

## PHILANTHROPY IN CHALLENGING TIMES



These are challenging times for philanthropy as well as for the economy in general. In both cases, however, the shakeout can have a cleansing effect, with the best companies and nonprofits surviving. “For strategic charitable givers, the key is to ensure that the most effective nonprofits survive, not only the ones with the best fundraising organizations,” says Kim Wright-Violich, president of the Schwab Fund for Charitable Giving.<sup>1</sup> “The late 1990’s were a period of enormous creativity in charitable work, with new approaches to old problems. The key is to preserve the best of these entrepreneurial efforts as well as sustain the larger nonprofits that effectively serve their communities.”

of Sept. 11, 2001. Total U.S. giving for 2001 was almost flat (+0.5%) compared to what Americans gave to charity in 2000, in real dollars, when the downturn began!

Chicago-based financial advisor Wayne M. Janus says (see *One Way To Give*, page 4) this trend holds true for his clients. “I have seen only a modest amount of reduced giving among a few of my clients who feel somewhat stretched by recent market declines,” he says. “What’s changed is the reliance on donating highly appreciated assets. The creation of Charitable Remainder Trusts, for example, has dropped to almost zero. That approach was most attractive for clients who had stocks with very large, built-in gains.”

Here’s something else that’s changed. The nonprofit sector exploded in the 1990’s, fueled by a booming economy. According to the Independent Sector—a Washington, D.C.-based coalition of nonprofits, foundations, and corporations—the number of 501(c)(3) nonprofits in the U.S. increased 74 percent from 1987 to 1998. New art museums, food banks, homeless shelters, and more were established nationwide, creating more competition for every charitable dollar, in good times and bad.

And then there’s public funding sources. State tax revenue is a key source of funding for many of the services provided by charitable organizations, according to the *Chronicle of Philanthropy*, especially in the arts and social services. The economic downturn has significantly reduced state tax revenue, and this trend is expected to continue into 2003.

Greater community needs, more charities to fund, and flat or declining financial resources—that’s what many nonprofit organizations are facing today. These pressures provide real opportunities for strategic philanthropists

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### YEAR-END PHILANTHROPY CHECKLIST

- *Assess your assets, financial plan, and long-term charitable goals. A financial advisor can be helpful in this process.*
- *Make contributions to your Charitable Gift Account for a 2002 tax deduction.*
- *If other family members want to become donors to your Account, they can do so and also receive a 2002 tax deduction.*
- *Contact charities you support and ask about special year-end needs for volunteers and in-kind donations as well as grants.*
- *Set charitable goals for 2003 that focus on ends instead of means. Be discriminating about the charities you choose to support.*

For the committed charitable giver, what is the best approach in this time of increasing needs and fewer charitable resources? This article will explore this question.

### GIVING TRENDS

First a bit of context. While some high-profile giving is down, the general trend of American generosity is holding steady. Since 1972, Americans have donated to charity an amount equal to about 2 percent of our Gross Domestic Product. In 2001, our giving totaled more than \$212 billion, and about 1 percent of that was the result of donations related to the tragedies



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<sup>1</sup> *Giving USA*, Annual Report for 2001

ON A CHARITABLE NOTE



American people are incredibly generous in both good times and bad. That generosity continues despite the fact that we are all feeling the pressures of a bear market and weakened economy.

One of the luxuries of our work here at the Schwab Fund for Charitable Giving™ is being a witness to, and small part of, your extraordinary generosity.

You might be interested to know that, by a wide margin, Americans give more to charity than any other nation in the world, about 2 percent of our Gross Domestic Product (GDP), and that level of giving has been fairly consistent for decades. Other developed nations give less than half this amount, at a maximum about three-quarters of one percent of GDP.

Even more impressive is the value of our volunteer time. Estimates are that about 44 percent of adults in this country volunteer, more than 80 million people, at an average of about four hours a week. Our volunteer work represented a value of about \$240 billion in 2001, even more than the \$212 billion in assets we contributed to charities during the year.<sup>2</sup>

I'm astounded by these statistics, but they confirm what I see around me, among the people I work with at the Schwab Fund for Charitable Giving and our donors, as well as in the community where I live and work. For all the anxiety people feel about their investment portfolios, retirement savings, and family assets, there's also an incredible desire to give back, to help those in need, and contribute time and money to charitable institutions that enhance our lives.

Speaking for everyone at the Schwab Fund for Charitable Giving, let me say that it's an honor to play a role in helping you to give generously to all the causes you choose to support.

**Kimberly Wright-Violich**, President  
Schwab Fund for Charitable Giving

FROM THE CHARITABLE FUND STAFF

*"I feel a great deal of pride in knowing that what I do every day helps to move funds to non-profit organizations that directly help people in need. Talking to the charities is great too. They are always pleased to hear from us and always grateful."*

*Schwab Fund for Charitable Giving,  
Grants Administration Staff*

*"What I truly appreciate about working with the Charitable Fund is that I earn a living and do good at the same time. That's really why I wanted to do it, to make whatever difference I can."*

*Schwab Fund for Charitable Giving,  
Client Relations Specialist*

**YOUR PHILANTHROPY IN ACTION**

More than 9,000 public charities received Schwab Fund for Charitable Giving grants during the first nine months of 2002. Here are just a few grant recipients:

**Performing Animal Welfare Society (PAWS)**  
Galt, California

**Oregon Shakespeare Festival Association**  
Ashland, Oregon

**1000 Friends of New Mexico**  
Albuquerque, New Mexico

**American Indian College Fund**  
Denver, Colorado

**Heifer International**  
Little Rock, Arkansas

**United Way of Metropolitan Nashville**  
Nashville, Tennessee

**Textile Center of Minnesota**  
Minneapolis, Minnesota

**Malvern Fire Company**  
Malvern, Pennsylvania

**VNA Health Care (formerly Visiting Nurses Association of Hartford)**  
Hartford, Connecticut

<sup>2</sup> Statistics from *Giving and Volunteering in the United States*, a 2001 survey conducted by Independent Sector.

to play a role in helping the best nonprofits survive and appropriately declining to support those organizations that are less effective. “There is a tendency to be sympathetic toward all charities because nonprofit leaders make so many sacrifices and are driven by noble missions,” says Wright-Violich. “However, particularly in difficult times, philanthropists have a responsibility to do what they can to ensure that scarce resources—such as volunteers’ time and contributors’ money—are being put to the highest and best use. It is not in the best interest of our communities, or the recipients of services, to have well-intended but mediocre work continue when those same resources could be used for greater impact.”

**REBUILDING AND REALLOCATING**

Now a look at the balance sheets and financial plans of American families. There’s no doubt that for many of us rebuilding retirement accounts and savings for college expenses will take precedence over charitable giving in the near future. And one of the best approaches to rebuilding a solid financial base are those ho-hum asset allocation models that are still the foundation for just about any financial plan.

“I work with asset allocation models for most of my clients, and they include real estate, bonds and hedge funds,” says Janus. “These three areas have helped them get through these troubled times without seeing an enormous chunk of their net worth disappear. Now we’re rebalancing. For many clients, that means selling bonds, which are at 30-year highs, and buying equities again.”

Fundamentals, a long-term strategy, clear goals. Perhaps not the road to riches, but a well-worn path to financial stability. And for most people, there’s no need to jettison charitable giving along the way.

“Even after the last two years, there are still a lot of appreciated assets out there,” says Craig C. Wruck, Vice President of Philanthropic and Charitable Services at U.S. Trust Company. “With good planning and some discipline, you can continue to support the causes you believe in and still meet your other financial needs. Maybe you won’t be able to give as much as you planned this year, or the next, but over time you can still make meaningful contributions of time and resources to your community.”

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**DEADLINE REMINDERS FOR YOUR CHARITABLE GIFT ACCOUNT**

Everyone at the Schwab Fund for Charitable Giving will be working up to the last minute of 2002 to process contributions to your Charitable Gift Accounts as well as your grant requests. If you plan to make a contribution that will be deductible for the 2002 tax year, please take note of these deadlines:

- Request transfers from a Schwab account no later than **Friday, December 27.**
- Arrange for wire transfers to be received by the Charitable Fund by 1 p.m. (Pacific Standard Time) on **Tuesday, December 31.**
- Mail contribution checks or securities certificates no later than **Tuesday, December 31.**

If you would like to request a transfer of assets from another financial institution to your Charitable Gift Account, please contact us as soon as possible. Because we cannot fully control the processing for these transfers, we cannot guarantee year-end completion of transfers requested at this time. However, be assured we will do all we can to expedite your request.

Also, please request grants for year-end delivery to charities no later than **Friday, December 13.**

If you have any questions about a contribution, grant request, or your account, please call one of our Client Relations Specialists at (800) 746-6216. They are available every business day to talk with you about your charitable giving and year-end tax planning needs.

**Q.** *My employer has a Matching Gifts Program. Does it apply to contributions to my Charitable Gift Account?*

**A.** Many employers match contributions to donor-advised funds, such as the Schwab Fund for Charitable Giving, but policies vary. Some companies match employee contributions to the donor-advised fund while other companies match grants when the donor (and employee) recommends them for specific charities. Either way, it’s a great way to increase your support for charitable causes.

**Q.** *I’m interested in selling stock for a capital loss and contributing the proceeds to my Charitable Gift Account. If I do this, can I still take a deduction for the capital loss?*

**A.** Yes you can, and there are real advantages to this strategy. Your capital losses can offset capital gains, and your Charitable Gift Account contribution can be deducted separately as a charitable donation. There are some restrictions, however. The total of your capital losses, both long-term and short-term, are deductible to the extent of your capital gains for the year. If your capital losses exceed capital gains for the year, you can deduct these excess losses, subject to an annual limit of \$3,000 (or \$1,500 for a married individual filing a separate return). Legislation has been introduced in Congress to increase the amount of the deduction for excess capital losses from \$3,000 to \$20,000.

Wayne M. Janus, chairman and co-founder of JMG Financial Group, Ltd., a financial services firm based in Oak Brook, Illinois, has helped many clients reach their financial and philanthropic goals. He describes his advisory role this way: “I believe my job is to help my clients attain their goals, not to talk them into doing things I believe should be done. Nevertheless, we do get into very personal discussions about values, families, friends, and community,” says Janus. “And that naturally leads into a discussion about philanthropy as well as estate planning.”

Janus says that while individual clients have particular interests and passions—such as the arts, education, religious activities, or other charitable causes—what drives his advice on giving is how to maximize tax efficiency and end results.

“Certain charitable techniques work better when stocks are highly appreciated, and some work well if interest rates are low, as they are now,” says Janus. “Also, bequests of retirement accounts, such as IRAs and 401(k) plans, are often overlooked but produce an extremely tax-effective way to leave money to charity.”

Janus and his colleagues also help clients identify specific charities whose mission is comparable with the client’s desired outcome. “Most of my clients were not born into wealth, and that seems to shape their approach toward money in very positive ways.”

*To contact us, write to the Schwab Fund for Charitable Giving, 101 Montgomery Street, San Francisco, California 94104. Or send e-mail to [giving@schwabcharitable.org](mailto:giving@schwabcharitable.org).*

### TAX-EFFICIENT PLANNING

Janus notes that people can often give more than they realize to charity if they seek out the most tax-efficient way to give over the long term. He cites a hypothetical example.

“Let’s say a couple is retiring and facing a reduction in income,” says Janus. “They can use a donor-advised fund to maximize their post-retirement giving, when they might no longer be itemizing deductions.”

Janus would advise the couple to compute how much they expected to contribute to charities over the next decade and give an amount of appreciated stock or other assets, in their last year of employment, to a donor-advised fund. The fund could then be used to make their annual charitable contributions. “This technique would reduce the after-tax cost of their charitable contributions by 40 percent,” says Janus.<sup>3</sup>

Retirement, the sale of a business, a severance or bonus payment—any of these “trigger events” can be an opportunity to set aside assets for giving and avoid capital gains or income tax liabilities. But Wruck and others also recommend that those who are committed to philanthropic giving should try to build it into their annual financial planning at a level that balances family needs and priorities. A Charitable Gift Account, for example, allows you to set aside funds throughout the year for charitable grants. “When you have more, you can set aside more,” says Wruck. “And over the long term, you’ll be amazed at what you can achieve through tax savings and tax-free investment growth.”

### ENDS NOT MEANS

Here’s another strategy for those who can’t give as much in financial assets as they would like in the near future. Focus on your charitable goals rather than how much you can give, ends not means. If your goal is to support the arts in your community, and you need to lower the contributions you’ve been making to local

theater groups and museums, consider volunteering for the same organizations. Especially for people with solid business skills—such as accounting, finance, fundraising, public relations, or technology—you may be donating tremendous value to the organizations you care about without spending a dime.

Another recommendation: In some cases, you may want to work toward consolidation among the public charities you support. All the growth of the 1990s in the nonprofit sector may seem gratifying, but it has created some redundancy and administrative costs that may be unnecessary. There’s no doubt that some consolidation will occur, but it need not result in a reduction in services. “Ends, not means, should be the focus of strategic philanthropy,” says Wruck. “Helping organizations in your community to see the value of consolidation could be a worthwhile task.”

### WHAT NOW?

Predictions are that 2003 may be a slightly better year for the American economy. For charities, there are mixed signals and trends for the coming years. Whatever happens in the near-term to the stock market and our economy, it’s safe to say that your charitable contributions and volunteer time have rarely been more valuable.

What are the best approaches to effective giving in these times?

- 1. Continue your giving if your wealth allows you do to so.*
- 2. Increase your involvement with the causes you care about. Your time and sometimes in-kind contributions can be as valuable as your financial contributions.*
- 3. Be disciplined and discriminating about what you support, and decline to support when appropriate.*

Creativity, generosity, and long-term planning will allow many Americans to continue the tradition of sharing their wealth and giving back to communities in significant ways.

<sup>3</sup> This example is for illustrative purposes only. Tax savings that may result from using a donor-advised fund will vary, depending on the donor’s specific tax situation. Charitable deductions in particular are subject to Adjusted Gross Income limitations. Consult your tax advisor for more information.

Cover Photo: Courtesy Margot Tohn