



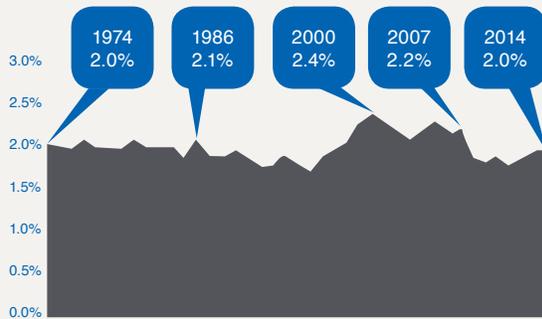
Beyond 2%: How Donor-Advised Funds Help Increase Giving

Charitable Giving Has Averaged 2% of Disposable Income For Decades; National Donor-Advised Funds Can Help Change This

by Kim Laughton— President, Schwab Charitable

Americans are among the most generous people in the world. 83% of U.S. households, 84% of American millennials and 95% of families with an income of \$75,000 or more donated to worthy causes last year.¹ Yet overall charitable giving has remained stagnant at approximately 2% of household disposable income over the past forty years.²

Individual Giving As A Share of Disposable Income (1974-2014)



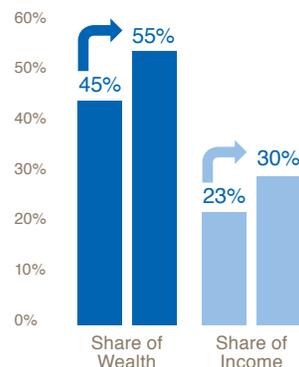
Source: Giving USA 2015

What might explain this stubbornly static rate of giving and what might be done to change it? How can we better enable and motivate Americans to modestly increase their levels of giving to match their growth in wealth and income and better support the increase in charitable need at home and abroad? National donor-advised funds are uniquely positioned to help.

The opportunity

Charitable giving has more than doubled on an inflation-adjusted basis over the past 40 years to almost \$260 billion.² This growth reflects the remarkable commitment of Americans to supporting worthy causes in our country and abroad. While this historic growth in charitable giving is encouraging, it has only marginally kept up with growth in the economy and the divide between the “haves” and “have nots” has increased. Over the last twenty years, major domestic stock market indices have more than quadrupled, and the share of wealth of the top 3% of households has grown substantially. From 1992 to 2013, their share of income rose from 23% to 30%, and their share of wealth increased from 45% to 55%.³ During the same period, charitable needs among those less fortunate have sadly also increased. Between 2007 and 2013, the poverty rate grew by 16% with a record 2% of the total U.S. population falling into poverty.⁴

Growth of Top 3% of Households (1992-2013)



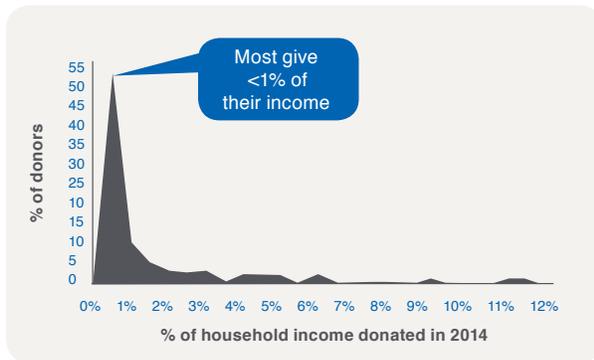
poverty rate
↑ 16%

food stamps⁵
↑ 77%

homeless children⁶
↑ 71%

How much do we really give?

While Americans are generous, recent studies have shown that people generally have an inflated perspective of their charitable giving. A recent survey reported that the vast majority of Americans give less than 1% to charity, and the Indiana University Lilly School of Philanthropy's analysis of tax returns estimates that a median 0.7% to 0.9% of disposable income is directed to charitable giving.



As with many other aspects of human behavior, we appear to have an “above average bias” when it comes to giving and tend to overestimate our performance relative to our peers. 75% of us think we give more than average while 73% of us actually give less than average.⁷

Perception



75% think they give more than average

100%



Reality



73% actually give less than average

Small increases will have a big impact

When individuals realize that their giving is far more modest than they thought, they are often

motivated to give more. And if they each gave just a bit more, we would see a tremendous impact on total giving. For example, if those who currently give less than 2% of their incomes increase their charitable gifts by just 0.5%, an incremental \$23 billion would be available to support our schools, hospitals, museums, homeless shelters, job training programs and other worthy causes. If those earning more than \$1 million per year (who currently give on average 3% to 4% of their incomes⁸) gave just 1% more, annual giving would rise by over \$10 billion. And if those earning over \$10 million (who currently give 6% to 8% of their incomes⁸) gave 2% more, it would add \$10 billion to annual giving.



National donor-advised fund accounts facilitate generosity

Schwab Charitable and other national donor-advised funds sponsored by financial institutions are independent public charities that encourage and facilitate giving by making it convenient and tax-smart. Contributions of appreciated assets or cash are contributed and invested for potential growth, and donors can grant to charities of their choice over time.

65% say they give more because of their Schwab Charitable accounts

More than 65% of Schwab Charitable donors say that they give more as a result of their donor-advised fund accounts. This is because:

- **We incorporate charitable planning into everyday financial and wealth management.**

We work with clients and their advisors to ensure their philanthropic goals are considered and funded along with other important financial goals and priorities. Schwab Charitable accounts appear alongside the clients' investment and banking accounts, providing a constant reminder of charitable giving priorities. With just a few simple clicks, donors can move assets or funds from investment and banking accounts to charitable accounts and then grant to charities. Every time they log in to their Schwab accounts, they are reminded of their charitable account and presented with a dashboard showing their giving history. This helps to activate giving and combat the "above average" bias.



- **We make it easier for investors to give appreciated assets to charity.** We streamline the process of donating publicly-traded and restricted stock, real estate, interests in private businesses, private equity, venture capital and hedge funds. When appreciated assets held for over one year are contributed to a donor-advised fund or other public charity, donors may avoid paying capital gains tax on their sale. This means they may be eligible for up to 20% in tax savings, allowing them to potentially give more than they otherwise would.⁹

Appreciated assets → greater levels of giving



- **We enable donors to invest charitable assets for potential future growth allowing them to give more for longer.** Donors can choose from a wide range of investments to suit their goals while the charitable assets in their donor-advised funds are waiting to be granted. Since inception the cumulative growth in Schwab Charitable accounts has generated over \$1 billion in additional funds to support our clients' philanthropy.¹⁰

Investment growth supports our clients' philanthropy



How charities and fundraisers can best work with donor-advised funds to increase support

Charities and fundraisers can work with donor-advised funds in a number of ways to achieve a common goal of increased and sustained philanthropic support.

- **Acknowledge and cultivate donors with donor-advised funds.** A vast majority of donor-advised fund holders are known to the charities they support. 97% of grants from Schwab Charitable accounts include the donor's name and 60% also include addresses. These donors tend to be both loyal and recession resilient.

- **Let donor-advised fund providers help with complex gift acceptance.** National donor-advised funds are uniquely positioned to help charitable organizations accept appreciated assets, which are usually more tax-efficient gifts for the donor but can be difficult to accept for many charities. More complex assets, such as restricted stock, privately held shares (C-Corp, S-Corp, and limited partnership interests), initial public offerings, real estate, private equity and hedge fund interests, can be particularly cumbersome. The Schwab Charitable complex gift acceptance team simplifies this process for charities by coordinating the sale of the assets and depositing the cash proceeds into the donors' accounts so that they can be easily granted to charity. In fiscal year 2015, more than two thirds (68%) of contributions into Schwab Charitable accounts were appreciated assets.

68% of Schwab Charitable contributions were appreciated assets

- **Explore adding the DAF Direct widget to charity websites.** The widget helps non-profits grow their donor base by allowing individuals to grant from a donor-advised fund (DAF) account directly from a charity's web site. More information is available at www.dafdirect.org.



Let's get started

Working together with our donors, advisors and charities, donor-advised funds can inspire investors to give more and help giving rise well beyond 2% of disposable income in the future. Together we can make a big difference.

For more information, visit www.schwabcharitable.com or contact us at 800-746-6216.

- 1 The 2015 Millennial Impact Report from The Millennial Impact Project; Gallup, Most Americans Practice Charitable Giving, Volunteerism, December 13, 2013
- 2 Giving USA: The Annual Report on Philanthropy for the year 2014 (2015). Chicago: Giving USA Foundation.
- 3 Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, September 2014, Vol 100, No 4. Based on data from the Federal Reserve Board's triennial Survey of Consumer Finances.
- 4 U.S. Census Bureau, Current Population Survey, 1960 to 2014 Annual Social and Economic Supplements.
- 5 USDA, Supplemental Nutrition Assistance Program Participation and Costs, As of November 6, 2015
- 6 U.S. Department of Education. The number of homeless children enrolled in primary and secondary public schools increased 71% since between the 2007-2008 and 2013-2014 school years.
- 7 Camber Collective, Money for Good, Final Report July 2015
- 8 Indiana University Lilly Family School of Philanthropy analysis of 2012 tax returns.
- 9 Assumes that realized long term capital gains are subject to a 20% tax rate
- 10 From September 1999 through June 30, 2015. Past performance is no guarantee of future results.

A donor's ability to claim itemized deductions may be subject to further limitations depending upon the donor's specific tax situation and donors should consult their tax advisors. Schwab Charitable does not provide specific individualized legal or tax advice. Please consult a qualified legal or tax advisor where such advice is necessary or appropriate.

Schwab Charitable accepts illiquid assets for contribution on a case by case basis.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund, an independent nonprofit organization, which has entered into service agreements with certain affiliates of The Charles Schwab Corporation.