Vanguard Charitable

save *to* give

managing and investing assets
to maximize philanthropic potential

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Individuals can opt to give to charity in a variety of ways, and therefore, they are able to make decisions on "how" and "when" to give based on their personal timetables, income and tax needs, funding abilities, granting preferences, and end objectives.

In contrast, many individuals believe that the decision of "how much" to give is fixed and dependent primarily on current cash flows. By viewing giving through that lens, it becomes an afterthought, a good deed for when all of our other expenses are exhausted. As a result, we are not maximizing our potential to positively influence nonprofit organizations and the causes they represent.

Imagine, instead, if we approached philanthropy the same way we approach funding our retirement account, a child's college education, or any major expense: With a budget and a plan. Imagine if our cash flows were managed more effectively to meet both our short- and long-term charitable goals.

Consider if your charitable impact would increase, and if so, how substantially.

In this paper, through three scenarios, we highlight how individuals at different stages of their lives, with varying granting goals, contribution timelines, and spending patterns, are able to give significantly more money to nonprofit organizations by following a savings plan. While unalike in many ways, all three plans include carving $500,000 out separately from an overall financial portfolio, investing it according to specific and very personalized goals, and then allowing time for it to grow and meet current and future charitable needs.

After reviewing these plans, we invite you to reflect on how you approach philanthropy and whether a fresh outlook—with a budget, dedicated savings plan, and investment strategy—could influence your total impact.

Saving with a donor-advised fund

While donors have a variety of tools available to help them save to give to charity, including private foundations, personal accounts, and trusts, in the context of this paper, "saving" means preserving assets in an account held at a donor-advised fund (DAF). A DAF is a tax-effective and strategic way to consolidate and grant assets to charity. Through access to a DAF's underlying investment funds, charitable contributions can grow, helping donors make a greater impact over time. For a complete listing of the assumptions made in the following scenarios, see the endnotes.[1]

Influence of the tax deduction

We recognize the catalyst to a significant portion of charitable giving is the resulting tax deduction. In fact, an individual experiences additional savings, aside from those noted in this paper, by gifting assets to a donor-advised fund, claiming a tax deduction, and watching the assets accrue tax-free—as opposed to holding them in a personal investment account and paying tax on the dividends or interest.

Due to shifting tax laws and the complexities involved with each individual's financial portfolio, we did not account for the tax deduction in this paper's scenarios. However, we encourage potential donors to consider the additional positive impact a charitable donation and resulting deduction will have on their overall financial portfolio—and how much more efficiently and effectively they will achieve their charitable goals.

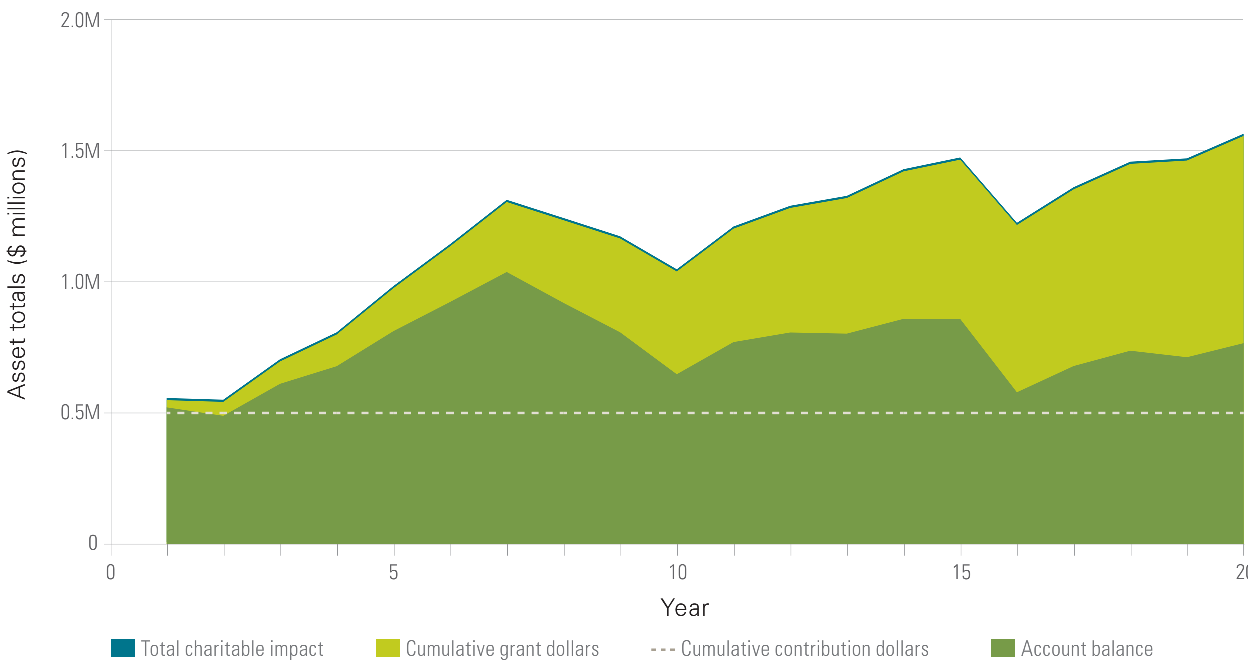
Scenario 1:

Save to give in perpetuity and pass charitable legacy to heirs

Years to save	20
Contribution	$500K (one initial donation)
Annual grant	5% of account balance
Asset allocation	80% Stocks 20% Bonds
Target return	5% + inflation
Actual average return[2]	8.13%

An individual with children experiences a financial windfall and, to mitigate the tax situation, makes a one-time contribution to a donor-advised fund. The individual annually supports three favorite charities and will continue to do so with his new philanthropic account. However, he is not simply interested in "spending" account assets; he is also interested in growing them and passing his account privileges to his children as named successor-advisors. He hopes that by involving heirs in his current charitable activities, they will be motivated to build on his charitable legacy and fulfill his wish to positively impact society in perpetuity.

Giving and account activity over 20 years[3]



Since this donor will not be replacing funds as they are granted, he needs to ensure his recommended investment strategy allows him to maintain his granting preferences and preserve his long-term giving legacy.

Scenario commentary

The individual is an avid giver, granting to charity about 5% of his account balance every year in continued support of his favorite charities. To allow him to maintain these granting patterns over the long term, while still tracking toward his goal of intergenerational philanthropy, his account is aggressively targeting a return of 5% plus inflation.

To achieve this higher return, the donor recommended his account assets be invested in 80% stocks and 20% bonds. The donor should be aware that a higher level of risk is associated with this allocation, and in some years, his account may experience significant volatility. However, if he continues to allow the majority of charitable assets to accrue and recommends grants only from account growth, the account should remain liquid enough to maintain the granting activity and withstand the dips—all while preserving the principal balance for his children to grant to charity.

Total after 20 years

Total charitable impact[4]	$1,557,017
Cumulative grant dollars	$790,626
Cumulative contribution dollars	$500,000
Account balance	$766,390

If this individual did not save to give, he would need to contribute more than **$1.5 million** up front, or more than **$77,000** a year, to have the same charitable impact.[5]

Scenario 2:

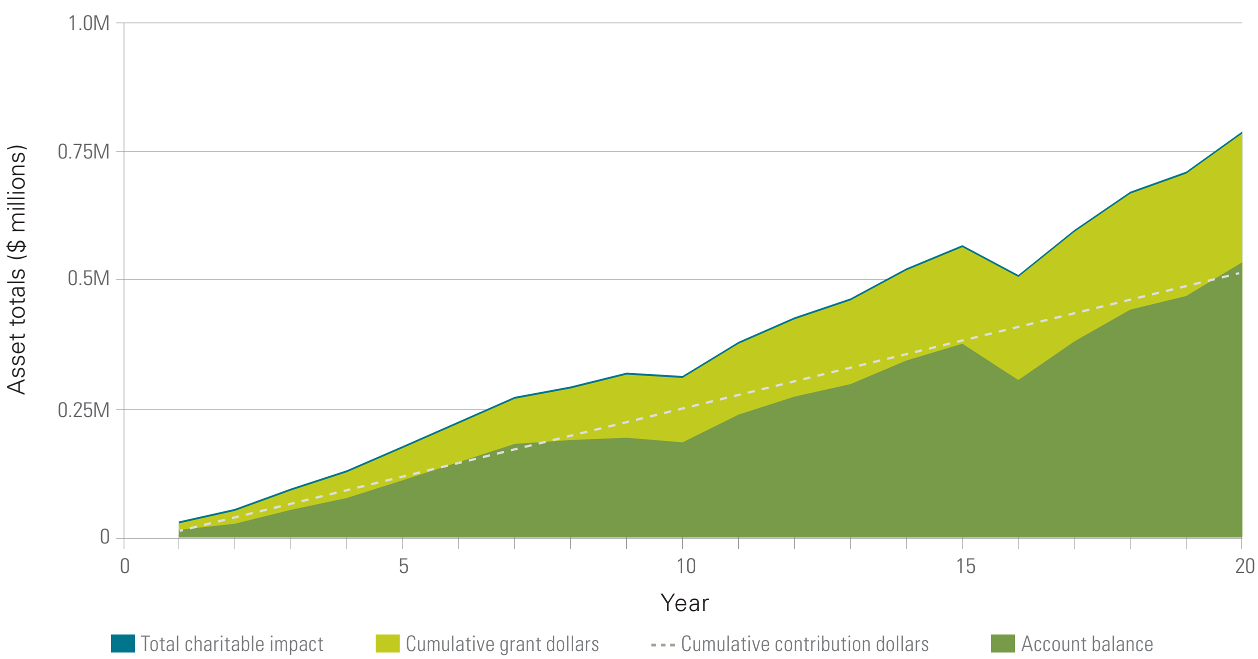
Save to give a large, one-time gift to charity

Years to save	20
Contribution	$25K annually
Annual grant	50% of annual contribution
Asset allocation	 60% Stocks 40% Bonds
Target return	4% + inflation
Actual average return[2]	7.86%

An individual is actively involved in her community; she volunteers weekly and gives regularly to address the needs of local organizations. In the future, she is interested in consolidating her contributions and making a larger, one-time $500,000 gift to build a park in her hometown—but she doesn't want to neglect her other favorite causes as a result.

Since this donor will be rapidly granting 50% of her contributions every year in order to maintain her current levels of giving, yet hopes to save approximately $500,000, she needs to recommend an investment strategy that allows the remaining account balance to grow on an annual basis.

Giving and account activity over 20 years[3]



Scenario commentary

The individual is a steady, reliable donor to both her philanthropic account and charity, granting half of her annual contributions to nonprofit organizations every year. To maintain this balanced approach to giving, while still tracking toward her $500,000 goal, her account is targeting a moderate return of 4% plus inflation.

To achieve this return, the donor recommended her account assets be invested in 60% stocks and 40% bonds. The level of risk associated with this allocation is fairly moderate, and as she continues to contribute regularly to the account, it should be sufficient to support her goal. In the formative saving years, the donor should be aware market fluctuation could potentially minimize an already low account balance. While this could certainly impact her end goal, a low account balance could also result in additional account fees at some DAF organizations. However, maintaining a long-term perspective will best enable this individual to meet her charitable objectives.

Total after 20 years

Total charitable impact[4]	$784,043
Cumulative grant dollars	$250,000
Cumulative contribution dollars	$500,000
Account balance	$534,043

If this individual did not save to give, she would need to contribute more than **$39,000** a year—**$14,000** more than she is giving annually now—to have the same charitable impact.[5]

Scenario 3:

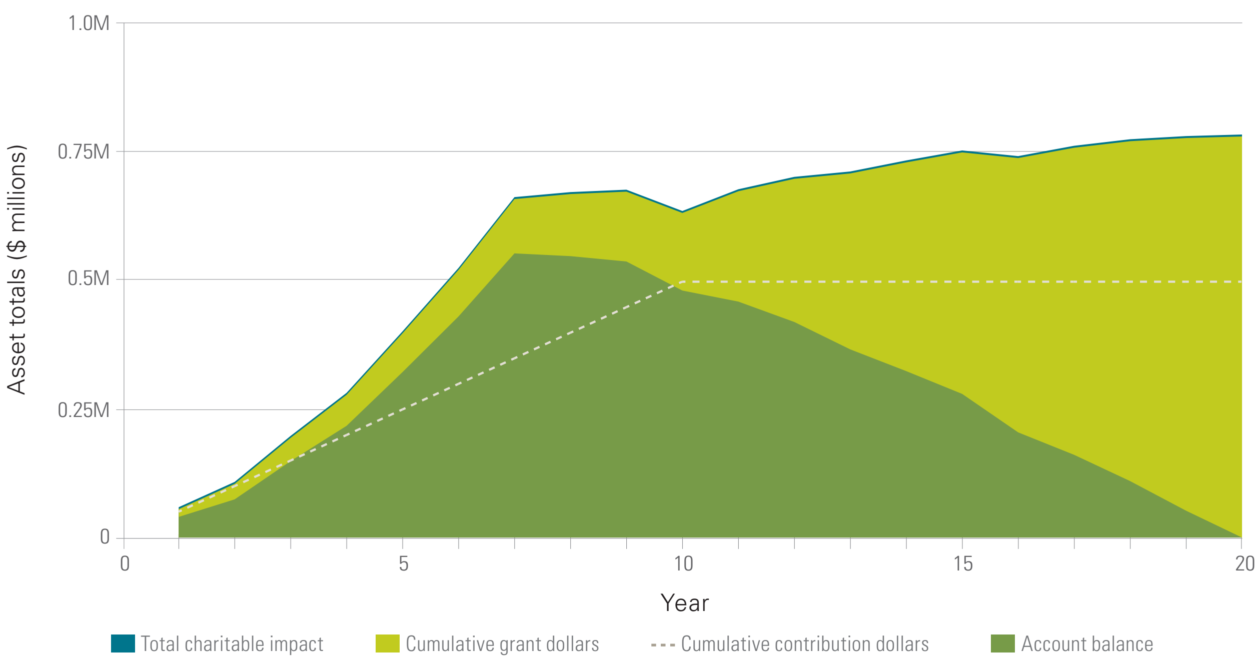
Save to give to charity in retirement

Years to save	20	
Contribution	$50K (first 10 years only)	
Annual grant	$15K/year for first 10 years Equally grant remaining balance over next 10 years	
Asset allocation *first 10 years*		80% Stocks 20% Bonds
remaining 10 years		20% Stocks 80% Bonds
Target return	3% + inflation	
Actual average return[2]	8.62% (first 10 years) 5.94% (remaining 10 years)	

An individual is nearing his target retirement age and only has 10 years left to work and enjoy a steady income. He organized his financial plans many years ago to ensure he can maintain his living standards when he is no longer working, but he is just starting to consider what retirement will mean for his philanthropy. He knows he wants to maximize his charitable impact while he is alive, but can he give at the same level he did while working?

Since the donor has chosen to only contribute to his account for 10 years before steadily granting all remaining funds to charity, he needs to recommend a balanced investment strategy that allows first for account growth and then preservation later on.

Giving and account activity over 20 years[3]



Scenario commentary

The individual's goal is not simply to exhaust his account but to maximize impact within the budget constraints he established while working and contributing. He is committed, despite a major life change, to using every charitable dollar effectively in his lifetime. In order to prefund the account, maintain regular giving patterns, and then grant everything away, his account is targeting an average return of 3% plus inflation—with the intention of earning higher returns in the first 10 years.

To achieve this return, the donor recommended his account assets be invested in 80% stocks and 20% bonds for the first 10 years, and then switched to 20% stocks and 80% bonds for the remaining years. The intention is to grow the account aggressively while contributing, and then when preservation is desired, change the allocation to assume less risk. Thanks to early planning, in this scenario, the donor is able to grant more than $60,000 a year in retirement.

Total after 20 years

Total charitable impact[4]	$775,205
Cumulative grant dollars	$775,205
Cumulative contribution dollars	$500,000
Account balance	$0

If this individual did not save to give, he would need to contribute an additional **$27,520** every year after he retired to have the same charitable impact.[5]

Conclusion

Individuals can choose to give to charity in a variety of ways, and therefore, they have just as many ways to make an impact. Consider your personal contribution time frames and granting objectives, and take steps to ensure charitable assets are being managed and invested effectively to accomplish both your current and long-term philanthropic goals.

Notes

[1] In the three scenarios, the following assumptions were made:

- All investments are subject to risk. Past performance does not guarantee future returns. Diversification does not ensure growth or protect against a loss in a declining market.
- All contributions are made as charitable donations to a philanthropic account held at Vanguard Charitable's donor-advised fund. No startup costs are incurred, but accounts are charged an annual administrative fee based on balance: 0.60% for the first $500,000 and 0.45% for the remaining balance. Pricing will continue to decrease as account balance increases.
- All account assets are invested in a mix of underlying Vanguard® mutual funds, which assess an expense ratio. Expense ratios are assessed by the underlying funds and may vary based on account allocation and status; Vanguard Charitable does not itself charge investment fees.
- Many donors contribute to a DAF at year-end and then start recommending grants in the following year. To represent a standard accrual time in the scenarios, contributions are counted on January 1 and grants are issued on December 31 of the respective year.
- Invested assets are rebalanced monthly to match recommended allocations. The allocations in the paper are suggestions, and donors are encouraged to diversify their investment recommendations to take advantage of a broad range of investment options, including international and domestic and across major asset classes.

[2] Actual average return is calculated as a time-weighted return annualized over a 20-year period.

[3] Net performance is based on actual returns of the Investor share class of Vanguard Total Stock Market Index and Vanguard Total Bond Market Index Funds from January 1993 through December 2012. Performance returns reflect market movement, reinvestment of dividends/interest and capital gains, and deduction of the underlying fund's expenses.

Vanguard Total Stock Market Index Fund benchmark: Spliced Total Stock Market Index reflects the performance of the Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter.

Vanguard Total Bond Market Index Fund benchmark: Spliced Barclays U.S. Aggregate Float Adjusted Index reflects the performance of the Barclays U.S. Aggregate Bond Index through December 31, 2009, and Barclays U.S. Aggregate Float Adjusted Index thereafter.

[4] "Total charitable impact" is the summation of total dollars granted and total amount remaining in the account (less administrative or investment fees). By nature of a DAF, all assets held in an account are restricted to supporting charitable causes and organizations.

Returns and total values are reflected in nominal U.S. dollars. When adjusted for inflation, "total charitable impact" still significantly exceeds the initial contribution value. For a real dollar comparison, see the chart below.

Total charitable impact (numbers adjusted for inflation)

	Nominal value	Real value		
	2012	1 year earlier	5 years earlier	10 years earlier
Scenario 1	$1,557,017.32	$1,524,992.48	$1,406,519.71	$1,220,233.01
Scenario 2	$784,043.72	$767,917.46	$708,259.91	$614,454.33
Scenario 3	$775,205.92	$759,261.43	$700,276.35	$607,528.15

[5] This is an estimated value, assuming the value of the contribution is not invested elsewhere to accrue and is experiencing little to no growth. The actual value may differ from this example due to investment choices and tax law.

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