

HOW TO GET YOUR SHARE OF DONOR-ADVISED FUNDS

| **Laurence A. Pagnoni, MPA, Author, *The Nonprofit Fundraising Solution*, Chairman, LAPA Fundraising**

Are you baffled by donor-advised funds or wondering how your organization can benefit from them? If so, here are some ways you can secure donor-advised fund giving.

What Is a Donor-Advised Fund (DAF)?

A DAF is a charitable savings account that lets you donate without choosing a specific charity right away. You can send the money later, at any time, to a qualified charity, while the account grows tax-free. Your gift may also qualify you for a charitable tax deduction in the year you donate, if you itemize.

The primary benefit of a donor-advised fund is that it allows the donor to invest their assets and receive a tax deduction simultaneously, even though the actual funds may not be granted to your charity until later. The DAF essentially enables donors to receive a tax deduction when the money goes into the fund, while the donors decide whether the assets will finally go to your charity. In the meantime, the assets inside a donor-advised fund grow tax-free.

Of the estimated \$427 billion in charitable contributions made annually in the US, the share of total giving going to donor-advised funds increases each year. DAFs make up only six percent of overall giving, with grants of \$19.08 billion in 2017, but these funds are the fastest-growing form of philanthropy today, according to a 2018 study by the National Philanthropic Trust. Contributions to these funds grew 16.5 percent to \$29.23 billion last year, and assets reached \$110 billion, up from \$86.5 billion in 2016.

How Do I Find DAFs Since They Are Not Public?

The dozen ways noted below will help you find which donors have DAFs, but the process should start with advanced prospect research. Advanced donor prospect research is essential for serious major gift programs because it helps you understand your donor's overall giving, plus their giving to other charities. In the past five years, the field has transformed itself through access to large databases and relationship science mapping. The research shows the donor's capacity to give based on their net worth, their charitable giving, and their wealth indicators—details like if they have a second home, or the value of their current residence.

After the research is finished, if we see very few public donations on record, but a high net worth, that's a good indicator that the donor probably has a DAF. This indicator is enhanced if we've been told by a colleague or charity that that donor has made significant gifts.

Here are a dozen ways to find and promote donor-advised fund giving:

1. **Ask Your Donors.** When you talk with your donors by phone or in person, particularly your major donors, ask them if they've established a donor-advised fund. Sometimes, I don't ask directly at first. Instead, I ask: "How do you prefer to make your charitable gifts—by checks, through a family foundation, by donating appreciated stock?" Then I see if they bring up a DAF.

You can even ask all your donors if they have a DAF by asking the question in a donor survey.

2. **Inform Your Donors.** Let donors know that you accept DAF grants. Don't assume that your donors know this. Instead, make sure they understand that your organization accepts and welcomes DAF grants, and that you are aware of them as a smart giving choice.
3. **Modify Your Reply Card.** Include a DAF giving checkbox on your gift forms. While you can simply ask if the donor has a DAF account, you can also give donors the option to make a gift commitment via your reply form. Notice I said "commitment" rather than "pledge." That's because DAFs cannot technically be used to make pledges.
4. **Add a Widget.** Include a DAF widget on your website. You can download your own free DAF widget at <https://dafwidget.com/> thanks to fundraiser Greg Warner. By putting the widget on your website, your donors will know: a) your organization accepts DAF gifts, b) donors can give from their own DAF account, and c) they can link easily to their DAF sponsoring company from your website, which will make giving simple.
5. **Newsletter Promotion.** Publish a story about a DAF donor in your newsletter. This is a great way to recognize a donor while letting others know that your organization encourages DAF grants. The article can also

educate donors about how a DAF works. Don't assume just because someone has created a DAF that they fully understand how the grantmaking process functions.

6. **Appeal to Your Donors.** Either as part of regular funding appeals, a stand-alone direct mail piece, or a face-to-face visit, you can ask your donors to provide a grant from their DAF account should they happen to have one. If you know which of your donors has a DAF account, you should tag them in your donor database, and then you can approach them with a specially targeted appeal.
7. **Promote the DAF as a Conduit for Appreciated Stock Donations.** You may want your donors to donate appreciated stocks directly to your nonprofit, but if you don't have the infrastructure to receive those assets, then the donor-advised fund can operate as a "conduit." In this case, the appreciated securities are donated to the donor-advised fund, which liquidates the investments (tax-free), and then subsequently makes a cash grant directly to your organization.
8. **Promote the DAF as a Way for Gifts to be Made Anonymously.** Some donors wish to give anonymously because they don't want to be recognized publicly, they're concerned that a large public gift will lead to solicitation by more organizations, or for general philosophical reasons. But making donations anonymously can be difficult to execute. With a donor-advised fund, the donor can make the donation to the fund and allow the sponsor of the fund (Vanguard or Fidelity or the like) to facilitate the gift to your nonprofit on an anonymous basis.
9. **Promote the DAF as an "In Memoriam" Fund.** The donor can accomplish this by simply designating the source of funding in the name of the person to be honored (i.e., "The Jane H. Smith Memorial Fund"), and then requesting that when grants are made, the donor-advised fund acknowledge the source as such. Since a donor-advised fund can also collect donations from multiple givers, an "In Memoriam" fund could even be the recipient of "gifts in lieu of flowers" for someone who recently passed away.
10. **Promote the DAF to Teach Charitable Giving to Children.** A donor-advised fund may be used to teach responsible giving habits to children.

The decision about how much to give and to which organizations would be made collectively by the family. When the donor's money is already in a donor-advised fund—so there is no chance it will go to anyone in the family as an inheritance—it becomes easier to have a constructive conversation about targeted charitable giving.

11. **Promote the DAF as a Legacy Family Giving Vehicle.** In addition to using a donor-advised fund to teach children about charitable giving while the philanthropist is alive, a DAF can also function as a legacy family giving vehicle after the person's death. Accordingly, a donor-advised fund might be the sole charitable beneficiary under the philanthropist's will. If your nonprofit reaches out to the donor sooner rather than later, it is more likely to be included in the family's legacy giving years from now.
12. **Promote Your Charity's Fiscal Responsibility.** Are you surprised to hear me say that? Well, one of the real challenges for those making large charitable gifts is the concern that your charity may not use the donation responsibly. Donors making significant contributions often have an interest in spreading their contributions out over time, to affirm that the charity is continuing to use the funds appropriately and responsibly before the next gift is made. If your charity slips up, the donor has flexibility through the donor-advised fund to redirect subsequent gifts to another charity. As a recipient, you must promote your organization as being fiscally responsible, thereby earning the donor's trust and increased giving.

Donor Education

Given these dozen recommendations, I recommend you host a gathering of your DAF donors for a donor education session twice a year, perhaps two hours long, to facilitate a discussion with them about their DAF. I usually bring an investment advisor with me when I host these sessions. You see, many donors have set up a DAF because their financial advisor told them to, but they know little about how their DAF works, let alone how it can meet your funding needs. It’s your job to educate them!

A Concern

Even though no tax rules require it, many DAF providers have their own policies that mandate regular giving. Fidelity, for example, requires donors to make one gift of at least \$50 every three years. After five years, if the donor remains inactive, the account could be liquidated, and the money moved to a philanthropic fund. At the Jewish Communal Fund there is a three-year inactivity clause that triggers a distribution.

Still, most donors are active, making an average of six to seven gifts annually, according to data from the National Philanthropic Trust.

Our Sector’s Advocacy Role

There is a rising consensus among nonprofit leaders that it is time to impose payout requirements based on each DAF account. A simple approach to bring about the reform needed has been put forth by Ms. Ray Madoff, professor at Boston College Law School, where she teaches about trusts and estates. She recommends that DAF donors be required to name a charity that would receive any unspent funds at the end of seven years. The sponsoring organization would simply need to track account spending, and at the end of seven years, it would automatically send unspent money to the donor’s chosen charity. Donors could still make additional contributions to the fund at any time and each of those could be tracked separately to follow the seven-year rule.

This is the kind of solution that balances everyone’s needs—those of donors, charities, and society. It’s time for Congress to adopt such an idea to serve the common good, which is the point of receiving a charitable deduction.

Until such reform, and even after, you can secure your share of the massive DAF pie if you follow these suggestions.

If you want to receive Laurence’s free weekly advanced fundraising tips, sign-up at www.lapafundraising.com. You can also email him at laurence@lapafundraising.com



Individual Donor Services

Did you know?

Giving by individuals accounts for 70% of donations to nonprofits, or \$287 billion in 2017.

Donor Data Research is **required** for advanced fundraising.

LAPA's research methods are on the cutting edge. We build your donor pipeline in ways that, just **two years ago**, would have been **impossible**.

Do you need increased giving from current donors?

There are potential major donors among your current donors and even your volunteers who are not giving at their capacity. Why? They're not being asked!

LAPA's wealth research provides detailed information that guides our strategic gift requests to donors based on their wealth profile, which includes their interests, philanthropic history, and personal network.

Do you need new donors?

Our advanced research techniques identify prospects based their wealth and philanthropic history to assure they have the capacity to give as well as an interest in the kinds of services you provide. This helps add thousands of new donor prospects to your pipeline.

Do you need to secure more major gift meetings?

LAPA's secret to securing major gift meetings is through relationship science. Using relationship science, LAPA creates "relationship maps" for our top prospects. These maps show us the individual connections between your agency and the prospects we are trying to reach.

Would you like to pursue family foundations or donor-advised funds?

LAPA screens your database of donors and new prospects that we've identified for any foundation connections they may have, often adding dozens of new family foundation prospects to your pipeline.

Do you need new trustees?

As part of our wealth research, LAPA finds trustee prospects with experience serving on nonprofit boards and we use advanced research methods to create a list of individuals that would be the best fit for your board or board committees.

About LAPA

For the past 24 years LAPA has provided high-level fundraising counsel to leading nonprofits. LAPA specializes in campaign, grants, and planning services.