

FALL/WINTER 2003

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PHILANTHROPY AT A CROSSROADS

Philanthropy in the United States is in the midst of the perfect storm. At a time when needs are great in many communities, state and local budgets are constricted and foundations and individual donors are giving less because they have lost invested assets. Add to this mix pressure from public officials who are taking a hard look at the nonprofit sector and pushing for more accountability and increased regulation. Some even proposed legislation to eliminate small private foundations altogether.

At the same time, there is a push to enhance the role of public charities, both faith-based and secular, and decrease the role of government in the delivery of social services and other community benefits. The grassroots effort to create “a thousand points of light,” which began under President George H. W. Bush, remains strong in his son’s administration and in many communities across the country. For philanthropists, challenges and opportunity have rarely seemed so intertwined.

SCANDALS AND QUESTIONS

Charitable organizations comprise a significant part of our economy, with more than 1.2 million organizations generating total annual revenue of more than \$665 billion! In an industry of this size, it is probably inevitable that scandals will occur. The past few years have brought a series of stories about the nonprofit sector that have paralleled scandals in the for-profit economy, in companies such as Enron and WorldCom. In the nonprofit sector, respected names such as United Way, The Nature Conservancy, and American Red Cross have faced criticisms that have helped to fuel increased scrutiny of nonprofit organizations by the media and public officials as well as donor skepticism.

“One of the main reasons people hold back from giving is that they do not have confidence in how their contributions will be used,” says Kim Wright-Violich, President of the Schwab Fund for Charitable Giving.™ “Now more than ever, when public charities are in the limelight, and the Internet has made it easier to investigate charitable activities, it’s very important for charities to ensure that their business practices are above reproach.”

THE SOCIAL CONTRACT

As scrutiny of the charitable sector has increased, its financial resources have reached a crisis point. “What’s important for donors to realize is that this is not simply a cyclical issue related to our economy,” says Diana Aviv, President and CEO of Independent Sector, a nonpartisan coalition of leading nonprofits, foundations, and corporations based in Washington, D.C. “What we are seeing is an unprecedented concern with cuts coming in resources from the public sector that will have a profound effect on services for the most needy and vulnerable in our society. Federal and state tax cuts of recent years have come with consequences, namely less money in federal and state treasuries to meet our obligations to our most vulnerable populations. If we take action that fundamentally redefines the social contract, then as individuals we need to fulfill our obligations in our communities to provide support for those in need. This is a very tall order, as individuals are unlikely to be able to fill the massive gap created by government cutbacks in programs.”

In human services organizations, such as community health clinics, approximately 52% of operating budgets generally come from

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¹Independent Sector Almanac, March 2002.

ON A CHARITABLE NOTE



Donor-advised funds reached an important milestone recently. It's now estimated that there are more donor-advised funds in the United States than there are private foundations.²

The milestone isn't surprising, when you consider that the strength of a donor-advised fund, such as the Charitable Gift Account, is that it offers a flexible, tax-advantaged giving vehicle at a lower cost than typically required to create, maintain, and administer a private foundation. This approach reflects the shared philosophy of the Schwab Fund for Charitable Giving and its founder, Schwab, of empowering the individual investor and clearly meets the needs of a growing number of individuals and families, from all walks of life, who want a better way to give.

What does this trend mean? In part, it's simply an extension of the financial trend of the past 40 years that has brought more investment choices, such as IRAs and CDs, to the mass market. Flexible giving vehicles, with special tax benefits, used to be available only to the wealthy and are now within reach for many Americans.

Recent scandals in the nonprofit world, which you can read about in the feature article in this edition of GIVING™, have brought even more attention to donor-advised funds. It is validating to see donor-advised funds recognized by public officials who are scrutinizing how people give in this country. It is also gratifying to be in a position to provide more Americans with a flexible way to give and protect their privacy without being an obstacle to public accountability.

It's exciting for me, and everyone at the Schwab Fund for Charitable Giving, to be working at the forefront of philanthropy. We welcome new donors and hope that recent scandals will not dissuade anyone from supporting the charities and causes they value.

Kimberly Wright-Violich, President
Schwab Fund for Charitable Giving

YOUR PHILANTHROPY IN ACTION

More than 7,541 public charities received Schwab Fund for Charitable Giving grants during the first nine months of 2003. Here are just a few grant recipients in the categories of Education, Environment, and the Arts:

Children's Scholarship Fund
—Philadelphia, PA

ProLiteracy Worldwide
—Syracuse, NY

Junior Achievement of East Central Florida
—Rockledge, FL

The New York Historical Society
—New York, NY

Parks and Wildlife Foundation of Texas
—Dallas, TX

Honolulu Theatre for Youth
—Honolulu, HI

Bowman Dollars for Scholars
—Bowman, ND

Children's Museum in Snohomish County
—Everett, WA

Chicago Urban Horticultural Foundation
—Chicago, IL

The Gorilla Foundation
—Woodside, CA

DONOR DIALOG

We invite you to send us your comments and questions about our services, and your experiences with your Charitable Gift Account. Write to us at giving@schwabcharitable.org. Here are samples of comments we have recently received:

"Just a line to say how much I appreciate the express nominating form for grants. It certainly saves me time and makes the process less frustrating. Thanks for always improving your site..." — Gregory L.

"I like that I can contribute to the account based on stock performance or tax timing, then recommend grants to charities through the rest of the year. So, I can help many charities, but only have one set of paperwork to track it." — Chris G.

PHILANTHROPY AT A CROSSROADS *continued*

public funding, 19% from fees for services, and 20% from private donations, says Aviv. To accommodate the drop in public funding, some nonprofits are consolidating, others are shutting down, and services are being cut back. “There is a real opportunity for business leaders to help the independent sector work through these changes,” says Aviv. “They can provide leadership, management skills, and experience as well as financial resources.”

SPECIAL SCRUTINY FOR PRIVATE FOUNDATIONS

Private foundations have to manage a particularly delicate balancing act in the current environment. Proposals in Congress and in some states, including New York, would substantially change the way private foundations can operate. For example, The Charitable Giving Act, House Resolution 7 (HR 7), would change the federal tax code to require foundations to exclude certain administrative expenses from counting toward the amount the government requires them to distribute to charities every year, currently at 5% of net investment assets. Both HR 7 and a companion bill in the Senate, The CARE Act (S. 476), were approved this year. The two bills will be sent to conference where differences between them will be negotiated.

“It appears that public officials hope to create greater incentives to move more charitable

assets into the community,” says Wright-Violich. “This is understandable, but many foundations have a goal of preserving their assets so that future generations can meet future needs. A shift in funding can create unintended consequences, and it’s an open question whether it is better to spend today or preserve resources for future giving.”

A NEW FOCUS ON DONOR-ADVISED FUNDS

Donor-advised funds such as the Schwab Fund for Charitable Giving are involved in the current debate in part because of New York State Attorney General Elliot Spitzer. In his far-reaching proposals to change how nonprofits and private foundations are regulated, Spitzer proposed requiring private foundations with assets of less than \$20 million to transfer their assets to donor-advised funds in community foundations and other public charities, such as the Schwab Fund for Charitable Giving.

“While we are not taking a position on the Attorney General’s proposal, or The Charitable Giving Act in Congress, we’re comfortable telling people with private foundations that our Charitable Gift Account can simplify their giving,” says Wright-Violich. “We can provide fiduciary oversight as well as low-cost administrative services that are in line with current policy goals and legislative proposals.”

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ANNOUNCING CHARITABLE ASSET MANAGEMENT

If your Charitable Gift Account has assets of \$500,000 or more, our new Charitable Asset Management³ feature is now available to you.

Charitable Asset Management allows you to nominate an independent investment advisor, perhaps the advisor you use for your non-charitable portfolio, to manage the assets in your account.

Assets held in an account using the Charitable Asset Management feature can be invested in a wide range of securities, including individual stocks, bonds, and mutual funds, in any combination. And, if you choose to take advantage of Charitable Asset Management, you still realize the full value of a charitable deduction without selling your securities at the time of the transfer—as is normally the case.

The Schwab Fund for Charitable Giving is the only leading national donor-advised fund offering you the features and benefits available through Charitable Asset Management.

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.

STAFF CHARITY PROFILES

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

Wheelchair Foundation leads an international effort to deliver a wheelchair to every man, woman, and child in the world who needs one but cannot afford one.
(www.wheelchairfoundation.org)

Raphael House helps homeless and at-risk families achieve stable housing and financial independence, while strengthening family bonds.
(www.raphaelhouse.org)

³ 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 investment and fee guidelines.

YEAR-END DEADLINES TO REMEMBER

It's not too early to mark your calendars with deadlines that could affect your taxes for 2003.

If you would like to make a contribution to your Charitable Gift Account for 2003, we encourage you to send in your contributions early, especially if you are transferring assets from financial institutions other than Charles Schwab & Co., Inc. In these cases, we have to rely on other institutions to process your requests for asset transfers, and we want you to receive the full tax benefits you are looking for in the current year.

Our staff will be working through December 31 to process your contributions and grant recommendations, but we suggest you follow these guidelines to help ensure that your recommendations are fulfilled by year-end:

- Request transfers of stocks or mutual fund shares from another financial institution by November 14 (Friday)
- Wire fund requests must be initiated by 1 p.m. PST on December 30 (Tuesday)
- Request transfers from a Schwab account by 5 p.m. PST on December 31 (Wednesday)
- Contributions in the form of checks or security certificates must be placed in the mail and postmarked by December 31 (Wednesday)

Also, if you would like to recommend a grant before year-end, we suggest you make your recommendation by Friday, December 12. While we will make every effort to issue grants promptly, we cannot guarantee year-end delivery for recommendations received after that date.

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.

PHILANTHROPY AT A CROSSROADS *continued*

There are a number of advantages for donors who use a donor-advised fund rather than a private foundation to structure their giving. A donor-advised fund can provide privacy protections other giving vehicles cannot, for example. In an era of increased scrutiny and easy access to information about foundation giving, this is a valuable benefit for many donors.

“The important thing for donors to realize is that public charities need support, and our society is expecting more from them,” says Aviv. “If a donor-advised fund makes it easier for an individual to give, and reduces their anxiety about regulations and administrative requirements, then it’s an important part of the giving network.”

The Schwab Fund for Charitable Giving averages an annual distribution rate of about 35% of donated assets, compared to an average payout of 20% nationwide for donor-advised funds.⁴ Private foundations have an average distribution rate of 5-6%, which is driven by the requirement that they distribute at least 5% of their net investment assets annually.

NEW ONLINE FEATURES

Have you visited your Charitable Gift Account online lately? We’ve made it even easier for you to manage your giving through the convenience of the Internet.

With our new enhanced customer login feature, you can access your account using your Social Security number rather than our account number, giving you one less thing to remember. Beginning in December 2003, a Social Security number will be required for login.

For donors with investment accounts with Charles Schwab & Co., Inc., we’ve also built new online bridges from www.schwab.com to your Charitable Gift Account. As a result, you can easily access⁵ your Charitable Gift Account when you log on to www.schwab.com to review your Schwab accounts.

Look for more enhancements to our Web site in the coming months. It’s another way we are working to provide you with a better way to give.

WHAT DONORS CAN DO

There’s never been a better time to invest in your charitable goals, whatever they may be. While the phrase “a thousand points of light” has become a cliché, it is still an aspiration for many philanthropists and charitable leaders.

“When people ask me what they can do, I always tell them to begin by following their heart,” says Aviv. “Get involved as a volunteer or contributor or board member in issues that matter to you. Contributions are an extremely valuable way to participate in your community, and they will be valued now more than ever before.”

Following legislation and voicing your opinion is also an important way to participate.

“Legislators hear from nonprofits about regulatory reform proposals, but they do not hear often enough from donors,” says Aviv. “Stay informed and stay active, in whatever causes have special meaning to you. By all means, engage in direct service volunteering, but give with your pocketbook as well. Your community will benefit, and it needs you now.”

⁴ Chronicle of Philanthropy, May 2002

⁵ Access to Electronic Services may be limited or unavailable during periods of peak demand, market volatility, systems upgrades, maintenance, or for other reasons.