INSIGHTS INTO PERSONAL PHILANTHROPY

GIVING™

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Inside

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Giving for Social Change

The saying goes that there are two ways to help a starving man. You can give him a fish or teach him how to fish so he'll never be hungry again.

For public policy analysts, there are better ways to feed this needy citizen of the world. They might research ways to increase the local food supply, far beyond fresh fish, or create incentives for entrepreneurs to build a sustainable fishing business that could employ many and feed even more.

Whatever your philanthropic goals—feeding the hungry, improving education, or promoting values you believe in—there are many ways to use your charitable contributions to make a difference. You can support food banks, tutorial programs, or any number of front-line charities. You may also want to consider supporting public policy organizations that take aim at your philanthropic goals from a more upstream perspective.

Focusing on The Long-Term

"If you total all the philanthropic assets in the world, they're nowhere close to what's required to feed the hungry, protect the environment, and so on, when you compare them to government resources," says Paul Brest, President of the William and Flora Hewlett Foundation. "To the extent that individuals can leverage their philanthropic resources to create more effective public policies, their donations can have a tremendous and very long-term impact."

"There is a great deal one can do as an individual to affect public policy, through contributions and, equally important, through participation in the political process," says Grover Norquist, President of Americans for Tax Reform. "You have to be patient and determined. In politics, there's almost nothing you can achieve in a month, and nothing you *can't* achieve in 10 years. You simply have to stay vigilant and focused and build a strong base of support."

In this article, we're going to look at giving for social change, a broad and somewhat esoteric topic that may be relevant to just about every charitable donor. To create a reasonable frame for the story, we'll first hear from philanthropy advisors on how you might think about this kind of giving. Then we'll profile two organizations that represent different approaches to social change and advocacy endeavors.

Peeling The Onion

"Focusing on advocacy can be a very legitimate, high-leverage way to deploy one's philanthropic resources," says Paul Carttar, co-founder of The Bridgespan Group, a nonprofit consulting firm affiliated with Bain & Company, the management consulting firm. "I believe there's a highest and best use of donors' charitable resources, given their interests, objectives, and desire-to-engage," says Carttar. "And in many cases donations to effective research groups, think tanks, or other policy-oriented organizations may in fact be that highest and best use."

Carttar points out that while the yield can be phenomenal from the right think tank project, "Policy work is not linear, so donors need to be thoughtful about specific organizations and interventions that are likely to drive the impact they're looking for."

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ON A CHARITABLE NOTE

At The Schwab Fund for Charitable Giving, we strive to distinguish ourselves from other donor-advised funds in part by the quality of service we provide. One way we measure our success is to survey our donors every year and ask how we're doing. We've just completed our 2002 survey, and you gave us exceptionally high marks. We could not be more pleased.

One reason we earned higher marks this year is that we made improvements you suggested in our 2001 survey. You told us then that you wanted us to process grant requests more quickly, and we've now reduced our processing time significantly. Grants are now processed three to four times faster than in previous years. You also told us you wanted our Donor Services Specialists to increase their depth of tax knowledge and alternate philanthropic vehicles. We did additional training in these areas, and in this year's survey you gave us higher marks. We will continue our development efforts to keep our team current and well equipped to provide you with excellent guidance regarding your philanthropy.

You also asked us to offer you more choices for diversifying your Charitable Gift Account investment portfolio. In response to your requests, we will expand our investment fund offering from three choices to five in October 2002. The added investment choices are actively managed Excelsior Funds,[1] which are described in detail on our web site, www.schwabcharitable.org. With this enhancement, the Fund will give you more ways to customize your account and more opportunities for potential investment growth.

Where can we improve? Investment performance is a concern for many of you, as it is for just about every investor right now. The investment pool conversion we made in July was intended to address those concerns and ease your ability to monitor investment performance. We also hope the new investment vehicles will give you more options for responding to this challenging market. Many of you would also like us to improve our web site, which more than 70 percent of you have used, and that will be a top priority for 2003.

For those of you who participated in the survey this year, please accept a thank you from all of us at the Fund, and from your fellow donors. As always, we welcome your feedback and advice at any time.

Kimberly Wright-Violich, President
Schwab Fund for Charitable Giving

[1] Managed by United States Trust Company of New York and U.S. Trust Company ("the Advisors") who serve as investment advisors to Excelsior Funds, Inc. The Advisors are subsidiaries of The Charles Schwab Corporation and are affiliates of Charles Schwab & Co., Inc.

Are You A Schwab Customer?

If you are, we want you to know that we're planning to improve our services by giving our Donor Services Specialists access to the investment accounts you hold with Charles Schwab & Co., Inc.

Our recent donor survey confirmed that some Schwab clients would prefer this complementary access to account information so that we can expedite contributions and provide more personalized services. If you would like to decline this access, please call one of our Donor Services Specialists at (800) 746-6216 and we will ensure that your account information accurately reflects your wishes.

Giving in 2001 Stays Steady Despite Depressed Economy

Total giving in 2001 totaled $212 billion, an increase of 0.5 percent compared to the previous year. Adjusting for inflation, this equals a decrease of 2.3 percent, a modest decline that falls within the normal range for tough economic cycles, according to the AAFRC Trust for Philanthropy. Gifts to relief and recovery nonprofits after September 11 were estimated to equal $1.88 billion, or slightly less than 1 percent of total giving for the year.

2001 Contributions by Category (dollars in billions)

Religion	*$80.96*	**38.2%**
Education	*$31.84*	**15.0%**
Human Services	*$20.71*	**9.3%**
Health	*$18.43*	**8.7%**
Arts, Culture	*$12.14*	**5.7%**
Public-Society	*$11.82*	**5.6%**
Environment	*$6.41*	**3.0%**
International Affairs	*$4.14*	**2.0%**
Gifts to Foundations & Unallocated Giving	*$25.55*	**12.1%**
TOTAL	**$212.00 billion**	

Note: Percentage totals are affected by rounding.
Source: Giving USA 2001(June 2002). Giving USA is a publication of the AAFRC Trust for Philanthropy, researched and written by the Center on Philanthropy at Indiana University.

"People in need may also require direct assistance, but as a society we need to focus on prevention and solutions, and that is the role of advocacy and public policy work."

How to "drive impact" is one of the issues addressed by Paul Brest in his President's Statement, which is available on The Hewlett Foundation's web site. Brest details the "causal theory" that helps the foundation strategically invest its resources to advance sound environmental policies and social change. "One must first posit a desired outcome, and then determine what inputs and activities are necessary to produce it," writes Brest. Later in his letter he notes one of the important roles played by private foundations in policy work. "Foundations can take risks that government or the private sector cannot or will not take, with the hope of advancing knowledge and achieving impact."

Why do some donors steer clear of supporting advocacy work? "Impatience . . . and a little fear, especially of the "a" word — advocacy," says Judy Belk, a senior advisor for the Rockefeller Philanthropy Advisors and former executive director of the Levi Strauss Foundation. "However, if donors step back and look at what they really care about, and then look at how to build a diverse portfolio aimed at achieving their goals — some long term, others short term — they will probably find themselves including some kind of advocacy and public policy organizations in their giving," says Belk. "In the end this type of visionary giving is often well worth the wait in terms of actual results achieved and donor satisfaction. It's what I call legacy work."

Belk equates the process to "peeling an onion," noting that "when you delve into issues such as AIDS, homelessness, poverty, or education, you realize there's a great deal of research and public policy work that is vital to solving these problems. People in need may also require direct assistance, but as a society we need to focus on prevention and solutions, and that is the role of advocacy and public policy work."

A Think Tank at Work

The World Resources Institute (WRI) is one of the most prominent environmental think tanks in the world. Its projects address sustainable development, energy policy, global warming, transportation, water quality, and much more.

"The perception is that advocacy work is always confrontational and highly partisan, especially in the environmental arena," says Frances Seymour, a project leader of the Access Initiative at WRI. "In reality there are a broad range of mutually supportive approaches to advancing sound environmental policy, and many of us work in very non-confrontational ways."

The Access Initiative coalition aims at the simplest of policy goals, a kind of "first cause," to ensure public access to accurate environmental information and opportunities for local participation in decision-making affecting the environment. Partners in the Initiative have completed initial assessments in nine countries (including Chile, Indonesia, and South Africa) and will develop policy recommendations for each country as assessments are completed. "This is a cross-cutting initiative to enhance public information and participation in governmental activities that affect the environment," says Seymour. "We have found that a belief in the benefits of shared public information and access to redress seems to be fairly universal."

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Contributing Restricted Stock

Thinking about contributing restricted stock to your Charitable Gift Account? We can help you through the process. Here are some things to keep in mind.

Restricted stock is just that — it's a security that can be sold only when certain restrictions are followed to the letter. Restricted securities are not registered with the Securities and Exchange Commission, as common stocks are, and the restrictions are determined by the issuing company.

Because of their special status, restricted stock sales may require the involvement of the legal counsel of the issuing company, a securities broker, and a transfer agent. Because of these requirements, it's important to leave adequate time for donating them to your Charitable Gift Account and benefiting from a current-year tax deduction. Also, it's important to remember that the value of your contribution for tax purposes is determined by the date the Fund takes ownership of your stock, which may take several weeks.

Here's what we'll need to know to evaluate the acceptability of your restricted stock and, if possible, complete the contribution process:

Is your restricted stock negotiable for sale on the open market? When the Fund receives securities from a donor, we sell them and place the proceeds of the sale in a Charitable Gift Account. The same holds true for restricted stock. If your restricted holdings can be sold on the open market, it's likely the Fund will be able to accept them as a contribution.

What type of restricted stock do you hold? The SEC classifies restricted stock according to how and when it can be sold and who owns it. Common classifications are R144, R144(k), R145 or R701. The Fund can accept most types of restricted stock, as long as the appropriate restrictions are followed.

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Contributing Restricted Stock *continued*

Are there blackout periods or trading "windows" that affect the sale of the restricted stock? It's common for the issuing company to limit the sale of restricted stock to certain periods of time, and the Fund is required to follow those restrictions.

What is the average daily trading volume for the stock? It might affect the time it will take to liquidate your shares and process your contribution. For example, if you hold 10,000 shares of restricted stock in a company and its average daily trading volume is 5,000 common shares, the sale of your shares during one day could severely affect the price of the stock. In such a case, we may choose to sell your shares over several weeks.

If you'd like to find out more about donating restricted stock, please call one of our Donor Services Specialists at (800) 746-6216. We also suggest that you consult with your tax advisor regarding the tax implications of this type of contribution to your Charitable Gift Account.

Glad You Asked

Q. ***How can I expedite a transfer of assets from a non-Schwab financial institution into my Charitable Gift Account?***

A. Transferring assets from a non-Schwab financial institution is easy, but it typically requires four to six weeks of processing time. You can expedite the process significantly by contacting the financial institution that holds your assets and initiating the transfer directly with the institution. You'll still need to submit the appropriate forms to the Fund, alerting us that the transfer is being made. Simply note on the form that you and your financial firm are initiating the transfer. If you have any questions about transferring assets to your Charitable Gift Account, contact one of our Donor Services Specialists at (800) 746-6216.

Giving for Social Change *continued*

WRI's domestic programs include Beyond Grey Pinstripes, which evaluates MBA programs in terms of their environmental and social impact education, and SafeClimate, which helps individuals reduce their impact on global warming. You can calculate your "carbon footprint" on the SafeClimate web site, and even purchase environmentally friendly light bulbs.

Reducing The Size of Government

Americans for Tax Reform (ATR) is a different kind of nonprofit, one that serves as a national clearinghouse for those who want to lower taxes for Americans across the board.

ATR President Grover Norquist is widely admired as an effective lobbyist and grassroots organizer, and he's helped ATR fashion a clear and specific goal — to reduce the size of government by half in the next 25 years. ATR has enlisted supporters nationwide and encourages them to create "an issues conversation" in their communities and encourage legislators to support ATR's vision of a better society.

"The goal is not to be in the room when a piece of legislation is being written," says Norquist. "By that time, most of the important decisions have already been made. The goal is to be outside the room shaping the environment over time so that legislators have to act in a certain way when drafting legislation and voting on it."

Norquist encourages donors with a cause to realize that one of the most effective currencies in politics is participation. "People often hear about expensive lobbyists, but they can't compete with the tide of the country," says Norquist. "If you visit a legislator's home office and express your opinion on an issue, it's assumed you represent many more voters who did not take the time to voice their opinion. Phone calls, letters, e-mails — every one is counted, tallied, and has a huge impact."

And over time they add up. Welfare reform legislation was first proposed in 1971 and finally passed in 1996. Eliminating the "death tax" was first proposed in the early 1990s, and interim legislation passed in 2001.

Lobbying & Deductibility

Not all nonprofits are created equal, at least in the eyes of the IRS. Lobbying and advocacy groups are classified as 501(c)(4) organizations. Contributions to these groups are not tax-deductible, and the Fund cannot issue grants to them. However, some advocacy groups, including Americans for Tax Reform, are affiliated with research and education nonprofits that are classified as 501(c)(3) organizations, which are allowed to use 20 percent of their operating budgets for advocacy work. Contributions to 501(c)(3) nonprofits are tax-deductible, and the Fund can issue grants to them.

Contributions to both kinds of organizations might be in order for some donors. Recently a number of wealthy individuals, such as George Soros, Ted Turner, and some high-tech luminaries, have set up lobbying organizations in Washington, D.C. that parallel their philanthropic efforts.

That being said, Brest notes that for the modestly wealthy individual donors, a better role might be to simply support a vibrant and diverse nonprofit sector, which is essential to a free society. "You look for strong organizations whose goals you support, in which you have confidence, that are impact-oriented, and you support them with general operating grants," he says. "That may be the best role for a private philanthropist who wants to effect social change."

Organizations highlighted in this article are not endorsed by The Schwab Fund for Charitable Giving or Charles Schwab & Co., Inc. They are featured in this story for illustrative purposes only.

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