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By Eileen Heisman

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As we face a truly unprecedented moment in global history, I have been reflecting on the many ways people respond during crises. Philanthropy is one of the most critical and popular ways to meet basic needs, fuel community support, or address systemic change. Crisis or not, two characteristics of philanthropy in the United States are steadfast. First, Americans are generous. We gave more than $449.64 billion to charities in 2018.[1] Second, donors want to stay close to their philanthropic intent and know that they are making a difference.

Enter donor-advised funds, philanthropy's fastest-growing giving vehicle. A donor-advised fund empowers donors to respond quickly and nimbly when they want to have a philanthropic impact. It's also a tool that helps advisors to deepen personal relationships with clients, build bridges to the next generation, and see philanthropy and their clients from a different vantage point.

WHAT IS A DONOR-ADVISED FUND?

A donor-advised fund (DAF) is a charitable giving vehicle established at a public charity, also known as a DAF sponsor. DAFs allow donors to contribute different types of assets, receive an immediate tax benefit, and recommend grants from the DAF to qualified charities. There are more than 725,000 DAFs in the United States, a number that has more than tripled in the past five years. Collectively, DAFs received more than $37 billion in charitable contributions in 2018 (the most recent year reported) and manage $121.4 billion, all of which must be used for charitable purposes.[2]

Donors can select from a range of charities to manage their DAFs. Some have a national footprint and others, such as community foundations, are oriented to a specific region. There are also religiously affiliated DAF sponsors and those that support specific charities, such as hospitals and universities. Some DAF sponsors have thousands of donors with low or no DAF account minimums, and others have just a few donors with larger balances.

WHY ADVISORS CHOOSE DAFs

The number of individual DAF accounts in the United States is skyrocketing, thanks in part to advisors who are recommending them to clients. DAFs are a tax-efficient way to give. Some DAF sponsors accept charitable contributions of complex assets such as closely held stock, real estate, or collectibles.

Increasingly, advisors are recommending DAFs as an alternative to private foundations for their clients. A DAF functions much like a private foundation. Individuals, families, trusts, or corporations can establish one, but certain structural and legal differences distinguish the two vehicles. For example, once donors contribute assets to their DAFs, the assets are owned by the DAF sponsor. Donors may recommend how to invest and where to grant those assets (hence donor-advised fund), but ultimate authority resides with the DAF sponsor. Although donors relinquish control over certain aspects of their DAFs, they gain freedom from administrative tasks such as gift receipts, recordkeeping, tax filing, and executing grant checks. Because the assets belong to the DAF sponsor, the charity—not the donor—files all tax returns and reports, issues all grants, and operates its own board. Technically, donors can give anonymously with DAFs, although the vast majority of DAF grants are issued with donor recognition. Finally, there is no legal payout requirement for DAFs, whereas private foundations must pay out 5 percent annually. In practice, DAFs pay out around 20 percent of assets on average each year, whereas private foundations typically meet—but rarely exceed—their legally mandated 5 percent.[3]

THE EVOLUTION OF DAFs AND WHAT'S NEXT

The first DAFs were started in the 1930s with community foundations as sponsors. Since then, DAFs have continued to function in a similar manner. So, what's changed? Almost everything else.

The platforms and tools that DAF donors use to make their contributions have changed significantly in recent years. The charities where donors establish their DAFs and the types of assets that they give to fund their philanthropy are both evolving. In 2010, there were more than 184,000 DAFs in the United States. Today, there are more than 728,000—an almost 300-percent increase. Different community and national events, together with social and business trends, have helped spur the growth of DAFs. Let's take a look at where DAFs have been in the past 10 years and where we think they're headed in the future.

TECHNOLOGY ADVANCEMENTS HELP SCALE GIVING

In 2010, Steve Jobs unveiled the iPad, Instagram launched, and the Red Cross used one of the first text-to-give campaigns to support disaster relief efforts in Haiti. For better or worse, technology has changed our society so much in the decade since—and that includes the philanthropic sector. Generous Americans can download apps to give instantly, find like-minded citizens on crowdfunding platforms to complete philanthropic projects, and access more information than ever before to vet the charities they want to support. Certain philanthropic initiatives—such as #GivingTuesday in 2012, the ALS Ice Bucket Challenge in 2014, and today's COVID-related giving drives as well as amplified interest in social justice issues—have all experienced exponential growth by dovetailing technology with people's giving instincts.

DAF sponsors, DAF donors, and the grantees they support all have benefited from this evolution in technology. Online access, automation, and the development of DAF apps allow donors to support their favorite charities quickly and easily. Simultaneously, DAF charities are leveraging technology to scale grantmaking activities. One example is the emerging trend of workplace DAFs. They often have low or no minimums and are propelled by technology that keeps the cost of operating the programs low.

Of course, charities across the country and around the globe are the ultimate beneficiaries of these technology advancements. Those that wisely leverage tech trends, whether telling their impact story on social media or partnering with DAF sponsors to leverage new channels and audiences, will continue to attract the most donor dollars.

TAX POLICY CHANGES SPUR GIVING

Two of the largest spikes in DAF growth took place during years in which tax policy discussions in Washington, DC, changed aspects of the charitable tax deduction. The first spike occurred during the "fiscal cliff" in late 2012, when scheduled tax cuts and federal budget disputes occurred simultaneously, threatening the existence of the charitable tax deduction. Philanthropically inclined Americans found DAFs as a solution in an uncertain tax climate. Ultimately, the charitable tax deduction was preserved, but the trajectory of DAFs was changed forever.

Similarly, at the end of 2017, the U.S. Congress debated and ultimately passed the Tax Cuts and Jobs Act, which changed the way many Americans claim tax deductions. This legislation helped drive another growth spike in DAFs. Not surprisingly, after more DAFs were created, we saw a corresponding increase in DAF grantmaking activity. Grants from DAFs have increased 223 percent since 2010, demonstrating that DAF donors are putting their new giving vehicles to use almost immediately.

According to Bank of America, only 17 percent of high-net-worth Americans report that their giving is "always motivated" by tax benefits.[4] If the two tax events above are used as case studies, Americans, particularly the high-net-worth, may be undervaluing the role that the 100-year-old charitable tax deduction plays in their philanthropy.

THE GREAT WEALTH TRANSFER BEGINS

Experts estimate that baby boomers will transfer $68 trillion to heirs over the next two decades. But before assets even begin to change hands, sometimes they change shape. For example, 18.7 million Americans own their own businesses. As boomer business owners retire, they often sell—and sometimes donate—their business interests. Collections, such as art or jewelry, are another type of asset that requires special considerations. According to a recent UBS study, 81 percent of collectors plan to leave their collections to heirs, but only 35 percent of heirs want to keep them.[5] Donating complex assets, such as closely held stock and collections, to charity is on the rise as boomers look to manage their estates when they retire.

The wealth transfer has only just begun, and the past decade saw the longest economic expansion on record (though it was cut short by COVID-19).

DAFs have become a popular tool to help turn these assets into charitable capital for several reasons. First, funding a philanthropic vehicle with complex assets allows donors to receive an immediate tax deduction and grant the liquidated proceeds over time to as many charities as they wish. Second, DAFs and other vehicles allow donors to adopt the "giving while living" mindset, execute a legacy plan, or both.

The wealth transfer has only just begun, and the past decade saw the longest economic expansion on record (though it was cut short by COVID-19). For donors whose complex assets represent a large part of their wealth, the transfer also has begun, and we expect it will increase in the years ahead.

PHILANTHROPY AS PART OF FINANCIAL PLANNING

For decades, philanthropy was disconnected from the financial world. Discussions about giving were reserved for high-net-worth clients who were publicly philanthropic. Even then, these conversations focused mostly on estate planning. In the past decade, professional advisors have become a huge source of referral for charities that sponsor DAF programs, including local community foundations, colleges and universities, and charities that are affiliated with financial institutions. According to U.S. Trust's 2018 Philanthropic Conversation Study, nearly all advisors (91 percent) think discussing philanthropy with their clients is important, with 53 percent finding it "very important"—an increase from 46 percent just five years prior.[6]

Intentionally cultivating and exploring diverse donors and leadership presents another growth opportunity for the charitable sector.

Over the past decade, we've seen some of the largest financial institutions in the world embrace charitable giving in new ways. They are now:

- Offering impact investments, which allow investors to align their values with their investment strategies;
- Providing a broader menu of charitable giving vehicles for all clients, from the mass-affluent to the ultra-high-net-worth;
- Educating bankers and advisors about techniques and tools, such as DAFs, that can maximize clients' philanthropy; and
- Adding philanthropic experts to their staffs.

Financial institutions recognize that Americans are charitable. They also recognize we are increasingly blending philanthropic values into more areas of our lives—such as investments and retail purchases—that traditionally have been separate from (and sometimes at odds with) the charitable world. As we become increasingly values-driven, recent events (such as the fight for social justice) have caused us to rethink how we can use our money as a force for good. Bankers and advisors are becoming an even more important resource for clients and charities alike as they advise generous Americans about philanthropic solutions.

When I think about what's ahead for DAFs and for philanthropy more broadly, I am both excited and cautiously optimistic. Innovation is not always readily embraced within the charitable sector. Now we are seeing how technology, social media, and everyday activities can amplify Americans' giving. I never imagined ordering household items (that arrive same day!) on my phone and that it could benefit my favorite charities. Did you?

Intentionally cultivating and exploring diverse donors and leadership presents another growth opportunity for the charitable sector. Historically, major donors and charitable leaders often fit a predictable profile: older, affluent, white, male. That profile is changing with booming entrepreneurship and the accelerated growth of certain sectors, such as technology and wellness, and it will continue to shift. We still have significant room for improvement. The more voices we add to the conversation, the more innovative and effective we can be.

There's evidence now that giving circles and other participatory philanthropy models are expanding diversity and influence in philanthropy. They widen the scope on both who is giving and the causes they're supporting. Like DAFs, giving circles have been around for years, and historically they have been popular with women, millennials, minorities, and religious groups. We all know there is power in numbers, and giving circles are a tool—much like DAFs—to reach philanthropic goals. I fully expect that we'll see the trajectory and influence of giving circles and similar models amplified in the next few years and beyond.

I'm heartened by new ways individuals are engaging in and redefining charitable giving. Nontraditional giving tools such as GoFundMe and impact investing are challenging how we view philanthropy. The new use of older tools, such as DAFs and giving circles, is meeting the needs of donors and grantees alike. There's been a 15-year decline in the number of American households that are giving. It is my sincere hope that technology, educational resources, and advanced tools can help reverse this worrisome trend. If 2020 has taught us anything so far it is this: We still have mountains to climb in addressing the most pressing problems of our country and the world. I believe today's philanthropists, diverse new donor collaboratives, and the next generation of givers are more educated and well-informed to tackle the challenges ahead.

Eileen Heisman is chief executive officer of National Philanthropic Trust, an independent public charity providing philanthropic expertise to donors, foundations, and financial institutions. She earned a BA with honors in psychology from Carnegie Mellon University and an MSW with a major in social program evaluation from the University of Michigan. Learn more at nptrust.org.

ENDNOTES

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5619 DTC Parkway, Suite 500
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