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SOME PERSPECTIVES ON BEAR-MARKET GIVING

Recent stock market declines have been far worse than many investors ever imagined. Because of the downturn, executives of some nonprofits are also feeling anxious about both future contributions and increasing community needs. In these volatile times, how should you approach your charitable giving?

First the good news. Charitable giving increased 40% in the U.S. from 1995 to 1999, to \$190 billion. Congratulations, since you're among those who have been giving generously. When tax returns are in and contributions are officially tallied for 2000, total U.S. charitable contributions are expected to top \$200 billion, a staggering sum.

Second, some perspectives on bear markets. You should expect to endure more than one during your lifetime, and they're rarely short-lived. Prior to the current downturn, there were four recessions in the last 30

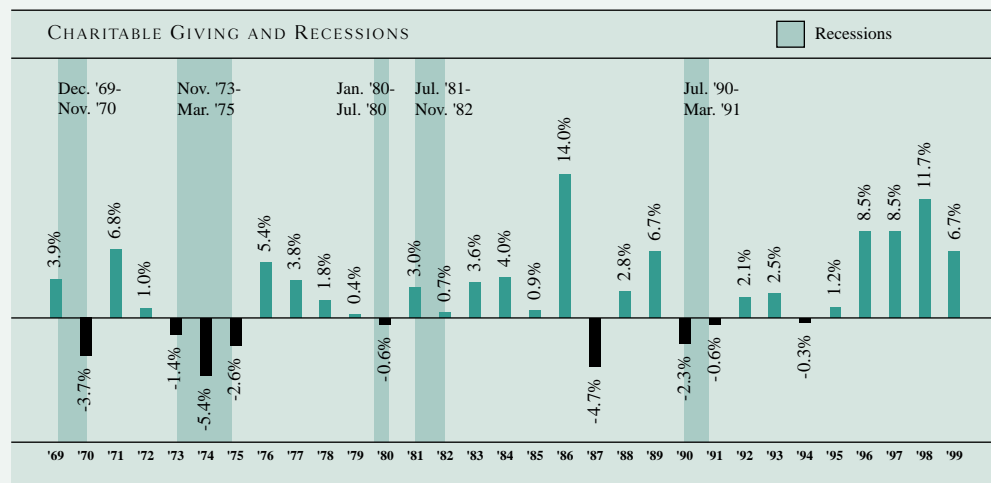
years, the most severe in 1973-1975, when the U.S. stock market lost 50% of its value and charitable giving declined significantly (see chart below). It took roughly a decade for the stock market and foundation giving to return to pre-recession levels.

We all wish we could predict the "bottom" of the current downturn. Since that's not possible, it's best to think through your personal giving strategy as part of your overall financial plan, which should include contingencies for market volatility as well as unexpected needs.

DOWNTURNS DON'T ALWAYS REDUCE GIVING

Some experienced philanthropists look at downturns as a time to reaffirm commitments with the nonprofits they support. "Some of our clients have foundations that are 50 years old or more, so they have been through a

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Note: Figures show annual percentage change in giving, adjusted for inflation. Drop in 1987 followed changes to the tax law the previous year.

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CHARITABLE GIVING™

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ON A CHARITABLE NOTE



Donor-advised funds, such as the Schwab Fund for Charitable Giving, are the fastest growing philanthropic vehicle in the U.S. today, both in size and number. Any industry experiencing such dramatic growth needs to be able to change and improve the services it offers quickly and responsively.

To this end, we will soon begin an exclusive survey of our donors. We want to learn more about what you expect from the Charitable Gift Account and also gain a greater understanding of your charitable giving goals. We will be contacting randomly selected donors for the survey during the first two weeks in June and will report the results of the survey to you through our next newsletter.

Already, I've had the opportunity to talk with many of you about how to provide the best quality service, and we have made several improvements based on your input. We have reduced the grant minimum to \$250 so you have more opportunity to make grants from your account, and we have streamlined our grants process so your grant requests get to your charities quicker. If you are asked to participate in the survey, we want to know specifically what's working for you and what isn't; what's important to you and what isn't. The more we know, the better we can be.

Apart from the survey, I continue to welcome your e-mails, letters, and phone calls about our accounts and services, or charitable giving in general.

We know your time is precious, but if you're called for the survey, we hope you'll take the time to talk to us. Your feedback and suggestions are vital to our mission of being able to assist you as you support the causes that mean the most to you.

Kimberly Wright-Violich, President
Schwab Fund for Charitable Giving

**GRANTS HELP INDIA
EARTHQUAKE VICTIMS**

The 6.9-magnitude earthquake that struck Gujarat, India on January 26, 2001 was the worst disaster in five decades for the region. More than 20,000 people died, an equal number were injured, and millions were left homeless. The economic cost to one of India's richest and most industrialized states continues to be severe.



Through the Disaster Relief link on our Web site, schwabcharitable.org, our donors requested grants totaling almost \$40,000 to organizations providing relief to India's earthquake victims. Charities receiving grants included the Salvation Army, Doctors Without Borders, and the American Red Cross. For more information about requesting grants for disaster relief, visit our Web site or call (800) 746-6216.

IMPORTANT NOTICE

Beginning July 1, 2001, the Administration Fee for the Charitable Gift Account will change. This change will enable us to continue enhancing the range of services and support we provide our donors, regardless of the size of their accounts. Please see the table and amendment to Program Guide below for details.

<i>Daily Combined Investment Pool Balance</i>	<i>Annualized Fee Schedule</i>
First \$250,000	1%
Next \$251,000 - \$500,000	75/100 of 1%
Next \$501,000 - \$1,000,000	50/100 of 1%
Balance above \$1,000,000	25/100 of 1%

For balances over \$5 million, please contact a Fund Representative.

THIS AMENDMENT REPLACES SECTION 10.2. ON PAGE 21 OF THE PROGRAM GUIDE.

The Fund incurs administrative expenses associated with its operation as a charitable organization. To cover these costs, the following administrative fees are charged against the balance in each investment pool. The Fund's Board of Directors reviews and approves administrative fees annually. Each Charitable Gift Account is subject to a maximum annualized administrative fee of 1% of the daily combined investment pool balance. Fees for daily combined investment pool balances greater than \$250,000 will be reduced via the payment of a rebate into the account in the quarter following the end of the Fund's fiscal year, June 30. Only accounts that are open at the time of the fee rebate will receive it.

number of market cycles. What we're hearing from them is not a concern about a decline in their foundation assets," says Linda Francoscovich, Senior Vice President, Philanthropic Advisory Services, for U.S. Trust Corp. in New York. "What we hear is that they feel it's vitally important to meet the commitments they've made to charitable causes, especially to grantees with whom they have long-term relationships. Discretionary giving may be down for some people in down markets. But from my experience, most philanthropists are really committed to meeting social needs, which can increase in bad times."

The American Red Cross supports this outlook. With about 1,100 local U.S. chapters, it's certain that some will receive less in contributions because of the downturn, but the national headquarters says this will be the exception and not the rule. "We have not seen contributions from individuals decline significantly because of economic downturns," says Armando Chardiet, Vice President, Major Gifts, for the American Red Cross in its Washington, D.C. headquarters. For the current fiscal year, Red Cross donations to date are ahead of last year's donations.

"Instead of the economy, what affects our contributions is the frequency of highly visible disasters, which prompt people to give from their hearts," says Chardiet. "Many of our donors are loyal disaster givers, whether it's \$10 or \$2 million. Our donors come from every economic level, and in the aggregate they have sustained their giving through downturns."

The University of Michigan's development office echoes this view. With more than 200,000 donors, who give in amounts from \$25 to \$22 million, the university has seen

little change in giving patterns during recessions. "We have a broad base of donors," says Judy Malcom, Director of Development Communications and Donor Relations. "That might be why we haven't been affected in the past. Our assumption is that downturns in the economy and stock market do not affect giving by individuals, unless a university or nonprofit is relying on 'dot-coms' and other people whose wealth is not stable. With a broader based foundation of donors, [fundraising] campaigns still succeed even in less prosperous times."

The experience of these donors and nonprofits may vary significantly from what has occurred in your community, and may not represent the effect of economic downturns on the nonprofit arena in general. But their experiences show that many charitable givers are consistent in their support, through good times and bad, and may even look at downturns as a time to be more generous.

ASSESSING YOUR NEEDS

Every charitable donor has a unique set of assets, financial needs and bear-market bruises. "Among our donors, there are some who will have to cut back on donations because they planned to contribute appreciated stock," says Kim Wright-Violich, president of the Schwab Fund for Charitable Giving.™ "For other donors, who have a different asset base, the downturn won't affect their giving in any significant way."

What's important, says Wright-Violich, is "focusing on the needs you want to fulfill through your giving. Find out if the charities you support may be losing funding from other sources, or if they expect new demands on their services as a result of the changing economy. If you have to moderate your

Q. How long will it take for my contribution to be invested in my Charitable Gift Account?

A. This is a two-step process, with the first step being the transfer of assets to the Fund. If you open an account with a cash contribution or with a transfer of assets from an account at Charles Schwab & Co., Inc., your account will be opened and the fair market value of any contributed securities determined generally within one business day of the Fund receiving your application. If you're opening an account with a transfer of assets held by another financial institution—assets such as stocks or other securities—the process is more complicated and can take as long as six weeks. You can probably accelerate this process by contacting your investment manager or broker at the delivering firm and encouraging them to expedite the transfer. The second step involves liquidating the contributed securities, if required, to determine the value of the assets and then buying shares of the Fund's investment pools. This step usually requires one to two business days.

Q. Is it true that I can't fulfill a pre-existing pledge from my Charitable Gift Account?

A. Yes, it's true, and here's why. Once you've contributed assets to the Fund and set up a Charitable Gift Account, the assets belong to the Fund and can only be used for charitable purposes. Donors to the Fund cannot receive any "private benefit" as a result of making their donations or from making subsequent grant recommendations. Since the Fund's payment of a donor's pledge would have the effect of discharging the donor's personal obligation, the tax laws treat that as an improper use of the Fund's assets to confer a private benefit on the donor. Of course, there are no restrictions on telling a charity that you intend to make a grant recommendation to the Fund instead of giving them your personal pledge.

PROPOSED TAX CHANGES

The new Bush administration has proposed a number of legislative changes that could affect your charitable giving.

Easier IRA-to-Charity Rollovers. The IRA Charitable Rollover Incentive Act of 2001 (HR 774/ S 205) would allow individuals 59½ or older to distribute assets from an IRA to a charity or qualifying deferred gift plan such as The Schwab Fund for Charitable Giving. Under current law, if you withdraw IRA assets before the age of 70½ the assets are taxed at ordinary income rates. Full charitable deductions are still allowed for contributions that fall within Adjusted Gross Income (AGI) limitations, but some retirement-age individuals are in a position to make charitable donations greater than the AGI limitation, which is one reason for this legislation.

If the Incentive Act passes, a donation could be made directly to a charity from an IRA without penalties or income tax consequences for the donor. The donor would not receive an income tax deduction for these charitable IRA contributions.

“Schwab supports the legislation because it removes a tax disincentive to charitable giving,” said Frank Kelly, senior vice president and head of Schwab’s Office of Government Affairs in Washington, D.C. “Requiring individuals to withdraw money from their IRA, pay taxes on that withdrawal, and then make a charitable donation doesn’t make sense—it essentially penalizes people for their generosity.”

Deductions for Nonitemizers. The Bush tax plan also would allow individuals who do not itemize federal tax deductions to take a deduction for 100% of their charitable contributions, up to the standard deduction amount. A PricewaterhouseCoopers study estimates that this proposal could increase charitable giving by \$14.6 billion in the first year alone.

What to Expect. These proposals are only some of the tax-related legislation competing for a place in the final tax-cut package that Congress will produce this summer. Kelly is optimistic that some charitable giving incentives will become law this year or next.

“Encouraging more charitable giving is one area where policymakers from everywhere on the political spectrum can agree,” said Kelly.

SOME PERSPECTIVES ON BEAR-MARKET GIVING *continued*

giving because of your own financial situation, you can do so as an informed giver.”

Financial advisors support this view and compare giving to investing. “If you are in and out of the investment market, the chances of your succeeding are very low. A better plan is to invest in good companies at a level that feels comfortable and keep your head when all others are losing theirs,” says Claude Rosenberg, an investment and charitable giving advisor with more than four decades of experience with economic cycles. “People should look at giving in the same way. If you feel it’s important to be giving, you should invest in effective charities over the long term, in good times and bad, at a level that reflects your real financial assets.”

Although Rosenberg is an advocate for across-the-board increases in giving for many Americans, he believes it’s very important that people have financial peace of mind. “Charitable giving is obviously secondary to meeting basic family needs,” says Rosenberg. “The problem is, we all have different ideas as to what we can afford to do.” Rosenberg’s book, *Wealthy & Wise*, outlines a new approach called ‘newtithing’ for determining an appropriate level of charitable giving. It takes into account annual surplus income, the market value of your investment assets, what those assets are likely to produce over time, as well as how secure you feel about your finances. For more information about newtithing, and a calculator that can help you better decide how much you might invest in charity in a given year, visit Rosenberg’s Web site, www.newtithing.org.

DISASTER PLANS

If you have been a long-time supporter of an organization and cannot meet a pledge or continue your contributions for any reason, it’s best to let the organization know as soon as you can.

“It does happen that an individual’s financial resources change significantly,” says Chardiet of the Red Cross. “The best thing to do is be open and candid with the organization. The worst thing is to leave these things unsaid. Then the charity you care about will plan for resources that won’t be coming through.”

Franciscovich says some of her clients at U.S. Trust look at “rolling averages” instead of year-to-year contributions, in much the same way an investor looks at long-term annualized returns rather than year-to-year growth. In one year contributions may be more conservative, but on average giving can continue at the desired level. Of course, private foundations must always meet their IRS pay-out requirements. She also notes that one effect of the downturn might be a decline in the formation of new foundations, since many individuals fund foundations with appreciated stock.

INVEST IN COMMUNICATION

Charities welcome more communication with donors about funding sources, programs and needs. This might be the best way to approach giving in volatile times. Build stronger bonds with the charities you want to support and the communities you hope to serve through your contributions. Knowing their needs will help you make the most of your giving in this market cycle and beyond.