

DONOR-ADVISED FUNDS ASSERT PREDOMINANCE IN 2020'S TIME OF NEED

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The year 2020 is extraordinary by many measures, including the value of philanthropy in difficult times. A pandemic, job losses in an associated recession and a pervasive social response to ongoing racial injustice highlight needs among large sectors of society. For investors who are planning charitable giving and striving to align their investments with their intentions, donor-advised funds (DAFs) that provide options and investment holdings transparency, may help.

While large, recognizable names in charitable support continue as important mechanisms of connecting donors to service organizations to address society's current and ongoing needs, DAFs are cementing their place as preeminent sources of charitable contributions in the U.S. At the same time, they are giving donors an additional way to further align their investments and their intentions.

ALIGNING INVESTMENT WITH INTENTIONS

For investors who seek to align their investments with their charitable intentions and their values, some DAFs empower them to invest in underlying strategies that target best-in-class environmental, social and governance (ESG) characteristics, sustainable strategies and broad social impact objectives. DAF investment options typically include separately managed accounts, mutual funds, and exchange-traded funds.

Through sustainable investing strategies, DAF assets can work as part of an enterprise focused on sustainability and related causes even before grants are made to organizations addressing needs in society as challenges arise.

The Grant-Making Power of DAFs

DAFs are helping low-income households and the homeless, essential workers and their families, food banks where demand is growing rapidly, and organizations focused on increasing equality and advancing progress in opportunities for repressed segments of society.

Investment News reported¹ that donors used their DAFs sponsored by Fidelity Charitable to recommend grants of \$236 million to support 9,600 nonprofit organizations that are responding to the COVID-19 outbreak. Similarly, *Investment News* has indicated that Schwab Charitable, another DAF sponsor, has earmarked at least \$114 million in DAF grants for COVID-19 relief from the middle of February through May 5. Smaller DAFs also are experiencing a surge in giving during the pandemic. American Endowment Foundation donors have increased grants by more than 40% compared to a year ago.

Overall, grantmaking from DAFs to qualified charities has nearly doubled in the past five years, according to the National Philanthropic Trust (NPT),² a public charity that sponsors its own DAF. In 2018, philanthropists recommended grants to charities from their DAFs totaling \$23.42 billion. The same rapid growth also applies to contributions to DAFs, which totaled \$37.12 billion in 2018, representing an 86 percent increase in contributions over the past five years, NPT reported.

DAFs Appeal to a Wide Range of Charitable Givers

No longer the domain only of the wealthy, private charitable accounts are now available to a wide range of people through DAFs. Sponsoring organizations include community foundations, fund companies, universities and schools, charities and faith-based organizations. The NPT's 2019 Donor Advised Fund Report estimated the average size of an individual DAF account was \$166,653 in 2018. Minimums to establish a DAF can be as low as \$5,000 at some sponsoring organizations.

*The Chronicle of Philanthropy*³ separates DAFs into three general categories:⁴

- Community foundations: Which conceived the concept decades ago, per *The Chronicle of Philanthropy*
- Commercial: Sponsoring organizations such as fund companies
- Single-issue: Targeting support to an organization or cause



DAFs simplify charitable giving. Investors can establish a DAF with a sponsoring organization relatively easily and then take time to determine where they want to direct their grants. Gifts may qualify for a charitable tax deduction in the year that they are donated, assuming the investor meets Internal Revenue Services (IRS) requirements. The account grows, tax-free. Investors also can contribute a range of assets—securities, real estate, art and other property—to the DAF. When donating appreciated securities to a DAF, investors may eliminate potential capital gains taxes. Sponsoring organizations also simplify record-keeping and help assure charities' eligibility qualifications.⁵

Donors should understand that the charitable foundation managing the money has legal control of the money. Gifts are irrevocable and fees are charged for administering the account and on the underlying investments. Donors can recommend charities, but the managing charity ultimately has the authority to approve or deny any recommendations made by the donor. As a practical matter, sponsoring organizations typically follow their investors' direction so long as the recipient is a qualified 501(c)3 charitable organization as recognized by the IRS.⁶

With clear understanding of the potential power of DAFs along with their personal investment and charitable goals, values-based investors may want to consider DAFs that provide for ESG and sustainable strategies. For many investors, the option to grow fund balances through sustainable investments while ultimately targeting charitable support to causes that are important to them is appealing. (768)

FOOTNOTES:

1. "Fidelity, Schwab charitable Units See Jump in Giving to Address Pandemic," Investment News, May 7, 2020, <https://www.investmentnews.com/fidelity-schwab-charitable-units-see-jump-in-giving-to-address-pandemic-192605>.
2. The 2019 DAF Report, National Philanthropic Trust. <https://www.nptrust.org/reports/daf-report/>.
3. "Working with Donor-Advised Funds," The Chronicle of Philanthropy. <https://www.philanthropy.com/article/Working-With-Donor-Advised/243282>.
4. IBID.
5. Tax impact of DAFs and contributions will differ from one investor to another. All investors should consult with their financial and tax professionals before making any investment decisions.
6. "Five things to know about donor-advised funds," Consumer Reports, December 7, 2019. <https://www.consumerreports.org/charitable-donations/donor-advised-funds-things-to-know/>

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