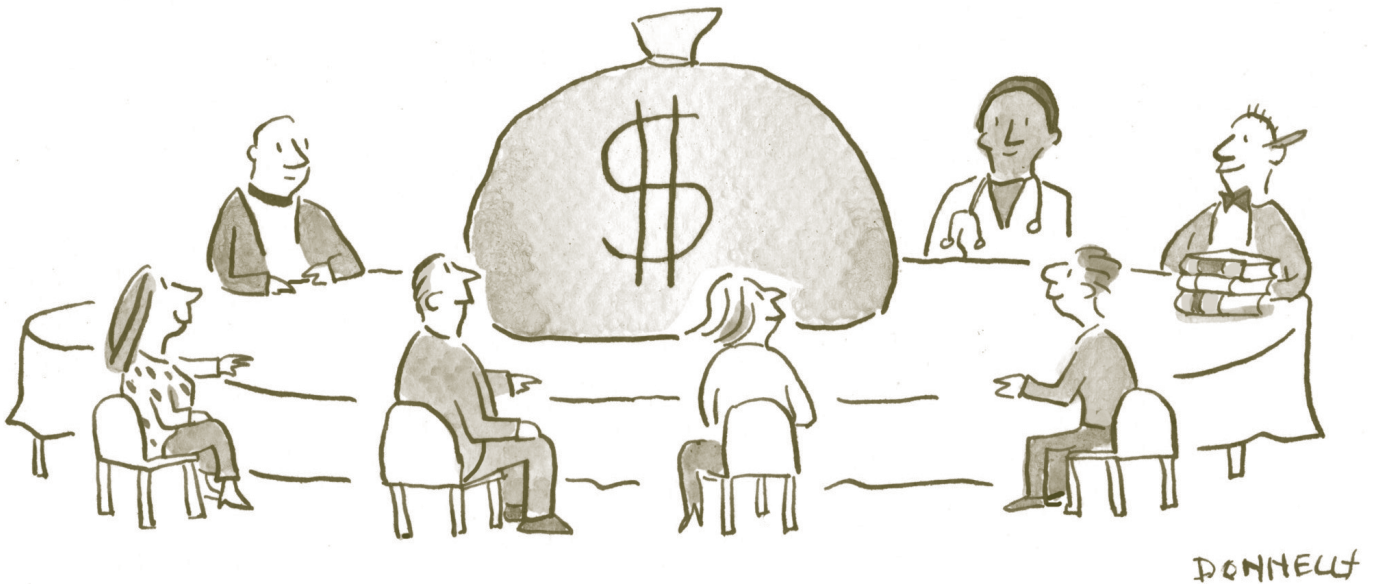


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## Considerations When Choosing a Donor-Advised Fund

Over the past twenty years, donor-advised funds (DAFs) have rapidly become the most popular charitable giving vehicle in the United States. DAFs have become prevalent because they are simple to establish and administer. The latest DAF data shows there are nearly 900,000 individual DAF accounts in the United States with over \$141 billion in charitable assets.<sup>1</sup>

Donors can establish DAF accounts quickly by establishing a fund with a qualified charitable sponsor. The sponsor legally controls the fund and handles all legal compliance. However, the donor retains the ability to make investment and grant recommendations.

Before establishing a DAF account, a donor should complete due diligence on potential charitable sponsors, since each will have its own administration rules and policies. As there are nearly 1,000 charitable sponsors in the United States, it is important that donors select one that is aligned with personal charitable intentions. »

Although community foundations have been administering DAFs for nearly a century, most DAFs are now managed by the national charities, which emerged in the 1990s and focus on administering DAF accounts. Community foundations are found throughout the United States and provide support to local charities. Single-issue sponsoring charities are aligned with a specific institution or cause, such as a university or faith-based organization.

Charitable sponsors fall into three main categories, each with its own advantages and disadvantages:

***National Charities***

e.g., Fidelity Charitable and Schwab Charitable

***Community Foundations***

e.g., Chicago Community Trust

***Single-Issue Charities***

e.g., the Jewish Federation

***Questions to consider when selecting a DAF sponsor:***

**1. What do you want to name your account?**

Charitable sponsors may set naming limitations for their DAF accounts. For instance, some sponsors require “fund” to be in the name and prohibit “foundation” or “trust” to be included. Other DAF sponsors are comfortable with any name as long as it is unique to their program.

**2. How much do you want to contribute initially and on an ongoing basis?**

Generally, charitable sponsors set an initial minimum account balance, often ranging from \$5,000 to \$250,000. Recently, some of the national charities have begun waiving their minimum balances, and an account can be

initially funded with any value. Ongoing contributions to a DAF account may also need to be at a certain level.

Sponsoring organizations may also set contribution minimums depending on the assets contributed. Often, illiquid assets, such as real estate, require the sponsoring organization to complete due diligence, so a larger gift may be required.

It is also important to know if the sponsoring organization requires a certain account balance to be maintained and whether a DAF will incur fees if the entire account balance is granted out in the first year of funding.

**3. What type of assets do you want to contribute?**

All DAFs should accept cash and marketable securities contributions. If a donor is interested in gifting more complex assets, such as privately held stock, real estate, or cryptocurrency, check ahead of time to see whether the sponsoring organization can accept these. They may have rules and procedures for holding and monetizing these contributions. Each sponsoring organization will have its own due diligence process for accepting complex assets and may charge additional fees for this service.

**4. How do you want your assets managed and invested?**

The charitable sponsors are responsible for creating the investment options for their DAF accounts. Some use a single investment pool, whereas others allow an outside investment advisor, such as RMB Capital, to manage accounts.

For smaller DAF accounts, sponsors typically provide a variety of preselected investment options for donors. These investments could include one diversified investment fund or a variety of investment pools composed of active and passive managers with different allocation choices. There is also a growing trend to provide for sustainable and impact investing strategies.

Sponsoring organizations may also allow DAF accounts to utilize an outside investment manager. National charities, such as Fidelity Charitable, offer this option for »

accounts over \$250,000, whereas community foundations, such as Chicago Community Trust, require an account balance of \$1 million.

### **5. What size grants are you planning to make? Are you planning to make complex grants?**

Charitable sponsors will approve grants from DAF donors as long as they are going to qualified charities for qualified purposes. However, sponsoring organizations may require minimum grants, which could range from \$50 at a national charity to \$500 or higher with other DAF sponsors.

For donors who are interested in more complicated grants, such as to international charities or with naming rights, it is important to understand the DAF sponsor's abilities. Some sponsoring charities are unable to fulfill direct grant requests to international charities.

Single-issue DAFs may also have requirements that a certain percentage of grants each year support a particular issue or institution. Others may also require donors make a certain number of grants during a given time period.

### **6. What is your legacy plan for the DAF?**

The duration of DAF accounts may be limited depending on the sponsoring charity. National charities allow DAF accounts to exist forever, whereas some community foundations and single-issue DAFs limit the duration of the account to one or more family generations.

### **7. What type of client service support do you need?**

Donors should also consider the level of client service they will require. Some DAF sponsors may only provide a toll-free number for donors. Other programs may assign a philanthropic advisor to each DAF account to provide a higher level of service.

For donors who support local giving, community foundations are experts in their communities and can provide donors with resources and assistance to make an impact. Similarly, single-issue charities excel at focused giving.

Additionally, donors should review the sponsoring charity's website to ensure that it is easy to navigate and use. Many DAFs allow donors to establish, fund, and make investment and grant recommendations online.

### **8. What are you going to pay to administer the DAF?**

DAF sponsors typically charge two types of fees: annual administrative fees, which include the cost of maintaining the account and grant-making, and investment fees.

Many DAF sponsors charge an administrative fee based on the size of the DAF account and provide a tiered schedule. National charities are often cheaper than community foundations and single-issue charities.

Investment fees will depend on either the investment options of the sponsoring organization or whether the donor hires an outside advisor.

It's also important to understand any additional fees that may be incurred by the DAF for additional work, including due diligence on complex assets and grant-making.

## **Conclusion**

Your RMB advisor is well versed in the many different DAF options and can help you achieve your philanthropic goals. ■

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<sup>1</sup> National Philanthropic Trust 2021 DAF Report: <https://www.nptrust.org/reports/dafr-report/>