

CREATING A FAMILY LEGACY

FALL/WINTER 2004

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In many households, estate planning is a task postponed far too easily. There is a natural reluctance to talk to one's children and spouse about death, and an even greater reluctance to discuss the distribution of assets. Unfortunately, many families defer the discussion until it's too late.

How can you make the subject welcome and meaningful to everyone involved? For the growing number of people who would like to leave a charitable legacy, the answer is to start a discussion that leads to a family tradition of giving.

It can be immensely rewarding to get children and parents together to discuss what matters to them and how they can make a difference. With younger children, talking about which charities to support can also help teach compromise and consensus-building. With older children, it can be a way to get to know each other better and bring family members closer together. For the entire family, it offers a unique opportunity to discuss shared values.

Of course, planned giving is also important to your family from a tax perspective. "Individuals sometimes expect that by leaving all their wealth to their children, they will enable their children to donate to their favorite causes," says Kimberly Wright-Violich, President of the Schwab Fund for Charitable Giving. "But often that does not happen. The combination of estate and income taxation on those inherited assets often means that the government receives a significant majority of what was intended for the children."

A charitable bequest is an attractive alternative. "Many donors have been asking about bequests to their Charitable Gift Accounts as part of their estate planning," says Margae Diamond, Director of Fund Development. "Charitable bequests continue to be very popular even though estate tax exemptions are going up," Diamond says.

Interestingly, women are more likely than men to make charitable bequests, perhaps because they tend to outlive their husbands and can disburse the family's estate.

Studies predict that some \$6 trillion will be transferred to charity through bequests between 1998 and 2052, as the World War II and Baby Boom generations pass away.¹ In 2003, charitable bequests totaled more than \$21.6 billion, according to Giving USA, a report compiled annually by the Center on Philanthropy at Indiana University. That was up nearly 14 percent from the previous year, when bequests totaled \$18.1 billion.

Generosity Through the Generations

Alex Milczarek was a generous man who earned a modest living as a computer programmer. When he received a substantial settlement in a lawsuit stemming from his wife's death in a hit-and-run accident, he used the proceeds to establish a Charitable Gift Account. He didn't care about the money for himself. "He said he'd return it all if he could have his wife back," says Milczarek's financial advisor, Wayne Janus, founder and CEO of JMG Financial Group in Oak Brook, Illinois. During his lifetime, Milczarek used the fund to support his favorite causes, including nature, arts, music, and community organizations in the Chicago area.

Before succumbing to leukemia three years ago at age 56, Milczarek made sure his family would carry on his generosity. He designated his Charitable Gift Account, which he had named the "Milczarek Family Gift Fund," as a beneficiary of his Individual Retirement Account and named his daughter, Kathleen Connor, as his successor to make grant recommendations. Now Connor fondly remembers her father while giving to her family's preferred charities.

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¹ Paul Schervish and John Havens, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, reported by www.leavealegacy.org.

ON A CHARITABLE NOTE



One of the most gratifying aspects of our work at the Schwab Fund for Charitable Giving is being able to help families develop a philanthropic legacy. Many people don't realize that a Charitable Gift Account can be the start of a sustained family tradition of giving.

If you wish, the account can provide for your family's giving now and for generations to come. You can invite the whole family to sit down with you to talk about which causes to support through the account. I ask my own children to recommend charities they'd like to see our family support, and it has been so rewarding to watch charitable giving become something tangible for them.

For the future, you can designate your children as successors on the account to carry on your family's giving to the next generation. Parents who have taken advantage of their Charitable Gift Account to involve their children in giving decisions say it provides a wonderful occasion to talk about their family's philosophy and encourage the spirit of giving in their children. In my family, I've found discussions about giving are a great way to talk about what's meaningful in life, in a way that engages my kids in the discussion.

In this issue of GIVING™, we describe how to create a lasting tradition of family philanthropy. We're here to help you through every step, from establishing the account to learning about charities to developing and implementing a personal giving plan.

Many of our donors have set up bequests to Charitable Gift Accounts in their wills, or have designated their account as a beneficiary of a retirement account or insurance policy. Leaving part of your estate to a Charitable Gift Account not only enables you to reduce the portion of your estate that is subject to estate taxes but also gives your successors a way to honor and remember you as they support their favorite causes.

While an estate planning attorney is your best resource in determining how to carry out any bequests you decide to make, we encourage you to contact our staff to answer any questions you may have about charitable giving and to discuss ways of giving you may not have considered. We can help demystify the planning process and provide insights that may assist in your decision-making.

As always, it is a privilege to help you achieve your philanthropic goals.

Kimberly Wright-Violich

President

Schwab Fund for Charitable Giving

NEW, LOWER MINIMUM FOR CHARITABLE ASSET MANAGEMENT

In 2003, the Schwab Fund for Charitable Giving introduced Charitable Asset Management,² giving donors the ability to nominate an independent investment advisor to manage the assets in their Charitable Gift Accounts of \$500,000 or more. Through this feature, charitable assets may be invested in a wide variety of securities, including individual stocks, bonds, and mutual funds, in any combination.

Recently, the Fund lowered the minimum required account value for the Charitable Asset Management feature to \$250,000.

Now, with \$250,000 or more in your Charitable Gift Account, you can enjoy the flexibility of recommending an independent investment advisor—perhaps the advisor who manages your investment non-charitable portfolio—to manage the assets in your charitable account. With the management expertise of your advisor, those assets have the potential to grow, tax-free, to provide an even greater resource for your giving in the future.

The Schwab Fund for Charitable Giving is the only leading national donor-advised fund offering you this level of investment flexibility.



The ability to choose an advisor you trust makes the Fund's Charitable Gift Account an even more attractive alternative to other charitable vehicles.

If you'd like to learn more about Charitable Asset Management, please call a Donor Relations Specialist at (800) 746-6216 or visit our Web site, www.schwabcharitable.org.

² Charitable Asset Management is available only through independent investment advisors working with Schwab Institutional®, a division of Charles Schwab & Co., Inc., or U.S. Trust, a subsidiary of The Charles Schwab Corporation and affiliate of Charles Schwab & Co., Inc. While donors may recommend an advisor, the Fund must approve the recommendation. Advisors must meet certain eligibility requirements and adhere to Fund fee and investment guidelines.

In making gifts, Connor says, "I think of my dad every time." Although she could choose to give the entire balance away immediately, she says, she prefers to make smaller grants so that the account "keeps going for years and years" as a lasting memory.

Wayne Janus also uses a Charitable Gift Account as a means of family philanthropy. His wife, who died of cancer in 2002, made the couple's Charitable Gift Account the beneficiary of her IRA. Giving to organizations that benefit the community is a way for Janus to honor her. "It's part of what we believed in," Janus says.

Cost-effective Giving

As a financial advisor by profession, Janus says, "I've never believed my role was to convince people they have an obligation to make gifts. But if they want to give, I've discussed how they can do it in the most cost-effective manner." Designating a Charitable Gift Account with the Schwab Fund for Charitable Giving as an IRA beneficiary is particularly cost-effective, he says. Because the Fund is a public charity, the donor's Charitable Gift Account receives the full amount of an IRA.

Consider the case of a person with \$100,000 in an IRA. If a Charitable Gift Account with the Fund is named as 100 percent beneficiary of that IRA, the Charitable Gift Account receives \$100,000, without any taxes due on

the transfer. If, however, an individual, such as a child, is the beneficiary, as many as four taxes (federal estate tax, state inheritance tax, and federal and state income taxes) might be deducted before the heir receives what's left. By the time all taxes are paid on a \$100,000 balance, the individual—depending on his or her tax bracket—might receive as little as \$20,000.

As this example indicates, when funding a future of charitable giving for your family, the choice of how to structure that giving and what assets to contribute can have a significant impact on how much money goes to charity, how much goes to your family and how much goes to the government. Clearly, it's important to plan wisely and obtain sound advice.

How to Set up a Bequest

With a Charitable Gift Account, there are many ways you can leave a legacy for charitable purposes. While you nominate the charities of your choice for grants during your lifetime, you may designate one or more successors to make those decisions after you're gone. Consult your financial or tax advisor about your wishes and your situation. Here are some options:

1. You can make a **specific bequest** to your Charitable Gift Account by designating a certain dollar amount for the Schwab Fund for Charitable Giving in your will. The bequest may be in the form of cash, tangible

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STAFF CHARITY PROFILES

For this feature of the Newsletter, the Schwab Fund for Charitable Giving's staff select charities they would like to profile.

PAWS (Pets are Wonderful Support) is a volunteer-based organization that assists persons with HIV/AIDS and other disabling illnesses by providing support aimed at helping them keep their animal companions when they need them most. PAWS provides a unique combination of animal welfare and health and human services. (There are independent PAWS offices located nationwide, and each maintains their own website. You may search for "Pets Are Wonderful Support" using an internet search engine to find the office near you.)

The Women's Foundation of California report that they are the oldest and largest women's fund in the Western United States. Their mission is to improve the lives of California's girls and women through strategic grant-making to grassroots organizations that address women's economic security, health, environmental justice, policy advocacy and young women's leadership. (www.womensfundca.org)

DONATING REAL ESTATE AND OTHER ASSETS

Until now, you may not have considered making charitable donations of real estate, gems, artwork, or private-placement holdings, such as limited partnership interests. Many charities, and most donor advised funds, tend to discourage such gifts because of their complexity. The Schwab Fund for Charitable Giving is pleased to announce that we have simplified the process of using "non-cash" assets to support charitable causes. Donors to the Fund now have the ability, by working with a charitable intermediary, to contribute the proceeds of tax-deductible contributions of real estate, privately-held interests, and tangible personal property to the account.³

Here are a few reasons why a charitable donation of non-cash assets may benefit you:

Non-cash assets are often a person's lowest-basis assets. Instead of paying capital gains tax on the sale of these appreciated assets, you can avoid that tax and receive a tax deduction for the fair market value of the donation. (By comparison, gifts of these assets to private foundations are eligible for a deduction based on their cost basis only.)

Non-cash assets can present challenges in estate planning. Using the proceeds of donated non-cash assets to fund your Charitable Gift Account allows you to remove the assets from your taxable estate while providing a vehicle for your family's charitable giving in the future.

Non-cash assets include:

Real estate

- Residential or commercial
- Encumbered or unencumbered
- Partial or entire interest

Privately held interests

- Sole proprietorships
- C- or S-corporations
- Limited or general partnerships or LLCs

Tangible personal property

- Works of art
- Jewelry
- Gems
- Collectibles

If you'd like to learn more about establishing a new Charitable Gift Account, or adding to your existing account at the Schwab Fund for Charitable Giving using real estate or non-cash assets, call a Donor Relations Specialist at (800) 746-6216 or visit our Web site, www.schwabcharitable.org.

³ Contributions of real estate, private equity or tangible personal property are accepted via a charitable intermediary, with donated assets transferred to your Charitable Gift Account upon liquidation. Such contributions are considered on a case by case basis, and typically must be valued at \$250,000 or more.



SAMPLE BEQUEST WORDING FOR YOUR WILL¹

The three most common types of bequests are specific bequests, percentage bequests and residual bequests. The following explains what each type of bequest is and provides a wording example for each, using the Schwab Fund for Charitable Giving as the recipient charity.

Specific Bequest: A gift of a specific dollar amount or item of value.

Sample wording

“I give, bequeath, and devise (amount or item named) to the [John Smith Fund, account #: 1234-5678] with the Schwab Fund for Charitable Giving, a qualified 501(c)(3) charitable organization, located in San Francisco, CA.”

Percentage Bequest: A gift of a certain percentage of your estate or of another asset.

Sample wording

“I give, bequeath, and devise (percentage of amount) to the [John Smith Fund, account #: 1234-5678] with the Schwab Fund for Charitable Giving, a qualified 501(c)(3) charitable organization, located in San Francisco, CA.”

Residual Bequest: A gift of all or a portion of the remainder of the estate after other obligations or bequests have been distributed.

Sample wording

“I give, bequeath, and devise (all, or state percentage or shares) of the rest, residue, and remainder of property, both real and personal, wherever situated, which I may own or be entitled to at my death, to the [John Smith Fund, account #: 1234-5678] with the Schwab Fund for Charitable Giving, a qualified 501(c)(3) charitable organization, located in San Francisco, CA.”

¹ Any changes to your estate plan should be discussed and implemented with your estate planning attorney. The Schwab Fund for Charitable Giving does not provide legal advice, and provides this language for educational purposes only.

personal property or securities. Because the Schwab Fund for Charitable Giving is a qualifying 501(c)(3) nonprofit organization, the amount of the bequest is deducted from the value of your estate for tax purposes.

2. *Another option is a **percentage bequest**. Here, you designate in your will a certain percentage of your estate for your Charitable Gift Account with the Fund.*
3. *A third option is a **residual bequest**. In this case, you specify in your will that you want to give all or a portion of the remainder of the estate to your Charitable Gift Account with the Fund after other obligations or bequests have been distributed.*
4. *Your Charitable Gift Account with the Fund can also be named as the beneficiary of a **trust**. For example, one of Janus’s clients is designating his Charitable Gift Account to receive the proceeds of his charitable remainder trust.*
5. *You may contribute to your Charitable Gift Account with the Fund by naming the account as a **beneficiary** of your Individual Retirement Account or other retirement accounts, or of a life insurance policy. As a beneficiary it does not need to be named in your will but is designated on the investment or insurance documents. It does not pass through probate.*

Note: To avoid confusion, the Fund encourages donors to establish a Charitable Gift Account with the Fund prior to naming the Fund as a beneficiary.

Getting from Giving

Since late 2001, charities have suffered under a triple whammy. First, a declining stock market caused their endowments or investments to fall. Second, private donors had less to give because of losses in their own portfolios or even the loss of jobs. And third, state and federal governments, their budgets tightened by declining tax revenues, cut funds for social services, the arts and education—all of which depend heavily on government support

and private giving. Consequently, the need among nonprofits is great.

It can be highly rewarding for donors to help meet these needs. As Janus says, “anybody who gives money feels they’re getting something out of it, or they wouldn’t do it.” Whether one contributes to cancer research, scholarships, a cleaner environment, a church or meals for those in need, “people feel good about seeing their money making a difference,” Janus says.

If you plan to designate your spouse and/or children as successors of your Charitable Gift Account, it’s a good idea to sit down together and discuss your charitable interests and those of other family members. “If your family knows what’s important to you, you will be more comfortable leaving decisions in their hands,” Wright-Violich says.

Remember, too, that needs and passions may change as time goes on. Perhaps you want to contribute to research to find a cure for a particular disease today, but a cure is found within a few years. Or perhaps a family member develops a different disease and wants to support research in that area. It’s important to keep charitable gift planning flexible to accommodate unanticipated priorities in the future.

Alex Milczarek talked to his daughter about the charities he supported, Connor says, but he did not put restrictions on her giving. He simply made her aware of what he cared about and let her make her own choices. That flexibility has enabled her to support causes that matter to her own family.

If you’d like to leave a bequest to a Charitable Gift Account, you will want to consult your financial and tax advisor and/or an estate planning attorney for the best way to go about it, given your situation. And be sure to discuss it with those you will designate as successors as well.

Funding a future of charitable giving, and sharing these values with your family can be tremendously fulfilling, but planning for it can be confusing. We’re happy to discuss your alternatives with you as you plan for this future.

To contact us, write to the Schwab Fund for Charitable Giving, 101 Montgomery Street, San Francisco, California 94104. Or send an e-mail to giving@schwabcharitable.org.