

Mystery Money: the Art of Seeking Gifts From Donor-Advised Funds

By Alex Daniels

As president of Fidelity Charitable, Amy Danforth presides over a massive pool of money that will eventually be steered to charity — so it's natural that nonprofits often approach her for cash.

But the \$14.9 billion in Fidelity's more than 75,000 accounts isn't Ms. Danforth's to give. Instead, Fidelity waits until donors say what they want to do with the money.

Donors love pouring money into advised funds. As a result, Fidelity is now neck and neck with United Way of America in the race to raise the most money in America. Last year, United Way topped Fidelity by just \$23.5 million. What's more, four other donor-advised funds run by financial institutions were in the top 15 on *The Chronicle's* Philanthropy 400 ranking of the charities that raise the most.

But perhaps the best way for charities to think of the size of Fidelity is to compare it to the nation's wealthiest grant makers: It now holds more in assets than the Ford Foundation, the nation's second-largest private foundation, behind the Bill & Melinda Gates Foundation. However, unlike Ford and other grant makers that lay out priorities for grant seekers, figuring out how to tap into Fidelity's money has proven tough for many nonprofits.

That's why fundraisers consider donor-advised funds "an existential threat," says Michael Remaley, senior vice president for policy at Philanthropy New York, a grant makers association. He notes that most nonprofits are used to tracking down the paper trail foundations must file with the Internal Revenue Service and the application process many grant makers post on their websites.

But none of that is required from people with donor-advised funds, he notes, so fundraisers "feel uncomfortable that they can't reach out first and make their case," he says.

Victoria Smith, Oxfam America's development manager, has tried to contact donors with advised funds but says it is hard to do. While Fidelity and the other national donor-advised funds report that more than 90 percent of their donors include their contact information when they make a grant, in Oxfam's case, more than 40 percent come without a return address.

"Often it's difficult to connect with those donors because they have the fund administrators between them and us," she says. "There's an extra layer of communication."

The toughest criticism of donor-advised funds is leveled at the national organizations. Even though community foundations are home to some of the largest donor-advised funds, they promote themselves as serving as a link between regional charities and donors who want to give to specific causes in a geographic area.

"If all you are doing is looking to have someone hold your money and be the back office, a lot of people can do that," says Stuart Comstock-Gay, president of the Vermont Community Foundation. "Part of the reason people come to a community foundation is that we know the issues and we know the needs."

‘Our Donors Are Your Donors’

Ms. Danforth says Fidelity and the other funds have taken steps to expand access to donors, but she says the smartest step charities can take is also the easiest: Seek out people who have demonstrated an interest in the charity's cause and remind them they can give from a donor-advised fund.

"Our donors are your donors," she tells them. "The first step is simply acknowledging donor-advised funds as a potential way of funding" a nonprofit's work, she says.

Still, some charities that are taking more sophisticated steps to reach advised-fund donors are reaping the benefits.

For the American Technion Society, the fundraising arm of the Technion-Israel Institute of Technology, the search for donors starts with the neighbors of people who have donated from an account.

When the society receives a gift from a donor-advised fund, it then sends email and direct-mail appeals to people who live in the same ZIP code. "It's pretty easy to put two and two together as to who might have these things in our universe," says Mark Hefter, the nonprofit's associate vice president for planned giving.

Technion, which ranks No. 364 on the 400, receives nearly one quarter of its private support, which totaled \$145 million in the fiscal year that ended September 30, from the funds.

That's largely because it has been working for several years to make seeking donor-advised funds part of everything it does.

For example, to provide additional guidance for donors who use the accounts, the society changed the wording of its gift agreements and pledge letters to make it clear that gifts from a donor-advised fund cannot be used to make good on a gift pledge. Because account holders are advisers, rather than owners of the assets in their accounts, federal tax laws prohibit them from using the funds to fulfill pledges — something the nonprofit's paperwork needed to reflect.

The group also now includes information on using the funds in all of its pitches and instructed fundraisers to always remind donors that they can support the society with a gift from their accounts.

"It's a simple prompt," Mr. Hefter says. "You have no idea how many of these funds get established for tax reasons" and then languish, he says. "A significant portion of people with

wealth forget they have these things. They don't make the connection that when we're asking for money, that they can give from their fund."

Bigger Gifts

For some charities, people with donor-advised funds are worth pursuing because they give a lot more than other supporters.

Less than 1 percent of DonorsChoose.org's donors make gifts from an account managed by one of the big national funds. But those donors tend to give more. Their gifts account for 5 percent of the \$77.9 million the charity raised in fiscal 2015. Andy Kaplan, chief financial officer at the nonprofit, which supports public schoolteachers' classroom projects, wants to build on their generosity.

One idea his group is testing now: tapping into the very thing that makes advised funds appealing. DonorsChoose lets donors park their money with the charity and get credit for making a donation, just as donors to an advised fund can put money in an account, get a tax deduction, and wait until they're ready to pick a recipient. After getting the credit from DonorsChoose, donors can scroll through the nonprofit's site and read about projects, such as a push to purchase violins or a field trip to CNN's studios. Rather than being forced to allocate the entire donation the first time on the site, they can return and donate anytime a new request pops up that's appealing.

"The more we can do to meet the donors' needs on flexibility or timing, the easier it is for them to make a decision to give," Mr. Kaplan says.

A Widget Shortcut

Another way the nonprofit is trying to encourage gifts from donor-advised funds is through DAF Direct, a "widget" it placed on its website this year.

Developed by Fidelity, Schwab, and the Greater Kansas City Community Foundation, DAF Direct allows donors to make a gift from an account directly from a charity's website. Otherwise, donors have to toggle back and forth between the nonprofit's site and their accounts.

It's not catching on too quickly, however. Since it was introduced in 2013, 1,251 nonprofits have signed up for DAF Direct.

Fidelity has processed 2,250 grants through the widget, totaling about \$2 million. But that's nothing compared with the \$2.6 billion Fidelity donors distributed last year.

"It's been a slow road," says Fidelity's Ms. Danforth.

A problem with DAF Direct, says Ms. Smith, the Oxfam fundraiser, is that it takes up valuable real estate on a charity's website.

"We like to use our big website space for messages that will reach a wide audience," she says, explaining that with only three donor-advised-fund charities backing it, DAF Direct appeals only to a small slice of Oxfam's donors.

That might change, Ms. Smith says, if donor-advised funds continue to gain popularity.

Although donations from the accounts make up less than 1 percent of total individual support at Oxfam, which is No. 387 on the 400, they are growing rapidly. In the past two years, the number of gifts of less than \$1,000 from the accounts has grown nearly 79 percent.

That's a key reason that in year-end fundraising mailings the nonprofit plans to send out in the first week of November, Oxfam America will walk those donors through how it works to give through a fund.

"The idea is to imprint into donors' minds that a donor-advised fund is an option when giving to Oxfam," she says.

Urging People to Give

Meanwhile, as critics of donor-advised funds have grown louder, urging Congress to require them to distribute a minimum sum in a specific period, some of the commercial funds are stepping up their efforts to help donors give more wisely. Their theory is that educating donors will do more than encouraging greater interaction between charities and donors.

In August, for example, Fidelity introduced a "Boost Your Giving IQ" section of its website to encourage donors to design strategies for giving that generate the maximum impact. And Fidelity, Vanguard, and other donor-advised funds send donors alerts after major disasters, such as the April earthquake in Nepal.

Educating donors makes them feel more empowered, Fidelity's Ms. Danforth says, and ready to be cultivated for "year-after-year gifts."

How the Vermont Community Foundation Links Charities and Donors:



Child Care Resource got \$10,000 through Vermont Community Foundation.

Screenings: The Vermont Community Foundation auditions nonprofits to take part in its "Giving Together" series. The foundation screens applications to determine the potential impact of a project — including how much it's needed and its viability.

What's next: It sends donor-advised fund account holders a link to a site describing at least 12 projects every month or so and sends mailings that describe the charities.

Results: Donors channeled \$570,000 from their funds in 239 grants to participating nonprofits.

How the Columbus Foundation Links Charities and Donors



Broad Street Food pantry got \$23,000 after a "critical-needs alert."

Alerts: The Columbus Foundation periodically sends "critical-needs alert" emails to its donor-advised fund holders.

Results: After one alert, the fund raised \$325,000 from 71 of the funds to furnish local food pantries with refrigeration equipment, and another resulted in more than \$400,000 that the Homeless Families Foundation and local affiliates of the Salvation Army, Volunteers of America, and the Y used to buy clothing and school supplies for homeless children.

Other steps: The foundation identifies donors with special interests and invites them to discussions with experts on problems facing the Columbus region, such as family homelessness and heroin addiction. Those meetings don't necessarily result in immediate gifts, but they help donors identify where their contributions might go and exchange ideas.

SOARING FUNDS

13% increase in support for donor-advised funds in the Philanthropy 400 in 2014

25% spike in support for community foundations in the 400 in 2014

The Biggest Jump: 3,380% giving by just three donors, including a \$70-million pledge from the health-care mogul Alfred Mann, helped lift the Nevada Community Foundation's support from \$2.8 million to \$98.9 million in 2014

TOP 5 DONOR-ADVISED FUNDS IN 2014

1. FIDELITY CHARITABLE GIFT FUND

Private support raised in 2014: \$3,849,430,422

Percentage change over 2013: + 3.2%

2. SCHWAB CHARITABLE FUND

Private support raised in 2014: \$1,814,889,301

Percentage change over 2013: - 4.1%

3. NATIONAL CHRISTIAN FOUNDATION

Private support raised in 2014: \$1,136,775,000

Percentage change over 2013: + 22.7%

4. VANGUARD CHARITABLE ENDOWMENT PROGRAM

Private support raised in 2014: \$988,105,537

Percentage change over 2013: - 5.8%

5. GOLDMAN SACHS PHILANTHROPY FUND

Private support raised in 2014: \$950,663,376

Percentage change over 2013: + 207.0%