

DONOR-ADVISED FUNDS



A donor-advised fund can be an efficient, simple, and flexible way to give to charity while enjoying the tax benefits and avoiding the cost and administrative burden often associated with private foundations.

Many of our Trust clients have embraced the idea of giving during their lifetime, as opposed to bequeathing funds to charity after death. They enjoy watching charitable organizations that are close to their hearts benefit now from their generosity. As such, our Trust group has created a program to help you plan your lifetime giving.

HOW OUR PROGRAM WORKS

The Generations in Giving program is a donor-advised fund sponsored jointly by Wintrust Wealth Management's Trust organization—The Chicago Trust Company, N.A.—and The Chicago Community Foundation. The Chicago Community Foundation is an affiliate of The Chicago Community Trust, a \$1.8 billion community foundation, which has worked to improve the quality of life in the Chicago area and has provided charitable giving services since 1915.

Generations in Giving offers an efficient, simple, and flexible way to manage charitable giving. You can establish a donor-advised fund with us for an initial contribution of \$25,000. This document outlines how to establish a Generations in Giving fund and how to use the fund to make grant and investment recommendations. It contains important information concerning tax and estate planning aspects of the program, which you should consider when deciding to make a gift. Because a gift to the Generations in Giving program is irrevocable, it is strongly recommended that you consult your personal tax advisor before establishing a donor-advised fund.

WHAT IS A DONOR-ADVISED FUND?

A donor-advised fund is a charitable giving vehicle administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family, or individual. A donor-advised fund offers the opportunity to create an easy-to-establish, low cost, flexible vehicle for charitable giving as an alternative to direct giving or creating a private foundation. Donors enjoy administrative convenience, cost savings, and tax advantages by conducting their grant making through the fund. These types of funds are the fastest growing charitable giving vehicle in the United States, with more than 125,000 donor-advised accounts established, holding over \$27 billion in assets.

Because the fund is housed in a public charity, donors receive the maximum tax deduction available, while avoiding excise taxes and other restrictions imposed on private foundations. Further, donors do not incur the cost of establishing and administering a private foundation, including staffing and legal fees. In order to ensure the maximum charitable deduction, it is necessary for the Chicago Community Foundation to own and control the funds contributed. The donor can advise the Foundation as to the disposition of the funds. As such, they are not legally bound to the donor, but make grants to other public charities upon the donor's recommendation. Most foundations that offer donor-advised funds will only make grants from these funds to other public charities, and will usually perform due diligence to verify the grantee's tax-exempt status.

The Generations in Giving Program allows you to establish a component fund of The Chicago Community Foundation. When you contribute to your fund you are, for tax purposes, making a contribution to the Chicago Charitable Foundation, which then owns the cash or securities that you contribute. However, by making

this contribution through the Generations in Giving program, you are able to remain involved and recommend grants from the fund as a Donor Adviser. You also have a voice in determining how your contribution is invested.

COMPARED TO A PRIVATE FOUNDATION

A donor-advised fund is often compared to a private foundation, another vehicle for making lifetime grants to charity. A private foundation is formed by a family or an individual who must then apply for tax-exempt status with the IRS. A donor-advised fund can be established through our Generations in Giving program by completing a simple Donor Application and Agreement. Contributions to a private foundation are deductible up to 30% of a donor's adjusted gross income (AGI) for cash and 20% AGI for appreciated securities. A contribution to a donor-advised fund is a contribution to a public charity; therefore, the deduction limitations are higher. A donor may take a deduction for the full fair market value of his or her gift up to 50% AGI for cash and 30% AGI for appreciated securities.

The below table highlights some of the other critical differences between a Generations in Giving fund and a private foundation.

WHAT TO DONATE

Generations in Giving accepts both cash and securities, and which is most beneficial for you to contribute depends on your particular situation. A donation of cash is immediately deductible, as noted earlier, up to 50% of your adjusted gross income (AGI). A donation of securities is also deductible immediately, but only up to 30% of your AGI. However, if you have highly appreciated securities, there is an additional benefit of donating them to the Generations in Giving program. You can obtain a deduction, up to 30% of AGI, for the full fair market value of the securities at the time of the donation. This means that you pay no capital gains tax and still receive a deduction equal to the full fair market value of the securities donated, making a donation of appreciated securities particularly valuable. Remember that your donation will be based upon the market value on the day of your donation, not the price for which the securities may ultimately be sold. Also, any deduction amount which exceeds the percentage limitation of 50% or 30% AGI in the year of the donation can be carried forward for five years. Finally, you should consult your tax advisor when deciding whether a donor-advised fund is right for you, and which type of asset is most beneficial for you to contribute.

Generations in Giving vs. Private Foundations

	GENERATIONS IN GIVING	PRIVATE FOUNDATION
Donor Control	Donor (individual, committee, or family) makes advisory grant recommendations, subject to Chicago Community Foundation approval	Donor or family retains complete control over investments and grant making
Family involvement	High	High
Mandatory distributions	5% annual grant recommended, but not required	Annual 5% distribution required
Grant-making management	Provided by the Chicago Community Foundation	Must establish internal controls and/or outside services
Annual costs	See program fees and expenses	Administration can be costly
Annual taxes	None	Excise tax of 2% of net investment income including net capital gains
Annual tax filings and administration	Provided by the Chicago Community Foundation	Form 990-PF must be filed with IRS; additional filings required in some states
Investments	Program assets are professionally invested by Wintrust Wealth Management's Asset Management group, Great Lakes Advisors	Must research and secure its own investment vehicles or hire outside managers

TAX EFFICIENCY EXAMPLE

Suppose you have 1,000 shares of stock that you purchased 15 years ago for \$10 per share and it is now worth \$100 per share. Now, let's compare the cost to the donor of making a contribution of \$100,000 to a charity of your choice. We assume a 39.6% income tax rate and 20% long-term capital gains tax rate.

Thus, you can effectively contribute \$100,000 to the public charity of your choice for \$18,000 less in actual donor cost by using a donor-advised fund. This example does not acknowledge that the same tax advantage would be obtained if one were to donate the appreciated securities directly to a 501(c)(3) charity, whether it was a donor-advised fund or not, as the charity then sells the assets and the capital gains are avoided.

OPTION 1: Contribute Cash From Sale of Securities

Immediate Cost of Donation	\$100,000
Capital gains tax incurred	\$18,000 (20% of \$100,000-\$10,000)
Income tax saved	\$39,600 (39.6% of \$100,000)
Net cost to donor	\$78,400

OPTION 2: Contribute Appreciated Securities

Immediate Cost of Donation	\$100,000
Capital gains tax incurred	\$0
Income tax saved	\$39,600 (39.6% of \$100,000)
Net cost to donor	\$60,400

A LEGACY OF GIFTING

Many people want to pass the habit of giving onto their children and involve the entire family in the grant making process. This is often cited as a significant reason for creating a private family foundation. However, you can establish the same family legacy with a donor-advised fund. At the time you establish your fund, you can name more than one Donor Advisor and you can name Successor Donor Advisors to act when you are no longer able to do so. Furthermore, you can name your fund as you would a private foundation. For example, you might entitle your fund "The Jones Family Charitable Giving Fund" and name yourself and your spouse as initial Donor Advisors and your children as Successor Donor Advisors, thereby involving them in the grant-making decisions as soon as they are old enough. As an alternative, if you want your children to be directly involved with you in making grant decisions, you can name them as additional Donor Advisors. The giving can continue after your death for another generation, after which the balance in your fund will be gifted to a charity or particular area of interest, which you can specify at the time you establish the fund or thereafter. If you do not specify a specific recipient, the remainder of the fund will be added to the unrestricted endowment of The Chicago Community Foundation to support its charitable work in the Chicago community.

GETTING STARTED

To establish a donor-advised fund through our Generations in Giving program, you will need to complete the Donor Application and Agreement. This includes designating your Donor Adviser(s), Additional Donor Adviser(s), if you wish, and Successor Donor Adviser(s). In addition, you may name your fund and set your initial investment allocations. Note that the minimum initial contribution to establish the fund is \$25,000.

Please send your Donor Application and Agreement to:

Wintrust Wealth Management
Attn: Ethel Kaplan
231 South LaSalle Street, 13th Floor
Chicago, Illinois 60604

Cash contributions may be made by check. In order to donate securities, please contact Ethel Kaplan at 312.431.6599 or ekaplan@wintrustwealth.com for complete transfer instructions.

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