FAMILY
WEALTHREPORT

GUEST ARTICLE: Donor-Advised Funds As Family Philanthropy Vehicle

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Understanding the opportunities and the limitations of the vehicle are critical to ensuring a successful giving experience.

Last week, we published a commentary on the virtues and issues around Donor Advised Funds (DAFs) and private foundations. The article was written by Susan Winer, founder of the firm Strategic Philanthropy and a regular commentator in these pages about philanthropy issues. This article, meanwhile, goes into the DAFs sector in greater detail. We are grateful to Susan for these insights and invite readers to respond. They can email the editor at tom.burroughes@wealthbriefing.com

Donor-advised funds are the fastest-growing charitable giving vehicles in the US these days and they are beginning to take hold outside the US; NPT-UK, an affiliate of National Philanthropic Trust is a dual qualified charity founded in 2013, and is a model for other countries.

In 2015, there were close to 270,000 individual DAF accounts accounting for approximately $80 billion in assets with the average account at about $235,000.

In 2013, giving accounts held over $37 billion, according to Fidelity Charitable. The increase in both the number of funds and the assets in those funds over a two-year period is clearly significant and the commensurate number of charitable gifts from these funds has virtually tripled over the past decade. There are several reasons for this expotential growth: the ease of set-up for DAFs, fewer IRS and legal costs, minimal reporting requirements compared with private foundations and the immediacy of tax benefits when funds are deposited in the DAF, because a DAF is managed by a public charity. But the explosion of DAFs raises an interesting question: what about family philanthropy? Is it still possible to invest and involve generations in shared values in the same way that has historically been the purvey of family foundations?

In fact, while the structure of a DAF may be different from a foundation, there is very little difference from a philanthropic strategy and planning perspective. With a DAF, families have as good of a means of articulating and acting on shared values and passing on a philanthropic legacy as with a family foundation. Most DAF account agreements will allow for any number of follow-on generations in its succession plan.

As long as a donor is on record with the public charity, shw/he is allowed to recommend grants and investment pool exchanges. With that framework in place, the key to successful family philanthropy is to apply the same key elements of effective family philanthropy that every thoughtful and charitably inclined individual should incorporate to maximize the benefits of their charitable vehicle.

Key elements of effective philanthropy

The mission statement - this can help families to situate their giving in the context of their specific family history and values while clarifying a purpose for their giving activities. Mission statements should be reviewed and revised every few years to ensure relevancy, as interests and goals change over time.

A governance framework - this helps to put formal structure around family interactions.

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Philanthropic families benefit greatly from establishing an agreed upon structure, that addresses the following:

-- How and when giving decisions will be made and by whom;
-- The kind of due diligence needed to choose grantees;
-- What the protocol and expectations are of relative to grant applications, reporting and impact;
-- Making grants that are contingent on receipt of annual progress reports or in-person site visits is an easy way to monitor the impact of grants; and
-- How the funds will be used: Project specific? General operating? Emergency support?

Legacy plan - this ensures harmony among successive generations. Legacy plans record a founding generation's motivations for creating a philanthropic entity and outline the objectives they hope to achieve through their charitable endeavors. Legacy plans typically address who will inherit the fund when the current trustees pass and who will take responsibility for overseeing the "giving committee". This succession planning aspect of the legacy plan helps to ensure effective stewardship of charitable assets across generations.

Involvement of the next generation - this presents a significant opportunity to pass down values across generations and to teach valuable lessons related to wealth and inheritance. Some families decide to set up separate donor-advised funds that children or grandchildren can use to distribute small grants to organizations of their choosing. These funds allow for valuable learning around grantmaking, budgeting and working as a family. Other families invite next generation members to "allocate/recommend" one grant per year (for example in honor of their birthday or graduation) to a charity of their choosing provided they engage in the appropriate due diligence. This training will help the next generation make good use of the family's charitable assets and instill them with a spirit of generosity that they are likely to carry with them.

Focus on impact – this developing evaluation criteria can help donors to assess the progress their grantees are making on specific social issues and/or can assess the change they're creating in select geographies (such as their hometown). The more families know about how effective their gifts are, the more wisely they will be able to spend their charitable dollars in the future.

Collaboration and support – with partners who are interested in advancing the same causes and seeking similar impact is an excellent way to leverage charitable dollars. Having the support of professionals who are steeped in philanthropy can be a value-add not only because they can point donors to a wide variety of resources to enhance their philanthropic experience, but the professionals can help to ensure that the charitable intent is followed and help deepen family relationships around shared experiences.

Choosing wisely

If a family decides to go the Donor-Advised Fund route, it is important that they, and their advisors, know what is involved. For example, if management of assets is important, then that should be explored before the fund is opened. If a client is using non-cash assets to create the DAF, this may limit the choice of public charity. Similarly not all public charities will encourage or support Program Related Investments. PRIs are an interesting tool for donors that provides for a low or no interest loan to nonprofits that when repaid, the principal (and any interest) return to the donor to be used again.

Understanding the opportunities and the limitations of the vehicle are critical to ensuring a successful giving experience, but overall, the more involved a family is in how their donor-advised funds are put to work, the greater the potential impact and value of their charitable contributions and the greater the return on investment to the family as a whole.

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