

# THE CARTER CENTER



## **The Carter Center Presents:**

*A Discussion on the Use of Donor Advised Funds in Wealth Planning and Philanthropy*

*With Guests: Donald J. Greene, National Philanthropic Client Relationship Executive, Bank of America, and Chuck Collins, Director for the Program on Inequality and the Common Good, Institute for Policy Studies*

Hosted By: Barry Nickelsberg, CAP, Chief Development Officer for Estate & Gift Planning

&

Mark N. Williams, Esq., CAP, Senior Associate Director

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# Donald J. Greene

- **National Philanthropic Client Relationship Executive and National Family Office Lead for Bank of America, Private Bank**
- **25 years of philanthropic, family office and nonprofit management experience**
- **Directed the start-up of several successful nonprofit and for profit enterprises focused on community development, healthcare and education**
- **Serves on several public charity boards**

[CLICK HERE to Watch Discussion on Donor  
Advised Funds – Part 1](#)



# Chuck Collins

- Philanthropist, Author
- Director for the Program on Inequality and the Common Good at the Institute for Policy Studies
- Expert on U.S. inequality and the racial wealth divide
- Co-founder of Wealth for the Common Good, a network of business leaders, high income households and partners working together to promote shared prosperity and fair taxation (merged with Patriotic Millionaires)



# The Impact of Philanthropy

- Because of our generous spirit and collective action during these trying times, Americans are stepping up to address the needs in our communities
- Grassroots efforts to encourage greater giving in our greatest times of need have attracted significant attention and support
- More could be done to improve the system



# Points for Discussion

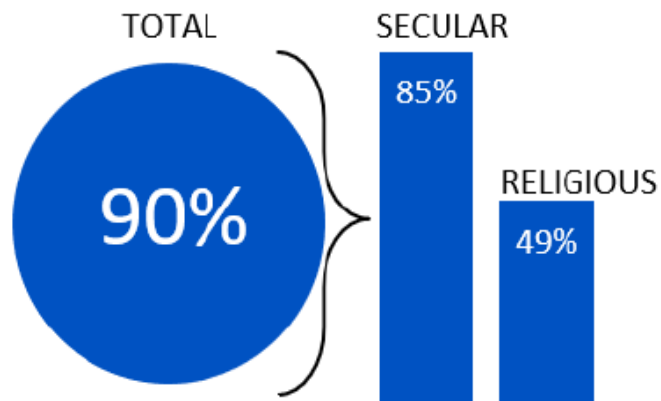
- Changes in Giving – shift from individuals to donor advised funds and foundations
- What is the context and significance of this shift?
- Are specific laws or policies contributing to this shift?



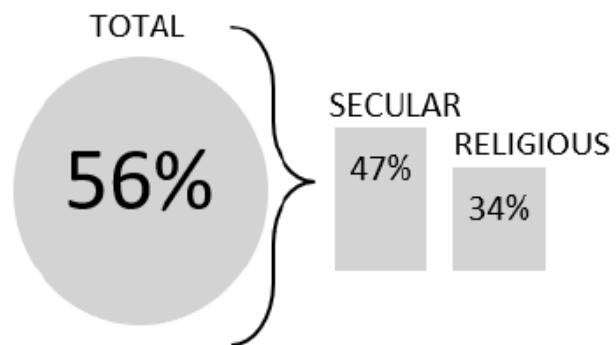


# - Changes in Giving – shift from individuals to donor advised funds and foundations

## PERCENT OF HOUSEHOLDS GIVING TO CHARITY AMONG HIGH NET WORTH HOUSEHOLDS

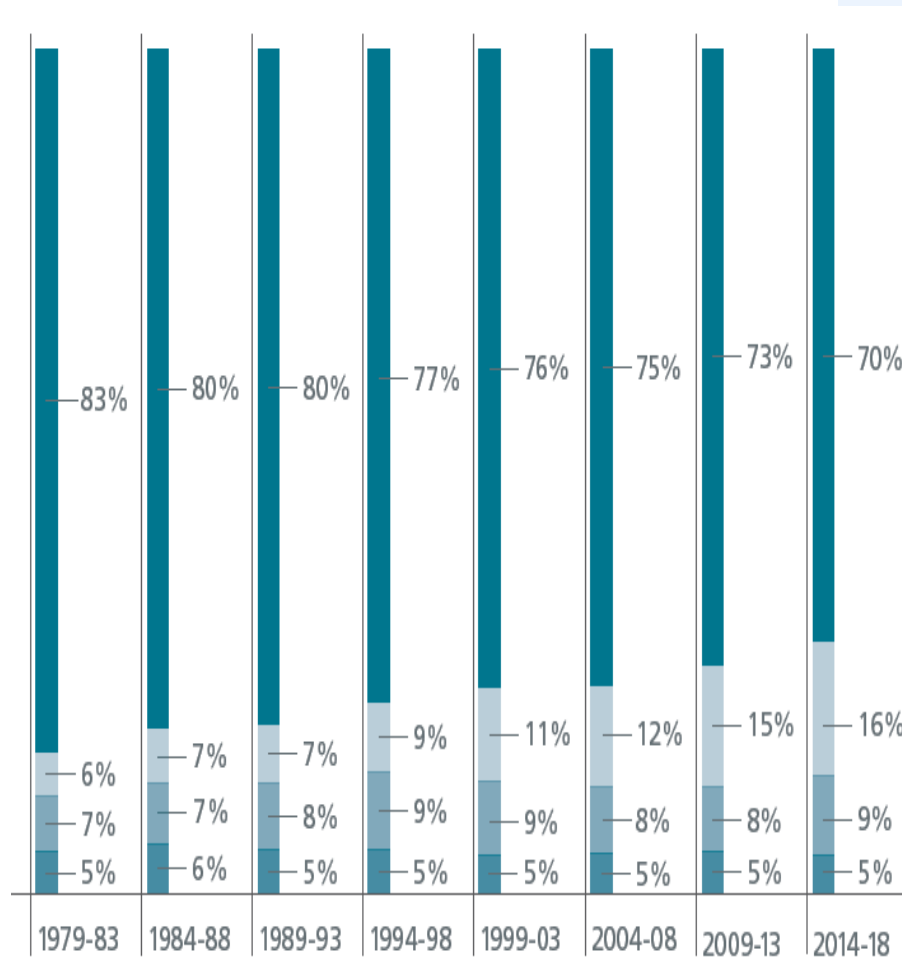


## AMONG GENERAL U.S. HOUSEHOLDS\*



\*Source: Indiana University Lilly Family School of Philanthropy, 2015 Philanthropy Panel Study on giving in 2014, the latest year data is available on average giving by American households.

## Giving by source: percentage of the total in five-year spans, 1979-2018 (in billions of inflation-adjusted dollars, 2018=\$100)



Giving USA, 2019

- Individuals
- Foundations
- Bequests
- Corporations



# Questions for Discussion

- Why are there different rules for individuals, donor advised funds and foundations?
- With growing inequality in America, do the current rules make sense, and do they actually encourage gifts to charities?



# Top Heavy Philanthropy

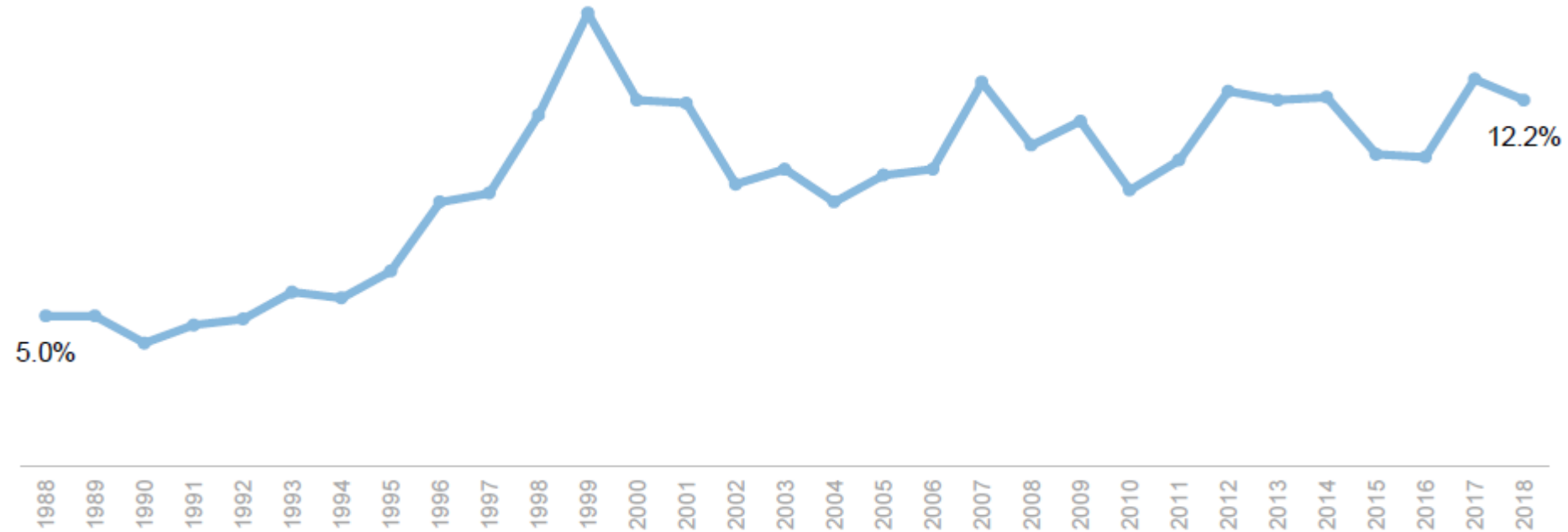
- The 2020 Gilded Giving Report notes that in 1989, 4% of all charitable dollars were given to foundations, rather than working charities, but by 2019, 12% of all dollars given went to foundations; and,
- In 2010, Donor Advised Funds received 4.4% of all charitable dollars, but by 2018, Advised Funds received 12.7% of all dollars given
- This is almost 25% of all giving – Does this say something about our communities?



The 2020 Gilded Giving Report notes that in 1989, 4% of all charitable dollars were given to foundations, rather than working charities, but by 2019, 12% of all dollars given went to foundations

### Percent of Total U.S. Giving Going to Foundations (1988-2018)

The Chronicle of Philanthropy



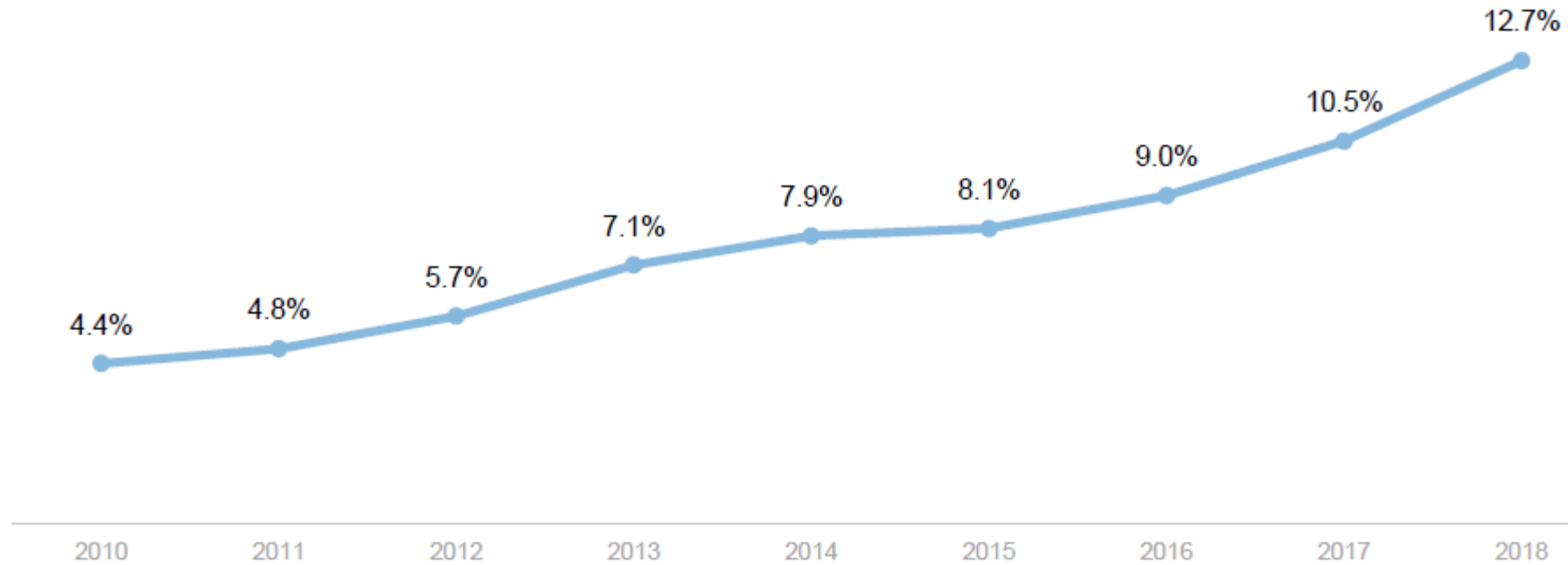
Source: Emily Haynes and Michael Theis, "Gifts to Charity Dropped 1.7 Percent Last Year, Says 'Giving USA'," *The Chronicle of Philanthropy*, June 18, 2019.



In 2010, Donor Advised Funds received 4.4% of all charitable dollars, but by 2018, Advised Funds received 12.7% of all dollars given

### Percent of U.S. Individual Giving Going to Donor-Advised Funds (2010-2018)

National Philanthropic Trust



Source: National Philanthropic Trust, *2019 Donor-Advised Fund Report*, 2019.



# Top Heavy Philanthropy

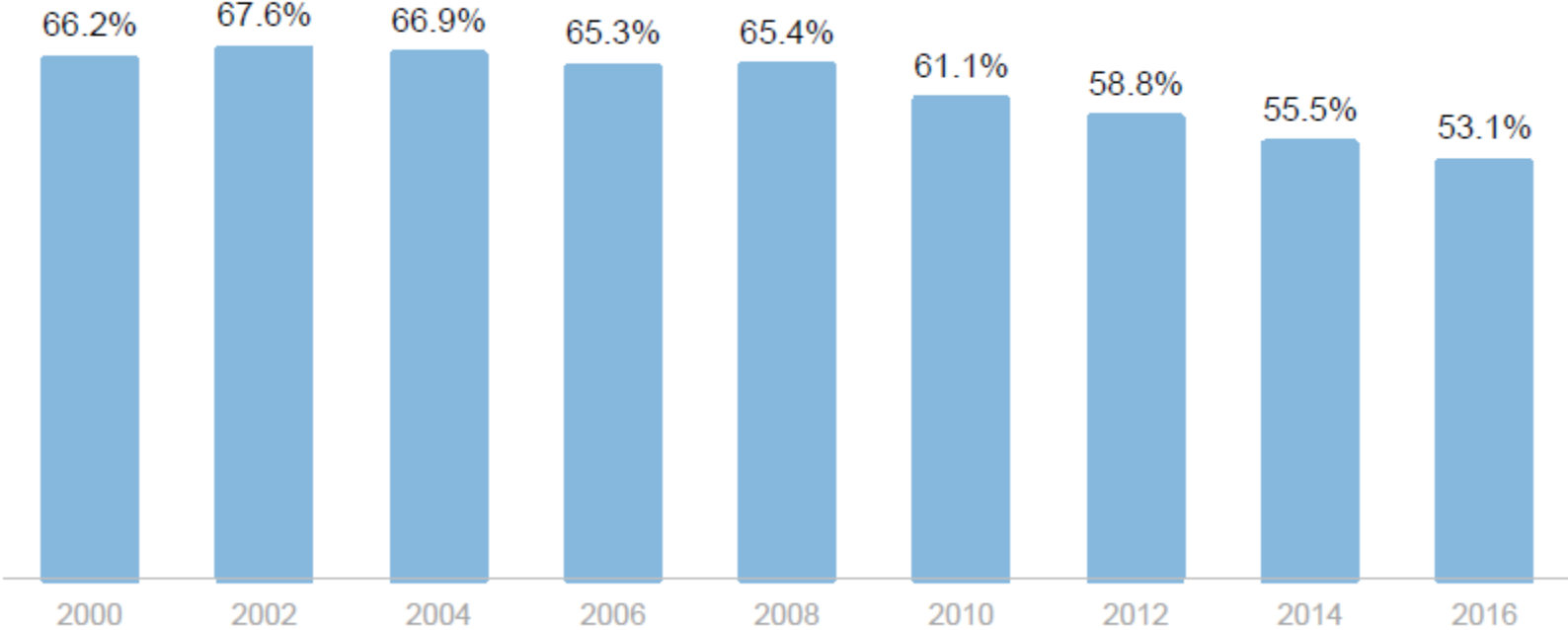
- Inequality is having an impact on the structure of all charity
- The number of people who make small gifts is on the decline
- The number of Donor Advised Fund accounts, and their value, is on the rise - (This is also true for foundations)



# The number of people who make small gifts is on the decline

## Percent of U.S. Households Giving to Charity (2000-2016)

University of Michigan Panel Study of Income Dynamics



Source: Chelsea Clark and Xiao Han, "Changes to the Giving Landscape: Giving before and after the Great Recession," Lilly Family School of Philanthropy, October 24, 2019.



## National Charities

This report analyzes donor-advised fund data from 54 National Charities. These national charitable sponsors had a combined 593,356 donor-advised fund accounts with total charitable assets of \$72.35 billion in 2018.

The compound annual growth rate is included for each metric. This measurement calculates a constant rate of return over time (in this case four years) and mitigates volatility. This measurement has been included to provide additional context and a point of comparison for the historical growth at National Charities that offer donor-advised funds.

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**54** NATIONAL CHARITIES

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**593,356** NUMBER OF DAF ACCOUNTS

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**\$72.35** CHARITABLE ASSETS (*billions*)

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## Community Foundations

This report analyzes donor-advised fund data from 603 Community Foundations, which have 77,234 donor-advised fund accounts with charitable assets totaling \$33.87 billion.

The compound annual growth rate is included for each metric. This measurement calculates a constant rate of return over time (in this case four years) and mitigates volatility. This measurement has been included to provide additional context and a point of comparison for the historical growth of donor-advised funds at Community Foundations.

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**603** COMMUNITY FOUNDATIONS

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**77,234** NUMBER OF DAF ACCOUNTS

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**\$33.87** CHARITABLE ASSETS (*billions*)

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## Single-Issue Charities

This report analyzes data for 332 Single-Issue Charity sponsors. This type of charitable sponsor held 57,973 donor-advised fund accounts with charitable assets totaling \$15.19 billion.

The compound annual growth rate is included for each metric. This measurement calculates a constant rate of return over time (in this case four years) and mitigates volatility. This measurement has been included to provide additional context and a point of comparison for the historical growth of donor-advised funds at Single-Issue Charities.

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**332** SINGLE-ISSUE CHARITIES

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**57,973** NUMBER OF DAF ACCOUNTS

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**\$15.19** CHARITABLE ASSETS (*billions*)

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# Questions for Discussion

- The Gilded Giving 2020 Report notes that a tiny group of very wealthy philanthropists have been able to influence the not-for-profit sector, creating funds worth millions or billions of dollars, with those dollars directed to causes they care about, but giving by low and middle income households is shrinking.
- Why is this happening?
- What is this doing to the nonprofit sector?



# Giving by the Wealthy - The Giving Pledge

- The Giving Pledge is a commitment by the world's wealthiest people to give the majority of their wealth back to charity ([givingpledge.org](http://givingpledge.org))
- Many may satisfy this pledge by giving their wealth to Donor Advised Funds or Private Foundations, not actual charities
- This could have implications for the nonprofit sector and for society



# The Giving Pledge

- The Gilded Giving 2020 Report notes that in March 2020, 100 living billionaires who agreed to give away half of their wealth had a net worth of \$758.3 billion, but by July 2020, their net worth increased to \$971.9 billion, the worst months of the COVID recession to date
- With respect to income inequality, are the very wealthy giving away wealth in proportion to the rate they accumulate this wealth? How?



# Questions for Discussion

- Does dependence or reliance on a few wealthy donors, and the loss of smaller gifts from individuals, pose any risk for charities and their missions?
- Does the decline of giving by low and middle income households indicate other lasting issues that may affect charities and society?
- Should taxpayers and/or the public have any concerns about the system and rules?



# More About Donor Advised Funds

- A Donor Advised Fund is like a charitable checking account
- You place money, stock, or other property into the account and can invest any funds from the property
- You receive an immediate tax deduction and can then recommend gifts of that money to the charities of your choice



# Money on the Sidelines?

- Recent estimates show approximately **\$120 Billion** held in Donor Advised Fund accounts, and nearly **\$1.2 Trillion** held in Foundations

Sources: [https://www.philanthropy.com/article/donor-advised-fund-sponsors-have-found-a-new-way-to-hype-payout-rates-as-fund-assets-reach-110-billion?cid=gen\\_sign\\_in](https://www.philanthropy.com/article/donor-advised-fund-sponsors-have-found-a-new-way-to-hype-payout-rates-as-fund-assets-reach-110-billion?cid=gen_sign_in) ; <https://www.philanthropy.com/article/new-data-show-foundation-assets-and-grant-making-rebounded-fully-after-a-crushing-spring>



# How is a Donor Advised Fund Different From a Private Foundation

	Donor-Advised Funds	Private Foundations
<b>Start-Up Time</b>	Immediate	Can take several weeks or months
<b>Start-Up Costs</b>	None	Legal (and other) fees are typically substantial
<b>Ongoing Administrative and Management Fees</b>	85 basis points (0.85%) or less, plus investment management fees	Can be in the range of 250-400 basis points (2.5% to 4% per year)
<b>Tax deduction limits for gifts of cash</b>	60% of adjusted gross income	30% of adjusted gross income
<b>Tax deduction limits for gifts of stock or real property</b>	30% of adjusted gross income	20% of adjusted gross income
<b>Valuation of gifts</b>	Fair market value	Fair market value for publicly-traded stock, cost basis for all other gifts, including gifts of closely-held stock or real property
<b>Required Grant Distribution</b>	None	Must expend 5% of net asset value annually, regardless of how much the assets earn
<b>Excise tax on investment income</b>	None	Excise tax on 1.39% of net investment income annually
<b>Privacy</b>	Names of individual donors can be kept confidential if desired, and grants can be made anonymously.	Must file detailed and public tax returns on grants, investment fees, trustee names, staff salaries, etc.
<b>Administrative Responsibilities</b>	Recommend grants to favorite charitable causes	Manage assets, keep records, select charities, administer grants, file state and federal tax returns, maintain board minutes, etc.



# Points for Discussion

- While Donor Advised Funds (DAFs) have grown astronomically, there is conflicting evidence that DAFs have produced increases in charitable giving
- National Philanthropic Trust (NPT) reported 2018 DAF deposits of \$37.12 billion; but, only \$23.42 billion was actually sent to charity. (1) Almost \$14 billion in tax deductions were given in 2018, despite the funds not going to charity - those funds were eroded by annual DAF fees estimated to range from **\$400 - \$820 million.** (2)

(1) NPT 2019 DAF Report, p. 3.

(2) Id.; Karen Wallace, CFP, Morningstar, Dec. 2019 - <https://www.morningstar.com/articles/837668/5-questions-to-ask-when-choosing-a-donor-advised-fund>.





# What is the Impact of Donor Advised Funds

- DAFs are growing because of the immediate tax deductions offered to donors, and the added ability to retain effective control of the donated funds, by investing or otherwise storing money in the DAF
- A payout rule is needed because the public receives no value from gifts to DAFs, even though taxpayers have provided a tax benefit to the donor upon contribution, until funds are actually transferred to charities working in our communities



# Unintended Impacts of Donor Advised Funds

- Wealthier individuals get greater tax benefits
- Encourages “preservation mindset” and may encourage “impact investment” as opposed to actual grants to charity
- Lack of transparency and access, and delayed funding for charity programs, are common criticisms under the current rules



# Questions for Discussion

- Several news outlets have reported on cases where charitable funds are being stored and invested in Donor Advised Funds, rather than being given to charities doing critical work in our communities, can you discuss some of the potential concerns with the use of Donor Advised Funds under the current law?
- Washington Post: *Zombie Philanthropy* [Click Here](#)
- Chronicle of Philanthropy: *Foundations Sending Money to Donor Advised Funds* [Click Here](#)



# Points for Discussion

- When donated funds are in a DAF, they are not available to support charities, and this must be balanced with the public's/society's interest in ensuring that dollars given special tax breaks be made available to charities, as intended by law



# Points for Discussion

- Design flaws in the current system are creating inefficiencies
- Money for charity that is warehoused in Donor Advised Funds or Private Foundations has an opportunity cost
- In light of exponentially accelerating inequality, reforms are needed



# Points for Discussion

- Reforming and modernizing charitable giving rules would:
  - ❖ Protect and reinforce the independence of the Nonprofit Sector
  - ❖ Protect the integrity of the Tax Code
  - ❖ Protect democracy and society from undue influence



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# Q & A

