

# A Flexible and Growing Service to Donors: Donor-Advised Funds in Community Foundations

By James I. Luck and Suzanne L. Feurt  
September 2002

Offered by community foundations since the 1930s, donor-advised funds have grown in popularity in recent years. Today, donor-advised funds are an important, growing and responsive service provided by community foundations according to a survey undertaken by the Columbus Foundation with support from the Council on Foundations' Community Foundations Leadership Team and Community Foundations of America.<sup>1</sup>

In a donor-advised fund, donors can give cash, stock or other assets, claim a charitable deduction on their income tax returns, and then recommend how the money in the fund should be distributed to charity. The donated funds are invested in the financial market so they can keep growing.<sup>2</sup>

The survey, conducted in August 2001, is the first of its kind to identify policies and practices related to the administration of donor-advised funds offered by community foundations. The survey covered 28 areas of operations; it did not include questions regarding purposes of grant distributions. This document provides a brief summary of the major findings of the survey.

In all, 200 community foundations responded to the survey instrument for the year 2000. About one-third of all community foundations responded, including 76 of the 100 largest. Respondents reported \$20.9 billion in total assets or two-thirds of total assets held by all community foundations.

## **Summary of Key Data**

The chart below summarizes data on seven key elements regarding donor-advised fund assets, gifts and grants in the survey. A narrative analysis follows.

<b>Summary of Key Data for Donor-Advised Funds (DAFs) 2000 Fiscal Year</b>						
	<b>Total</b>	<b>Median</b>	<b>Mean</b>	<b>Range</b>	<b>Number of Respondents</b>	
Total No. of DAFs	17,213	35	91	1 to	745	189
Assets in DAFs	\$5,177,259,701	\$4,188,617	\$26,280,506	\$10,000 to	\$509,000,000	197
No. of Gifts to DAFs	42,562	49	255	1 to	5,172	167
Value of Gifts to DAFs	\$1,447,415,406	\$923,697	\$7,699,018	\$200 to	\$241,000,000	188
No. of Grants from DAFs	96,263	125	563	1 to	7,240	171
Value of Grants from DAFs	\$695,398,887	\$576,580	\$3,718,711	\$500 to	\$50,000,000	187
No. of New DAFs Created	2,601	7	16	1 to	103	168

A total of 17,213 donor-advised funds were held by the 189 community foundations responding to that question with a median of 35 funds, a mean of 91 funds, and a range of one to 745 funds. Total assets held in donor-advised funds reported in the survey were \$5.18 billion<sup>3</sup> with a median of \$4.19 million and a mean of \$26.28 million. The range for the 197 respondents to this question was \$10,000 to \$509 million donor-advised funds held.

In recent decades, donor-advised funds have become an integral part of newly established community foundations. The decline in the number of years between the establishment of the community foundation and its first donor-advised fund has been dramatic. The following chart powerfully illustrates this change in median, mean, and range of years for the 195 respondents.

<b>Median, Mean and Range of Years Between Foundation Establishment and Year That First Donor-Advised Fund Was Established</b>						
	<b>Median</b>	<b>Mean</b>	<b>Range</b>			<b>Number of Respondents</b>
<b>Year Foundation Established</b>						
Before 1950	49.5	44.7	0	to	74	30
1950-1959	29.5	26.2	0	to	47	20
1960-1969	15.5	15.9	0	to	33	22
1970-1979	7.0	8.8	0	to	23	29
1980-1989	2.5	4.7	0	to	17	44
1990-1999	1.0	1.7	0	to	8	50

The \$5.18 billion in donor-advised funds represented 24.8 percent of total assets as reflected in the following data displayed by the decade that the community foundation was established and by asset group.

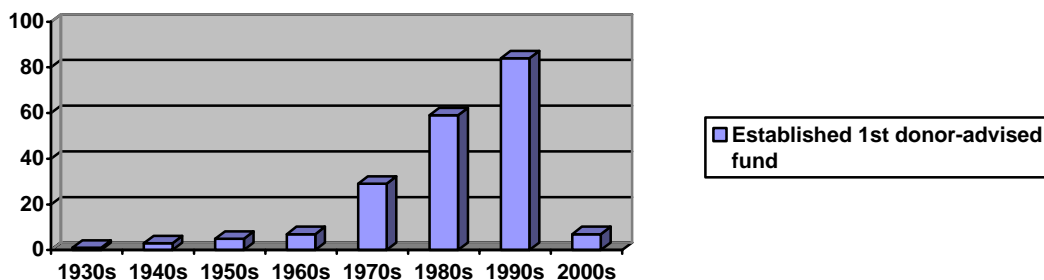
<b>Donor-Advised Fund Assets, Total Assets and Donor-Advised Fund Assets as a Percentage of Total Assets, by Year Foundation Established and Asset Group</b>						
	<b>Donor-Advised Fund Assets</b>	<b>Total Assets</b>	<b>DAF Assets as % of Total Assets</b>	<b>Range</b>		<b>Number of Respondents</b>
<b>Year Foundation Established</b>						
Before 1950	1,603,946,935	8,977,705,071	17.9%	1.1%	to 56.4%	30
1950-1959	853,879,004	2,302,941,481	37.1%	1.5%	to 87.3%	20
1960-1969	978,231,570	2,824,970,672	34.6%	0.6%	to 56.9%	22
1970-1979	1,066,128,299	2,997,558,477	35.6%	0.8%	to 99.6%	29
1980-1989	443,608,461	3,039,735,005	14.6%	1.0%	to 69.3%	46
1990-1999	231,465,432	726,776,352	31.8%	0.1%	to 98.4%	50
<b>Asset Group (in millions)</b>						
\$250 or more	3,314,747,753	13,224,772,125	25.1%	1.3%	to 87.3%	26
\$100 to \$249.9	834,855,790	3,537,963,776	23.6%	1.5%	to 63.8%	21
\$50 to \$99.9	682,997,762	2,368,804,578	28.8%	1.7%	to 99.6%	32
\$25 to \$49.9	167,679,234	862,211,294	19.4%	1.0%	to 47.1%	26
\$10 to \$24.9	130,833,076	648,263,736	20.2%	0.1%	to 97.5%	41
\$5 to \$9.9	33,996,333	161,667,764	21.0%	0.6%	to 98.4%	22
Less than \$5	12,149,753	66,003,785	18.4%	0.3%	to 67.4%	29
<b>All</b>	<b>5,177,259,701</b>	<b>20,869,687,058</b>	<b>24.8%</b>	<b>0.1%</b>	<b>to 99.6%</b>	<b>197</b>

167 community foundations reported a total of 42,562 gifts to donor-advised funds in the most recent year. The median was 49 gifts while the mean was 255 with a range of one to 5,172 gifts. The total value of gifts reported by 188 responding foundations was \$1.45 billion.

Grants from donor-advised funds totaled \$695.4 million with a median of \$576,580 and a mean of \$3.7 million. The range was \$500 to \$50 million dollars for the 187 respondents. With 171 community foundations responding there were 96,263 grants with a median of 125 and a mean of 563, and a range of one to 7,240 grants.

With 168 community foundations responding, 2,601 new donor-advised funds were created in the most recent fiscal year; the median was 7 new funds, the mean was 15.5, and the range was from one to 103 new donor-advised funds.

195 of the community foundations surveyed reported the decade in which their first donor-advised fund was established. For 143 of the 195 community foundations, that occurred in the 1980s or 1990s. Donor-advised funds according to year established by decade are reflected in this bar graph.



### Areas of Convergence

The survey revealed several “areas of convergence” among community foundations in policy and practice. Those areas with at least 80 percent agreement are found below. (In the following text, the question numbers are noted in parentheses. Please refer to these question numbers if you contact the authors regarding the data behind the analysis.)

- 98 percent of the community foundations charge a fee to manage a donor-advised fund (*Q19*). Of these:
  - 52 percent charge a percentage of the balance of the fund;
  - 8 percent charge a percentage of the balance but no less than a certain amount; and
  - 38 percent use another approach to calculate the fee.
- Virtually all of the community foundations surveyed indicated that principal distributions may be made (*Q11a*).
- Nearly 95 percent of the community foundations indicated a willingness to allow a successor advisor for donor-advised funds (*Q8-8a*). Of these:
  - 40 percent allowed one generation of successor advisors;
  - 31 percent handled successor advisors on a case-by-case basis;
  - 14 percent allowed 2 generations of successor advisors;
  - 9 percent had no limit on successor advisors; and
  - 6 percent allowed successor advisors under certain conditions (e.g., unlimited successor advisors with a minimum fund balance; a specified time limit such as 10 years; etc.).
- 94 percent of the community foundations do not limit the number of distributions or grants that may be made annually (*Q15*).

- 98 percent do not receive a portion of the grant payment from a donor-advised fund as an administrative fee (*Q21*).
- Likewise, 98 percent do not outsource the administration of donor-advised accounts (*Q27*).
- 100 percent of those community foundations with 50 percent or more of their assets in donor-advised funds accept non-endowed donor-advised funds. 78 percent of community foundations with less than 50 percent of their assets in donor-advised funds accept non-endowed donor-advised funds (*Q11*).
- 95 percent provide fund statements to donors, among them (*Q23-23a*):
  - 64 percent provide quarterly statements (of these, 7 percent also provide statements on-demand);
  - 14 percent provide semi-annual or annual statements; and
  - 9 percent provide statements on-demand, weekly or monthly.
- 88 percent accept gifts other than cash including, for example, real estate, closely held stock, and publicly traded stock (*Q9-9a*).
- 91 percent either do not limit donor-advised fund grants to a specific geographic area (52% of the 91%) or prefer local grants but will make exceptions (39% of the 91%); only 9 percent will make grants from advised funds only to local grantees (*Q17*).
- 96 percent place restrictions on what organizations are eligible for distributions from donor-advised funds (*Q18*). Some of the restrictions include (*Q18a*):
  - 58 percent must be 501(c)3 (an additional 40 percent prefer 501(c)3);
  - 38 percent must be domestic; and
  - 63 percent may not be to an individual.
- Marketing of donor-advised fund services includes (*Q22*):
  - 87 percent by direct approach to donors;
  - 71 percent through professional advisors; and
  - 19 percent by paid advertising.
- 83 percent require a minimum contribution to create a new donor-advised fund—a median of \$10,000, a mean of \$14,481 and a range of \$1,000 to \$500,000 (*Q6-6a*).
- 83 percent commingle donor-advised funds with other community foundation endowment funds (*Q12*).

### **Areas of Divergence**

There were several areas for which there was not consensus among the responding community foundations. Each of the following areas had less than 65 percent agreement:

- 56 percent of the respondents required a minimum size for a donor-advised fund grant (*Q16*). For those with a minimum, \$200 is the median, \$203 is the mean, and the range is from \$50 to \$500 (*Q16a*).

- The time period for processing grants include the following (*Q14*):
  - 33 percent weekly
  - 14 percent monthly
  - 11 percent quarterly
  - 8 percent twice a month
- To maintain a donor-advised fund, 44 percent of responding community foundations require a minimum dollar amount and 56 percent do not (*Q7*). For those that require a minimum dollar amount, \$10,000 is the median, \$11,500 is the mean and the range is \$1,000 to \$100,000 (*Q7a*).
- 35 percent of community foundations allow individual donors to offer advice about investing the fund's assets (*Q10*).
- 54 percent have a standard asset allocation for donor-advised funds; 46 percent do not (*Q13*).

### **New Trends**

Some of the new trends in administration of donor-advised funds by community foundations revealed by this survey include:

- 34 percent report that their donor-advised fund program has changed significantly since their first fund was established (*Q4*) and 15 percent say they are considering significant changes (*Q5*). The changes include improved services (e.g., speeding up grants, on-line account access, more frequent fund statements, etc.), the availability of non-endowed donor-advised funds, and more donor services (e.g., the creation of donor relations departments to support and service donor advisors, the combining of program and donors relations departments to match donor interests with community needs, and partnering with other donors).
- 21 percent of the community foundations responding offer on-line services to donor advisors (*Q24*).
- Of that 21 percent, the on-line services offered include (*Q24a*):
  - 59 percent provide information about local nonprofits;
  - 59 percent allow donors to suggest grant distributions;
  - 34 percent allow donors to make additional contributions to the fund;
  - 59 percent allow donors to check fund balances; and
  - 2 percent allow donors to recommend change(s) of investment options.

### **Looking Ahead**

The information provided here describes the administration of donor-advised funds in community foundations in 2000. Further study may clarify some areas of difference in policy and practice and provide a baseline for further inquiry and analysis. For example:

- Have community foundations with donor-advised funds grown faster than those without donor-advised funds?
- Have community foundations with policies making it easier to open and maintain donor-advised funds received more donor-advised gifts/funds and grown faster in general?<sup>4</sup>

Further study also may reveal trends and topics for additional consideration. For example:

- Have donor-advised funds realized for community foundations what they were established to accomplish?<sup>5</sup>
- What effect will other public charity donor-advised funds have on the future of the community foundation donor-advised funds?
- What effect will the changing environment for private foundations have on the attraction of donor-advised funds?
- What effect will the developing field of supporting organizations have on donor-advised funds?
- How will community foundation donor-advised funds change in the coming years to continue to serve donors?

For more information, please contact:

James I. Luck  
President Emeritus & Senior Fellow  
The Columbus Foundation  
Tel: 614/224-8320  
Fax: 614/224-3780  
E-mail: JIL@jamesiluck.org

Suzanne L. Feurt  
Managing Director, Community Foundation Services  
Council on Foundations  
Tel: 202/467-0404  
Fax: 202/835-2904  
E-mail: feurs@cof.org

---

<sup>1</sup> Special thanks to Judith Kroll, Director of Research at the Council on Foundations, and Amber Erickson, Information Analyst and Shelley Walker, Executive Assistant to the President Emeritus of The Columbus Foundation, for their help with the survey, data, analysis and this report.

<sup>2</sup> *The Chronicle on Philanthropy*, May 31, 2001.

<sup>3</sup> *The Chronicle of Philanthropy* conducted a study of assets, grants and funds of donor-advised funds including those at 46 community foundations. Twelve of those community foundations reported by the *Chronicle* (May 30, 2002, pp. 8-9) did not respond to the Columbus Foundation Survey. The table below combines the survey data on assets, grants, and funds with the 12 additional foundations reported by the *Chronicle*.

	<b>Columbus Foundation <u>Survey</u></b>	<b><i>Chronicle</i> <u>Survey</u></b>	<b><u>Total</u></b>
DAF Assets	\$5,177,259,701	\$1,932,027,210	\$7,109,286,911
DAF Grants	695,398,887	223,055,805	918,454,692
# DA Funds	17,213	3,126	20,339

<sup>4</sup> Eight community foundations of varying asset sizes indicated minimum gifts of \$50,000 or more to open a donor-advised fund—five of the eight required \$50,000, two required \$100,000 and one required \$500,000. Seven of the eight foundations reported a total of 16 new donor-advised funds, which translates to slightly more than two per foundation compared to a median of seven new funds and mean of 15.5 new funds for the 168 community foundations responding. This would suggest that a minimum of \$50,000 or more would tend to discourage new funds.

<sup>5</sup> For a discussion of the rationale for donor-advised funds see James I. Luck, “Taken Under Advisement,” *Foundation News*, September/ October 1987, pp. 52-55. Donor-advised funds:

1. Provide an introduction to giving;
2. Provide a vehicle for sustained giving;
3. Place the community foundation at the heart of philanthropy – the link between needs and resources;
4. Support community foundation operations;
5. Support community foundation grantmaking;
6. Lead to permanent endowment; and
7. Attract community interest and donors.