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# GUIDE TO CHARITABLE GIVING

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Charitable giving is an important component of your overall financial plan. This guide will help you build a strategy for your charitable donations.



When you've accumulated significant wealth, you have the opportunity to make a lasting impact on your community and the causes important to you. In fact, in a recent Northwestern Mutual/Forbes survey 59 percent of high-net-worth Americans say that charitable giving is an important component of their overall financial plan.

While the specifics of your situation will vary, a well-thought-out charitable giving plan can help you build clarity around what's important to you and then help you identify the most efficient ways to give. This allows you to give with purpose and maximize your impact.

## Why a charitable giving plan is important

On the one hand, when you have significant means, there may be different charities, religious organizations or other nonprofits that are important for you to give to each year. Organizations may also directly solicit your gifts. If you're charitably minded, it can be easy to start writing checks and get to the end of the year without a full understanding of how much you have given. On the other hand, charitable giving can also be an important element of your estate plan. Often the biggest gifts will happen at death rather than during your lifetime.

A charitable giving plan enables you to think about your charitable gifts in the context of your overall financial plan and your life. It helps you identify your reasons for giving, the causes important to you and tax-efficient giving strategies. It enables you to be planful, efficient and purposeful with your charitable donations. At the end of the day, your charitable giving plan is the "secret sauce" that allows you to maximize your impact.

In the following sections, we propose key steps to developing your personal charitable giving plan. But as you build a charitable giving plan for you and/or your family, it's critical to keep your unique needs top of mind. Charitable giving is highly personal, and there is no one-size-fits-all approach. Based on where you are in your charitable giving journey, it's possible these steps will not occur sequentially, and some steps may not have a place in your plan at all. It's best to work closely with your financial advisor to build a charitable giving plan that is right for you.

59%

of all respondents indicate that charitable giving is an important component of their financial plan

91%

of Millennial respondents indicate that charitable giving is an important component of their financial plan

Source: Northwestern Mutual/Forbes survey of High-Net-Worth individuals 2021



# BUILDING YOUR CHARITABLE GIVING PLAN



## STEP 1: DEVELOPING YOUR CHARITABLE GIVING MISSION STATEMENT

You likely have a sense of the causes that are most important to you, your spouse and other family members who are involved in your plan. But going through an intentional exercise and answering a few simple questions can help you refine your thinking and identify your charitable giving mission statement. If you are giving as a family, be sure to include everyone in the process. Get started by asking yourself these questions:

- ✓ Why is charitable giving important to me?
- ✓ What kind of impact do I hope to have through my charitable donations?
- ✓ How do I want to be thought of or remembered in my community?
- ✓ Where can I make the most impact?
- ✓ Is it important to see the tangible results of my gift?
- ✓ How important is it to be recognized publicly for my gift?
- ✓ How important is it that I have a personal connection to the organization I am giving to?
- ✓ What kind of charitable planning values do I want to instill in my family?

Think about your answers to these questions. Run those answers by your personal board of directors, family members (whether directly involved in your efforts or not), financial advisor and others, and use their feedback to help shape your thought process. In the end, the goal is to craft a concise but highly meaningful mission statement – not dissimilar to a corporate or non-profit mission statement.

Going forward, your mission statement should serve as your “north star” to help guide your charitable endeavors. Don’t worry if it’s not perfect. You can – and should – treat your mission statement as a “living” statement that can grow and evolve as you put it into application.







## STEP 2: IDENTIFYING CAUSES

After crafting your mission statement, it's time to think about the core causes you and other family members involved in your charitable giving care about most. Depending on the scope of your mission statement, we have found it best to focus on two to five key causes. If you end up with more than that, consider revisiting your mission statement, as it could be too broad. Alternatively, your causes might be too specific.

Even when you're giving a significant amount, focusing your efforts can help better maximize the impact of your gifts. Ask yourself these questions to help identify your key causes:

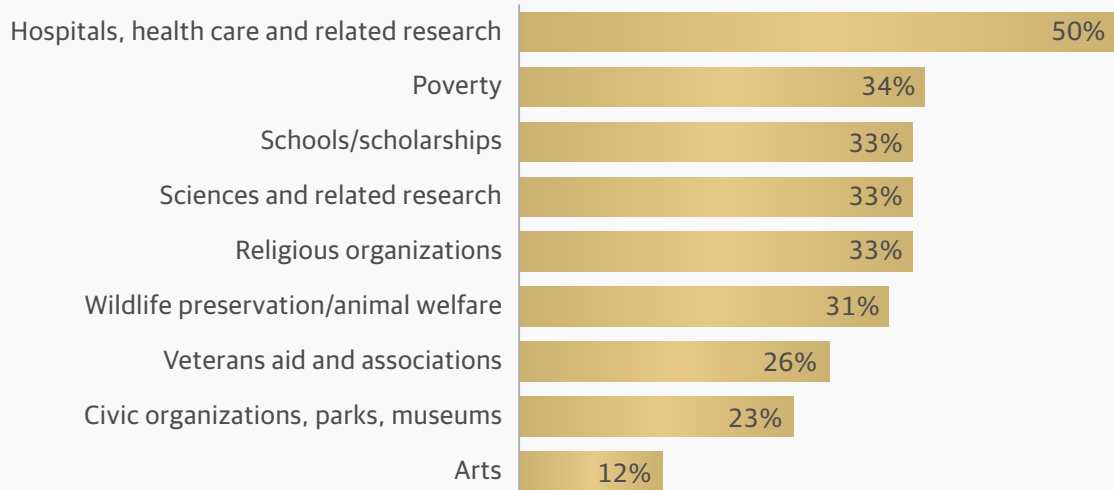
- ✓ What are my core values?
- ✓ What do I cherish most in my life?
- ✓ What has special meaning to me or brings me joy?
- ✓ What organizations have had the most impact on my life?
- ✓ What life events have shaped the person I've become?
- ✓ Who has influenced my life the most?
- ✓ What resources that others may not have access to have benefited me?
- ✓ Is there a population or geographic area I'd like to help elevate?
- ✓ Is there an underfunded cause I care about in which I can make a big impact?
- ✓ Will I want to contribute to yet-to-be-formed organizations or help those impacted by unforeseen events (like natural disasters, pandemics, wars, etc.)?

Your answers to these questions should help you focus on the causes you want to support. As with your charitable giving mission statement, discuss these answers with family members (whether directly involved in your giving efforts or not), your financial advisor and other important people in your life. As part of this exercise, think about whether supporting timely causes (like the victims of natural disasters or wars) and newly formed organizations is important to you. If so, how might you incorporate these giving opportunities into your plan?

Once you have a solid working list of causes, it's time to prioritize. Consider bringing your financial advisor into this process for added perspective as you identify which causes are the most important and whether they support your charitable mission statement. If they don't, does your mission statement need to be broadened or otherwise adjusted? Or is the cause simply not a great fit for your charitable mission?



## ORGANIZATIONS MOST LIKELY TO CHARITABLY SUPPORT (RANKED AS 1, 2 OR 3)



Source: Northwestern Mutual/Forbes survey of High-Net-Worth individuals 2021



## STEP 3: EVALUATING THE BEST CHARITIES TO DONATE TO

While you may already have some ideas about the charities you want to support, it's also important to seek input from your friends and family members as well as your financial advisor. Their insight may bring forth additional ideas you've not previously considered. Once you've identified a list of potential charitable candidates, it's time to narrow it down. To get started, consider these four steps:

### 1 Establish the organization's legitimacy.

Some charities on your list may be well-known, and others may be smaller, lesser-known entities. Regardless, you'll want to start by verifying that the organization is legitimate. First and foremost, all nonprofits must register with the IRS, and many are required to provide financial information on a Form 990. If available, the completed Form 990 should be recent and easily accessible on the organization's website, as should the organization's annual report if they publish one. Together, these documents can help establish the organization's legitimacy and shed light into how the organization is spending donors' money, and you'll want to be sure you are comfortable with that.

### 2 Use available online charity evaluation tools.

There are numerous online tools to help you vet charities. Each has its own method of evaluating charities that may include things like financial stewardship, transparency, recent news stories and/or analysts' notes. The following are some well-known and respected resources:

- The Better Business Bureau's [Wise Giving Alliance](#)
- [CharityWatch](#)
- [Charity Navigator](#)
- [GuideStar](#)

You might also like: [How Do You Evaluate a Charity Before Giving? | Northwestern Mutual](#)

### 3 Do your own investigation.

While legitimacy, basic financial health and validation by third-party tools may constitute sufficient vetting for less significant contributions, when making a sizeable donation you'll want to investigate further. To get started, consider these questions:

- ✓ Does the organization's mission align with your charitable goals?
- ✓ How is the organization performing?
- ✓ Who is leading the organization?
- ✓ What is the organization's reputation?
- ✓ Who are the other major donors?

### 4 Interview the leadership team.

For substantial charitable donations, interviewing the organization's leadership team is an important part of the vetting process. Before reaching out to request a meeting, be sure to bring your financial advisor into the mix. This is a perfect opportunity to leverage this person's knowledge of the financial world to uncover potential financial red flags during the meeting. Additionally, you'll want to get a sense for how well the organization's operations are organized, what staff and leadership turnover have looked like in the past, year-over-year donor retention, how your donation can be best used (more on that later), and other key indicators that provide you with confidence in your charitable donation decision.



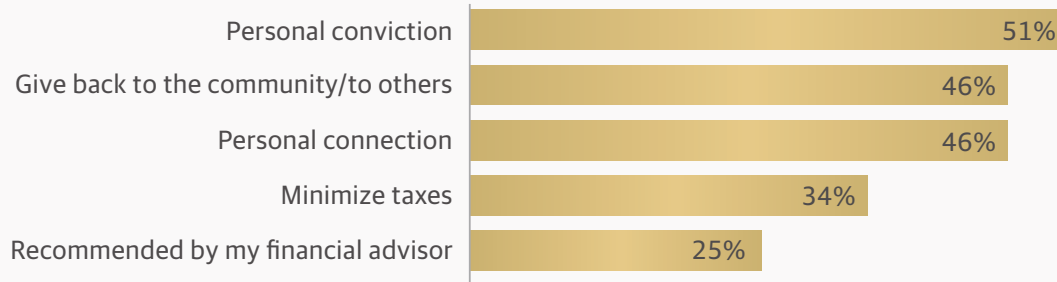




## STEP 4: MAXIMIZING YOUR IMPACT

From our survey results, it's clear that while most Americans give due to their personal conviction, desire to give back to the community and personal connections, taxes still play an important role in giving. In fact, minimizing taxes is a key method of enabling efficient charitable giving and maximizing your impact. For this reason, after identifying the charities you want to support, it's time to think about what sources will fund your charitable giving as well as the tools to help you give efficiently.

### WAY(S) CHARITABLE GIVING ARE IMPORTANT



Source: Northwestern Mutual/Forbes survey of High-Net-Worth individuals 2021



Here are some common tools and tax-efficient strategies people use to maximize the impact of their charitable giving.

## Tax-efficient funding sources for charitable donations

First, let's take a look at potential funding sources for your charitable donations that offer key tax advantages:

### PERMANENT LIFE INSURANCE POLICIES

#### STRATEGY

Do you know you can donate your permanent life insurance policy to a charitable organization? Donating a permanent life insurance policy to charity can be an excellent tool for making a large charitable donation.

#### TAX ADVANTAGES

Ultimately, your annual premiums can translate into a substantial payout upon death. Whole life insurance policies also have cash value that charities can access while you're still alive. What's more, your donations (in this case the money you use to pay life insurance premiums) are tax deductible if the organization owns the policy. Ultimately, this tax benefit reduces your costs, offering you an opportunity to further maximize your impact.

You can also name a charity as a beneficiary on your policy. This may be worthwhile should your family members not have a financial need for the death benefit or if you are looking for ways to help reduce your taxable estate.

You might also like: [Donating Your Life Insurance to Charity: Here's What You Should Know | Northwestern Mutual](#)

### HIGHLY APPRECIATED STOCKS

#### STRATEGY

If you're like many high-net-worth Americans, you probably own stock. Donating stocks can be another great way to maximize impact. If you own a highly appreciated stock with a low cost basis, rather than selling the stock (and owing tax), you can donate the stock in-kind to the organization.

#### TAX ADVANTAGES

The advantage is you'll pay no capital gains tax while potentially giving a larger gift and getting the benefit of the charitable deduction based on the full value of the stock on the day of donation. Once you've donated the stock, the organization can then liquidate it and, because of the organization's tax-exempt status, pay no taxes on the gains.

### IRAS

#### STRATEGY

Are you forced to take required minimum distributions (RMDs) from your IRA beyond what you need to maintain your lifestyle? If so, these excess RMDs create higher taxable income, increasing your tax burden. But through qualified charitable distributions, or QCDs, you may have the opportunity to turn your RMDs into a tax-efficient giving mechanism instead.

#### TAX ADVANTAGES

QCDs enable you to give directly from your IRA to an organization while satisfying your RMD requirement and avoiding additional taxes from the distribution. If this is a tool you want to leverage, be sure to consult your financial advisor to learn whether the lifetime cap on QCDs will be applicable to your situation.

Additionally, an IRA can be an ideal gift to charity at your death. Most assets get a step-up in basis at death so beneficiaries can sell them when they want and owe less tax. However, funds from IRAs have to be withdrawn in a set number of years, and beneficiaries have to pay income tax on the withdrawals. By gifting an IRA to charity at death, all the income tax consequences are avoided, and the donation can help you reduce your taxable estate.

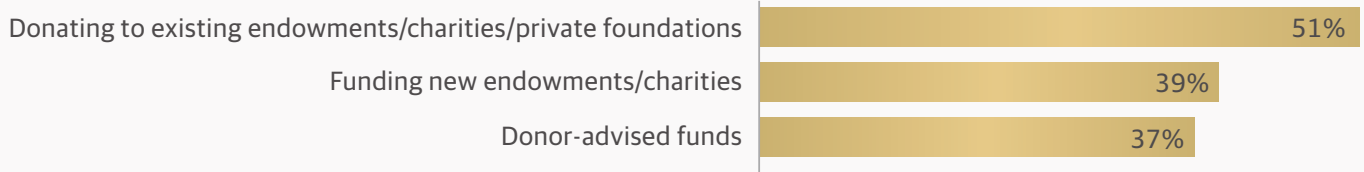




## Tax-efficient charitable giving vehicles

In addition to looking at the tax-efficient assets you have available to donate, it's also important to consider how you make your charitable donations. Let's take a high-level look at methods that may help maximize your impact:

### APPROACHES USED (EXTENSIVELY/OFTEN)



Source: Northwestern Mutual/Forbes survey of High-Net-Worth individuals 2021

## DONOR-ADVISED FUNDS

### STRATEGY

A donor-advised fund can be an effective strategy, particularly if you're looking for a large deduction in a single year. Essentially, you set up a grant-making account that is held by a public charity. Think of it as an investment account that is designed for the purpose of distributing your donations.

### TAX ADVANTAGES

You'll make tax-deductible donations to the fund, either all at once or over the course of time, depending on your needs (be sure to read the section on tax bunching later in this article). Then the charity administering the fund agrees to consider your desires for how the funds are invested and distributed. Donor-advised funds are often considered an alternative to private foundations.

## PRIVATE FOUNDATIONS

### STRATEGY

A private foundation is a charitable organization that you, your family or a group of select donors fund. You'll need to set up a board to oversee the foundation's donations, investments and distributions to charitable organizations. Private foundations are similar to donor-advised funds in terms of their purpose, but they offer donors more control.

### TAX ADVANTAGES

Private foundations do have some drawbacks. For example, they are also more expensive to administer, they don't allow for as large of a deductible donation as donor-advised funds do, and they come with stringent annual distribution requirements (money can sit in a donor-advised fund for years or even decades, depending on the charity's rules).

## SPLIT INTEREST CHARITABLE GIVING

### STRATEGY

Split interest charitable giving techniques allow you to gift assets to charitable organizations while retaining benefits from the assets for yourself or your beneficiaries.

### TAX ADVANTAGES

These sophisticated, high-level planning techniques aim to zero out the value of your retained interest in the property. Instruments for split interest planning can include charitable remainder trusts, charitable lead trusts, charitable gift annuities and charitable lead annuity trusts.

## TAX BUNCHING

### STRATEGY

Depending on your tax situation, tax bunching may help you be more tax efficient with your donations.

### TAX ADVANTAGES

The idea behind bunching is to give multiple years' worth of charitable donations in one year with the goal of exceeding the standard deduction that year. This strategy can work hand in hand with using a donor-advised fund or private foundation.

As you begin thinking about tax-advantaged funding sources and giving vehicles, it's important to work closely with your financial advisor and tax professional. Together, your advisory team can help you develop a strategy that meets your unique financial planning needs as well as the objectives of your charitable giving plan.

You might also like: [Tax Strategies to Maximize Your Charitable Giving Impact | Northwestern Mutual](#)

## Beyond tax: Giving as a family to maximize your impact

While tax strategy is one way to drive efficiency in your gifts, another great way to amplify your impact is by involving family in your charitable endeavors. If you are married, your spouse is likely already involved in the process, but you may also consider involving your parents, kids, grandkids, siblings, nieces/nephews and other family members.

At the most basic level, bringing your family together to develop a joint charitable mission may translate into more total dollars being directed toward the causes you collectively care about, whether it's through leveraging additional tax-efficient giving strategies, which may not have been practical giving alone or as a couple, or by simply having more total dollars to contribute as a result of your pooled resources. But it goes deeper than that. You can unlock the opportunity to foster a charitable giving mindset for generations to come, which will help your family's legacy live on in a more meaningful way than you alone could likely make it.

Now that you've started thinking about the funding sources and giving strategies that will be most efficient and effective for you and others involved in your giving, work closely with your financial advisor to obtain the strategic guidance necessary to effectively leverage these tools.



## STEP 5: COLLABORATING WITH YOUR CHARITIES FOR SUCCESS

We promise, it's almost check-writing time. At this point, you understand how to vet the charities you want to support and the importance of working with your financial advisor to identify the financial and tax mechanisms that maximize your impact. So now it's time to leverage your communication channels with your charitable partners to understand how and when your donation can make the biggest difference. To get your creative juices flowing, think about these questions before reaching out:

### 1 Donor-restricted vs. general fund donations

Are there specific programs where your dollars can make the most impact? Or would a donation to the general fund be more impactful or useful to the organization at this time?

### 2 Lump-sum donation vs. multiple smaller gifts

Is it best to make your charitable donation in one lump sum? Or would a monthly or annual recurring commitment better support the organization's needs?

### 3 New opportunities

What has changed at the organization since you last connected? Have any new opportunities surfaced? Could you sponsor a new initiative?

### 4 Timing of your donation

If you are donating a lump sum or one time each year, what is the best time of year to donate? Is it during their peak fundraising season or at a time when revenue might be lower?

### 5 Matching dollars

Is there a campaign in which another donor is matching contributions that can help amplify your impact? What about becoming the donor who makes the matching contributions – or teaming up with an existing matcher – during the campaign?

While these are just some ideas to get you thinking, the point is to communicate with your nonprofit partners. The details matter and can make your contributions more impactful.





## STEP 6: DOCUMENTING YOUR APPROACH

By leveraging the steps of this Guide to Charitable Giving as a starting point, you'll have a solid foundation to build a charitable giving plan that meets your needs and enables you to give your wealth with purpose. But documenting your plan is just as important as going through the act of creating a charitable giving plan. By creating and using this documentation, you'll be well on your way to making sound charitable donations that align with your values for years to come. And if you are giving in conjunction with family, you can create the opportunity to amplify your giving in both your lifetime and for generations to come.



### Start the conversation with your advisor today.

If you're ready for charitable giving to become a core part of your financial plan, it's important to work closely with your financial advisor. Your advisor's guidance can go beyond the tax and financial strategies that help you give efficiently and flexibly by bringing forth outside-the-box ideas to help you achieve your personal goals and maximize your charitable donations. Start the conversation today with questions like these:

- ✓ How can I be more strategic with the gifts I am already making?
- ✓ How can I build charitable giving into my overall financial plan?
- ✓ How can I foster a charitable mindset in the next generation?
- ✓ What tax, legal and financial instruments will enable me to give efficiently and flexibly?

You might also like:

[Bunching Itemized Tax Deductions: How It Can Save You Money | Northwestern Mutual](#)

[How to Make Charitable Giving a Part of Your Finances | Northwestern Mutual](#)

[How to Leave an Estate to Charity | Northwestern Mutual](#)

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