

COSTS ASSOCIATED WITH YOUR CHARITABLE REMAINDER TRUST

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Editor's Note: In a previous issue, we provided an in-depth piece on mutual fund expense ratios. Below we expand the fee discussion to address all the fees and expenses incurred in the investment and administration of trusts. We have written this article so it can be shared with prospective or current donors. The text can be found in the Resource Center of our Web site at www.kaspick.com. You may alter it to meet your needs and reproduce it on your letterhead.

We are often asked by donors about the costs associated with managing charitable remainder trusts. Because of their unique taxation, accounting rules, and investment requirements, the management of charitable remainder trusts requires specialized skills. The *College* has engaged outside expertise to manage trusts for which it serves as trustee. The *College* staff and trustees retain an active oversight role. This article details all of the costs associated with this structure. We also highlight areas to review when comparing the fees and expenses of alternative trustees.

The *College* has retained KASPICK & COMPANY to provide asset management, trust administration, and reporting for its charitable remainder trusts, charitable gift annuities, and pooled income fund(s). KASPICK & COMPANY is the country's leading provider of planned giving services to charities serving as trustee. Charles Schwab & Co., Inc. serves as custodian.

Asset Management

KASPICK & COMPANY provides the following services for the *College* in the investment management of its planned gifts:

- Works with the *College* to formulate investment policies and asset allocation strategies;
- Selects and monitors mutual fund managers (including researching funds for specific needs);

- Works with the *College* to review individual trust requirements and select the appropriate asset allocation for each trust;
- Manages the sale of assets contributed to trusts;
- Monitors portfolios to ensure compliance to policies;
- Manages cash levels within portfolios and rebalances portfolios as necessary; and
- Periodically reports to the *College* on investment performance.

[For balanced portfolios that hold both equities and bonds, KASPICK & COMPANY charges an annual asset management fee of % based on the trust's market value. The fee is charged quarterly. **OR** KASPICK & COMPANY's asset management fee is paid by the *College*.]

Mutual Fund Expense Ratios. Our policy calls for charitable remainder trust portfolios to be broadly diversified by asset class and manager style in order to reduce risk and increase expected returns over the long term. KASPICK & COMPANY diversifies trusts of all sizes by investing in no-load, institutional-quality mutual funds.

There can be a variety of costs associated with the use of mutual funds. These include loads, 12b-1 marketing fees, and expenses charged to the fund to cover the operational costs of managing the fund (referred to as "expense ratios"). KASPICK & COMPANY *never* pays loads or 12b-1 marketing fees and uses an extensive review process to select institutional quality mutual

Mutual Fund Expense Ratios by Portfolio Objective As of 3/31/06		
KASPICK & COMPANY Portfolio Objective	Estimated Expense Ratio	Morningstar Average
Aggressive Growth	0.55%	1.41%
Growth	0.53	1.35
Growth/Income	0.51	1.28
Income/Growth	0.47	1.20
Income	0.42	1.11
High Income	0.39	1.07

funds that offer the potential for attractive returns at a reasonable cost. Expense ratios for the funds used by KASPICK & COMPANY are significantly lower than industry averages. The expense ratios incurred by trusts vary depending on the investment objective of

the portfolio. For example, the mutual funds used in portfolios invested according to KASPICK & COMPANY'S Growth allocation (71% equities/29% fixed income) have an average expense ratio of 0.53%. By way of comparison, based on data provided by Morningstar, the average portfolio of mutual funds invested with the same mix of asset classes has an expense ratio of 1.35%, two and half times as high. (See table on page 1.)

Trust Administration

KASPICK & COMPANY provides the following services for the *College* in the administration of its planned gifts:

- Reviews trust documents;
- Calculates and makes beneficiary payments;
- Prepares trust tax returns and beneficiary tax information;
- Maintains all tax and trust accounting;
- Monitors tax and other laws for changes affecting planned gift arrangements; and
- Prepares beneficiary reports.

[KASPICK & COMPANY charges an annual trust administration fee of ___% based on the trust's market value. The fee is charged quarterly. **OR** KASPICK & COMPANY'S trust administration fee is paid by the *College*.]

Custody

Charles Schwab & Co., Inc. was hired by the *College* to provide the following custody services for the *College's* planned gift assets:

- Maintains the assets of each trust in its own account so there is no commingling of assets;
- Executes and settles all trades;
- Provides expert trading assistance;
- Collects all dividends and mutual fund distributions;
- Clears all payments, including electronic deposits, issued from the accounts.

There is no annual fee associated with these services. Schwab does charge commissions for the purchase and sale of assets. If equities used to fund a trust are sold through Schwab, an institutional commission rate of 4 to 7 cents a share is charged (depending on the size of the trade). Schwab also charges a transaction fee for the purchase and sale of mutual fund shares, based on the

value of the trade. In total, a typical portfolio will incur approximately 0.045% in transaction costs each year, a minimal amount.

Comparing Costs

Many banks, trust companies, and brokerage firms are willing to serve as trustee of charitable remainder trusts. An individual can also choose to be trustee. There are many factors that should be considered when choosing a trustee—cost is an important one. When comparing costs across different trustee alternatives, it is important to identify all potential charges. Some trustees will quote a base trustee fee for asset management and trust administration services. They may also charge additional amounts for specific services. Examples include charges for issuing payments, tax preparation fees, and termination fees.

You will also want to ask about brokerage commissions and transaction fees. Particular attention should be paid to mutual fund expense ratios, and whether the trustee buys funds with loads or 12b-1 marketing fees.

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all potential charges.*

[Optional paragraph if KASPICK & COMPANY fees are charged to trusts: KASPICK & COMPANY'S fees are all-inclusive. There are no additional fees assessed for services provided. By charging fees to trusts, costs are shared by the beneficiaries and the *College*.]

Summary

The *College* is committed to keeping the costs involved in managing trusts low and in line with the services provided. Total costs incurred by our trusts compare favorably to what an individual could obtain from a commercial trustee. In comparing costs, it is important to ask for a full disclosure of all potential charges.

For more information on related topics, please contact our [Planned Giving Office] for copies of the following pieces: *KASPICK & COMPANY Overview*, *Choosing a Trustee for Your Charitable Remainder Trust*, and *Mutual Fund Expense Ratios*. For more information on our providers, please visit www.kaspick.com and www.schwab.com. ■

