

## CHARITABLE REMAINDER TRUSTS: POWERFUL TOOLS FOR STRATEGIC GIVING

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Although the concept of philanthropy has its roots in antiquity, it was in the late 1800s, when the Carnegies and Rockefellers began their historic tradition of strategic giving, that the first “great wave” of American philanthropy was launched. Experts now believe we are entering a new era of philanthropy, due in part to the dramatic increase in our longevity, our nation’s unprecedented wealth creation, and the fact that an estimated \$41 trillion will be transferred between generations in the first half of this century.<sup>1</sup>

One key difference between this recent outpouring of generosity and that of the past is that charitable vehicles (such as donor-advised funds and charitable trusts) have made philanthropy much more cost-effective, accessible, and easy-to-use. Now, even donors of moderate means can benefit from employing the same tools as the most accomplished philanthropists.

### What are CRTs?

Charitable Remainder Trusts, or “CRTs,” give donors the opportunity to receive both an income stream over the course of their lifetime and a current-year tax deduction while making a substantial future gift to charity.

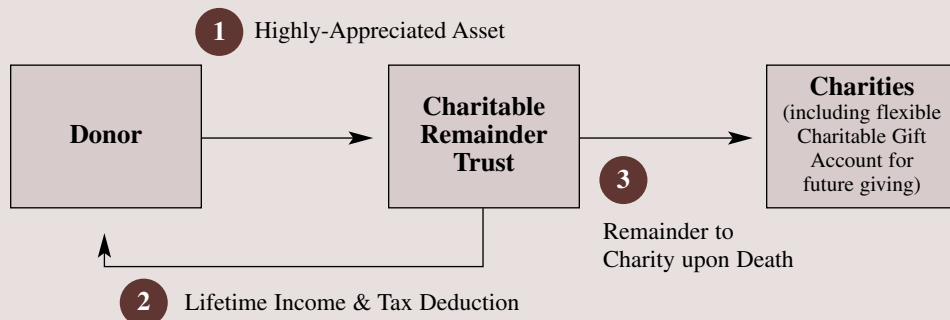
CRTs are “split-interest” vehicles in which:

- the named “income beneficiary” or beneficiaries — typically the donor, spouse, or heirs — receives annual income in the form of a fixed dollar amount or percentage of the trust assets (typically 5% to 8%); and
- the “charitable beneficiary” or beneficiaries — a charity, often a donor-advised fund or private foundation — receives the “charitable remainder” when the trust terminates.

“One reason CRTs are so attractive,” says Sean Stannard-Stockton, Director of Tactical Philanthropy at Ensemble Capital Management, LLC, “is that they split value between the charity and the income beneficiary while increasing the overall financial value for both. In other words, if somebody planned to give a large gift directly to charity while reserving some income for themselves, they could gain a tremendous amount of value for both the charity and themselves by instead making that transaction inside a CRT.”

CRTs are now the most popular income-producing vehicles for affluent donors, accounting for more than half of a charitable marketplace currently valued at over \$100 billion. As interest rates rise, CRTs are expected to become even more attractive.

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<sup>1</sup> Source: “Why the \$41 Trillion Wealth Transfer is Still Valid: A Review of Challenges and Questions,” John J. Havens and Paul G. Schervish. Journal of Gift Planning. January 2003.



*Do you recall the expression about the cobbler's shoes? By focusing too much on others' shoes, he neglects his own.*

*Well, the same could be said about me and charitable trusts. Two years ago I was selling a highly-appreciated piece of real estate, and the sale would trigger significant capital gains taxes. Knowing that I was involved with several charities and that my career has been devoted to promoting philanthropy, my accountant, Steve Stanfel, suggested that I consider putting a portion of the sale proceeds into a charitable remainder trust from which I could receive income. But I was intimidated by doing something permanent with a substantial portion of my net worth. Setting up a charitable trust seemed complicated. I thought the minimum needed to establish a charitable trust was too high, and that I was too young, so I never took the time to do an analysis of whether the income plus the tax savings was a better financial outcome for both me and causes I care about. Also, being tied to a specific charity years in advance was daunting. After all, would Christopher Reeve have given his charitable dollars to spine injuries prior to his accident?*

*As a result, I did not set up a charitable trust, and instead paid a hefty capital gains tax. The government received what I could have directed to charity. It was clearly a mistake.*

*For this reason, I'm all the more pleased to announce that Schwab Charitable has launched Charitable Trust Services. In designing our offer, we've addressed some of the obstacles that I encountered when I first considered a charitable trust for myself: we offer charitable trusts with a more modest minimum balance; we have simplified the processes and will handle the fiduciary and administrative burdens; and by combining a charitable trust with your Charitable Gift Account, you ensure that you have flexibility in identifying charitable recipients and don't have to feel committed to a particular organization. If appropriate, we will help donors set up "Flip-CRUTs," which essentially allow "young-ish" (a relative term – ask my children) donors such as myself to delay receiving income until doing so makes sense for their circumstances. Perhaps most importantly, we can bring our expertise to bear so that you can make an informed decision about whether a charitable trust is right for you.*

*I wish I could turn back the clock and set up my charitable trust. I can't do that, but I can encourage you to consider our new Charitable Trust Services. It may be just the right solution for your charitable giving, both now and into your future.*

**Kimberly Wright-Violich**  
President  
Schwab Charitable

*P.S. With the introduction of Charitable Trust Services, we've changed our name to Schwab Charitable™ to reflect our broadened philanthropic service offering and also simplified our donor-advised fund name to Schwab Charitable Fund.™ We're proud to help you achieve your philanthropic goals and we'll continue to look for new ways to do so.*

## ADMINISTRATIVE FEE REDUCED

We have reduced our administrative fee, effective July 1, 2006, resulting in lower expenses for all donors with Charitable Gift Accounts of \$10,000 or more. The administrative fee is now up to 40% lower, based on account balance. With over \$1.5 billion in contributions, the Fund's tremendous growth has allowed us greater operational efficiencies, resulting in savings that mean more assets are available for grants.

For additional information about our lowered administrative fee, including our Administrative Fee Calculator, please visit [www.schwabcharitable.org](http://www.schwabcharitable.org) or call 800.746.6216.

## CHARITABLE REMAINDER TRUSTS: POWERFUL TOOLS FOR STRATEGIC GIVING *continued*



### For whom are CRTs appropriate?

Charitable Remainder Trusts can be structured in many different ways to meet donors' personal income and financial needs. A CRT is most appropriate for someone who:

- desires a current or future income stream for retirement or other needs
- has highly appreciated assets — most often stock or real estate — that they would like to sell
- seeks to avoid the capital gains tax that would be triggered by the sale of these assets
- has concerns regarding estate taxation
- has “philanthropic intent” — a desire to give

One of the primary benefits of using CRTs is that they generate income for one or more beneficiaries. Although many donors who establish CRTs do not necessarily need the income, the vehicles can be used to provide a safety net should a donor's financial condition change. CRTs are also attractive to donors who are uncomfortable with market fluctuations or who have limited investing experience, as assets inside the trust may be managed by an investment advisor, and the income stream flowing from the trust can be guaranteed regardless of market performance.

This income can be useful for funding retirement, assisted living or long-term care insurance, grandchildren's education expenses or other needs.

CRTs also serve to reduce one's taxable estate. They are often funded with low-cost-basis investments upon which a donor would have to pay a fair amount of capital gains tax in order to diversify by selling. For example, by placing appreciated stock positions or real estate within a CRT, a charitably-inclined person can make the most of their gift while minimizing tax consequences to themselves and their estate.

### The complex duties of CRT trustees

A trustee of a CRT is responsible for ensuring that the trust meets the IRS's initial qualification tests and for ongoing oversight of the trust. Donors may choose to have a bank, trust company or other financial institution provide trustee services for a CRT. In some cases, a large charity such as a hospital or university will provide trustee services if the CRT irrevocably names the charity as beneficiary.

Donors may also choose to self-trustee, but they should be aware of the complexities of doing so.

## INTRODUCING CHARITABLE TRUST SERVICES

Schwab Charitable now makes it much easier to establish and maintain Charitable Remainder Trusts through our new Charitable Trust Services. Unlike most organizations that offer charitable trustee services, Schwab Charitable allows you the flexibility of using your own independent investment advisor to manage the trust's assets, while we take care of the custodial, administrative and tax-reporting requirements.

We can help you set up a \$250,000 minimum charitable remainder trust that generates dependable income for you or other designated individuals, with the remainder going into your Charitable Gift Account with the Schwab Charitable Fund, giving you even greater flexibility regarding charitable recipients.

For more information please call 800.746.6216.

### SCHWAB CHARITABLE'S CONTROLLER HONORED WITH SERVICE AWARD

Susy Heldman, our Controller, was recently honored with the prestigious Loyalty Award from Mount Holyoke College of Massachusetts for her extensive volunteer work on behalf of one of the nation's oldest institutions of higher learning for women. In addition to her service for Mount Holyoke, Susy recently spent several weeks of her hard-earned vacation working with at-risk children in Buenos Aires, Argentina and is an active board member for the Calvary Presbyterian Foundation. “I was taught to give back to the community at an early age by my parents, when we lived in Lima, Peru. I volunteered in a hospital there and cared for malnourished children,” said Susy.



## CHARITABLE REMAINDER TRUSTS: POWERFUL TOOLS FOR STRATEGIC GIVING *continued*

### NEW DONOR CENTER ENHANCEMENTS

We're happy to announce improved functionality within our secure online Donor Center.

If you haven't visited our online Donor Center lately, prepare yourself for a new and significantly improved experience. Upon login, you will see a new "dashboard" home page which provides easy access to your account balance, portfolio allocation and recent grant history. Recommending investment reallocations (among our recently expanded investment pool selections) and grants to charities you've supported in the past has been greatly simplified as well, along with the ability to review grant status and details, and initiate online contributions to your account.

We've also streamlined the ability to recommend a grant to charities you have not supported before by minimizing the need to type in address, phone and contact details for those organizations.

Log in and see for yourself at [www.schwabcharitable.org](http://www.schwabcharitable.org). For more information, including login assistance or a walk-through of the site, please call our Donor Relations Specialists at 800.746.6216.

*To contact us, write to  
Schwab Charitable  
101 Montgomery Street  
San Francisco, California 94104.  
Call us at 800.746.6216  
or send an e-mail to  
[ask@schwabcharitable.org](mailto:ask@schwabcharitable.org).*

Schwab Charitable is the name used for the combined programs and services of the Schwab Charitable Fund and Charitable Trust Services. Schwab Charitable Fund is the operating name of the Schwab Fund for Charitable Giving, an independent nonprofit organization. Schwab Charitable Trust Services is a limited liability company owned by the Schwab Fund for Charitable Giving that provides charitable trust management services.

"A donor who serves as trustee of his own CRT is subject to the same fiduciary responsibilities imposed upon any trustee," says Erik Dryburgh, a principal of Silk, Adler & Colvin, specializing in charitable giving and charitable estate planning law. "There's a long laundry list of duties to ensure impartiality to both the income and remainder beneficiaries, and to operate the trust solely for their benefit. The tasks include properly investing the money, administering the trust correctly, calculating the distribution payments to the income beneficiary and making them at the right time, and all tax reporting." IRS regulations also require donors to show that they are not using the CRT to achieve tax benefit without charitable intent.

Donors may need to rely on trusted investment advisors and administrators for their CRT, as the accounting is complicated. The income beneficiary will pay tax on the annual income received. How that income is taxed depends upon a four-tiered tax structure, and is based in part on the different types of income being produced inside the trust, which include ordinary income, capital gains, tax-exempt income or return of principal. "It is extremely complex," says Stannard-Stockton, "so it is very beneficial to have an administrator. The last thing you want to do when embarking upon your philanthropic plan is to get bogged down in paperwork."

### Leaving a charitable legacy

Erik Dryburgh advises his clients to view the tactics they employ in their giving in a pragmatic light— as a means to benefiting not only charities and donors, but also as a way to initiate their heirs.

"More and more I see people with significant estates saying, 'I am who I am, in part, because I had to go out and work for it, and my kids should have that same pleasure. I'm going to give enough to my kids, but I also plan to have wealth left over to give.' It's values-based estate planning," Dryburgh says. "You are passing on values, not dollars."

One good way for donors to leave a strong charitable legacy is to name their donor-advised fund account as charitable beneficiary of their CRT. Doing so affords donors greater flexibility to guide their giving now, and into the future. The donor-advised fund does not receive the gift until the CRT terminates at the donor's passing (or, if desired, at the end of a fixed date inside of 20 years), and a donor's philanthropic interests may change before then. The charities that a donor is passionate about in her fifties may not be the same ones she cares about in her eighties, or a charity may cease to meet with her standards of performance. It is easy to correct course — to change charities, or the amounts they receive — within a donor-advised fund. And when a donor's heirs are named as nominators or successor-advisors to that donor-advised fund account, it provides easy opportunities to engage heirs in one's philanthropy.

### The next great wave of philanthropy

Stannard-Stockton sees the increasing popularity of Charitable Remainder Trusts and other tactical tools that philanthropists now employ as linked not only to our increased wealth and changing demographics, but also to a "second great wave" of giving that the country is entering, marked most notably by the multibillion dollar gifts recently made by Warren Buffett and Bill Gates.

"What is much more impressive than the actual dollar value of these gifts is the cultural impact of these decision-makers saying that philanthropy is a meaningful way to spend their time," says Stannard-Stockton. "It is dramatic for Bill Gates, at age 50, to step back from day to day involvement with Microsoft and say, 'I have something better to do than run this enormously successful company I myself founded.' Instead, he's saying philanthropy is more important. And while a lot of people may feel somewhat distanced by the sheer size of these gifts, the fact is that with such vehicles as donor-advised funds and CRTs, people of much more ordinary means can employ the same powerful techniques that Buffett and Gates are using."