then also the cost associated. With donor advised funds, you can still have your family involved. We have, a few clients that have large donor advised funds and what they do every year is get together as a family around the holidays and talk about what charity. They want to make grants too. so it can still be a really powerful thing where you get your family involved in the giving and then you can also designate who that donor advised fund goes to at your passing.

So it's a way to create a legacy of giving as well. and then the last thing on donor advised funds is that you contribute a appreciated security, let's say you have a million dollars in one stock and you give a hundred thousand dollars away. When you put that in the donor-advised fund, it immediately gets sold and you save yourself from having to pay the tax on the capital gain that you would've otherwise realized, and then you can choose to invest the money within the donor advised fund.

As aggressively or as conservatively as you would like, and then you have flexibility to give from the donor-advised fund over time as well. So if you contribute a hundred thousand dollars, maybe over time, that grows to 105,000. Now you've had the opportunity to give away \$105,000 to charity versus maybe only a hundred thousand at the beginning.

it can be a great tool, for more flexible charitable giving throughout the year, and to be able to capture more efficient, tax deductions.

Heather Shanahan: One factor that's rising to the surface right now. when you take a look at private foundations, certainly there's the family philanthropy element of it, but there's also an element of control because even though we think with a daf, we make the gift and then we make recommendations.

The donor has essentially given up control. And so while we make recommendations for, how those, daf funds are to be gifted, at the end of the day, there are some lawsuits that are pending right now where the entity that controlled the daf isn't, honoring donor intent or isn't distributing the assets.

And then I think we also see that in a lot of cases, donors fail to, Name beneficiaries upon their death, and then, at that point, it's anybody's guess. So I think there are just some things to be mindful of that, you do receive the tax benefit upfront with the daf, but the trade off is ultimately all levels of control.

So it's just something that I think clients should talk to their advisors about and make sure that they understand how this is working and just also being careful about. which staff we're going with, where's the platform?

Spencer Brown: a lot of people don't realize, and we do try to make them aware that when you make a grant, out of a donor buys fund, it is up to the discretion. Of the custodian of that donor advised fund to release the funds to the charity.

Heather Shanahan: and they do have full authority to not do so. I would say we have never run into that. As long as it's a, 5 0 1 C3 public charity, there should be no issues. Right. And choose your custodian carefully, just like you said. so let's talk about, donor mentality. Are there moments where you find donors feel conflicted, maybe trying to strike a balance between generosity and tax consideration? Family needs long-term security.

There's just a lot to consider. How do you help clients navigate those decisions?

Spencer Brown: being conflicted is very normal lot of times. People's long-term, outlook is most important to them. So yes, they want to give money away to charity or family or whatever it may be, but at the end of the day, majority of people also want to make sure that their retirement is still secure if they.

Do make these pledges and do give money to charity. And I think that's where we bring people back to that holistic, full financial planning, process that we go through and giving them the comfort in knowing that we fully believe that they have the capacity to do whatever level of charitable giving.

They're describing and giving them comfort in knowing that is not going to jeopardize their long-term projections. we do have saying that I say to all people when they're considering increasing their charitable giving. you can't make money by giving it away, but you can certainly make an impact on those around you.

and a lot of people would rather give money to a charity instead of Uncle Sam as well. So especially when you see those big tax years. Or maybe a business liquidation. that is really where we see a large benefit, where we, alongside A CPA can tangibly tell someone, you could save X amount in taxes if you give y amount away to a charity.

our job as advisors to provide people with the comfort in knowing that we feel confident they can still have the retirement that they desire, even with this level of charitable giving.

Heather Shanahan: it's interesting, in terms of drivers and motivators, it obviously there've been a lot of tax changes with, one big beautiful bill act and, at the end of the day. You're having conversations with clients about tax efficient giving, but do you find that that's really what's driving them

Spencer Brown: it's absolutely not about just tax efficiency. charitable giving is. the main root that people have in that is wanting to support a cause that they care about. People want to make a difference. People want to give back to organizations that have had an impact on them or had an impact on their family or those around them.

So that is their main goal. and then our goal is to help them do that and to bring ideas. That tie everything together and make sure that their financial picture stays intact, that they are able to do the giving that they want, and that they're. Benefiting, from a tax perspective if that is possible.

One example I'll give you is working with a client this year and they came to us and they had a really large position in one individual stock, over \$2 million, and they did not realize. How comfortable of a financial position that they were in.

We went through the whole financial planning process and really gave them comfort in knowing that they can give more to charity. And it was something that early on in our conversations, we identified that charitable giving was important to them. they volunteered at a local charity that meant a lot to them.

And so they actually also had a big tax year last year and we were able to work with their CPA and, find a number that made sense for them and they felt comfortable giving away to charity. And since then they've been able to provide specific, benefits to the charity and it's made them extremely happy and.

they're very thankful that they've been able to increase their charitable giving.

Heather Shanahan: Definitely a win-win there. we haven't really talked about gifts by bequest 'cause you're talking about, a more active management process. But for nonprofit organizations, especially with smaller staffs. or, staff who may not be super comfortable with planned giving conversations, that often tends to be the starting point.

and, looking at Our third question what factors most influence where clients choose to give? the feedback from our advisors regarding client conversations, it's a personal connection that's driving these. Gifts or peer or board involvement was number two, reputation transparency was number three in terms of why clients choose to give. and it's interesting, nonprofit leaders and staff are often blindsided by gifts, by bequest, it's like out of nowhere and then they go and they're scrambling, trying to figure out.

What was this person's tie? we've never even seen them before. They're not on our database. it's really challenging to make those connections sometimes. So, how do you drive your clients' conversations to avoid that? It sounds like most of your clients are already engaged and involved and you're having conversations about what they're passionate about.

But, how do we collaborate with nonprofits for a more effective impact and result? And really also so that your clients, benefit from the relationship.

Spencer Brown: we are blessed. To be able to work with people that are also blessed and have a comfortable financial picture and outlook. And a lot of times the conversations we're having is encouraging them to think about, what do you want to do with your money? You have a comfortable retirement ahead of you, and you have the assets to carry you through.

So a question I pose a lot to them is, would you rather see your money in action while you're alive? Or would you potentially rather leave behind a large estate? that will also have a large impact, but you're not around to see what that impact is. and I think when you phrase the question to people like that, it really wakes them up of, wow, I never thought about wanting to see my money work while I'm alive, rather than leaving behind, X amount to these different charities.

Some people. Still lean towards leaving behind, money once they've passed. the conversation's a little bit different there, because then we talk about, okay, what of your assets, what makes the most sense to leave behind, to charity versus to individuals if they're looking to split that?

Heather Shanahan: What, besides the tax issues, what are some other issues that you, see coming up with your clients that impact their desire to give?

Spencer Brown: It all comes down to people are wanting to make sure that they are comfortable to have the life that they want to live in retirement. other than that, once people are comfortable in that and understand that they are taking care of, we don't really see, an impact on a donor's desire to give.

As long as they are able to have, an understanding from the charity on what is being done with the money and how the money would be used. I think that is important to people understanding exactly where the impact is happening for their money. That, Individual I was speaking of earlier, they know exactly how that money is being used, and they can't talk enough about, the impact that is having on the organization.

they send the emails all the time telling us, and they're thrilled to be able to see that. having transparency back to the donor of how that money. Is making a difference for the organization is a really big thing as well.

Heather Shanahan: you also shared a story about a donor who stopped giving because they didn't get that feedback.

Spencer Brown: yeah. We did. we have a very charitably inclined, client. They give away a lot of money every year, and they're also leaving every dollar that they have to charity. and they were giving to a charity, for years and years, a substantial amount of money, and they weren't able to get on the same page with that organization.

And they decided not to give to them anymore. they decided to. pivot and give to another charity for that year. And I don't think that they're done giving to the organization, but I think that just goes back to if the organization is able to provide transparency and information back to the donor as to how their money was used, or at least what the intended use is.

that means a lot to our clients and goes a long way. when reflecting on their charitable giving to the organization.

Heather Shanahan: Word to the wise. If you were a nonprofit leader or on the development team, make sure you're, staying in touch with your donors and not taking people for granted, especially those longtime donors. so in closing, if nonprofit leaders could hear one takeaway from these conversations that you have every day, what do you think that would be?

Spencer Brown: communicate with your donors, communicate with them on ways that they can give, communicate with them on, the impact that they're giving had on the organization.

The money that we received last year was able to, provide this benefit for the organization. And I think that means a lot to people. knowing how their money is being used is really impactful. And then the other thing is just educating as

well, partnering with professionals in the community, advisors and CPAs so that they can speak on what.

Opportunities do people have we didn't even get into more complex charitable remainder trusts and charitable lead trust, but there are an endless. Amount of ways that someone can give during their lifetime and after they've passed as well. And I think a shortfall that we see in our clients is they just don't know.

they're so busy in their lives that they don't have time to educate themselves on the giving landscape and how it's changing, tax legislation and how that's changing state planning, and how that all plays into one another.

at the end of the day, I thought it was interesting because we had, in addition to the survey responses, we also had a write in, space. And one of our advisors said, it's interesting how we see clients who have the capacity to give, they're well set.

Heather Shanahan: Their families and future generations are well set. That they're just not philanthropically inclined. And I think you have to acknowledge that and say that's real too. And okay. move on. How do you navigate that when it comes up in conversation?

Spencer Brown: At CAPTRUST, we have our community foundation, and supporting the community around us is important to a lot of people at CAPTRUST. So we try to bestow that upon our clients as well. At the end of the day, we can't make them give money. if they aren't charitably inclined, then so be it.

it's our job to continue bringing it up and reminding them that. Hey, you do have, the capacity to give, and maybe it's not impactful money in your eyes to give away 5,000 or \$10,000, but it could be really impactful for the receiving organization. And, it's just about continuing to bring it up, not pestering them about it, but reminding them that.

These are ideas that we've talked about in the past and they're ideas that we still think are good ideas for you If you want to be charitably inclined.

Heather Shanahan: that's beautifully put. The five or \$10,000 gift that someone may not think moves the needle. May actually move the needle all day long. that's

Spencer Brown: five or 10 grand from five or 10 people is a lot of money at the end of the day. For an organization, even large organizations, but especially small organizations, it can be really impactful. just reminding people of that and, seeing if they're interested.

Heather Shanahan: Spencer, this has been really a helpful conversation, to dig into the mindset of clients as they look at their own planning and their philanthropic impact. And one of the things that we like to ask guests as we close out is the question, mission impact. What does this mean to you?

Spencer Brown: for me, mission impact is, giving to organizations in the community, and those that, maybe I haven't had a direct, interaction with, but that have had an impact on my family or those around me, and supporting causes that. are near and dear to my heart, but also, I make an emphasis every year to work with individuals that may not be an intended CAPTRUST client.

and helping provide them with financial help, financial feedback, and ideas to impact their financial life. So those that, don't have an advisor, and they're not at the asset level, that. Fits what CAPTRUST, works with. Typically, but still providing them with that service. So I'm able to do that in a few different avenues at CAPTRUST, through institutions that we work with, is a big one.

And then, doing some pro bono work. Again, for those that might not, work with us, but maybe they're. Children of families that do that are in need of a little bit of help and guidance. that's always really enlightening to be able to work with those that aren't clients. And then you feel like you have such a big impact in being able to give them, guidance and some ideas to improve their financial situation.

Heather Shanahan: That's fantastic. thank you and thank you again for joining us. it's been time well spent, so we appreciate. All that you're doing, in the community and with clients and for your time here today. Thank you.

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