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Donor-Advised Funds Reshape the Philanthropy Landscape

By Alex Daniels and Drew Lindsay

Fidelity Charitable Gift Fund tops this year's Philanthropy 400, *The Chronicle's* annual ranking of America's nonprofits based on the dollars they raise from individuals, foundations, and corporations. It's the first time that a sponsor of donor-advised funds has reached the No. 1 spot.

It almost assuredly won't be the last. Giving via donor-advised funds has boomed in recent years. The funds have a simple appeal, as they function almost as charitable savings accounts; donors get the same tax benefit they would receive with a gift to a food bank or homeless shelter, but the money is often held in the fund indefinitely and invested. Though the charitable organization managing the fund technically controls the money, donors recommend what nonprofits should get gifts and when — recommendations that are routinely followed.

A chorus of critics argues that donations to these funds sidelines money that should go directly to doing good. Regardless, the funds have become a new competitive force that is driving change among donors, charities, and philanthropy itself.

Below are six ways this fast-growing trend is morphing into fresh ways to raise money — and changing how donors think about giving.

Charities are adding donor-advised funds to their fundraising programs.

Traditional nonprofits of all stripes have launched donor-advised funds. Sponsors of funds include hospitals, United Way affiliates, Rotary International groups, even churches and Jewish federations. Universities and colleges on the bandwagon include fundraising giant Stanford (No. 8) as well as tiny Wheaton College in Illinois.

Wheaton created its first donor-advised account in 2004. As Fidelity Charitable (No. 1) grew, the college came to see donor-advised funds as a complement to charitable remainder trusts and other planned-giving instruments. "We said, 'Let's add another tool to the toolbox,' " says David Teune, director of gift-planning services.

The United Way Foundation of Metropolitan Dallas opened its first fund this year at the request of former Dallas Cowboys star Troy Aikman, a longtime supporter who said he was winding down his private foundation, according to Jennifer Sampson, president of the United Way affiliate.

"We had never really thought about donor-advised funds, and it really caused us to pause and think about the future," says Ms. Sampson. "If we're looking to change the world, we have to be changing, too."

Some charities open donor-advised funds with an explicit goal to raise money for themselves. Many colleges, for example, require as much as half of grant dollars go to the university. Donors to United Way of Rhode Island's funds can direct gifts to any nonprofit anywhere. But at the end of a calendar year, the organization sweeps remaining money into its general community fund.

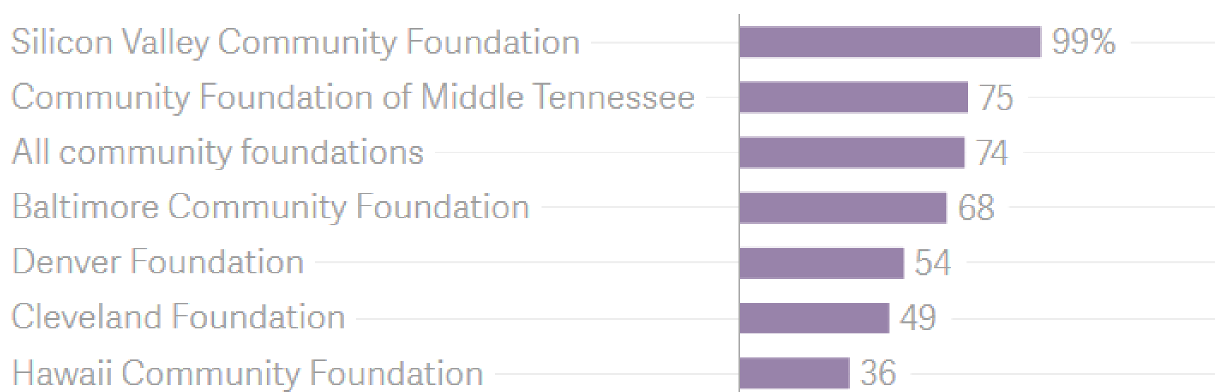
New forms of charitable organizations are emerging.

Little-known Renaissance Charitable Foundation climbed into Philanthropy 400's top 100 this year, landing at No. 72. It's just 16 years old and has only three employees, yet it raised $350 million dollars last year — more than Memorial Sloan Kettering Cancer Center (No. 89), the century-old Easter Seals (No. 114), and dozens of other brand-name charities.

What explains this rise? Renaissance is a sponsor of donor-advised funds, but unlike others, it doesn't seek the assets of individual donors. Rather, it manages the funds of financial companies, wealth-management firms, and nonprofits that, in effect, would rather outsource a donor-advised fund than set up their own. Pennsylvania State University (No. 128) is among its clients.

The Morgan Stanley Global Impact Funding Trust (No. 90) is getting into the outsourcing business, too. It recently began offering "white label" funds to charities; participating nonprofits can brand and market the funds as their own, but Morgan Stanley remains the fund owner. One advantage to nonprofits, according to Melanie Schnoll Begun, Morgan Stanley's head of

philanthropy: A fundraiser can analyze donors' histories and tailor gift opportunities that fit their interests.



Community foundations are trying to look more like Fidelity...

Community foundations enjoyed a virtual monopoly on donor-advised funds in the half-century after the New York Community Trust (No. 305) created the first one in 1931. "They were almost the only game in town," says James Ferris, director of the Center on Philanthropy and Public Policy at the University of Southern California.

That changed after Fidelity launched in 1991 and quickly spawned imitators. "The competition is just fierce," says John Kobara, chief operating officer of the California Community Foundation (No. 165). "I don't know anyone who doesn't have a DAF program."

Community foundations have benefited as Fidelity and other providers popularized donor-advised funds as a giving vehicle. Giving through such funds made up nearly three-quarters of contributions to community foundations in 2013, up from 59 percent in 2008, according to a *Chronicle* analysis of giving to 85 of the largest sponsors — organizations that have appeared on the Philanthropy 400.

Yet the foundations appear to be losing market share. Between 2008 and 2013, contributions to community foundations grew at only two-thirds the pace of giving to national donor-advised sponsors like Fidelity, the Vanguard Charitable Endowment Program (No. 11), and the National Philanthropic Trust (No. 17), according to the *Chronicle* analysis.

To gain ground, community foundations now court financial planners and wealth managers as well as donors. If Fidelity Investments has an army of financial planners who point clients to its charitable arm's donor-advised funds, community foundations are assembling small battalions to do the same for them. At a recent California Community Foundation fundraiser, 25 percent of the attendees were financial advisers, Mr. Kobara says. "That's not unusual for us; that's a goal."

Some community foundations are also reducing investment and management fees to better compete with the low-fee, no-frills sponsors with ties to commercial firms. The Foundation for the Carolinas (No. 68) recently lowered its standard-service charges. "We do not desire to be 100 percent price competitive with our commercial brethren," says Holly Welch Stubbing, the fund's executive vice president. "But we realized we could be more competitive."

...and to differentiate themselves from Fidelity.

In the competition for donors, some community foundations see their staff expertise and the hands-on involvement they can offer as key to their value proposition. Fidelity has easy online tools for managing gifts, but some donors want to feel part of something big. The Foundation for the Carolinas, for example, has in recent years spearheaded a school-reform effort and the rehabilitation of a landmark theater, work it believes has invigorated its civic-minded donors.

A little less than a decade ago, the Pittsburgh Foundation began upping its response to the challenge posed by Fidelity and other sponsors. One tactic: a new fund structure in which a donor's financial adviser would continue to manage donated assets of $250,000 or more. This has led more advisers to steer clients' money to the foundation.

At the same time, the Pittsburgh fund also began offering donors a deeper, more personal engagement. Traditionally, the foundation had kept donors at arm's length; it courted individuals and families, then put their donations into programs staff had created. Now, it invites donors to help determine the foundation's work and "co-create" projects, says Maxwell King, the organization's president. "We give donors access to the whole institution. Program officers, policy, research, communications — they work with everyone."

Donor-advised funds are changing views of giving — for good or ill.

Watching the value of their donor-advised accounts rise, Americans can get the false sense that they are building a Rockefeller-like philanthropy, according to Roger Colinvaux, a professor at the Catholic University of America's Columbus School of Law. That's by design, he asserts. Marketing by fund sponsors encourages wealth accumulation, not giving to charity, he says: "Donor-advised funds are being conceptualized as vehicles for saving and not as vehicles for spending."

Philanthropy once meant simply giving generously to a good cause, says Alan Cantor, a consultant and a critic of donor-advised funds. Now, he says, "you're not worth your salt as a donor unless you have a philanthropic institution or a donor-advised fund."

Assets in the funds are indeed growing, giving each account holder a mini-endowment to parcel out. At large sponsors, the average size of donor-advised accounts is more than $300,000, up from $175,000 in 2008, thanks to stock-market gains and increased contributions. At the largest community-foundation sponsors, fund values have grown by more than 75 percent since 2008, to nearly $580,000.

The national organizations sponsoring donor-advised funds argue that fund size increasing isn't a bad thing. As accounts grow, they say, donors will study their giving patterns, make gifts more intentionally, and often give more than they would have otherwise, particularly in times of need, like after a natural disaster or during a capital campaign.

"In those moments of true generosity, they have available to them a greater volume of resources than they might if they were looking at it year to year," says Don Greene, philanthropic-client-relationship executive at U.S. Trust, which manages the Bank of America Charitable Gift Fund (No. 75).

Sponsors also say a donor's pot of charitable savings will spur the next generation to give — something they encourage. Bank of America's fund, for example, hosts "family summits" for families to discuss their plans. And, fund sponsors say, parents can give children advisory privileges on a charitable account. Together, they can use a fund's website to track gifts.

"It's easy for a parent to get their kids involved in the granting process early and find out what causes they're passionate about," says Jane Greenfield, Vanguard Charitable's president. "We want them to get practice so when the money kicks in, they're already in that mode."

Mr. Cantor is doubtful that involving children in donor-advised funds will lead to real charity. He fears that children who inherit control of the funds will give from those accounts rather than dig deeper on their own during times of need.

"It takes you off the hook," he says. "There's no personal cost whatsoever."

More dollars are going to charity — unless they aren't.

Earlier this year, the annual philanthropy report "Giving USA" declared 2015 "America's Most-Generous Year Ever." Among the encouraging findings: Individual giving increased last year by 3.8 percent, to $265 billion.

But it's hard to know how much to celebrate. A significant portion of that $265 billion — perhaps approaching 10 percent — is going to donor-advised funds that could pay out money this year, next year, or decades from now. In other words, as contributions to donor-advised funds grow as a share of giving, we know less about how many charitable dollars are put toward good works in any given year.

The rise in donor-advised funds "may be contributing somewhat on the margins" to growth in giving, says Patrick Rooney, an associate dean at Indiana University's Lilly Family School of Philanthropy. But he says the accounts have yet to unlock new generosity.

What many call philanthropy’s "stubborn statistic" — the percentage of disposable income that Americans give to charity — has remained stuck at about 2 percent since 1975, according to "Giving USA," which is researched by the Lilly School.

At least some giving to donor-advised funds is a reallocation of charitable dollars: Rather than give to a local United Way or Jewish federation, many donors have put their money into personal giving accounts, Mr. Rooney says.

Still, donor-advised funds offer advantages that could encourage giving. Unlike many charities, most can process gifts of complex assets, such as closely held businesses. They also make transferring stock easy; the Schwab Charitable Fund (No. 4) reports that two-thirds of its contributions come in the form of stocks.

It’s likely that as more people become accustomed to the funds, America’s giving rate will inch upward, experts say. One reason: Account holders get a ready-made giving history through which they can see their charity in relation to their wealth and income. This side-by-side view helps destroy what Kim Laughton, president of Schwab Charitable, calls the "above average" syndrome. More than 75 percent of donors believe they exceed the average in giving, but most donate less than 1 percent of disposable income, she says. When they see an online analysis of their actual giving, they up the ante.

But Mr. Colinvaux of Catholic University says a slick online interface won’t necessarily juice overall giving. He believes easy-to-use websites can turn charitable giving into a purely transactional exercise. An increase in giving, he says, is more likely to come from the heart: "We’re hard-wired for a lot of other reasons to give."

Joshua Hatch contributed reporting and data analysis.