

## DONOR ADVISED FUNDS: YOUR \$85 BILLION DOLLAR BEST FRIEND

March 26, 2018 By Dana — [Leave a Comment](#)



**Everywhere I turn people are talking about Donor Advised Funds.** They've been popular for several years, but lately they're really hitting their stride. The recent tax law changes have raised a renewed interest in these powerful creatures due to the "bunching" strategy discussed in my January article. People are considering making several years worth of charitable contributions to favorite charities in one year rather than over time. In the case of a DAF, they make several years of gifts to the DAF in one year and then grant it out to charities over time in place of typical annual giving.

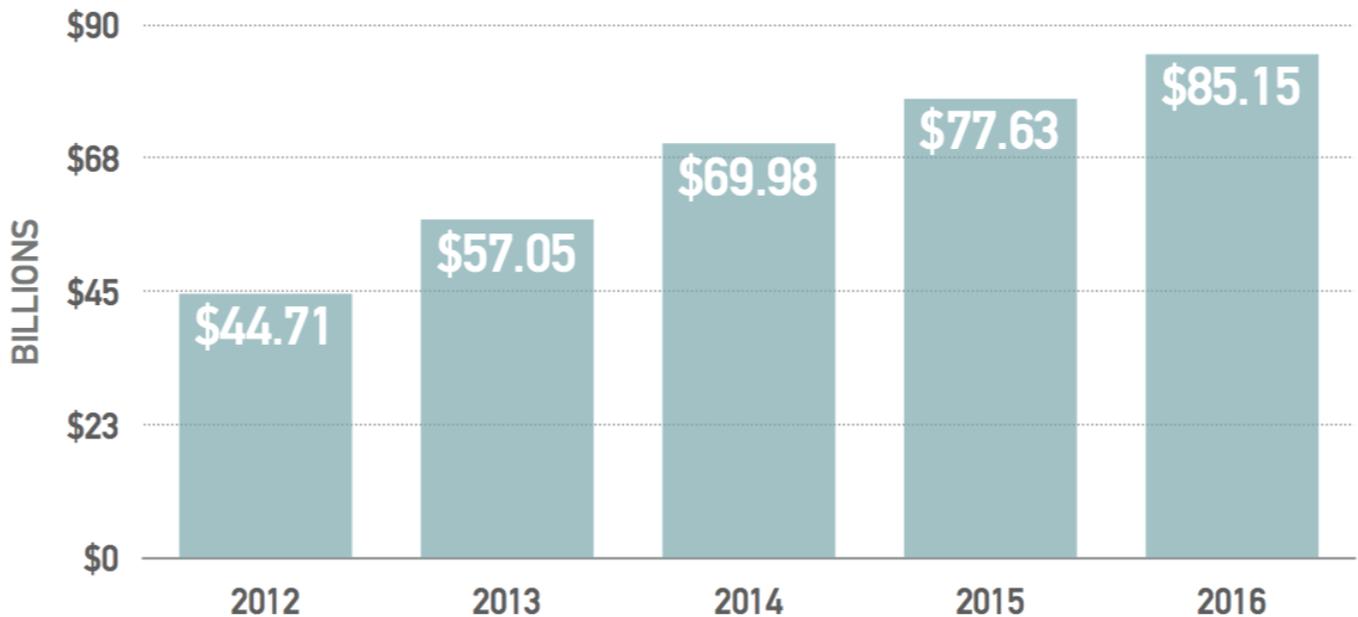
Donor Advised Funds also **stir strong feelings and heated discussions** within the nonprofit community. Much of this heated discussion happens because until now fundraisers have seen DAFs as competition for charitable dollars, rather than a gigantic source of potential donations.

Let's take a critical look at DAFs and discover exactly why I call them *"Your 85 Billion Dollar Best Friend"*.

***[I extend a special thank you to National Philanthropic Trust for the data used in this article.]***

Since 2012 the amount of **money sitting in Donor Advised Funds has doubled from \$44 Billion to \$85 Billion** and the **average Donor Advised Fund size is now over \$298,000**. That's a crazy amount of money just waiting to be used for charitable purposes!

## GROWTH RATE – NATIONAL PHILANTHROPIC TRUST DAF STUDY 2017



You may be saying to yourself two things:

1. That money could have been given directly to charities doing great work!
2. Why is that money just sitting there when charities need the money now?

These are very valid points; however,

1. Many of the gifts made to DAFs would not have happened without the DAF itself; and
2. Money flowing out of Donor Advised Funds to charities is more than you might think.

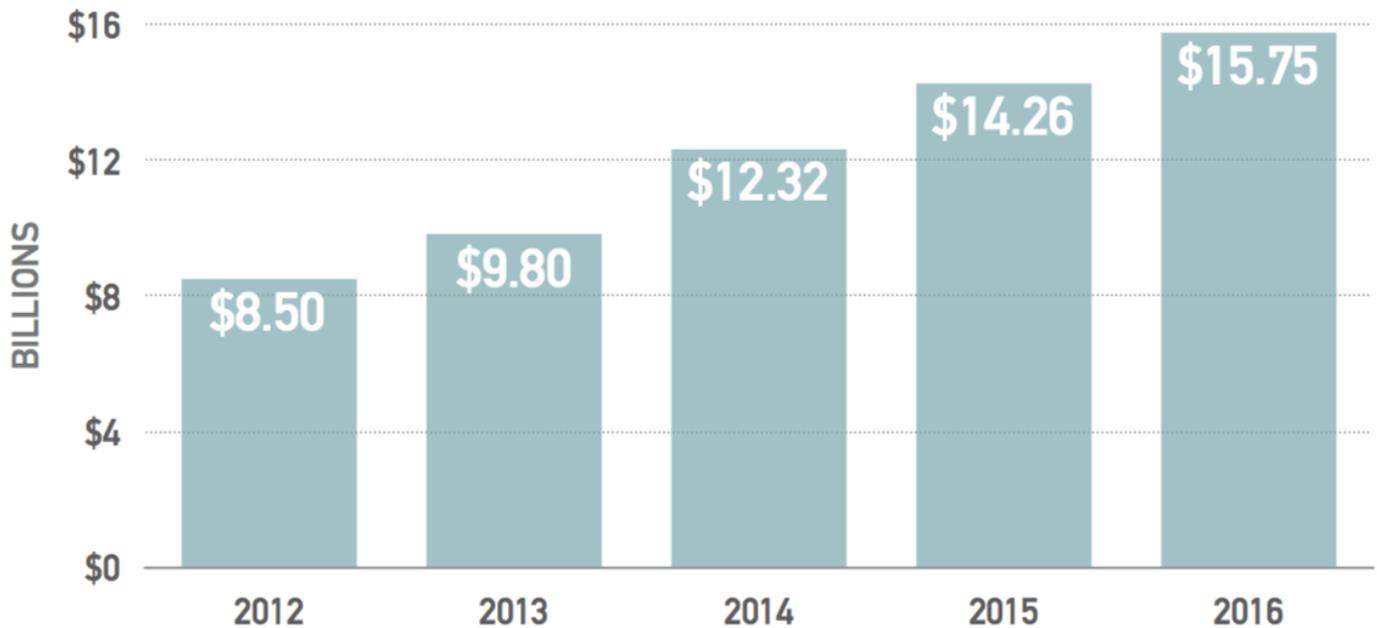
**Why are DAFs so essential?** Much of the \$23.27 Billion donated to DAFs in 2016 was in the form of *assets – not cash*. The vast majority of America's wealth (90%) is held in *assets – not cash*. **Most charities in America are not equipped to accept gifts of assets** like real estate, privately-held stock, machinery, crops, or livestock. Donor Advised Funds are expertly capable of accepting these assets (and others), liquidating them tax-free, and then distributing cash to the donor's favorite charities. **If a donor wants to make a non-cash gift, they often must use a Donor Advised Fund** to make that gift.

**Non-cash gifts are usually made in conjunction with significant taxable events** in the donor's financial life. Their financial, tax, and legal advisors recommend making larger non-cash gifts in the same year as the taxable event to off-set the taxable income. **Advisors are embracing Donor Advised Funds as a regular part of their practice because**

1. They offer substantial tax benefits to the donor, and
2. It makes their clients happy to achieve their charitable goals. Clients are demanding this type of planning from their advisors.

**Now let's compare the amount of money flowing into DAFs to that flowing out as grants to charities.** In 2016 DAFs received \$23.27 Billion in gifts (8.3% of all giving in 2016 – *Giving USA*). They granted out nearly \$16 Billion to charities. That's about 20% more than was granted in 2015. **Grants are flowing out at a pretty good pace, but gifts coming in are happening at a much faster rate.**

## GRANTS FROM – NATIONAL PHILANTHROPIC TRUST DAF STUDY 2017



What does this mean for fundraisers? It means that **we need to get better at raising money from that whopping \$85 Billion in DAFs**. It is just waiting to be used for vital charitable work. How do we DO that?

**The first step is to start asking our donors** “Do you have a Donor Advised Fund”. If the answer is yes, simply remind them that they can request a grant to your organization from that fund. Believe me, they don’t always make the connection. It seems like a no-brainer, but donors often make gifts to a DAF and then kind of forget about that money. It’s up to us to bring it back into their focus and remind them why they created that fund in the first place.

My charity clients often ask me “**how can my organization get in front of DAF providers to let them know what we do?** How can we get to their donors?”. My answer is “**that’s not the best use of your time**”. People who create DAFs know which charities they want to give to. They rarely ask the provider about organizations they could be giving to and the provider is not in the business of recommending organizations to their donors. **It’s a much better use of your time to focus on your loyal donors** and ask them if they would consider a grant from their DAFs.

I must inform you of a very important area of law that applies here. Believe me, you’ll want to know this. **Donors are not allowed to satisfy a pledge with DAF money**. They can promise to “recommend” a grant from their DAF, but that’s as far as they can go. The reason is that they don’t own that money anymore. A pledge can be a legally-binding agreement and a DAF cannot satisfy a personal debt obligation of a donor. It sounds very nit-picky, but it is very important. Don’t ask your donors to satisfy pledges from DAF money. Just ask them to recommend a grant. The end result is the same – your organization gets money.

**Let’s review why Donor Advised Funds can be our new best friend.**

1. They contain a CRAZY amount of money that can *only* be used for charitable purposes. (\$85 Billion and growing)
2. They can accept highly valuable assets your organization may not be capable of receiving.
3. **Their whole purpose is to carry out a donor’s charitable wishes!**

**How do we get in on this enormous wave of generosity to DAFs?**

1. **Ask donors if they have created a Donor Advised Fund** and, if so, encourage them to request a grant to your organization.
2. Review the National Philanthropic Trust DAF Report for additional insights.
3. Partner up with a DAF provider who can accept complex asset gifts from your donors.
4. **Encourage donors to make gifts of assets!** Remember, that's where the *real* wealth is. If it has to pass through a DAF on it's way to you – that's ok!

We've just skimmed the tip of the iceberg when it comes to the benefits of Donor Advised Funds. I encourage you to start taking steps to learn more about them and begin to **incorporate them into your fundraising strategy and advisory practice.**

**For in-depth education** on the most efficient and effective fundraising methods, including donor advised funds and asset gifts, you'll want to check out the ***Turning Wealth Into What Matters™ Strategic Growth Program***. It will teach you how to increase your fundraising by up to 90% and how to grow your advisory practice with high net worth clients.

Dana is an Educator, Professional Speaker, Consultant, and the creator of *Turning Wealth Into What Matters™*, a Strategic Growth Program for Fundraisers and Professional Advisors.



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