



DAF

5 WAYS PHILANTHROPISTS
USE DONOR ADVISED FUNDS
AND HOW FUNDRAISERS
CAN BENEFIT

BY NPT AND DONORPERFECT

A NOTABLE TREND IN GIVING

Donor advised funds (DAFs) are philanthropy's fastest-growing charitable giving vehicle. There are more than 460,000 individual DAF accounts in the U.S., more than double the number just five years ago. Collectively they hold more than \$110 billion, all of which is destined for charities.

DAF donors are active philanthropists. In 2017, the last year for which data is available, DAF donors recommended nearly \$19 billion in grants to qualified charities.

The trajectory for DAF growth shows no sign of slowing down. This guide is intended to help fundraisers tap into these powerful giving vehicles and speak to the donors who choose them.

HOW A DAF WORKS

If you're still unclear on exactly how a DAF works, here's a quick overview:

A DAF is a philanthropic vehicle established at a public charity, known as the DAF sponsor. Donors can establish a DAF, often with advice from or with the help of their financial advisor, accountant or estate attorney. After that, they can make charitable contributions to their DAF, receive an immediate tax benefit, and recommend grants from the DAF to qualified charities over time.

HOW DAFS CAN WORK FOR YOU

There are a few key benefits of DAFs that are helpful for fundraisers to understand, as well.

First, DAF sponsors are public charities, which means contributions to them receive the most favorable tax treatment under the Internal Revenue Code.

Second, DAFs can be established with limited paperwork or online in a matter of minutes. This quick and easy approach to creating a giving vehicle is in contrast to private foundations or other giving vehicles that take months, and often significant cost, to establish.

Third, assets in DAFs can be invested and any growth is tax-free. This means that more money is generated for charity.

Finally, there is no legal payout requirement from DAFs, although some DAF sponsors do have payout policies. Whereas private foundations are required to pay out five percent of assets annually (which can include overhead), DAFs do not have any legal requirement. In practice, DAFs payout nearly four times the private foundation rate, despite having only one-tenth of the assets.

DAFs have been part of the charitable landscape since the 1930s, but their explosive growth since the 1990s have made them a force in the independent sector. Cultivation and communication are a fundraiser's primary tools when it comes to successfully closing gifts, but an understanding of the giving vehicles donors use (and what motivates them to choose one) can strengthen your approach.

HOW PHILANTHROPISTS USE THEIR DAFs

If your organization is a public charity, it can receive DAF grants. Here are five ways donors are using their DAFs today and why fundraisers should integrate them into their strategy:

1. Recommend grants to their favorite charities and causes

This one is obvious. The whole purpose of a DAF is to give charitably, but did you know that DAF charities pay out more than 20 percent of their assets each year? Compare that to the five percent that private foundations pay out annually. DAF donors are active philanthropists. They recommend grants on a regular basis, across economic cycles. Even during the Great Recession, DAF donors maintained the same payout rates, meaning DAFs can be a steady, dependable source of philanthropic capital for fundraisers.

DAF critics charge that the 20 percent payout rate masks "inactive" DAF accounts. There are no industry statistics on "dormant" DAF accounts, but our experience is this:

Less than one percent of our DAF accounts are "dormant," meaning they have not made a grant in the previous three years. The vast majority are actively and regularly recommending grants to a broad spectrum of qualified charities.

In fact, most DAF sponsors allow donors to establish recurring grants. Typical intervals are monthly, quarterly and annually. As an example, at the country's largest DAF sponsor, 23 percent of all grants are pre-scheduled, or recurring, grants. This "set it and forget it" option is attractive to donors who want to provide regular support to the charities they know best.

Fundraising tip: Treat your DAF donors like major gifts donors. It's true that some DAF sponsors have a low threshold to establishing a DAF account, but the average DAF size is around \$238,000. Cultivate DAF donors the same way you would any other major gift donor, but ensure that your organization has practices that are tailored to DAFs. For example, communicate that your organization can receive DAF grants and make it as seamless as possible for them to give. Another example: a DAF grant check will be issued by the DAF sponsor, but you can give soft credit to the donor.

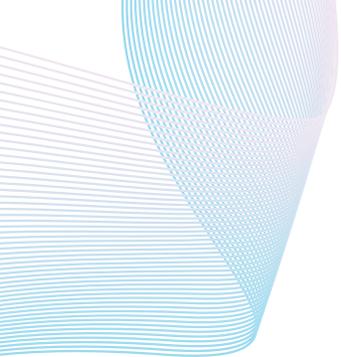
2. Streamline their giving

In the age of technology, people expect almost everything to be convenient, including their giving. DAFs can offer a "one stop shop" for donors. Consider this common example:

A donor experiences a financial windfall. She makes a significant contribution to a DAF, offsetting her tax liability, and pre-funding years – if not a lifetime – of philanthropy.

She only gets ONE tax receipt for the initial gift and can make as many grants to as many charities as often as she desires until the DAF balance hits \$0. She also has the option to invest DAF dollars, which grow tax-free without requiring any additional filings. DAFs alleviate administrative burdens like recordkeeping, and often offer advanced features like reporting that traditional "checkbook philanthropy" can't. The simplicity is one of the driving factors for donors to establish a DAF.

DAFs also offer donors the ability to make grants anonymously. For some donors, "simplifying" their giving might mean avoiding an onslaught of appeals. Anonymity can sometimes be frustrating to charities because it doesn't offer a way to continue communication and stewardship.



However, fundraisers should take heart that the number of anonymous grants from DAFs is low – in our experience, donors request anonymity on less than one percent of NPT's total grants each year.

Fundraising tip: Make giving to your organization from DAFs as easy as possible. Do you include DAFs in your solicitation materials? Adding language like “recommend a grant from your donor advised fund” in your appeals and reply devices, the same way you include checks or credit card information, is good fundraising practice. It demonstrates a sophisticated understanding of funding sources, building trust with donors. It also provides a way to identify donors who have a DAF. Record this information and consider segmenting DAF donors so that your appeals and recognition approaches can be customize to their method for giving.

3. Establish a charitable legacy

DAF donors often have the opportunity to create a succession plan for their DAF, effectively advising what happens to the DAF after their lifetime. Succession planning options depend on the DAF sponsor's policies. The most common options are:

- Appoint loved ones to assume responsibility for the DAF.
- Name one or two charitable beneficiaries to receive DAF assets.
- Endow a DAF to make grants to designated charities for as long as possible.

The current trend in succession planning is to create a customized plan that divides the DAF balance between successors and charitable beneficiaries.

For example, a donor may recommend half of their DAF balance to his/her favorite charity and appoint heirs to advise the other half. The most interesting part about this trend is that DAF donors feel as strongly about supporting the causes they're passionate about beyond their lifetime as they do about creating a sustainable giving vehicle.

Fundraising tip: Planned giving can be uncomfortable for fundraisers to discuss with donors. Since DAFs have built-in succession plans, they offer a way to start the conversation. Research DAF sponsors and their succession policies. Almost all DAF sponsors offer grantmaking to charitable beneficiaries as a succession option. In fact, at smaller DAF sponsors, it may be the only option. To be named a charitable beneficiary of a DAF, consider targeting DAF donors with your planned giving appeals. For DAF sponsors that offer an endowment structure for the DAF, this can be a way to sustain regular gifts from annual donors even after their lifetime. You should also leverage the intergenerational opportunities that DAFs present – they can be a stepping stone to your next generation of donors (more on that below!).

4. Involve their family in philanthropy

DAFs offer multiple entry points for the next generation to be involved in philanthropy. The donor advisor who sets up the DAF, often called the Primary Advisor, can usually appoint other advisors who can view the DAF and sometimes share certain advising privileges, like grantmaking and investments. Successor Advisors, as mentioned earlier, are those appointed to assume responsibility for the DAF from the Primary Advisor.

Creating a sustainable giving vehicle for families to use is often a motivating factor in choosing a DAF. Some DAF donors simply want to instill charitable values in their children, expecting that the next generation will use the DAF

to support the causes they come to care about. Other DAF donors hope the next generation to become passionate about and involved with the same organizations. Either way, the data supports the importance of engaging the next generation: seventy-five percent of millennials say they would be “likely or highly likely” to support an organization if asked by a family member. Connecting with children of DAF donors is a good place to start.

Fundraising tip: DAFs can be a signal that charitable giving is a family affair. You should keep this in mind as you evaluate ways to cultivate your donor pipeline. If one of your major donors gives through a DAF, ask whether their family members serve as secondary or successor advisors. If so, consider a “family night” stewardship event where you connect with both your donors and their loved ones, so you can cultivate the next generation of philanthropists. If your organization has a Young Friends or Junior Board, you might consider engaging DAF donors’ children there too. You may also think about including content about how donors can talk to their children about philanthropy in your planned giving appeals.

5. Donate complex assets

Over the past decade, there has been an increasing trend in contributing unusual or complex assets to charity. Donors are looking beyond their checking accounts to realize that their non-cash assets, like privately-held stock, cryptocurrency or tangible property, can be donated to charity.

These gifts can sometimes be too cumbersome and costly for smaller charities to vet, accept and liquidate, leaving money (often big money) on the table. In the past few years, some DAF sponsors have recognized the need to facilitate these non-cash gifts and have become skilled at liquidating complex assets. The DAF sponsor accepts the asset, conducts the due diligence, liquidates it and

then funds a DAF with the proceeds so that the donor can support their favorite charities with cash grants. Since DAF sponsors are public charities, contributing appreciated assets to them means significant tax savings. If a donor were to liquidate the same asset on his/her own and then donate, the amount available to charity would be greatly reduced.

Fundraising tip: Conduct an honest assessment of your organization's ability and willingness to accept different types of assets. If you identify a gap, consider outsourcing this process to a DAF sponsor. You can either establish your own DAF or designated fund (a charitable giving vehicle that supports only one, designated charity) where donors can contribute their assets; or you can encourage your donors to use or establish a DAF. Once you've done so, it's time to reassess your major donor pipeline, hopefully expanding it to include those with unique assets, and prepare your suggestion to use a DAF.

SUMMARY

DAFs are a tool for people who know they want to be philanthropic, even if they're not sure how, when or where to give just yet. Some donors know exactly which charities they want to support and start recommending grants immediately. Others establish a DAF as part of a giving strategy and want time to consider their choices and maximize their charitable impact. Fundraisers are familiar with both types of philanthropists and need to "make their case" for support to each, keeping certain compelling uses of DAFs in mind.

Having a coordinated program to encourage donors to give from their DAF is a winning strategy, and using the tips in this e-book can help your organization raise more money from this growing resource.

ABOUT NPT

National Philanthropic Trust (NPT) is a public charity dedicated to providing philanthropic expertise to donors, foundations and financial institutions, enabling them to realize their philanthropic aspirations.

NPT was founded in 1996. Since that time, we have raised \$11.3 billion in charitable contributions and currently manage \$6.7 billion in charitable assets. We have made more than 230,000 grants totaling \$5.6 billion to charities all over the world. We rank among the 25 largest grantmaking institutions in the United States.

Our experienced staff of philanthropic professionals is fully prepared to help you establish and administer your donor-advised fund. NPT is led by a Board of Trustees composed of nationally-known experts in philanthropy and business. [Learn More at npitrust.org](http://npitrust.org)

ABOUT DONORPERFECT

DonorPerfect gives you all the tools you need to engage, inspire, and retain your donors. Designed to help your organization grow, DonorPerfect's core CRM system expands to incorporate growth tracks that support fundraising and donor management initiatives like online fundraising, donor engagement, fundraising events, donor retention, and more.

From online giving solutions with integrated payment processing to email and mobile marketing tools to highly customizable reporting, DonorPerfect empowers your team to work better together on a single platform, learn what makes your donors move, and cultivate the relationships that will make your mission a reality. [Learn More at donorperfect.com](http://donorperfect.com)



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