HSBC Private Banking

Podcast transcript

Share the love – legacies that make a difference

Carly Doshi: Hello, and welcome to Women and Wealth, Doing It All. An HSBC Private Banking series by women for women. I'm Carly Doshi and I'm the Head of Philanthropy, Family Governance and Family Office Advisory.

Women on average have a higher life expectancy than men, and yet, as we all know, we continue to earn less. This means we have to be even more mindful of our wealth and managing it over the course of our lifetimes. And this is exactly why we wanted to create this program of podcasts to inspire and empower you to take charge of your wealth and your future. So, with the help of some experts, we decided to dive into what this all means. How do successful women manage their wealth, effectively work with their advisors and stay on top of it all while continuing to manage businesses, their families and their other obligations? Each episode, you'll hear me engage with HSBC subject matter experts who every day work with women like you on important financial topics, from investing in your future to protecting your finances from divorce, death and disaster, to being part of something that outlives you.

Now, like everything these days, we're recording this podcast remotely from our respective homes, so please accept our apologies in advance for any glitches in sound or background noise.

For this instalment, we'll be taking up a topic that is very close to my heart. Legacy. Many of our clients wish to use their wealth to make a positive difference in the world and in my day-to-day, I have the great pleasure of advising families on how to accomplish this through strategic philanthropy and family generational succession. So I'm particularly excited to discuss this topic. And I can't think of a better person to have this conversation with than my dear friend and colleague Jan Wysocki. Jan Wysocki is a Senior Relationship Manager based here in the US, and Jan works with women and their families on complex banking and investment needs.

Jan, thank you for joining us.

Jan Wysocki: Thanks Carly. If you don't mind, I'd like to start out by asking you a question. You as our HSBC subject matter expert on family governance and philanthropy. This is really to set the stage for our conversation. Can you describe to us what is meant by the concept of family resilience?

Carly Doshi: Absolutely Jan, you're turning the tables on me today. And this is certainly a timely topic. Because as we say, resilience is not about responding to a crisis, it's about having a plan in place in advance and your ability to execute on it when crises hit. What we know, and study after study on families of significant wealth support this, is that it comes down to three key traits. Organization, communication and a shared set of values. Organization is the structure and systems that a family uses to function. These might include legal structures, like a family office or trusts, or simply an understanding of roles and responsibilities. Communication is really just about how the family interacts with one another. Are all of the participants informed about family matters, financial and otherwise? And then, a shared set of family values.

Now as I mentioned, interestingly, studies on families who've had wealth last for generations have showed that successful families demonstrate these three traits. And really, you might say that taken together, organization, communication and a shared set of values really are the component parts of resilience. What's demanded is for families to demonstrate urgency in developing all three. And then practicing your own way of communicating, talking about your family values, working within your family structure and organization, so that it all sort of becomes second nature. Ultimately, it's those three things that are what's passed on from one generation to the next, not just your family's wealth. And together they become your legacy.

But let me turn to you, Jan. What is your opinion of this concept of legacy? And how do you see families wrestling with it?

Jan Wysocki: So what does legacy really mean? It's different from family to family. It can be what you want to be remembered for, the impact that you wish to have or even the resources that you wish to leave behind, not only for your family, but for generations to come. But also for charities. Do you want to endow a chair at a university or name a wing of a hospital or museum in the family's honor? Or even create a for-profit business that donates all or part of its profits to a charitable cause?

Carly Doshi: That's great. And how is it passed on from one generation to the next?

Jan Wysocki: Well, you spoke about organization, communication and shared values. Using those elements together with your family can create a very powerful platform where you can come together as a group or even as a set of individuals with an agreement to do good. Some families use an annual meeting or a family retreat as the form to express their passions or interests or causes. Convening the family and the open dialogue about what is important to all members helps shapes the success of the dynasty.

Typically, wealth creators wish for their inheriting generations, now and in the future, to be strong contributors to society. Philanthropy plays a big part in the legacy conversation. Families are thinking not only about their own family's wellbeing but the greater needs of the world.

Carly Doshi: Absolutely, I couldn't agree more.

Jan Wysocki: Carly, since we're talking about philanthropy, let me ask you, what do you see families do well when it comes to making an impact? How do you recommend someone get started and what resources might be available to support families on this quest?

Carly Doshi: Thanks Jan. As I like to say, philanthropy is your values in action. If you start with what it is that you care about most, your own personal closely held values and consider your vision of the change in the world that you wish to see. From there, the next step is to develop your own mission. Our team works with philanthropists all the time to create mission statements either individually or as a popular family activity. Then it's really time to roll up your sleeves and get started.

But speaking of family, if philanthropy is values in action, and I truly believe that it is, then philanthropy is a great way to impart family values on younger generations. And many families actually use shared giving as a way of teaching children to be responsible stewards of family wealth. Even young children can be brought into the philanthropy conversation.

One of my favorite stories is a family that took our advice to ask their children what causes they wanted to support, and along the way they ended up learning a great deal about what was on their children's minds. They learned that one of their children had noticed a homeless man in their community, who they wanted to help. They learned that another had learned about the rainforests and deforestation in school and were worried about protecting animals. And that their youngest wanted to repair some equipment in the local park. What a beautiful and selfless conversation to have with young children. It's absolutely a win-win.

But regardless of your situation or the ages of your children, remember that successful families have clear values, which are known among the entire family, and strong communication channels for sharing those values and that is really at the heart of legacy.

You asked me about what families do well, but unfortunately, as we know, not every family is successful and sometimes things don't go according to plan. What are some of the pitfalls that you've seen when advising families who aren't quite as well organized?

Jan Wysocki: So back to the concept of family resilience again. It's hard work to build a strong family. If you don't invest the time to create the essential building blocks, you can never be certain that the foundation is solid. Time and even the smallest crisis will test it all. Organized is the key word. Families who don't prioritize the time to get organized and don't proactively think about their values and legacy may find themselves struggling to be cohesive as a group or even worse, cause a family rift that's insurmountable.

Communication, as you've mentioned, is also key. However you design your plan around your family gifting and the legacy, informing beneficiaries of the trust and imparting clear values and expectations of behaviors are essential. When people feel left out, that's where discontentment and discord can develop.

We, as women, are particularly skillful in that regard and almost always the ones navigating these dynamics.

Carly Doshi: Absolutely, that's true.

Jan Wysocki: One idea – bring the family into the philanthropic conversation by using a charitable structure and formalizing roles.

Now Carly, speaking of charitable structures, where does one go to learn more about the best way for a family to create or modify a family legacy plan?

Carly Doshi: Yeah, so once your values, vision and philanthropic mission are established, then you can proceed with setting up a charitable structure that actually facilitates your giving. Now this order is important and unfortunately many people get it wrong. You definitely want to seek out tax advice from a trusted tax professional, but if you don't know yet what it is you want to accomplish and you go to set up a structure, you may be boxing yourself in with that structure when another could have been more appropriate. There are a number of types of charitable structures to consider, including foundations, charitable trusts and donor-advised funds, which are lifetime giving accounts that allow you to engage in grant-making. And many iterations of these structures exist as well. Frequently a comprehensive philanthropy plan will include more than one.

So for you as the funder, when choosing between potential charitable structures, the initial questions to consider are things like, are you looking to engage in grant-making? Or do you want an operating entity, potentially with employees, programs, and infrastructure? What level of control do you desire? Charitable foundations offer a great deal of control and are permanent structures that allow for generations of family member participation. But with that control also comes responsibility for administration, legal formalities and ongoing maintenance. A donor-advised fund is a good alternative, but the trade-off there is less control over the structure, as it's administered by a third party.

Jan Wysocki: Well Carly, I think it's interesting that it's not a one-size-fits-all solution. But I suppose there are many technical aspects to the purpose of various structures and then all the technical IRS and tax-related matters. Maybe you can tell us a little bit about the tax deduction feature?

Carly Doshi: Yes, the charitable deduction is an important tax planning consideration and it's also an incredible benefit for making charitable contributions. In general, in the US, the charitable tax deduction is available to taxpayers who itemize their deductions up to a certain amount. That cap, or ceiling, it's not a flat number, it's a percentage of your own adjusted gross income for the year. Unfortunately, like many things with the IRS code, it's not completely straightforward and ultimately, the actual amount of the deduction you claim is based on that ceiling and also on the type of assets that you give. Cash vs. appreciated securities like stock or real estate.

Now, for 2020 only, that ceiling on the charitable deduction has been lifted and that was done under the Cares Act. Any charitable gifts that are made to public charities, excluding donor-advised funds, can be deducted up to your entire adjusted gross income amount. You may have heard this called an unlimited charitable deduction because there's no ceiling. But again, it's only for donations that are made in 2020.

Our team spends time walking through these details and individual circumstances and coordinates with legal and tax advisors to come up with a comprehensive plan. But Jan, while the tax deduction is important, it's really only one item to consider when mapping out a strategy for maximizing impact. And Jan, as you well know, charitable giving is not the only way to make a positive social impact. Impact investing is also a popular strategy. Can you share with us what that can look like?

Jan Wysocki: Sure Carly. Impact investing can mean a number of things depending upon your perspective. It can range from investing in a private for-profit or even not-for-profit company as an operating business that solves a particular social deficiency or even a medical research firm that concentrates efforts on a particular illness, to the more common premise of socially responsible investing. You might know this investment management strategy by one of many names, sustainable or socially conscious investing or even green or ethical investing. That comes in many forms and your investment counselors can speak to the various merits of investing in this format with the family's charitable funds.

I have a client that's an expert business enterprise operator. They feel that they can run and manage a business that would address their family's interest in social change more effectively than investing in an impact investment management strategy. And even more effectively than writing grants to other nonprofit enterprises that are in line with their goals or the family's value-based objectives.

So you can see, impact investing can be done in a number of formats. One through an investment management strategy and one through a direct investment strategy. So it's up to the individual, it's up to the family, it's created through a family plan that you can have impact in your own defined way.

Carly Doshi: Some great tips and guidance for women listening today who are thinking about their wealth and maximizing their legacy. It's important to begin by considering your own values, and to be open to ideas beyond traditional grant-making, including incorporating impact investing into your portfolio. And of course, any formal structure should be implemented in consultation with a tax advisor.

Jan, thanks for being here.

Jan Wysocki: Carly, thank you for including me in this conversation today, it's very important.

Carly Doshi: To our listeners, thank you for joining us. Today's program was part of a series on Women and Wealth, Doing It All by HSBC Private Banking. We sincerely hope you enjoyed our discussion and found it inspiring, informative and also empowering. Let's keep the conversation going. For more on today's topic and other wealth management and planning solutions, visit us at hsbcprivatebank.com or if you have a Relationship Manager reach out directly to them. Thank you for your time today.