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SCHWAB ORIGINALS

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In Schwab’s new WashingtonWise Investor™ podcast, host Mike Townsend takes a nonpartisan look at the policy and political news that matters most to markets—and expert guests share actionable investment insights. Listen and subscribe at schwab.com/washingtonwise.

Watch

Chuck Schwab reflects on Schwab Charitable’s 20th anniversary—plus, several generous donors explain how they’re using their donor-advised fund accounts to make a bigger charitable impact at schwabcharitable.org/20stories.

Learn

A flower shop and a barbecue joint have more in common than you might think. See how Schwab Bank’s loan to small-business lender Opportunity Fund creates a tangible impact for underserved communities at aboutschwab.com/our-communities.

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1119-9GM1
Learning From the Best

What Chuck Schwab has taught me about business—and people.

When faced with competing business decisions, Chuck will always choose the one that benefits investors.

Indeed, when I asked him what I should focus on during my tenure as CEO, I expected a typical response: grow client assets, or reduce operating expenses, or get the stock price up. But Chuck isn’t your typical businessman. “Do your part to make sure Schwab is a strong, independent company 50 years from now,” he said, “because investors deserve a firm that’s on their side.”

Our team recently sat down with Chuck to talk about what it took to build and grow the company that bears his name, as well as what he thinks are the keys to becoming a successful investor. Read the interview on page 27.

If I had to distill all I’ve learned from Chuck into a single sentence, it would be this: Doing what’s best for the client is always the right business decision. It’s such a simple idea, and yet it’s ultimately what sets Chuck—and Schwab—apart.

Sincerely,

Walt Bettinger
President & CEO
Filter out the noise. Focus on the facts.

Barron’s ranked American Funds the #1 fund family of 2018.
Based on relative performance of 57 fund families across a range of categories for the one year ended 12/31/18.*

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* Returns are calculated before any 12b-1 fees, fund loads or sales loads are deducted. Each fund’s performance is measured against all of the other funds in its Lipper category. The result is then weighted by asset size, relative to the fund family’s other assets in its general classification. To qualify for the ranking, firms must offer at least three mutual funds or actively managed exchange-traded funds in Lipper’s general U.S. stock category, one in world equity, one in mixed asset (such as a balanced fund or target date fund), two taxable bond funds and one national tax-exempt bond fund. All funds must have a minimum track record of one year. As of last year, the ranking excludes index funds, but does include actively managed ETFs and “smart-beta” ETFs - which are run passively but built on active investment strategies. Of the 869 asset managers in Lipper’s database, 57 met this criteria. In the Barron’s ranking of the best fund families over five and 10 years for the period ended 12/31/18, American Funds ranked 6th and 17th of 55 and 49 fund families, respectively. Past results are no guarantee of results in future periods. For more details, visit http://webreprints.djreprints.com/55985.pdf.
Sure-Fire Savings

Auto-enrollment in workplace retirement plans couldn’t be easier—but is it enough?

According to research from the Pew Charitable Trusts, companies that auto-enroll employees in workplace retirement plans such as 401(k)s have participation rates that exceed 90%—well above the 50% for opt-in plans.

Unfortunately, many savers leave their contributions set at the default rate, which averages just 3.4% nationwide. That’s substantially lower than the amount workers need to contribute to receive the maximum company match, which averages 5.1% nationwide.1 “And even that is about half what workers should be socking away each year to adequately fund their retirement,” says Mark Riepe, senior vice president at the Schwab Center for Financial Research.
For example, imagine someone who makes $80,000 per year, contributes 3.4% to her 401(k) and receives an equal amount from the employer’s match, and earns 6% annual returns. After 30 years, she would have saved $457,657 for retirement. Increasing her contribution rate—and therefore the employer’s match—to 5.1% would boost the total portfolio value by 50%, to $686,486.2

However, even saving enough to get the full company match might not be adequate, Mark cautions. For example, someone who expects to withdraw $40,000 in the first year of a 30-year retirement—and then increase their withdrawals annually to account for inflation—should aim to amass a portfolio of about $1 million if they want to be highly confident their money will last. “That’s why we advise saving at least 10% of your annual pay, to give you more cushion,” he says. “That may mean making small compromises now, but it will help you avoid making big compromises down the road.”

A financial plan can help you determine how much you should actually be saving for retirement. Start your plan with the help of a CERTIFIED FINANCIAL PLANNER™ professional when you enroll in Schwab Intelligent Portfolios Premium at schwab.com/portfoliospremium.

See page 42 for important information.

1Barbara A. Butrica and Nadia S. Karamcheva, “How Does 401(k) Auto-Enrollment Relate to the Employer Match and Total Compensation?” Center for Retirement Research at Boston College, 10/2013. 2The examples are hypothetical and for illustrative purposes only. Contributions are made at the beginning of each month, and annual returns are compounded monthly. Actual rates of return will fluctuate with market conditions. Examples do not reflect the effects of taxes and fees; if they did, returns could be lower.

Next-Level Phishing
How to protect against increasingly sophisticated scams.

Fraudsters are increasingly using phone calls and text messages to steal logins, passwords and other personal information, putting people’s financial accounts at risk. “The criminals are doing their homework,” says Kara Suro, vice president of fraud surveillance and investigations at Charles Schwab. “They continue to find ways to trick people into providing information via phone or text.”

Such schemes follow a typical pattern: The scammer sends a text message to the potential victim asking if he or she made a specific purchase. If the victim responds “no,” the fraudster follows up with a phone call claiming to be from the victim’s financial institution and asks for sensitive personal information.

If you receive this kind of suspicious communication, immediately contact the financial institution in question at a known number. At Schwab, that number is 800-435-4000. You can also protect yourself by:

- Creating unique, hard-to-guess passwords—particularly for financial accounts.
- Keeping login credentials secret. Schwab will never ask for your password over the phone—or will most other financial institutions.
- Relying on known phone numbers and websites. Don’t assume the link or phone number in an email is authentic. Instead, initiate contact using a published phone number or website, so you can be sure you’re talking with a legitimate source.
- Reporting suspicious emails. If you are unsure about an email, avoid clicking any links. And if it’s suspicious and purportedly from Schwab, forward it to phishing@schwab.com.

“Vigilance is key to not becoming a victim of financial fraud,” Kara says.

Learn more about keeping your data secure at schwab.com/schwabsafe. See page 42 for important information.
Sharing the Load

College costs can be covered by more than just your savings.

According to the College Board, the average annual cost of tuition, fees, and room and board at a four-year in-state public university for the 2018–2019 school year was $21,370—representing a 30% increase from a decade earlier. (For private non-profit schools, the total was $48,510, or a 25% increase.) Multiply those costs by four years, factor in inflation, and you could be looking at hundreds of thousands of dollars per child.

But do you really need to save every last penny of the total cost of college? Maybe not. “Thanks to financial aid, grants and scholarships, many families don’t pay the full published price for college,” says Robert Aruldoss, a senior research analyst at the Schwab Center for Financial Research. “So don’t automatically rule out schools based on the price of admission.”

You can use the National Center for Education Statistics’ Net Price Calculator, available at nces.ed.gov/collegenavigator, to browse published prices and the net cost that families typically pay after subtracting the average amount of federal, state/local government, grant or scholarship aid from the total cost of attendance.

Then it’s time to estimate a likely combination of financial aid, savings and out-of-pocket payments that works for your family. For example, if your child’s education will cost $100,000 in total, you could aim to save roughly a third before college, cover another third using a combination of your regular income and your child’s contributions from part-time work, and fund the remaining third with a mix of loans and the like.

You can use a calculator like the one available at schwab.com/collegecalculator to determine just how much you’ll need to sock away each month in order to reach that goal.

“Of course, every additional dollar you can put toward your child’s college fund today—without sacrificing your retirement savings, which should always take priority—is a dollar you or your child won’t have to borrow tomorrow,” Robert says. “But however you choose to apportion the high cost of college, tapping multiple sources can help you successfully pursue your other savings goals while still keeping your college-savings efforts on track.”

1“Tuition and Fees and Room and Board over Time.” 2How America Pays for College, Sallie Mae, 2018.

When four becomes more

What if it takes your child longer than expected to earn that undergraduate degree?

According to the National Center for Education Statistics, only 42% of students complete their undergraduate degree in four years, whereas 60% graduate by year six.* But does that mean you should be saving for more than four years?

Not necessarily. Sitting for Advanced Placement® or College-Level Examination Program® tests while still in high school and taking classes at a local community college are two ways to reduce the amount you might pay for higher education.

“That said, it’s always a good idea to set expectations with your child regarding how much you’re willing to help—and for how long,” Robert says.

*Data is for those who began undergraduate programs in 2011.

See page 42 for important information.

(1119-9E1N)
Proceed With Caution

Actively managed ETFs are growing in popularity but carry risks.

At first glance, actively managed exchange-traded funds (ETFs) might seem like a contradiction. After all, most ETFs are considered passive investments because they’re designed to replicate the performance of specific market indexes rather than outperform them.

Active ETFs, on the other hand, rely on fund managers to select assets in response to changing market conditions. Broadly speaking, their goal is to deliver returns in excess of whatever index they use to benchmark their performance.

While actively managed ETFs are growing in popularity—with record inflows of $27.5 billion in 2018—they currently represent only about 2% of the $3.4 trillion U.S. ETF market. And most active ETF money is in ultra-short bond funds.

“That’s because, with short-term interest rates so low, some fixed income fund managers are assuming a bit more risk as they strive to generate additional returns,” says Michael Iachini, vice president and head of manager research at Charles Schwab Investment Advisory. Should the current bull market begin to lose strength, equity fund managers may follow suit.

But while better returns might sound appealing, there are other aspects to consider. “These funds likely will have fees that fall somewhere between those of a garden-variety index fund and those of an actively managed mutual fund,” Michael says. “And additional fees come at a cost to returns.”

Risk is another factor. “In pursuit of greater returns, active ETF managers must, by definition, take on additional risk,” Michael says, “so investors will want to take that into consideration, as well, before seeking to beat the market.”

See page 42 for important information.

• Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. ETF shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV). • Investing involves risk, including loss of principal. (1119-9P4U)

Screen for ETFs that fit your investment strategy at schwab.com/ETFscreener.
Finders, Keepers

Are you taking full advantage of your workplace benefits?

If you recently started a new job, you may not be aware of all the benefits available to you—and thus you may be leaving money on the table. “The value of these extras—including retirement-savings plans, paid time off, health insurance and other benefits—can add up to about a third of your total compensation,” says Robert Aruldoss, a senior research analyst at the Schwab Center for Financial Research.

Here are some common (and not-so-common) benefits to investigate—and how to maximize them.

1. Health care

- Carefully weigh your health care options, taking particular note of coverage, copayments and deductibles. (Cheaper monthly premiums don’t always pay off if they result in substantially higher out-of-pocket health care costs.) If your spouse or domestic partner also has health care coverage, compare the plans to ensure you’re getting the best coverage for your money.
- If you’re covered by a high-deductible health plan, ask whether the company offers a Health Savings Account (HSA). Contributions are federally tax-deductible; capital gains, dividends and interest accumulate tax-free; and you pay no tax on withdrawals for qualified medical expenses.
- Also see whether the company offers a tax-deductible Flexible Spending Account (FSA), which allows you to contribute up to $2,700 per year to cover certain out-of-pocket health care costs. (Generally, individuals can contribute to HSAs and FSAs simultaneously only if they are using an “HSA-compatible” FSA. When used in conjunction with an HSA, FSA funds may be limited to dental and vision expenses.)

2. Retirement

- Check whether the new company offers a 401(k) or similar workplace retirement plan—and whether there’s a company match. If so, contribute at least enough to capture the match, though you may need to kick in a lot more to reach your goals (see “Sure-Fire Savings,” page 5).
- Look into the pros and cons of rolling existing 401(k) funds into your new employer’s plan or an Individual Retirement Account at schwab.com/rolloveroptions.

3. Other benefits

- Determine if your new company offers life insurance, or whether you might be better off purchasing it independently. (To compare term and permanent life insurance, visit schwab.com/lifeinsurance.)
- If you have or plan to have children, find out whether the company offers a tax-deductible FSA for dependent care, which allows married couples filing jointly or single parents filing as heads of household to contribute up to $5,000 per year to cover child care expenses.
- Inquire about commuter benefits, such as pretax parking and transit passes.
- See whether the employer offers other potentially valuable benefits, such as adoption coverage, low-cost legal plans or tuition reimbursement—some employers even offer discounts on gym memberships and technology purchases.
- Look into any employer-offered short- and long-term disability coverage. As with life insurance, individual disability insurance may supplement or be a better fit than group coverage. (Learn more about individual disability insurance at schwab.com/insurance.)

For married couples, each spouse may contribute up to the annual limit to her or his employer-sponsored FSA. You generally must use the money in an FSA within the plan year or risk losing any unspent funds.

See page 42 for important information. (1119-9X4F)
I’ve never been a teacher.

But I know I can make a difference.

A Schwab Charitable™ donor-advised fund account is a tax-smart, efficient way to help meet your charitable giving goals. To learn more or to open an account, call us at 800-746-6216 or visit www.schwabcharitable.org.

Giving is good. Giving wisely is great.
Dear Reader,

Thank you for the question. The Social Security system is complex across the board, and spousal (and ex-spousal) benefits may be the most complicated of all, whether you’re married, divorced or widowed. But as confusing as the system is, it’s definitely worth digging into the details—especially for women, who face unique financial challenges when it comes to retirement; namely, longer lifespan, lower pay, less time in the workforce and often a lower Social Security benefit.

Dear Carrie,

I’m a divorced 60-year-old woman who has worked on and off for the past 40 years. What can I do to maximize my Social Security benefits?
That said, all of what follows applies equally to men.

**Basic spousal benefit**
The spousal benefit allows a wife or husband (including a spouse who has never worked) to collect up to 50% of what a working spouse’s Social Security benefit would be at full retirement age (FRA). Here are the essentials:

- To receive a spousal benefit, your spouse must already have filed.
- The spousal benefit isn’t affected by reductions or increases in a working spouse’s benefits due to early or delayed filing.
- You can file for a spousal benefit as early as age 62, but it will be reduced permanently if you file before your FRA.
- The spousal benefit doesn’t increase if you wait to file until after your FRA—there’s no gain in waiting a minute longer.

**Spousal benefit with your own benefit**
A provision called “deemed filing” states that when you file for either your own benefit or a spousal benefit, you are deemed to be filing for both. However, from a practical perspective, you get only the higher of the two. (Because you’re eligible to collect only up to 50% of your spouse’s benefit, your primary benefit will typically be less than your spousal benefit only if you had a significantly shorter and/or lower-earning career than your spouse.)

There is one exception, though, that applies only to those who were born before January 2, 1954. If they have reached their FRA and not yet claimed their own benefits, they can file what’s called a “restricted application,” which lets them apply specifically for the spousal benefit and delay taking their own benefit, as it continues to grow until they reach age 70.

Those born on or after January 2, 1954, don’t qualify for a restricted application, so if your own benefit will be higher than your spousal benefit, it’s probably best to wait to file until age 70 to get the maximum Social Security benefit available to you. If your spousal benefit is higher, it’s likely best to hold out until your FRA—but not longer.

**Ex-spouse benefit**
Basic spousal benefits also apply to those who are divorced, were married a minimum of 10 years and are currently unmarried.

Unlike with the rule for spouses, though, your ex doesn’t need to have already filed for benefits in order for you to apply. The requirement is only that he or she be eligible to file. One caveat: If your ex hasn’t yet filed for benefits, you must have been divorced for at least two years.

If you have more than one ex-spouse (each from a marriage that lasted 10 years at minimum), you can collect on either spouse’s record but not both. Plus, your ex’s marital status doesn’t affect your eligibility. And what you collect has no effect on what your ex or her or his current spouse—or even other ex-spouses—can collect.

**Survivors benefit for both spouses and ex-spouses**
The rules for a surviving spouse are pretty straightforward: You’re eligible to collect up to 100% of a deceased spouse’s benefit once you’ve reached your FRA. That said, you can begin collecting as early as age 60 (or as early as age 50 for a disabled widow or widower), but, again, your benefit will be reduced.

For a surviving ex-spouse, the length of the marriage and marital status again come into play. First, the marriage had to have lasted for 10 years, and if you remarry before age 60, you’re not eligible until that marriage ends. If you remarry after age 60, you can collect survivors benefits on your ex.

And here’s a twist. If you’ve survived more than one spouse, you can choose to collect on the one with the higher benefit—and even switch between them if, for instance, a former spouse with a lower benefit dies before a former spouse with a higher benefit. Again, what you collect doesn’t affect what another widow or widower can collect.

One real plus is that, unlike with spousal benefits, you can file a restricted application to collect survivors benefits regardless of the year of your birth and let your own benefit grow up to age 70. Conversely, you could choose to take your own reduced benefit early and switch to the full survivors benefit at FRA.

**Where to get more information**
While the details can seem overwhelming, don’t let them deter you. The Social Security website (ssa.gov) has a number of resources designed specifically to help women understand their options, including several calculators that can help you run some of the numbers. But, as always, I suggest working with your financial advisor to determine the best strategy for you.

Carrie Schwab-Pomerantz (@carrieschwab), CFP®, is president of Charles Schwab Foundation and senior vice president of Schwab Community Services at Charles Schwab & Co., Inc.

See page 42 for important information. (1119-9HRL)
FAQs About Employer Stock Options

How you manage your employee stock options can affect your taxes and financial plan.

By Chris Kawashima

Any clients I work with appreciate having equity as part of their compensation packages. In fact, a recent Schwab survey found that more than a third of employees say it’s a big part of why they took their jobs.¹

When managed effectively, stock options can be a great tool for building long-term wealth. However, there’s often confusion regarding how stock options work and whether it makes sense to keep or sell the underlying shares.

Here are answers to the three most common questions I get about employee stock options.

Should I keep or sell my shares?

First, determine whether your employer’s stock complements your investment strategy. As with any prospective stock, you should research the fundamentals to understand its long-term potential and risk characteristics.

If you exercise your options and keep the stock, presumably it’s because you believe it will rise; needless to say, that’s not always the case. To help ensure you’re not overexposed, you may want to limit your employer’s stock to no more than 20% of your overall portfolio.

There’s also another kind of overexposure to consider: If your employer gets into financial trouble, you could end up losing money on the stock and losing your job. If that level of exposure makes you uncomfortable, it may make more sense to sell your eligible shares.

That said, there are circumstances under which you may need to hold on to an inordinately large amount of your employer’s stock. Some companies impose holding requirements, for example, or you may have trading windows that limit your ability to sell.

Conversely, some employees like having larger allocations to their employer’s stock because they like having skin in the game and are confident of their company’s prospects. Whatever your reason, make sure to consider the risk to your overall investment strategy.

What are my stock options worth—and how do I capture their value?

Stock options allow you to buy stock at a specific price during a certain time period. The value lies in the spread—the difference between the exercise price and the market price.

For example, say you have 2,000 options with an exercise price of $40 and a market price of $50. Your
potential profit is $20,000 (the $10 spread times 2,000 options)—and you commonly have three choices when it comes to realizing their value:

A Exercise and hold: In the example above, you’d buy the stock and hold it, spending $80,000 upfront for $100,000 in stock, after which the entire amount would be subject to changes in market value (see table).

B Exercise and sell: This is the opposite scenario—you’d buy the stock and immediately sell it. (Some companies permit a cashless exercise, in which employee stock options are exercised without making any cash payment using a broker-assisted short-term loan.) Based on the numbers above, you’d realize $20,000 in profit, minus taxes and transaction costs (see table).

C Sell to cover: In this middle ground, you’d buy all the stock and sell just enough of it to cover what you spent ($80,000), plus taxes and transaction costs. In other words, instead of realizing your $20,000 profit in cash, you’d realize it in stock (see table).

3 How are stock options taxed?

Employees are generally granted one of two types of options—incentive stock options (ISOs) or nonqualified stock options (NSOs)—and the main difference lies in how the spread is taxed. We’ll focus on federal taxes here, but applicable state taxes should also be a consideration.

With ISOs, you are not typically taxed when you exercise your options, but the spread will always be taxed when you sell your shares. If you hold the shares for more than one year past the exercise date and more than two years past the original grant date, the sale of the stock becomes a so-called qualifying disposition and any realized profit is typically taxed at the long-term capital gains rate. If you sell earlier, the spread will be taxed at your ordinary income rate, which for high earners can be as much as 37% at the federal level.

With NSOs, on the other hand, the spread is taxed as ordinary income in the year in which you exercise the options—even when you hold on to the shares—and companies usually withhold some of the proceeds to help pay applicable Medicare, Social Security and other taxes.

Unfortunately, the typical withholding rate is often too low, especially for high earners. Therefore, the smart move is often to pay estimated taxes or set aside additional money to cover any gap between the federal withholding rate and your estimated liability. Work with a qualified tax advisor for greater clarity.

On the surface, ISOs might seem like they offer employees more favorable tax treatment, but they come with a hidden risk: Regardless of when you sell, the spread will count as taxable income when calculating the alternative minimum tax (AMT) in the year you exercise your options, which could result in a larger overall income tax liability. Calculating your AMT is tricky, so be sure to consult an accountant or tax advisor before exercising your ISOs.

Do your homework

Equity compensation is an opportunity for you to participate in the future of the company you work for. It can also be a great way to get into the market—so long as you understand the tax ramifications of exercising your options and the effect the shares could have on your overall investment strategy. When in doubt, consult a financial advisor before making any decisions.

*Does not reflect fees or taxes. Unrealized profit is the difference between the exercise price and the current market value of unsold shares. Some companies may not allow “sell to cover” but rather allow tendering shares back to cover the cost (often called “net exercise”). The example is hypothetical and provided for illustrative purposes only.

<p>| Purchase | Purchase | Number of | Market | Out-of-pockets | Realized/unrealized profit* |
| price per | price per | shares | price per | pocket |              |</p>
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"The September 2017 survey, conducted by Koski Research for Schwab Stock Plan Services, is based on interviews with respondents 25–70 years old who participated in their employer's equity compensation plan. Koski Research is neither affiliated with, nor employed by, Schwab Stock Plan Services.

"See page 42 for important information. ■ Please read the Schwab Intelligent Portfolios Solutions™ disclosure brochures for important information, pricing, and disclosures related to the Schwab Intelligent Portfolios and Schwab Intelligent Portfolios Premium programs. Schwab Intelligent Portfolios™ and Schwab Intelligent Portfolios Premium™ are made available through Charles Schwab & Co. Inc. ("Schwab"), a dually registered investment advisor and broker-dealer. ■ This information does not constitute and is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner, or investment manager. (1119-9VVY)
You compare cars. You compare TVs. You compare smartphones. Why not bonds?

Are you getting the best price for the bonds you purchase?
Move your bond portfolio to Schwab and you'll have bond specialists on your side: a dedicated team with access to over 80,000 bonds from 200 dealers. Who can show you the lowest price available to us. Who aren't paid on commission and, as a result, can offer you specialized, unbiased guidance.

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The Case for Actively Managed Bond Funds

Why their higher fees can sometimes be worth it.

By Collin Martin

W hen you’re looking to invest in a bond fund, cost is probably top of mind. Indeed, that’s often what attracts fixed income investors to bond index funds, which tend to be much less expensive than actively managed funds. However, when it comes to the mainstream U.S. bond market—to say nothing of riskier emerging-market and high-yield issuers—having a manager handpick a fund’s portfolio can make sense.

Here are three reasons why actively managed bond funds may be worth the extra fees.

Flexibility

Many of the biggest and most popular U.S. bond funds track the performance of the Bloomberg Barclays U.S. Aggregate Bond Index. But recent market changes have eroded some of the benefits of this broad benchmark, including:

- **Treasury overload:** Due largely to the flood of federal bonds issued in the wake of the 2008–2009 financial crisis, the index has a significantly higher allocation to Treasuries than it did a decade ago. In 2007, U.S. Treasuries represented about 12% of the index. By 2017, that number had climbed to 21%. Though the flood of federal bonds continued through 2018, the index now has a slightly lower Treasury concentration (19%)—but still significantly more than mainstream U.S. bond managers. A combination of rate hikes and market changes has eroded some of the benefits of this broad benchmark. Additionally, the bond index generally makes decisions based on how much a bond pays per year. These are known as “coupon” payments. They are usually expressed as a percentage of the bond’s current market price. But bonds with higher coupons can also come with higher interest-rate sensitivity and volatility. These can erode returns over time. Thus, when you’re looking to invest in a bond index fund, the rules of the index dictate which bonds are included. An active fund manager, by contrast, has the flexibility to buy and sell bonds as needed to account for changing market forces, including credit quality and interest rates (see “Know your fund,” right).

Expertise

When you invest in a bond index fund, it’s the rules of the index dictate which bonds are included. An active fund manager, on the other hand, can use her or his expertise to select the bond that best fits the fund’s stated goals or offers the most attractive yields at a given moment. This matters because a single issuer could have dozens—of if not hundreds—of different bonds available in the market. Consider General Electric Company (GE). While there are only a handful of GE equities available to trade, there are more than 200 varieties of GE bonds, with coupons ranging from as little as 2% to more than 7% and maturities ranging from a few months to more than a decade. What’s more, some are highly liquid, while others rarely trade. An active manager can sift through all available options to find the ideal holding. Such expertise is even more critical when investing in emerging-market and high-yield bonds, which tend to be both less transparent than mainstream bonds and more prone to special risks, such as fluctuating exchange rates. That said, such expertise is not a guarantee that a fund will outperform the market or generate positive returns.

Returns

Although actively managed bond funds typically command higher fees than passively managed bond index funds, three categories of bond funds tracked by Morningstar—intermediate-term, corporate and high-yield—have generally delivered higher returns in recent years. For example, intermediate-term actively managed bond mutual funds and exchange-traded funds outperformed their passive counterparts over the past three, five and 10 years—even after accounting for the difference in fees, according to Morningstar (see “Active beats passive,” above).

Know your fund

Credit quality and duration can impact the appeal of a bond fund. Here’s how you can research both by yourself.

- **Credit quality:** To find information about the average credit quality of a fund’s holdings, log in to Schwab.com/search, search for its ticker symbol, and scroll down to the Credit Ratings section. Given the deteriorating trend in the credit ratings of corporate bonds, it’s worth making sure the rating of a given investment matches your risk tolerance.

- **Duration:** Check the average duration of a given fund under the same Portfolio tab; it’ll be listed under Fixed Income Statistics at the bottom. All things being equal, you should select a fund whose average duration matches your investing time horizon.

Changing credit risk: Over the past decade, the credit quality of many corporate bonds in the Bloomberg Barclays U.S. Aggregate Bond Index has deteriorated. At the end of 2007, 65% were rated A or higher; in 2018, less than half were rated that high. This may not be of immediate concern given the index’s 3% allocation to Treasuries but could become an issue should that allocation shrink.

Interest rate risk: A combination of historically low interest rates and demand from the market prompted both companies and governments to issue an abundance of longer-maturity bonds over the past decade, pushing the index’s average duration to 6.5 years at the end of 2018—versus 4.7 during the preceding two decades. Why is that significant? Because higher durations generally mean higher volatility when interest rates change. For example, a bond fund with a 6-year duration will generally decrease in value by 6% for every 1% increase in rates. With an actively managed bond fund, by comparison, the fund manager has the flexibility to buy and sell bonds as needed to account for changing market forces, including credit quality and interest rates (see “Know your fund,” right).

Asset-weighted returns Active means passive

Active managed intermediate-term bond mutual funds and exchange-traded funds outperformed their passive counterparts during the three, five and 10 years ending 12/31/2018.

<table>
<thead>
<tr>
<th>Time frame</th>
<th>Active bond funds</th>
<th>Passive bond funds</th>
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<tr>
<td>3 years</td>
<td>2.5%</td>
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<td>5 years</td>
<td>2.6%</td>
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<tr>
<td>10 years</td>
<td>4.6%</td>
<td>3.4%</td>
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Active beats passive

See page 42 for important information. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. [1119-9W67]
Hidden ETF Fees

When “low cost” could be higher than you think.
By Emily Doak

There’s little debate that exchange-traded funds (ETFs) have democratized investing. In addition to offering access to previously hard-to-reach parts of the market (think commodities and precious metals), ETFs have helped drive down investing costs in many areas of the market.

However, even relatively low fees and expenses can add up over time. So here are three costs to consider when investing in ETFs, and how to keep them to a minimum.

Commissions

When you buy and sell ETFs, your brokerage company may charge a trading commission, which covers the costs associated with executing and clearing a trade. Some brokerage firms offer commission-free trades on certain ETFs, while Schwab offers them on all ETFs. But if you’re paying a commission to trade ETFs, there are a few things to know:

- The more often you trade, the more you’ll pay in total commissions.
- Most firms charge a flat fee, so the percentage cost will be larger for smaller trades than for larger ones.
- If you’re buying in person or over the phone, you’re likely to pay a higher commission than if you trade online.

Commissions are important for everyone to consider. But because commissions will play a more significant role in your total cost of ownership if you trade frequently or in small dollar amounts, active traders, in particular, should pay attention to the cumulative cost of commissions.

Expense ratios

The expense ratio is the annual rate a fund charges to cover its operating costs. Fund managers collect a small portion of the total annual expense from the ETF each day. As a result, the longer you invest in a fund, the higher the cumulative cost of this fee will be.

Also, be sure you understand the difference between an ETF’s net expense ratio and its gross expense ratio. The former is what shareholders pay as a result of the temporary fee waivers some ETF managers have introduced to attract new investors. The latter is what shareholders pay if and when those waivers expire. So, if you see a fee waiver in the prospectus, look for the expiration date and know that the fund could cost you more in the future.

Bid/ask spread

When you research ETFs, it’s easy to overlook the bid/ask spread, which is the difference between the market price at which a market maker is willing to buy an ETF (the bid) and the price at which the market maker is willing to sell it (the ask). It’s not a fee, per se, but rather a cost of investing.

Bid/ask spreads are often a reflection of an ETF’s liquidity. Popular, highly liquid ETFs, such as those that track the S&P 500® Index, tend to have very small bid/ask spreads. That’s because there’s enough demand for both the ETF and the underlying securities it holds that the market maker assumes little risk in facilitating transactions.

But with less-liquid ETFs—ones that access niche areas of the market, for example—market makers may have a harder time finding buyers and sellers, which increases their risk of facilitating a trade. To make up for this risk, the market maker charges you a higher ask when you buy the ETF and offers a lower bid when you’re ready to sell it, effectively eating into your potential profit. The more frequently you trade and the larger the spread on each transaction, the more relevant this cost becomes.

Greater transparency

Despite the fact that fund fees have plummeted over the past two decades, it still pays to do your homework. Spending a few extra minutes to evaluate the true cost of an ETF can help you make sure that headline fee you’re paying isn’t too good to be true.

See page 42 for important information.

To compare ETFs by expense ratio, bid/ask spread, and whether they’re trading at a discount or a premium, log in to schwab.com/compareETFs.
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Grin and Bear It

Market downturns are inevitable. Your response is not.

Why are bear markets so difficult to stomach? Because the pain investors feel from a loss is roughly twice as powerful as the pleasure they receive from an equivalent gain— which can lead to panic selling and locking in losses on investments that otherwise recover.

So help you keep your cool in the heat of the moment, here are three cool in the heat of the moment, here are three cool in the heat of the moment, here are three

Bear It

Do: Rebalance

A portfolio that drifted from 60% stocks and 40% bonds over the five years leading up to the Great Recession would have lost less if it had been rebalanced regularly.3

Don’t: Time the market

By repeatedly buying and selling—as opposed to remaining invested in good times and bad—the average stock mutual fund investor consistently underperformed the average stock mutual fund over the past 10 years.5

Don’t: Panic

If investors had held on to a fund that tracked the S&P 500® Index throughout the depths of the Great Recession, they would have regained all their lost ground in less than three years.5

Don’t: Miss the boat

The early days of a recovery often see the greatest gains. And the longer you sit it out, the further behind you may find yourself.7

See page 42 for important information.4 All examples herein are hypothetical and provided for illustrative purposes only (1119-9UCN).
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¹Investment professionals as of 12/31/18.

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Have you ever gotten burned when a winning trade suddenly reversed course? The technical-analysis tool known as Bollinger Bands can help you evaluate short-term price movements. Here’s how the bands function—and three ways to put them to work.

Bollinger basics

Bollinger Bands consist of three elements:

- **The central band** is formed by a stock’s moving average—measured over a period of hours or days. (I typically rely on a 20-day moving average.)
- **The upper band** is commonly set two standard deviations above the moving average.
- **The lower band** is commonly set two standard deviations below the moving average.

The upper and lower bands together generally contain around 90% of the price action, which is what makes a move outside the bands significant. When the bands are relatively horizontal and the stock’s price repeatedly tags the upper band, technical analysts may take that as a sign the stock is overbought and therefore ripe for a reversal. Conversely, when the stock bumps along the lower band, it could be a sign the stock is oversold and poised to move higher.

However, some traders make the mistake of treating any contact with either the lower or upper bands as a trigger, when in fact the price will often “walk” the band, without a clear indication of precisely when to act. Therefore, traders would be wise to look for one of the following three signals.
The Squeeze

When the gap between the outside bands narrows significantly—seemingly squeezing the price—it signals low volatility (see “Trading a squeeze,” far right).

If this persists for an extended period of time, it sets the stage for an increase in volatility and a decisive price move in either direction.

In that event, I set a buy order just above the upper band and a sell-stop order just below the lower band, so I’m taking a position whichever way the price moves. Once I’m in the trade, I also use stop orders to help manage my risk, usually just over or under the opposite band. You could also use a trailing-stop order, which will adjust the stop price up or down once your predetermined percentage or point change occurs. If the stock changes direction, the stop price will freeze at its new level—and if the stock then hits the new stop price, it becomes a market order.2

Before you trade the squeeze, though, be sure it’s persisted for a reasonable amount of time. If you’re using a 20-day moving average, for example, you’ll want to see the squeeze hold up for at least four weeks. Otherwise, there might not be enough pent-up volatility to lead to a decisive price move.

Also check to see if there is any news that could explain the squeeze, such as a company being acquired. In such cases, the stock could be range-bound for months pending the completion of the deal, and thus your time might be better spent on more immediately actionable trades.

TRADING A DOUBLE BOTTOM

Signs of a double bottom:

1. The first low touches or dips below the lower band.
2. The second low occurs above the lower band.

To enter the trade:

1. Set buy stop as price moves above second low.
2. Set protective sell stop below double bottom.

TRADING A SQUEEZE

Signs of a squeeze:

1. Bollinger Bands narrow as volatility decreases.
2. The stock moves above second low.

To enter the trade:

1. Set buy entry just above upper band.
2. Set sell-short entry just below lower band.

Once in the trade:

1. Place initial stop above or below opposite band.
2. Use trailing-stop order to lock in gains as trade progresses.

The Breakout

When a stock breaks higher, the upper band moves in the opposite direction—again, because volatility is expanding—and will continue to do so as long as there is strong momentum behind the breakout (see “Trading a breakout,” far right).

The classic double-bottom pattern resembles a W, because the stock sells off to a low, rallies, then tests the previous low before rising to a new short-term high (see “Trading a double bottom,” left). While double bottoms typically occur at the end of a downtrend and signal the beginning of a potential uptrend, they’re hard to identify as they’re happening—if you use Bollinger Bands, which can help identify double bottoms in real time by charting where the two lows reside relative to the lower band.

If the first low touches or dips below the lower band and the second low is above the lower band, it could signal a good time to buy—but consider having an exit strategy in place, such as a stop order placed below the W’s bottom.

TRADING A BREAKOUT

Signs of a breakout:

1. The stock breaks higher out of its previous range, increasing volatility and pushing bands apart.
2. As volatility wanes, the lower band turns up, suggesting that momentum is slowing.

To take profits:

1. Take initial profit by selling part of position.
2. Manage remaining position with a trailing stop.

The Double Bottom

The classic double-bottom pattern resembles a W, because the stock sells off to a low, rallies, then tests the previous low before rising to a new short-term high (see “Trading a double bottom,” left). While double bottoms typically occur at the end of a downtrend and signal the beginning of a potential uptrend, they’re hard to identify as they’re happening—if you use Bollinger Bands, which can help identify double bottoms in real time by charting where the two lows reside relative to the lower band.

If the first low touches or dips below the lower band and the second low is above the lower band, it could signal a good time to buy—but consider having an exit strategy in place, such as a stop order placed below the W’s bottom.

These three signals are just a few of the ways Bollinger Bands can be used to inform your trading, so be sure to investigate additional ways to use this and other trading strategies to your advantage (see “Subscribe,” left).
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Living Your Best Financial Life

Founder and Chairman Charles R. Schwab on creating a sustainable financial future.
By capitalizing on the changing investing landscape, Charles Schwab turned the then-unheard-of idea of cutting costs for Main Street investors into a brokerage with $3.7 trillion in assets under management today.1

On Investing recently sat down with Chuck to discuss his new book, Invested: Changing Forever the Way Americans Invest. In a wide-ranging conversation at his office in San Francisco, he elaborated on his secrets to success, the power of equities and the ongoing evolution of the company that bears his name.

Why did you write the book and what do you hope readers take away from it?

I thought it was necessary to record our history through my eyes. The book provides a 40-year portrait of how our firm was created, how it developed and what our purpose is as a company. I hope the book will explain the foundation for what our company is today—and also what we look at today and what we have to change. We want to be there for every step of that extended period.

And you want to make sure you have a diversified portfolio so that you don’t end up putting all your money into, say, a hamburger chain, only to find that somebody else comes along and makes a better hamburger.

If you need more proof of the value of diversification, just look at market stocks, which outperformed all other major asset classes in 2017—but came in dead last in 2018. ‘Because it’s rare that the same asset class will generate the best return year after year, I believe in spreading your investments across a range of asset classes. It’s like a financial shock absorber. It helps dampen the impact of any one investment on your overall portfolio.

Finally, you want to make sure you’re in it for the long term. That’s important because there are all kinds of things that work against you if you’re constantly buying in and out of companies—from poor market timing to taxes and transaction costs. Time in the market is more important than timing the market.

Where would you recommend investors put their hard-earned savings?

I’m a big believer in stock investing. Companies are made to grow. I’ve been on several boards of directors, and investing is something that has never come before a board and said, “We don’t have a plan to grow.” That’s a fundamental thing, but it’s often overlooked.

If you own young people a chance to be a part of that growth. So, unless you need all your money in the very near future, the question isn’t whether to own stocks; the question is which stock to own and is it diversified enough to answer. Even seasoned professionals have a difficult time picking the right stocks repeatedly.

That’s what makes index mutual funds and exchange-traded funds so appealing. They offer a mix of investments and often have very low management fees. And unlike actively managed funds, whose individual managers’ stock picking skills can make or break returns, index funds track established benchmarks such as the S&P 500® Index or the Schwab 1000 Index®.

Would you say there’s a secret to successful investing?

It’s not much of a secret: consistency and diversification.

The most successful investors don’t try to predict the market’s ups and downs. Instead, they save and invest regularly through good and bad times, because they know stocks tend to rise over extended periods.

And you want to make sure you have a diversified portfolio so that you don’t end up putting all your money into, say, a hamburger chain, only to find that somebody else comes along and makes a better hamburger.

Crashes are always hard to stomach, but it’s important to remember that they don’t last forever. If you look back, even the most bearish markets have eventually turned into bulls. Just think of the 2008 crisis: U.S. stocks fell more than 40% in a matter of months, and some days it felt like the bottom would never arrive. But of course it did. Had investors in a fund that tracked the S&P 500® simply remained invested, their portfolios would have regained all that lost ground in about three years.

So, you look back. Currencies are now: The S&P 500 has grown something like 140% since the start of the financial crisis.1 Every market cycle is unique, but I believe the best course of action is to stay focused on the long term and remain invested even when markets get rough.

How do you see Schwab evolving as it approaches its 50th year in business?

We’ve always been dedicated to making investing accessible to all. Hence our One-Stockbroker, back in 1984, at a time when trustworthy investment guidance was difficult to come by and self-directed investing was considered a novelty. ‘Since then, we’ve created the Schwab Center for Financial Research, whose experts write many of the articles you see in this magazine; launched Schwab Equity Ratings® to provide an independent analysis of equities; introduced dozens of investment solutions and online tools in an effort to provide transparent guidance and objective data—investors don’t require a Ph.D. in economics to understand.

As I said earlier, we’re focusing more on financial planning these days, which has been shown to help people save more and have a better understanding of their financial situation before making any investment decision.1

1 As of 04/30/2019 | Schwab Center for Financial Research | Emerging market stocks are represented by the MSCI Emerging Markets Index, | Schwab Center for Financial Research and Bloomberg Data from 09/12/2008 to 09/12/2019.

See page 42 for important information. Please read Schwab Intelligent Portfolios Solutions™ disclosure brochures for important information, and disclosures related to the Schwab Intelligent Portfolio and Schwab Intelligent Portfolio Premium programs. Schwab Intelligent Portfolios® and Schwab Intelligent Portfolio Premium programs are made available through Charles Schwab & Co., Inc. (“Schwab”). A duly registered investment advisor and broker dealer. The Schwab 1000 Index is the property of Charles Schwab & Co., Inc. (“Schwab”). The Schwab 1000 Index is a fixed-adjusted market capitalization weighted index that includes the 1,000 largest stocks of publicly traded companies in the United States, with size being determined by market capitalization (total market value of all shares outstanding). Schwab will modify the index as necessary to account for dividend payments, stock splits, spin-offs, mergers, corporate actions (e.g., new issues, repurchases, spin-offs, mergers, stock swaps, spinoffs or bankruptcy filings made because of a company’s inability to continue operating as a going concern). As a result of corporate actions, the index may comprise more or less than 1,000 securities. Schwab may also change the Schwab 1000 Index exclusion criteria if it determines that doing so would cause the index to be more representative of the domestic equity market. The investment strategies provided here for general use only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.
Financial Fault Lines

Seven faulty assumptions that could derail your savings goals—and how to avoid them.
Even the most disciplined planners can face unexpected hurdles.

Your career takes a turn for the worse or your child’s education is costlier than you’d expected and, just like that, your savings goals can be in jeopardy. “People often operate under the presumption of control,” says David Jamison, a CERTIFIED FINANCIAL PLANNER® professional with Schwab Intelligent Services.

“Unfortunately, failing to expect the unexpected can leave you far short of your desires.”

Here, then, is the reality behind seven assumptions savers often make— and solutions that can help keep you from being caught short.

Goal: Retirement

Assumption 1: My expenses will be lower in retirement.

→ Reality check: “Many retirees find they spend just as much money in retirement as they did while they were working. Plus, most want to travel more, explore new hobbies and pursue other passions, and those things cost money,” David says. You’ll also need to account for unexpected expenses and other costs, such as health care, not all of which will be covered by Medicare (see Assumption 2, below).

What’s more, average life expectancy in the U.S. increased by roughly eight years between 1970 and 2017, so your money may simply need to last longer than that of previous generations.

→ Course correction: When estimating your retirement savings goal, assume your current expenses will remain the same, minus the amount you’re saving annually toward retirement. From there you can calculate your target portfolio size, as well as how much you’ll need to save each year in order to reach your goal. Also tally up any surprise expenses from the past several years and incorporate an annual average into your final projections.

Finally, factor in inflation and life expectancy. (You can run the numbers using an online calculator like the one at schwab.com/retirementcalculator) If any of the outcomes give you pause, consider revisiting your savings rate or strategize now on potential cutbacks.

Assumption 2: Medicare will cover my health care costs.

→ Reality check: Medicaid doesn’t cover many of the health care expenses retirees will encounter, including post-dental and vision and hearing care. Perhaps more important, you have to pay out of pocket for any long-term care, unless you obtain supplemental insurance in advance.

→ Course correction: Review what’s covered at medicare.gov and estimate what your annual out-of-pocket health care liability might be. Also consider contributing to a health savings account (HSA), if your employer offers one. Contributions to HSAs are tax-deductible, their assets typically grow tax-free, and withdrawals are also tax-free, so long as they’re used for qualified medical expenses.

You may want to investigate long-term care insurance options, as well, since the number of Americans needing long-term services and support is expected to nearly triple, from 10 million in 2010 to 27 million by 2050.

Assumption 3: I’ll be able to work as long as I want or need to.

→ Reality check: Nearly 8 million older Americans are in search of work or low-quality jobs, according to a 2018 analysis by The Wall Street Journal.

→ Course correction: Return your retirement age to an estimate or limiting early retirement and/or relatively low-wage work in retirement.

“Many people take as a given they’ll be able to work as long as is necessary or desirable,” David says. “But your health or circumstances may not allow for the level of earnings you were counting on, so be careful not to be overly reliant on work when it comes to your financial projections.”

Assumption 4: I should play it safe with my investments in retirement.

→ Reality check: Although a conservative retiree’s portfolio might be 20% equities and 80% cash/ixed income, “a greater allocation to stocks can help offset the risk of outliving your savings,” says Bob Williams, CFP® and wealth manager at the Schwab Center for Financial Research (SCFR).

Indeed, an analysis by SCFR found that a retirement portfolio with 20% allocation to stocks was able to take larger withdrawals than a retiree with a 20% allocation to stocks while still maintaining the same degree of confidence that her money would last 20 years.1

→ Course correction: “A 60% allocation opportunity in retirement isn’t for everyone,” Rob says. “But you do need some exposure to stocks if you want to generate income and maintain growth potential. Holding a mix of assets with varying risk levels can help support those goals.”

A financial planner can help you create an approach that accounts for multiple rates of return and retirement scenarios. He or she can also help you assess how much risk makes sense for your specific situation.

Goal: First home

Assumption 5: I can deduct the interest on my mortgage.

→ Reality check: Because of recent changes to the tax code, you can deduct the interest only on up to $750,000 of mortgage debt, and interest paid on a home-equity loan (HELOC) is deductible only if the proceeds were used to purchase or substantially improve your primary or secondary residence.

→ Course correction: Be realistic about your mortgage interest deduction when evaluating the true annual cost of your home—especially if you’re counting on it when calculating the amount of tax that’s withheld from your paycheck. Also be sure to double-check the IRS’s rules on eligibility if you’re expecting to deduct the interest on your HELOC.

Assumption 6: Real estate is always a safe investment.

→ Reality check: Like any asset, home prices can go down as well as up. In October 2008, for example, home prices plunged a record 18% year over year, as measured by the Case-Shiller National Home Price Index. “College debt is a growing problem for parents, too—especially when it comes at the expense of their retirement savings,” David says. Indeed, 14% of families who borrowed to pay for college in 2018 used parent loans exclusively, according to Sallie Mae.3

→ Course correction: Higher education isn’t all about return on investment, but you should nevertheless discuss with your child what her or his choice of major could mean in terms of salary potential—and hence her ability to pay back student debt—as well as how much you’re willing to contribute.

Where appropriate, consider less expensive in-state options or nontraditional means of earning a degree, like having your child complete her or his general education requirements at a community college before transferring to a more prestigious institution to complete her or his degree.

Finally, consider a balanced approach to paying for college that utilizes a combination of financial aid, parent and student contributions, and savings and gifts (see “Sharing the Load,” page 7).

Prepare for change

When it comes to your own planning, 2 it’s important to revisit your assumptions in light of new data—whether that’s from industry studies or Schwab Intelligent Portfolios Premium at schwab.com/portfoliopremium.

Need help with your planning assumptions? Work one-on-one with a CERTIFIED FINANCIAL PLANNER® professional at schwab.com/portfoliomatch.
Tax reform upended the incentives for charitable giving. Here's how to keep making a difference.
Taxpayers who routinely make annual donations to charity face a new hurdle: They may no longer be able to deduct their gifts.

Why not? Because the number of taxpayers who itemize their deductions—including charitable donations—is expected to decrease by roughly two-thirds as a result of the Tax Cuts and Jobs Act of 2017 (TCJA), which doubled the standard deduction to $12,100 in 2019 for individuals and $24,400 for married couples filing jointly.

The effects may already be taking hold: The percentage of households that itemized their charitable contributions declined from 21% in 2017 to just 9% in 2018, according to estimates from the nonpartisan Tax Policy Center.

“Tax benefits are a secondary motivation for many donors—but they’re still a motivation,” says Kim Laughton, president of Schwab Charitable, the nonprofit advisor-sponsored fund provider of The Charles Schwab Corporation to facilitate client giving (see “Giving Made Easy,” page 44).

The good news is that for many the tax benefits of charitable giving remain—provided you know how to navigate the new tax landscape. Here’s a look at how the TCJA has made giving more advantageous in some ways and less so in others, and how taxpayers can continue to benefit both others and themselves.

The upside

“The TCJA did not cap or eliminate the charitable deduction, which shows that lawmakers were not looking to penalize donors,” Kim says. In fact, in some ways the tax law actually enhances the value of the charitable deduction by allowing high-income earners to take even larger charitable deductions than in the past. For example:

• It increases the amount of deductible cash contributions taxpayers can make to charities, from 50% of their adjusted gross income to 60%.
• It eliminates the Pease limitation, which capped how much taxpayers could claim in the way of itemized deductions if their incomes were over certain thresholds.

The joys of bundling

Several provisions in the TCJA make charitable giving considerably less advantageous from a tax perspective. In addition to doubling the standard deduction, tax rates have been lowered for five of the seven income brackets—and brackets have also shifted, meaning in many cases more income will be taxed at a lower rate. Both of these developments mean taxpayers are capturing less tax savings from their charitable contributions.

What’s more, a $10,000 cap on the deduction of state and local taxes (SALT) has resulted in a higher tax bill for many residents of high-tax states such as California and New York. This not only reduces their disposable income but also makes it much harder to exceed the standard deduction and therefore itemize their charitable contributions. (Even those who do itemize are unlikely to see as significant a tax savings as they did in the past, because many deductions—including alimony payments and unreimbursed business expenses—were reduced or eliminated as part of the TCJA.)

That said, many taxpayers subject to the standard deduction can still benefit from their charitable donations, so long as they go about it in a slightly more methodical way.

The downside

“Most people who give don’t do so in order to get something in return—they’re philanthropically inclined,” Kim says. “So to build some flexibility into your plan, you may wish to set up a donor-advised fund account, which allows you to donate a lump sum in the current tax year, invest the funds for future growth and parcel out the money to qualified charities over time.”

To offset the loss of their charitable tax deduction, they decided to hold off on their 2018 cash contribution and bundled two years’ worth of charitable donations—$20,000—in 2019. Adding in their $9,000 in other deductions will exceed the standard deduction of $24,400 in 2019, allowing them to itemize and capture a significant tax savings.

Of course, bundling multiple contributions into a single year can feel daunting if you’re not sure how much you want to give and to whom.

What’s more, the money can continue to appreciate once invested in a donor-advised fund account, which means the potential for even greater giving down the road.

The joys of bundling

Essentially this means combining perhaps several years’ worth of donations into a single tax year so that—along with your other deductions—you exceed the standard deduction. (You’d take the standard deduction in the interim years.)

For example, imagine a couple who earmarked $10,000 for charity in 2018. That plus the rest of their donations added up to $19,000—for far more than the standard deduction of $12,700 in 2017 but far less than the post-TCJA standard deduction of $24,000 in 2018.

To offset the loss of their charitable tax deduction, they decided to hold off on their 2018 cash contribution and bundled two years’ worth of charitable donations—$20,000—in 2019. Adding in their $9,000 in other deductions will exceed the standard deduction of $24,400 in 2019, allowing them to itemize and capture a significant tax savings.

Of course, bundling multiple contributions into a single year can feel daunting if you’re not sure how much you want to give and to whom. To build some flexibility into your plan, you may wish to set up a donor-advised fund account, which allows you to donate a lump sum in the current tax year, invest the funds for future growth and parcel out the money to qualified charities over time.

These accounts also make it easier to donate bonds, exchange-traded funds, mutual funds, stock and other investments—and potentially deduct the full fair market value without having to pay tax on any capital gains.

“For a lot of charities, it’s very cumbersome to receive a share of stock here and a share of stock there—and some aren’t equipped to accept such gifts at all,” Kim says. “Donating appreciated assets to a donor-advised fund, the standard deduction, tax rates have

But to taxpayers, the charitable deduction is perhaps the most flexible. Donors can control the amount, timing and type of donations in order to maximize their impact—to both the charity and themselves. “To give may be better than to receive,” Kim says, “but that doesn’t mean you shouldn’t take full advantage of the tax code.”

Learn more about maximizing your charitable impact with Schwab Charitable’s donor-advised fund account at schwabcharitable.org.

TCJA takeaways

Upsides

Standard deduction for single filers:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$6,350</td>
</tr>
<tr>
<td>2019</td>
<td>$12,200</td>
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</table>

Standard deduction for married couples filing jointly:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$12,700</td>
</tr>
<tr>
<td>2019</td>
<td>$24,400</td>
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Deductible cash contributions taxpayers can make to charities:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>50% adjusted gross income</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>60% adjusted gross income</td>
<td></td>
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See page 42 for important information. • This article addresses gifts of appreciated non-assets that have been held for more than a year. The tax deduction, for those who itemize, for noncash gifts to a public charity or donor-advised fund account may be used to offset up to 30% of adjusted gross income and can be carried forward for five years. The donor must file IRS Form 8283 when claiming an itemized deduction for contributed securities valued at greater than $500. For gifts other than cash and publicly traded securities in excess of $5,000 ($10,000 for closely held stock), the donor must also obtain a qualified appraisal. • Donors should consult with their tax adviser to determine the appropriate holding period. Under the Tax Cuts and Jobs Act of 2017, carried interest income from investments held for less than three years may be taxed as a short-term capital gain. • Gifts of appreciated property can be one of the most attractive tax planning and financial planning incentives of our time. The above article is meant only to be a general overview of some of the considerations and is not intended to provide tax or legal guidance. Please consult with your tax adviser. • Schwab Charitable is the name used for the combined programs and services of The Charles Schwab Foundation, an independent nonprofit organization. The Schwab Charitable Fund has entered into service agreements with certain affiliates of The Charles Schwab Corporation. (1119-98HCD)

Maximum control

Of all the itemized deductions available to taxpayers, the charitable deduction is perhaps the most flexible. Donors can control the amount, timing and type of donations in order to maximize their impact—to both the charity and themselves. “To give may be better than to receive,” Kim says, “but that doesn’t mean you shouldn’t take full advantage of the tax code.”

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Next steps

Percentage of households that itemized their charitable contributions:

<table>
<thead>
<tr>
<th>Year</th>
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<tbody>
<tr>
<td>2017</td>
<td>21%</td>
</tr>
<tr>
<td>2019</td>
<td>9%</td>
</tr>
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Next steps

Percentage of households that itemized their charitable contributions:

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<td>9%</td>
</tr>
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</table>
Investment Income Summary Reporting

Knowing how much income your investments generate each month is essential for everything from paying your bills and expense planning, to assessing whether your mix of assets is performing as intended. Unfortunately, tallying up all the dividend and interest income across your accounts can be a challenge.

Or at least it was.

At Schwab, you no longer have to scan through each position and manually make note of your monthly earnings. Now when you log into schwab.com, you can see a summary of your investment income from dividends and interest across all of your Schwab portfolios.

Click Investment Income on the drop-down menu on the Accounts Summary page to view:

Received income that you've already received in the form of interest and dividends, which you can transfer to a bank account or automatically reinvest in your portfolio.

Estimated income you could potentially receive over the coming 12 months, based on the income-generating potential of the securities you own now.

You can also choose the accounts you want to see in the investment income chart and customize the display by setting up groups, creating nicknames and more.

The example is hypothetical and provided for illustrative purposes only.

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NEXT STEPS
Log in to your account and take the tour on the Investment Income tab to learn more.
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- Interactive planning tools that help you see how things like unexpected life events, inflation, market cycles and more could impact your goals—and how you can stay on track.

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- Pay a one-time planning fee of $300, and just a $30/month advisory fee after that for unlimited guidance.
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What else you should know

We believe cash is a key component of an investment portfolio. Based on your risk profile, a portion of your portfolio is placed in an FDIC-insured deposit at Schwab Bank. Some cash alternatives outside of the program pay a higher yield. See more information below.*

Next Steps

Learn more and enroll at schwab.com/portfoliospremium.

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Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

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How does it work?
The tool helps you create a portfolio of funds using Schwab’s asset-allocation models. These models help you determine an appropriate allocation across various asset classes, based on your financial goals, risk tolerance and time horizon.

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1. Choose the account in which you want to build your portfolio.
2. Select your fund preference. You can build an all-ETF portfolio or all-mutual-fund portfolio—and choose taxable-bond funds or municipal-bond funds.
3. Select your risk tolerance, ranging from conservative to aggressive.
4. Specify your initial investment. There is no minimum, but we suggest at least $5,000 to ensure proper diversification.
5. Choose from a selection of funds within each asset class and click “Trade” to complete your portfolio.

Create a customized portfolio of mutual funds or exchange-traded funds (ETFs) in just a few clicks.

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I’d like to initially invest $5,000.00.
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U.S. Large Cap Funds

How does it work?

How do I get started?

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Pg. 16-17, 30–33: The Schwab Center for Financial Research is a division of Charles Schwab & Co., Inc.

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1 Source: Lipper as of 6/30/19, based on Class A shares at NAV and Class A assets. Keep in mind that a high relative ranking does not always mean the fund achieved a positive return during the period. Lipper rankings do not take into account sales charges and are based on historical total returns, which are not indicative of future results.

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In the late 1990s, it became clear to me that investors needed a tool to help streamline their charitable giving. Our clients needed a solution that allowed them to approach their philanthropy as thoughtfully and effectively as they did their investments and savings.

So, in 1999 we established Schwab Charitable, a national donor-advised fund and independent public charity that helps clients maximize their giving through tax-efficient planning. Using their Schwab Charitable accounts, donors can contribute cash and appreciated assets they’ve held for more than one year, invest the proceeds for growth, and recommend grants to their favorite charities via an easy-to-use online platform. You can read more about using a donor-advised fund on page 34.

The impact our clients have made over the years is profound. Since Schwab Charitable’s inception, donors have given $13 billion to 150,000-plus charities worldwide. If you’re looking for a simple, tax-smart approach to your philanthropy, learn more about Schwab Charitable at schwabcharitable.org. We’d be happy to help you define your charitable mission and support the causes you care about most.

Charles R. Schwab
Founder & Chairman

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