

DONOR-ADVISED FUNDS

SUSTAINABLE GIVING FOR ANY MARKET

BY P.D. MEHIGAN



Charitable giving is one of the highest priorities for Americans, even in bear markets, with research showing that people would sooner cut back on travel and eating out than significantly trim the support they provide to their cherished causes. “Even in recessionary markets, charitable giving is surprisingly robust,” says Kim Laughton, acting president of Schwab Charitable, one of the nation’s largest donor-advised funds (DAFs), with \$3 billion in assets. “Donor-advised funds provide a cushioning effect to charities in difficult times.”

Yet recessionary times make charitable strategies harder to implement. For that reason, DAFs are seeing heightened interest as a vehicle for pursuing philanthropic goals. DAFs’ low expenses, ease of use and flexibility on when to

give provide individuals improved ways to meet their philanthropic aims. In fact, while giving by private foundations and the population overall fell in the last recession, the number of DAFs actually rose.

More recently, the nation’s leading DAFs reported a boom in gifts for the first half of 2011. Schwab Charitable saw donations jump 25% to give it \$3 billion in assets. Fidelity Charitable, the largest DAF, saw donations rise 23% through the third quarter of this year relative to 2010. “We’re seeing great momentum this year. Donors are sustaining their grant-making as well as continuing to fund their giving accounts. We are still seeing a great deal of generosity,” says Amy Danforth, senior vice president of marketing and program for Fidelity Charitable.

The advantages of giving through a DAF are many. A DAF is a charitable

fund in your name administered by a nonprofit, such as Fidelity Charitable or Schwab Charitable, which handles disbursing funds upon your request. You determine when to give, how much and to what charity. The fund administrator ensures compliance with IRS rules, cuts the checks and provides guidance on investment of your charitable funds.

What makes DAFs particularly powerful in difficult economic times is their unique feature of allowing donors to make a gift to their DAF and receive an immediate tax deduction. There is no requirement, however, on when that money must be disbursed to a charity. That feature sidesteps the year-end stress of allocating charitable assets while allowing gifts to your fund to grow. This is in contrast to private foundations, which must annually disburse



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5% of assets, regardless of investment returns. Quite simply, DAFs leave time for a thoughtful decision. And in bear markets, DAFs act like a savings account for giving, since in down years you can draw from earlier deposits and investment growth in your DAF to keep your annual gifts to charity on track.

How to Best Utilize a Donor-Advised Fund

A rule of thumb in effective investing is to keep costs low. That holds true for any investment, whether it's a mutual fund or a charity. DAFs enjoy a significant cost advantage over other charitable vehicles, with annual expense ratios below 1%, which in turn is 20% to 70% below the costs of comparably sized private foundations. DAFs also bid good riddance to the headaches of foundation staff, accountants, IRS filings, excise taxes on any returned gifts and more.

Donors also find that DAFs can bolster tax and financial planning. Cash donations to a DAF are deductible up to 50% of adjusted gross income, compared to 30% with a private foundation. Gifts of appreciated securities are deductible at full market value (with some exceptions), up to 30% of adjusted gross income, versus 20% with a foundation. And, of course, no capital gains tax is paid on donated securities. Large DAFs such as Fidelity Charitable and Schwab Charitable also have experience accepting complex assets, such as tangible property and interests in privately held companies, hedge funds and private equity.

Beyond tax advantages, donors appreciate the simplicity of using a DAF. For



one, there is no disclosure of gifts required either to the public or to the charity receiving the funds, since the fund administrator issues the checks to the charity you choose. "With each grant, you can decide whether you want to be acknowledged or make the grant anonymously," explains Schwab's Laughton. The promise of anonymity makes DAFs a popular charitable vehicle to use in conjunction with private foundations, whose grants must be publicly reported on annual tax filings.

Another benefit of DAFs are the low gifting minimums: just \$50 at Fidelity Charitable and recently lowered to \$50 by Schwab Charitable, giving donors more flexibility to continue supporting their

favorite charities. "In tough economic times, it is important that people can sustain giving to organizations and not have to make trade-offs that favor one organization over another," says Laughton.

Taken as a whole, it's clear to see why the National Philanthropic Trust estimates that total DAF assets rose 10% and overall DAF gifts to charities rose 20% in fiscal year 2011, which ended in June. The combination of tax efficiency, ease of use and low costs has DAF growth outpacing every other charitable entity, including private foundations. Says Fidelity Charitable's Danforth: "A donor-advised fund allows you to make more of a difference by combining the most favorable tax benefits with tax-free investment growth and the flexibility to support your favorite charities at any time." ■

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Kim Laughton
Acting President of Schwab Charitable

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SCHWAB CHARITABLE A LEADER WITH INVESTMENT ADVISORS

OFFERS RESOURCES TO MEET CLIENT PHILANTHROPIC GOALS

As the advantages of donor-advised funds (DAFs) become better known, high-net-worth individuals are seeking more guidance from their financial advisors to help them utilize DAFs to strategically manage their charitable assets. In 2003, Schwab Charitable pioneered the ability for investment advisors and wealth managers to oversee the management of charitable accounts for clients, much as they do for other types of investment accounts. Since that time, it has continued to expand the ways in which advisors can support clients' charitable-giving strategies to meet their philanthropic goals.

Schwab Charitable Fund accounts with a minimum of \$250,000 may nominate their wealth manager or investment advisor to manage a customized portfolio and invest the account in the broad array of products available at Schwab (including publicly traded stocks, bonds, mutual funds, exchange-traded funds and separately managed accounts). Advisors may also invest larger accounts, generally those with \$10 million or more in assets, in alternative assets (including hedge funds and private equity) to support a longer-term, endowment-style investment strategy.

"Schwab Charitable is a leader in the management and oversight of complex investment strategies for donor-advised fund assets," says Kim Laughton, acting president of Schwab Charitable. Among its thousands of donors, Schwab Charitable serves many accounts with assets in the millions of dollars, with its largest



Larger accounts may invest in alternative assets to support a longer-term, endowment-style investment strategy.

account holding more than \$400 million.

Many larger clients use DAFs as a complement to or substitute for private foundations and supporting organizations, as they offer a greater degree of privacy at a lower cost. Personal information and individual grant details are kept private in all tax filings, protecting clients from charitable solicitations and enabling them to recommend grants to causes that might not fit perfectly within the foundation guidelines. Individual grants may also be sent anonymously, facilitating an additional layer of privacy if desired.

Some foundations have made the decision to convert their assets completely

to DAFs in the past few years, realizing that the time, expense and compliance risks associated with maintaining a private foundation distract from their charitable goals. Schwab Charitable enables all clients to send grants to charities accompanied by letters on personalized letterhead with their special account names (e.g., Smith Family Fund), and has reduced its minimum grant amount from \$100 to \$50 to enable even more grant-giving flexibility.

Recently, the organization has introduced a new Charitable Legacy Program, allowing individuals to extend their charitable giving beyond their lifetimes. Used in conjunction with a holistic estate plan, the Charitable Legacy Program gives qualified donors the flexibility to provide their favorite charitable organizations support for many years after their death, if they choose.

"Some donors would like to be able to create an ongoing giving plan that supports charities over time rather than with a onetime grant at their death," explains Laughton. "This new program gives them more flexibility and enables investment advisors and wealth managers to remain involved in facilitating the lasting legacy by which family and community will remember them." ■



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