# DAFs Can Complement Planned Giving

BY KEN NOPAR

Planned giving and other development professionals continue to evaluate how to most effectively work with an increasing number of donors who have donor advised fund (DAF) accounts. Some ignore or complain about these increases, while others accept the appeal of DAFs to donors and realize how they can be beneficial to charities.

The latter group has developed strategies to work with donors who have set up these funds as well as with their wealth advisers, attorneys, and accountants who may have recommended that they establish the DAF accounts.

The 2015 National Philanthropic Trust (NPT) report indicated that there were 238,293 DAF accounts in the United States by the end of 2014. These had been established over the years at many sponsors, including some large financial services firms (such as Fidelity and Schwab), many of the 750 community foundations, independent charities such as the American Endowment Foundation, and religious, educational, and other single-issue 501(c)(3) organizations.

NPT reports indicate that the number of DAF accounts have increased by 90,000 since 2008, up from 148,000 just six years earlier. In contrast, the number of other charitable giving vehicles comprised of charitable remainder trusts, private foundations, charitable lead trusts, and pooled income funds totaled 190,447 in 2014, a decrease of about 8,000 from 2008.

It is helpful to first understand some of the reasons behind the increased popularity of DAFs.

- Easy to establish, typically at no cost
- Simple to use
- Provide significant tax advantages
- Easy for advisers to explain to their clients
- Enable donors to donate significant amounts during certain high-income years or after liquidity events, then make grants during retirement or when their income drops
- Donors can donate complex assets such as real estate, privately held company stock, farmland, grain, and business assets
- Financial advisers can manage charitable assets at some DAF sponsors
- Simplified tax records (one DAF for multiple charitable transfers)
- Allow donors to make anonymous grants[1]
- Easily accept donations of publicly traded securities
- Enable DAF amounts to increase tax-free
- Not required to pay out a minimum percentage each year[2]

In addition to benefiting donors, many charities have benefitted from the growth of DAFs. More attorneys, wealth advisers, and accountants now engage in the charitable planning conversation with their clients. This may be partially because advisers understand that philanthropy is an important priority of their clients. DAFs are a simple, neutral solution which enable advisers to discuss charitable giving without concern that they will be perceived as projecting their own charitable interests.

Advisers know that their clients can easily establish DAF accounts on their own. Yet by having the charitable discussion with clients, professionals can help them determine who should be involved, which organizations to support, why they want to give, when to provide support, and how much to give. Advice can also be offered if other vehicles should be established, bequests included in the estate plan, and/or whether their clients give directly to their favorite charities. If this conversation does not take place, clients may not receive the best legal, financial, and tax advice that can help them devote more of their assets to nonprofit organizations.

Some critics in the nonprofit community assert that it is difficult to determine how to reach DAF donors. However, such a high percentage of DAF account holders do identify themselves when making a grant that fundraising professionals can and should still cultivate them. Furthermore, when an organization receives a grant from a DAF account, it is a good indication that a donor has additional capacity to give and that the donor is wealthy. By contrast, when a donor writes a check or makes a donation with a credit card, the charity does

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**DAFs are a simple, neutral solution.**

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not necessarily know anything else about the donor.

When the donor has taken the step to open a DAF and make a grant to the charity, it is even more important to engage that donor by inviting him/her for a site visit, to meet the staff or board, or encourage him/her to volunteer. Once involved and connected, donors are more likely to set up a charitable trust or leave a bequest directly to the organization. Without a DAF in the first place, the other steps may not have been as likely. Even if an anonymous grant is received, development professionals should send a thank you to the DAF sponsor and ask the sponsor to forward it to the donor.

It is important for charities to indicate on their websites that they welcome grants from DAFs (as well as gifts from private foundations, and that bequests and planned gifts are welcome). They should also provide the information that will help the sponsor process the grant (including the name of a contact person, tax identification number, address where the grant check should be sent, and so forth.) Frequently, this information is omitted, so some donors may assume that an organization cannot accept DAF grants. They just donate by check or credit card because these are the only options listed.

Even when a donor has only made contributions by checks in the past, it is advisable to tactfully ask if they have another charitable vehicle since it may be more advantageous for both parties.

Here is a quick summary of how DAFs are helpful to charities.

- Advisers proactively talk about, encourage, and facilitate charitable giving. This conversation can lead to creating a DAF account, but also or instead to direct donations and planned gifts.
- Donors tend to donate a consistent amount even if their income decreases or investments drop in value for a period of time.
- Donors are more generous when granting out of their DAFs than when writing checks. (It does not feel like they are taking money out of their wallet or giving appreciated stock.)
- Some charities do not accept assets such as privately held company stock, vacation homes, residences, commercial buildings, farmland, and insurance. DAFs help donors "convert" these assets into liquid balances that can be granted.
- Donors may allocate more money toward charitable giving purposes and away from taxes, personal use, or heirs.
- Donors feel comfortable in making a series of gifts to a charity when they have concerns or do not wish to make just one large donation.[3]
- It is very easy to make a grant from a DAF account, usually at the click of a button, so donors can give quickly in response to a request or in advance of a year-end deadline. There is no need for delay, as when the donor calls an adviser to donate a stock to a charity.
- DAFs are a way for families to formalize charitable planning and to get family involved. It is up to the grant recipient organization to engage the family and create a connection with the next generation.
- Some donors may not want others to know about a donation to a particular charity and may not donate as a result. DAFs can guarantee that others will not know about a donation, though even these donors sometimes will divulge to the grant recipient that they are the "anonymous" donors.
- DAF account holders grant out nearly 22 percent of assets annually on average compared to 5 or 6 percent from those having private foundations.
- Charities incur no extra expense when receiving grants from DAF accounts (no credit card transaction fees, legal fees when accepting certain assets, or transaction fees when accepting publicly traded stock).
- Charities that receive a grant from a DAF are alerted that the donor may be wealthier than previously thought.

Because of these and other benefits, there may be times in which a planned giving or development professional may be asked by donors to recommend a specific DAF. The most appropriate response may be to suggest that they talk with their wealth adviser or attorney. It is very important that they recommend the following criteria to the donor to ensure that the charity can receive the future grants from the DAF, and that the DAF is the best fit for the donor.

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# Burning Fence Rails with the Right Questions

BY MARC LITTLECOTT

"When making your campfires, never burn any but the top rail." This was the command of Lt. Col. Thomas Doan in keeping with the spirit of Union Army Gen. William Tecumseh Sherman's orders during the American Civil War. Even with its top rail missing, a fence could still keep livestock and protect property.

One day, two privates named Billy and Gib were sent for firewood, but they found the top rails had all already been removed from the fencing in the vicinity. "Did you ever notice that after you burn the top one, there's always a rail underneath that becomes the 'top rail'?" asked Billy. Gib had to admit it made sense, so he helped Billy remove the next rail that they chopped up for firewood.

When I was an undergraduate student at Virginia Military Institute, I remembered hearing how Gen. Sherman, having seen all of the farms denuded of fence rails, asked his staff (probably quite testily) whatever happened with his "top fence rail" order. An officer informed the general how literally the soldiers interpreted that order, taking the top rail for firewood until, well, there were no rails left.

You're probably wondering what this has to do with gift planning. The method Billy and Gib employed is one I've often applied with donors who are considering a planned gift while seeking to define and sort through their philanthropic priorities.

Why do this? My experience with estate donors is that most begin fixated on a certain dollar amount or percentage they plan to leave to a charity. In my early days, I was satisfied to pick up the gift conversation from there and begin figuring what kind of estate language and more might be needed to have the gift "go to something" at my charity.

I try to get the donor to think outside that box — that limit that usually involves pecuniary bequests and/or percentages — and into another discussion. That transition involves transcendent giving that can be sparked by the right kind of question, even if you haven't necessarily known the donor very long.

"What would 'amazing' look like in the College of Engineering?" is one such question. Another favorite of mine is "the $10

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**What would "amazing" look like?**

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- Verify that the DAF will approve of grants to the charity. Though most approve nearly all grants to 501(c)(3) organizations, some single-issue or community foundation funds may have restrictions based on geography or missions of proposed grantees.
- Some DAFs are endowed, meaning that only a small percentage of the assets in the account may be granted out each year.
- Some DAFs have very limited investment options available for their donors, while others allow their donors' financial advisers to manage a client's fund investments. (American Endowment Foundation allows such management at any level, Fidelity and Schwab at a $250,000 minimum, and community foundations typically at $500,000 or more.)
- Fees charged by different DAF sponsors can vary substantially.
- Some sponsors allow accounts to continue in perpetuity; others do not allow accounts to be "passed down" to successor advisers after the death of the creator or sometimes one or two successors. The balance in the account in these latter instances may roll over into the endowment of the sponsoring DAF charity.

The number of DAFs will continue to increase, as will the number and dollar amounts of the grants to 501(c)(3) organizations from these accounts. Those who embrace the concept and figure out how to take advantage of their presence will be much more likely to be successful in their development and planned giving efforts.

Fortunately, these assets can only be granted out to other charities, so if properly cultivated, donors with DAF accounts will be even more generous than they would have been otherwise.

Endnotes

1 Though anonymity may sound appealing to many donors and their advisers, only 8 percent of grants from Fidelity Charitable are anonymous.

2 It is rare that grants are not made from DAFs because the creators wish to support the causes and organizations that are most important to them.

3 Donors cannot fulfill pledges from DAF accounts, but the DAF sponsor will often provide a non-binding letter of intent to the charity.

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