

## An overview on Donor Advised Funds



American Endowment Foundation (AEF)

[www.AEFOonline.org](http://www.AEFOonline.org)

Phil Tobin 330-655-7552

[Philtobin@AEFOonline.org](mailto:Philtobin@AEFOonline.org)



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## What is a Donor Advised Fund *A Charitable Investment Account*

### How does it work?

**Donor makes irrevocable contribution (\$10K or more).**

**Donor gets immediate and maximum tax benefits, but...donor can make grants when convenient.**

**Donor *advises* on grants, succession, investments.**

Not all Donor Advised Fund program are alike!

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## Donor Advised Fund Sponsors

**Commercial** (Product Focus)  
Fidelity, Vanguard, Schwab

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**Community Foundations** (Community Focus)  
San Diego, Cleveland, New York

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**Religious Charities** (Charity Focus)  
Jewish CF, Christian CF

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**The Independent Choice** (Donor and Advisor Focus)

**AEF**



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## The growth of Commercial Donor Advised Funds

- Fidelity – Charitable Gift Fund (Est. 1993) – \$4.6 billion
- Vanguard – Endowment Program (Est. 1997) – \$1.7 billion
- Schwab – Fund for Charitable Giving (Est. 1999) – \$1.8 billion



Fidelity now offers advisor participation on accounts greater than \$1 million

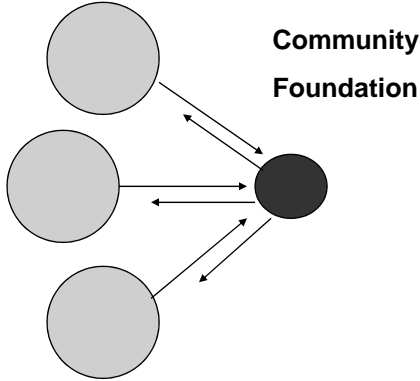
Schwab offers advisor participation on accounts greater than \$250,000

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## Community Foundation Programs

### Trustee Banks



### Consideration points

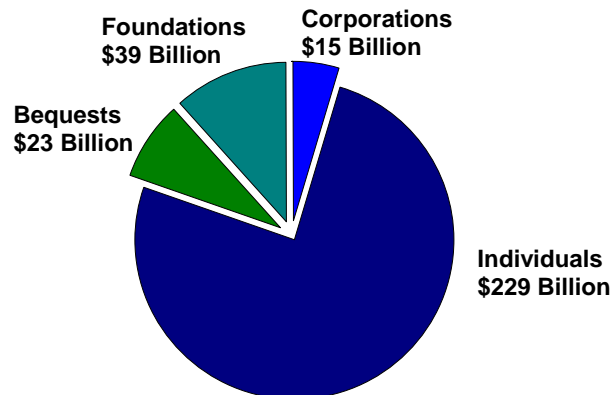
1. Regional focus.
2. Distribution limits.
3. Programmatic Influences.
4. Limited Investment choice
5. Liquidation inflexibility.
6. Succession.
7. Privacy.

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## 2007 Charitable Giving Trends

\$306 Billion

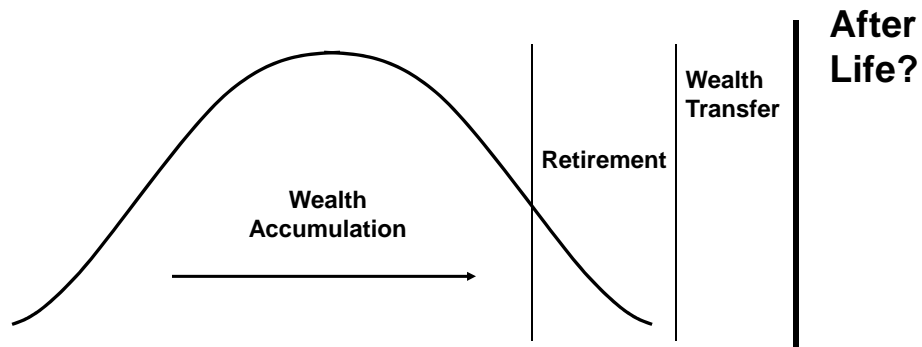


Source: AAFRC Trust for Philanthropy/Giving USA 2007

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## The Wealth Transfer Wave 75 Million Baby Boomers



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## \$ 41 Trillion to Pass From Today – 2052 Where Will These Dollars Go?

**Personal Capital**  
\$25 trillion

**Social Capital**  
\$16 trillion

To Heirs

To Gov't  
Involuntary  
Philanthropy

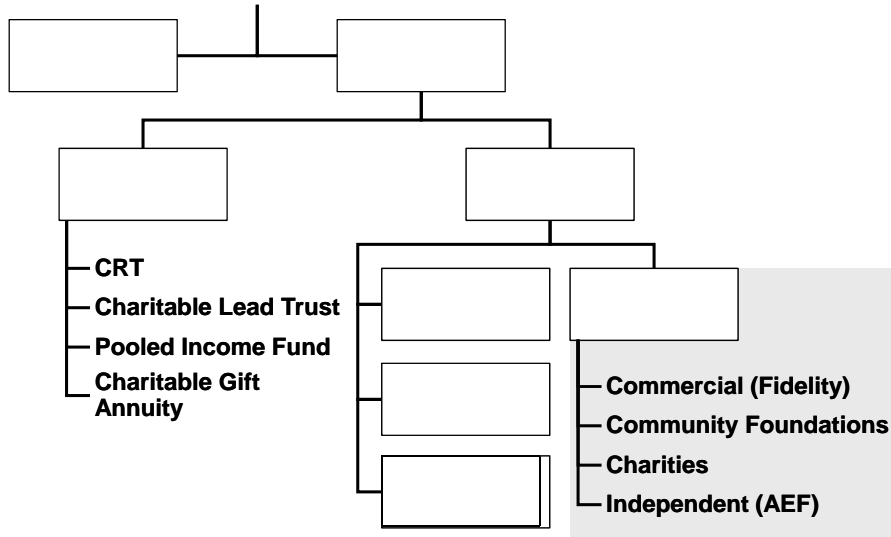
To Charity  
Voluntary  
Philanthropy

Individuals Have Choices

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## What are your charitable giving options?



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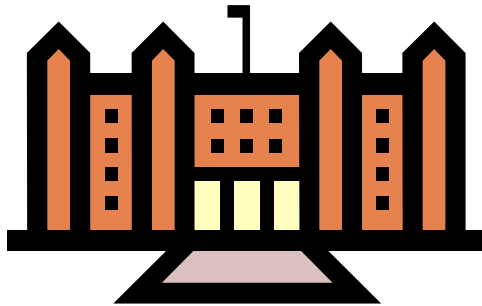
## Issues that donors consider in gifting

- **For smaller gifts (typically from income)**
  - Ease and flexibility
  - Emotional level: low
  - Recognition: Immediate
  - Tax benefits: high but may not be tax-wise
- **For larger gifts (typically from appreciated assets)**
  - Tax issues more complex
  - Donor emotionally attached to assets - Loss of control
  - Small charities often have difficulty with non-cash gifts
  - Accountability
  - Family involvement
  - Investment choice
  - Privacy

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## Complexity Private foundation vs. DAF



Bank

vs.



Bank account

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## Family Foundation Alternatives

**Super  
Wealthy**

**Private  
Foundations  
&  
Supporting  
Organizations  
\$ 3 Mill. +**

**AEF**  
Flexible,  
tailored,  
“independent”  
solutions  
that clients have  
come to expect

**Middle to  
Affluent**

**Commercial  
Programs &  
Community  
Foundations  
\$10 – \$75 K**

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## Private Foundation issues?

- Privacy
- Entry threshold
- Regulations
- Speed
- Training wheels
- Lower Tax Advantage

## What Is a Donor Advised Fund?

- A powerful tax tool
- A lasting legacy for giving
- Training wheels to get started
- Capability to supercharge your planning

## Tax Advantages

- **Immediate and Maximum (5 year carry forward!)**
  - 50% of AGI on Cash
  - 30% of AGI on Securities and Other types of assets
  - Deduction on Fair Market Value (not cost basis)
- **Avoid capital gains tax**
- **Avoid estate tax**
- **Assets grow tax free**

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## Donor Advised Fund Easy Set-Up Process

- **Step 1**  
Donor completes simple application
- **Step 2**  
Financial advisor sets up investment account
- **Step 3**  
Donor selects role of financial advisor
- **Step 4**  
Donor transfers securities to DAF

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## What to Give

- **Cash or securities (Gifts in-Kind)**
- **Real estate**
- **Closely Held Stock (C-Corp and S-Corp)**
  - ESOPs
- **Life Insurance**
- **Testamentary Funds (bequests)**
  - IRA beneficiary

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## At AEF Easy Grant Process

- **Step 1**  
Donor completes grant form and sends it to AEF (manual or online)
- **Step 2**  
AEF reviews grant recommendation and qualifies charitable recipient
- **Step 3**  
Financial advisor liquidates necessary funds and sends check to AEF
- **Step 4**  
AEF sends grant to charity in the Donor's name (personalized)

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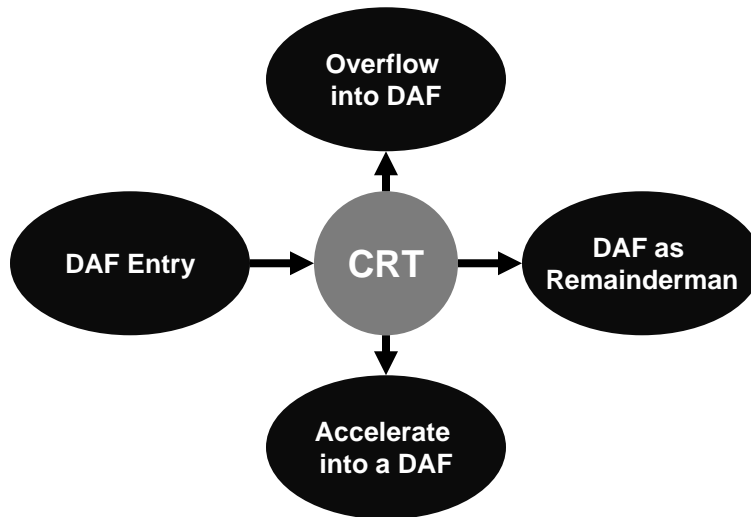
## **Donor Advised Funds – Benefits to Investment Professional**

- **Attract and retain assets over generations**
- **New opportunities to engage wealthy clients**
- **Deepen client relationships**
- **Create a bridge to the next generation**
- **Generate referrals**

## **Donor Advised Funds – Benefits to the Donor**

- Simple set-up and administration - Quick
- Donor may name successor
- Separates tax/grant decision
- Provides a platform for giving to multiple charities
- Donated assets grow tax free
- Online access and history
- Integrates with other planning strategies

## Donor Advised Fund Strategy



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## Summary

- Can the Investment Manager stay involved?
- Range of investment options?
- Pooled or separately managed?
- What asset types can be contributed, and flexibility in liquidation strategies?
- Independence?
  - Secondary agendas, hidden agenda or conflicts of interest

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## Overview of AEF

- **Charity Navigator awards AEF highest rating for past six years**
- **Experienced management, AEF celebrating 16th Anniversary**
- **Track Record—\$150 million in assets**
- **AEF is 100% independent**



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