Donor Advised Funds: A Good Time to Revisit an Old Friend

ejewishphilanthropy.com/donor-advised-funds-a-good-time-to-revisit-an-old-friend/

The Lapin Group

By Avrum Lapin

The passage of the new tax law has many nonprofits concerned about its impact on their bottom line. Donors who previously itemized deductions may see that it is no longer beneficial to do so and may limit their contributions. According to a study from Indiana University, $13 billion a year will potentially be lost by nonprofits nationally and over 230,000 jobs could be lost due to the changes in the tax rules.

The "dust has yet to settle" on the bearing this new law will have not only on the philanthropic marketplace, if any. So, in general … stay tuned.

One increasingly popular philanthropic instrument that remains untouched by the new law are Donor Advised Funds (DAF), along with the rules and regulations that monitor them. These funds have long been emerging as a preferred vehicle for many, largely – though not exclusively – high net worth individuals, supporting nonprofit causes. The fact that the tax law left them untouched means that now is a perfect time to refocus on and revisit these increasingly important modes of giving, and sources of funding for nonprofits.

The Lapin Group spoke with Rachel Gross, Esq., Director of Planned Giving and Endowments at The Jewish Federation of Greater Philadelphia, to learn more about this trend. She has personally seen the use of Donor Advised Funds increase as vehicles for making charitable donations. From the donor's perspective, DAFs are a way to structure giving and to make organizing taxes easier. For instance, there is one receipt for a charitable gift, issued on the day of the donation to the DAF, not the day in which the DAF sends funds to a nonprofit. This makes the process much simpler to track and review. According to Gross, using DAFs will increase in popularity in the coming years.

What is a DAF?

Donor Advised Funds are classified as any separately identified fund that is managed by a qualified nonprofit (501c3) organization. Once the donor makes the contribution setting up the DAF, the organization assumes legal control over the funds. The donor, however, retains advisory privileges as to where the funds will be allocated. The benefit of a DAF to donors is the immediate realization of the donation and the combined ability to control where and when the allocation is made. Since the overhead is absorbed by the sponsoring organization, there are much lower costs than forming a family foundation.

Are the Use of DAFs Growing?

According to a recent survey conducted by the National Philanthropic Trust, DAFs are quite attractive to donors and have continued to grow, representing an increasingly large part of the philanthropic landscape. According to NPT, "In 2016, there were approximately 285,000 individual donor-advised funds across the country. Donors contributed $23 billion to these donor-advised funds and used them to recommend almost $16 billion in grants to qualified charities. Both grants and contributions are at record highs. Charitable assets in donor-advised funds totaled $85 billion, an increase of 9.7 percent over the prior year. This growth reflects increased contributions to donor-advised fund (up by 7.6 percent) and investment gains." Indeed, DAFs are a growing force, and their proliferation demands continued attention from nonprofits.

How do DAFs differ from Foundations?

- A Donor Advised Fund is **easier to set up and requires less overhead** than a foundation. Donors can set up a DAF was as little as $5,000, though most are reflective of a desire to better manage increasing philanthropic capacity. The administrative costs for set up as well as ongoing fees are less with a DAF than a foundation.
- Using a DAF **does not require the donor to be transparent or open to public accountability**, **even though they are availing themselves of legal frameworks**. They are the only charitable-giving vehicle that allows donors to make grants 100% anonymously. When an organization such as a Community Foundation makes a donation on behalf of their client, the charity is legally distributing its own assets, which

means donors' identities are often hidden. The reporting process does not require that the donor's name be identified, making solicitation and recognition more difficult, among other challenges for nonprofits.

- **DAFs are growing in number**. Due to their accessibility of DAFs, the sheer number of them (284,956 in 2016) has eclipsed the number of registered foundations (83,276 in 2016). In addition, DAFs are becoming the platform for more annual gifts. According to Fidelity Charitable, over the last 10 years, the average number of grants per Giving Account has grown from 6.2 to 9.3 annually, while the average grant amount has remained at about $4,200.
- **Donor Advised Fund donations tend to be smaller in scope**. Private foundations control substantially more money. There are nearly $85 billion in donor-advised funds and an estimated $750 billion in private foundations. Foundations granted $45.15 billion in 2016, compared to DAFs' $15.75 billion. DAFs are not required by law to pay out a percentage each year while foundations are required to give away 5% of their assets annually.

Some thought leaders in the philanthropic marketplace are wary of the growth of this new trend. Indeed, we at The Lapin Group have advised how to build relationships with the gatekeepers at community organizations to help channel funds. Some nonprofits worry that DAFs will make the philanthropic landscape harder to navigate, and harder to connect personally with individual donors.

How is it Best to Approach a Donor Advised Fund?

According to Gross, from a nonprofit's perspective, the best way to approach a DAF fund holder is remarkably not different or new. Here are some points to keep in mind:

- **DAF donors are Individual Donors**. It is the responsibility of the organization to steward and cultivate donors, regardless of their vehicle for giving. Though the DAF can be anonymous, Gross explains that most of her donors still tend not to be. Though this is not true for every donor, many want to have a relationship with the organizations that they support.
- DAF donors encompass a **broad spectrum of demographics**. Since the threshold for starting a DAF is relativity low and the process is easy, these charitable vehicles are attractive to many donors, across age, gender and ethnicity. The profile of the average DAF mirrors general giving trends.
- Community Foundations and other gatekeepers **do not make the decision** of which charities to fund. Fidelity Charitable found that donors are consistent in their support, in 2016; three-quarters of donor-recommended grants went to charities that donors had previously supported.
- **Connecting with the fund management is never a bad idea** While most donors who have DAFs are clear about which organizations they want to support, there are some times where a DAF manager, based at the nonprofit, will make recommendations. In this case, knowing a nonprofit's mission and impact will help a DAF manager to steer a donor to a cause that matches their interests.

- A key difference between an individual with a DAF versus using just a checkbook, is that the amount of **money in the fund fluctuates** with the stock market. A donor may have written a check to a DAF in January and by the summer, the funds may have grown. This means that there is more to donate. Often donors do not check their balances before making donations. Nonprofits can use this to their advantage and perhaps ask for a larger gift, or an additional gift, when the stock market rises, like it has recently. (It can also contract.)

As with any emerging trend, it is important for nonprofits to have a strategy to capitalize on and embrace this growing segment of the philanthropic marketplace. The reason motivating donors to give largely remains unchanged. They want to see impact on the community that the nonprofit serves and to feel connected to the mission of the organization. The difference is that nonprofits can now connect with community foundations and other DAF managers to spread their message perhaps to a wider audience. Due to the volatile nature of the tax laws, nonprofits that remain focused on their value proposition and forge deep relationships with their supporters will fare best.

My colleagues and I are interested in your experiences. Let us know what you are thinking.

Avrum Lapin is President at The Lapin Group, LLC, based in Jenkintown, Pennsylvania, a full-service fundraising and management consulting firm for nonprofits. The Lapin Group inspires and leads US-based and international nonprofits seeking fund, organizational, leadership, and business development solutions, offering contemporary and leading-edge approaches and strategies. A Board member of the Giving Institute and a member of the Editorial Review Board of Giving USA, Avrum is a frequent contributor to eJewishPhilanthropy.com and speaker in the US and in Israel on opportunities and challenges in today's nonprofit marketplace.

Visit our website: www.thelapingroup.com