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Specialty Funds Appeal to the Hands-On Donor

By CHARLES PAIKERT

FOR ordinary people, charitable giving has usually meant contributing cash or writing a check to a qualified organization like the Salvation Army. For those with substantial wealth, it has usually meant starting a private charitable foundation.

But for people who can afford at least the typical minimum required contribution of $5,000, donor-advised funds, or D.A.F.'s, have emerged as a viable alternative, offering their own tax, privacy and administrative advantages.

As the name implies, they are funds over which donors retain considerable influence, though they are set up to be administered and legally controlled by a third party — say, the nonprofit arm of a financial services company or a community or church group.

For example, Ashlee Kleinert of Dallas was interested in supporting local charitable agencies that are dedicated to helping women who find themselves caught up in prostitution, domestic violence and homelessness. Five years ago, she established the Mustard Seed Fund, which is administered by the Dallas Women's Foundation.

"I don't have the time or the skills to vet all the groups that could use our help," she said. "I trust the D.W.F. will do a good job, and they'll also take care of the paperwork and accounting issues, so I don't have all the hassles."

Similarly, Elizabeth Wallace Ellers helped start the Globalislocal fund, based in Philadelphia, to invest in agricultural, health, education and small-business projects in the developing world. National Philanthropic Trust takes care of legal and back-office requirements, but Ms. Ellers likes that she retains a large degree of influence over how the money is spent.

"Legally, they control the assets and make the decisions," she said. "But in practice, donors have a lot of input, so it's really the best of both worlds."

The tax benefits of opening a donor-advised fund are similar to those taxpaye
they contribute to a house of worship, college or other public charity, said Phili
professor and philanthropy chair at American College.

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If they contribute cash, taxpayers who itemize are able to write off their donations up to 50 percent of their adjusted gross income. A taxpayer who contributes a stock, real estate holding or other security that has appreciated in value can write off up to 30 percent of adjusted gross income. The unused amount can be carried forward up to five more years to be used as a deduction against income.

“Donor-advised funds are much more about thoughtful giving than they are about tax benefits,” Professor Cubeta said. “You’re able to put the money into a D.A.F. when you have it, and then decide where you would like it to go when you have the time to carefully consider the options. It can be a wonderful Thanksgiving tradition, for example, for a family to decide which local charities should receive money from the fund and why.”

In fact, while one donor typically advises a fund, whoever sets up the account can designate other advisers, including children, a spouse, a close friend or a relative.

For the wealthy, philanthropy experts stress the tax advantages of donor-advised funds over private charitable foundations, in which deductions are capped at a lower rate. “For gifts of anything other than cash or appreciated publicly traded securities, the tax write-offs for private foundations are very limited,” Professor Cubeta said.

“You have greater flexibility with a donor-advised fund,” said Susan Winer, senior vice president at Strategic Philanthropy in Chicago. She said that nearly all donor-advised funds allow donors to make distributions when they want, “while private charitable foundations are required to pay out 5 percent of their assets every year.”

Not surprisingly, donor-advised funds have soared in popularity. The first was established in 1935 to help community foundations work more effectively with donors. But only in the last 20 years have donor-advised funds really taken hold, thanks to the Internet and the marketing efforts of the financial services giant Fidelity Investments.

“Fidelity has been able to put a huge amount of national advertising dollars into marketing D.A.F.’s since the 1990s to increase awareness and was also able to charge low fees,” said Eileen Heisman, president and chief executive of the National Philanthropic Trust. “The Internet has been huge because it made transactions easier, eliminating the need for faxes and letters.”

Donors contributed $7.7 billion to these funds in 2010, an increase of 25 percent from the previous year, according to the most recent report from the National Philanthropic Trust. Total assets rose to nearly $30 billion, a 12 percent spike from 2009. What’s more, the number of donor-advised funds has grown by more than a third since 2005, reaching 161,873 in 2010.

Nor has the pace slowed this year, according to Fidelity Charitable, the country's largest independent public charity with a donor-advised fund program. Contributions to Fidelity-administered donor-advised funds reached $1.2 billion through the end of September, a 63 percent increase compared with the same period in 2011.

The average account size for new donor-advised funds at Fidelity Charitable is over $100,000, said Sarah Libbey, its president, and contributions can often extend into the millions. To administer the funds, Fidelity charges 0.6 percent on assets under $1 million, 0.45 percent on assets of $1 million or more and 0.19 percent for funds with more than $5 million in assets.

One major appeal of donor-advised funds is the privacy and donor anonymity, said Allison Taff, a managing director at Silver Bridge Advisors, a wealth management firm based in Boston. "Anonymity is a huge benefit for wealthy clients," Ms. Taff said. "Contributions to donor-advised funds are not public, but a private foundation has to file a 990 tax form, which is part of the public record, and some families are uncomfortable with having detailed information about their wealth available for anyone to see."

Private foundations, however, still take in more money than any other form of philanthropy, having accumulated over $500 billion in assets last year, according to the National Philanthropic Trust report. Not coincidentally, those who start them enjoy complete legal and administrative control, and can appoint whomever they want to executive positions, including their relatives.

Anyone considering establishing a donor-advised fund should carefully research community groups and other fund sponsors, Ms. Kleinert said.

And before deciding which charities should be supported by a grant from a donor-advised fund, donors should check Web sites like CharityNavigator, which rates charities, and GuideStar, which offers information on nonprofits.

Anyone thinking of starting a private foundation should have at least $5 million, according to philanthropy experts. As for deciding between a private foundation and a donor-advised fund, Ms. Heisman compared the choice to renting or owning a home. "There are advantages to both."