Donor Advised Funds

A summary for Donors

Create a lasting legacy and make
a difference in the lives that follow.

Donor Advised Funds

A simple, smart and meaningful strategy for creating your charitable legacy – a way to ensure that you, or someone you love, will be remembered.

Here Is How A Donor Advised Fund Works:

- Choose from among a wide range of assets types then make a contribution to a fund in the name of iGiftFund for the benefit (FBO) your Fund (i.e. Jones Family Foundation).
- The gift qualifies for immediate and maximum tax benefits.
- The assets are placed in an investment account which your investment advisor can manage and where growth is tax-free.
- You recommend grants to your favorite charities on your own schedule.
- The fund can go on as your family’s charitable legacy over successive generations.

Benefits

- Immediate and maximum tax benefits.
- Simple and quick to setup – $5,000 minimum.
- iGiftFund handles the administration and IRS reporting.
- You can contribute a wide range of assets including cash, marketable securities, restricted and privately held stock, real estate, life insurance policies and other DAFs.
- Works well as the beneficiary of a bequest, an IRA, a Charitable Remainder Trust, a Charitable Lead Trust or life insurance proceeds.
- Can support any eligible charity in the country.
- An effective parenting or grandparenting tool to pass on values.
- iGiftFund offers a level of flexibility and personalization not available in most other programs.

Typical Donor Scenarios

A Donor Advised Fund can be a solution if you are:

- Experiencing an extraordinarily high-income year or approaching retirement.
- Struggling with potential taxes involved with selling a highly appreciated asset.
- Questioning how best to support several charities over a number of years through one gift.
- Seeking flexibility to change your charitable beneficiaries over time.
- Wanting to engage your spouse, children, and grandchildren in charitable giving as a way to pass on family values.
- Concerned about the time and complexity in gifting appreciated investment assets to more than one charity.
- Experiencing fluctuating income that makes it hard to maintain a steady level of giving.
- Concerned about the cost, complexity and lack of privacy of a private foundation.
- Concerned that a large gift might overwhelm your favorite charity.

Donor Advised Funds

A summary for Donors

Create a lasting legacy and make a difference in the lives that follow.

You may consider a Donor Advised Fund if you:

- Want to ensure that you, or someone you love, will be remembered.
- Want to pass on the family values of giving to your children and grandchildren.
- Want to create your charitable legacy now and fund it while living and/or at the time of your death.
- Want the best tax benefits available.
- Appreciate creative solutions for tailoring your charitable legacy in simple, smart and meaningful ways.
- Want the assurance that your trusted advisor remains involved to ensure that your charitable legacy carries on over successive generations.

Why iGiftFund?

- Independence – iGiftFund is not affiliated with a financial service or mutual fund company and does not limit investments to proprietary pools of mutual funds.
- You can recommend that **your investment advisor manage investments on your familiar platform.**
- Experience – Phil Tobin has over 30 years of experience in Donor Advised Funds, arguably the longest in the industry.
- iGiftFund offers individualized, concierge-level service.

What's next? - Five Easy Set-up Steps

1. You, with the help of your advisor, complete iGiftFund's Donor Advised Fund application found at www.iGiftfund.org/forms.
2. iGiftFund completes and signs your advisor's investment account application paperwork in the name of *iGiftFund fbo (your Fund's name)* including your advisor's investment advisory agreement, if applicable.
3. Your advisor creates a new investment account on your preferred platform.
4. You authorize the transfer of assets to the new *iGiftFund fbo (your Fund's name)* investment account.
5. iGiftFund sends you a gift acceptance letter and instructions on how to access DonorView (iGiftFund's donor portal) where you can recommend grants.

Contact Information:

Phil Tobin
800.810.0366 | 330.400.2768
philtobin@iGiftFund.org
5 East Main Street
Hudson, Ohio 44236
www.iGiftFund.org

iGiftFund
stewards for donor advised funds

By Phil Tobin, CEO iGiftFund

An early pioneer of donor advised funds, Philip T. Tobin is chairman and co-founder of the Hudson, Ohio-based iGiftFund, a national, independent sponsor of donor advised funds. Formerly CFO for the Cleveland Foundation and co-founder of the American Endowment Foundation (AEF), Phil is now dedicated to creating unique experiences for donors and financial advisors at iGiftFund. Learn more at www.iGiftFund.org or by calling 1-800 810-0366.

What Are Donor Advised Funds?

Donor advised funds (DAFs) are a simple, affordable and flexible charitable giving tool within the reach of many Americans.

This article removes the mystery of DAFs, describing how they are set up, their advantages and disadvantages, ways to find a sponsoring organization and questions to ask them. Costs, tax implications and family considerations surrounding DAFs are also included, as is a comparison of DAFs to private foundations.

Americans are currently experiencing the greatest transfer of wealth in history. The statistics paint the picture: An **estimated $59 trillion** will pass from an aging generation to younger generations by 2061, including $21 trillion destined for charities. At its peak, between 2030 and 2045, 10 percent of the total wealth in this country is expected to **change hands every 5 years.**

This **massive transfer of wealth between generations** presents significant challenges for many Americans who now own these assets, for their heirs and for the charities who will be beneficiaries of this wealth. And in the face of this transfer there is evidence that many families are not fully prepared to successfully navigate this intergenerational movement.

The Three Generations Cycle

“Shirtsleeves to shirtsleeves in three generations” is a common saying in our business that refers to the common familial wealth cycle: The first generation builds wealth, the second generation spends the wealth, and the third generation has to start over again. This theme is expressed the world over. In Japan they say “Rice paddies to rice paddies in three generations.” The Scottish say “The father buys, the son builds, the grandchild sells, and his son begs.” And the Chinese simply state, “Wealth never survives three generations.” The first generation comes from a life of hardship and is determined to make a better life for themselves and their families. They’re willing to work hard and make sacrifices in order to reach this goal. In later years, their efforts pay off; they’re able to enjoy a more comfortable lifestyle, often with assets to pass on.

Their children, the second generation, grow up a witness to their parents' toil and struggle. They understand the importance of hard work. Although they now live a more comfortable lifestyle, they may still remember a childhood filled with frugality. Because of this awareness, they typically make sound financial and educational choices that help them build upon the foundation their parents worked so hard to create. Nevertheless, by their later years, the second generation is lucky to have not spent the wealth.

The third generation, however, has no memory of want or struggle. They only know a life of plenty and are often unaware of the work that went into creating the lifestyle they now enjoy. Without this understanding, it's no surprise the third generation simply squanders the wealth their parents and grandparents worked so hard to build.

So how can you keep shirtsleeves to shirtsleeves from happening? How can you as a parent or grandparent make sure that the future generations will live even better lives than we did – fuller, happier, longer, and more meaningful? As you seek answers these questions, consider the role of philanthropy.

The Role of Philanthropy in Legacy Planning

You, like most parents, have high hopes and dreams for your children and grandchildren. You hope to see them create loving relationships, achieve professional success, and make productive contributions to society. You want to see them grow up as caring, generous adults with deeply held philanthropic values.

Family philanthropy provides opportunities for family members of all ages to experience the joy of giving. It also allows them to understand the meaning of the family wealth. It is a powerful tool to help family members learn to work together and prepare *before* the wealth transition. Family philanthropy is a key component to helping families create a legacy that will survive more than three generations.

Charitable giving is an easy subject to avoid, especially given the complexities that can be involved. Before pushing the subject to the sidelines, you owe it to yourself and to your family to consider DAFs. With minimums starting at $5,000, these funds are within the reach of many charitable-minded Americans.

DAFs are the fastest growing form of planned giving in America, outnumbering private foundations nearly three to one. As evidence of their increasing popularity, consider these statistics, according to the Chronicle of Philanthropy:

- DAF assets jumped from $78 billion in 2015 to $85 billion in 2016.
- Contributions to donor advised funds increased to $23 billion, an increase of eight percent over the previous year.
- On average, contributions grew 16 percent per year for the three year period ending 2016.

How a DAF works

A DAF is simple: You contribute cash or a wide range of other liquid or illiquid assets to a public charity that sponsors donor advised funds. This public charity is called a sponsoring organization. Minimum contributions vary by sponsoring organization but can be as small as $5,000. You receive several tax benefits from making the contribution, including:

- An immediate and maximum income tax deduction
- Avoiding capital gains taxes if the gift is appreciated long-term property
- Avoiding estate tax, assets invested can grow tax-free, and reduced AMT, if applicable

You retain the privilege of advising the sponsoring charity on important matters affecting the fund, including investment management, grantmaking, and appointing the person or persons responsible for taking over as successor after you are gone. The sponsoring organization does all the legal, philanthropic, and accounting work. This allows you to focus your energy on grantmaking functions, although even this activity can be delegated to others, if you so desire.

Typically, you recommend which charitable organization will receive grants, when such grants will be distributed, and the amounts. However, the sponsoring organization has the final approval on the grants because certain guidelines must be followed, such as making sure that the contributions go to qualified nonprofit organizations. Although some sponsors are more restrictive than others, there are 1.5 million nonprofit organizations registered in the country, so finding a qualified charity should seldom be an issue for you.

Investment choices vary among sponsoring organizations. For example, one independent sponsor allows your financial advisor to manage DAF assets in an open architecture as a brokerage relationship or a managed account capacity. Other sponsors require you to select from the investments offered through the sponsoring organization's program and investment platform. At the opposite end of the spectrum, some sponsoring organizations may give donors no choice with regard to investment platform or investment strategy.

Endowment vs. Non-endowment Funds

Two approaches can be used when granting money from your DAFs: endowment or non-endowment. In most cases, it is up to you to decide how they will grant the money, although some community foundations require donors to choose one or the other.

Endowment – The distinguishing characteristic of an endowment is planned longevity of the fund. You contribute assets to a DAF and a pre-selected charity or charities to support. Your financial advisor would invest assets in an endowment manner to generate a reasonable, real, long-term rate of return, five percent for example. Grants are distributed in accordance with pre-determined spending policies, with any additional earnings or losses credited to the fund. The goal is for the fund to continue in perpetuity, matching predictable income and grants each year. This appeals to many donors because it creates an endowed family legacy for charitable giving and enables giving to a cause the family holds dear for years into the future.

Non-endowment – You contribute assets to a DAF and grants to the charities as much or as little as you want each year. There is no five percent minimum distribution requirement. The fund can last for a short or a long time, and you can support several favorite organizations and causes or focus on one.

Who Sponsors Donor Advised Funds?

There are a number of potential sponsors of DAFs.

Local community foundations – Early pioneers in DAFs, community foundations are established in over 750 cities in the country for the express purpose of providing local residents with a structure that makes it easy to give to community organizations and causes. There are 70,000 DAFs with charitable assets totaling $30 billion in community foundations across the country. Certain grantmaking support services may be provided to you by the foundation, such as providing information about the changing charitable needs of the community and current work in areas of client interest. Therefore, local community foundations can be an excellent place to start investigating whether there is a good match between you and the community foundation.

Commercial sponsors – Many mutual fund companies and brokerage firms have DAFs. Four of these commercial DAF sponsors are included on the Chronicle of Philanthropy's list of the ten top grantmaking charities in the country:

Sponsor	Ranking	DAF Asset $ billions
Fidelity	#1	$ 4.1
Goldman Sachs	#3	3.2
Schwab	#6	1.9
Vanguard	#10	1.3

Single issue charities – The predominant categories include religious, educational, international aid, and micro lending charities. This group includes 50,000 DAFs with charitable assets of $11 billion, serving large communities through many programs or supporting a single-neighborhood through targeted programs.

Independent sponsors – Because of their independence, independent sponsors do not typically mange investments, sell financial products or services. *Independent sponsors* tend to be more flexible and allow more choice concerning:

- types of assets accepted and held
- investment management options
- grant recipients
- donor personalization
- next-generation succession options

iGiftFund is included in this category of independent sponsors.

Important Questions

It is important to keep in mind that not all sponsoring organizations operate in the same way. Here are some questions to ask:

What assets will the sponsor accept and hold in addition to cash and marketable securities?

At iGiftFund, we accept closely held securities (C-Corp, S-Corp), limited liability arrangements, real estate, artwork, life insurance policies, and more.

What investment flexibility does the financial advisor maintain?

At iGiftFund, financial advisors can manage investments, regardless of fund size, in an open architecture with the broadest choice of independent products.

What is the minimum value required to set up fund?

What restrictions exist on grants, for example social or geographic restrictions, minimum grant amount?

What fees apply for administration, investment management, and account maintenance?

What services do they offer? *For example:*

- A friendly donor interface?
- Personalized donor support versus a call center?
- Letterhead stationery with fund name?
- Access to professional philanthropic counselors?
- Personalized grantmaking services?
- Recognition options ranging from anonymous to full recognition?
- Ability to succeed over multiple generations?
- Independent statement of account status?

Advantages of DAFs

As you explore whether a donor advised fund might be appropriate, consider both the advantages and disadvantages.

Let's begin with the advantages:

Low contribution minimums ($5,000 and up). This makes it an affordable tool for most charitably inclined people.

Easy set up. There are no complicated legal documents. A short, four-to-six-page, fill-in-the-blank form is typically all that is necessary for you to create a fund.

Cost efficiency. Legal or accounting fees are typically not required to start a fund, with the exception of complex and illiquid assets. Fees vary by sponsor. Usually, the sponsoring organization charges the fund a tiered administration fee. iGifFund fees start at 45 basis points (.45% of assets), decreasing to 7.5 basis points (.075%), or less, on larger amounts. Investment management fees are extra depending on the investment program of the financial advisor you choose.

Simplicity. Charitable giving can be complex, but with DAFs, you have just a few decisions to make. These include which assets to contribute, overall investment management, grantmaking, and successor appointment.

Tax benefits:

- An immediate and maximum income tax deduction subject to annual AGI limits on the type of assets contributed with five-year carryover.
- No capital gains tax on appreciated long-term assets contributed.
- No estate tax on DAF funds.
- Assets in the DAF grow tax-free.
- If you are subject to AMT, contributions to the DAF will reduce your AMT liability.
- No excise taxes on investment income.
- Favorable tax strategies on contributions of S corporation securities.

Flexibility. With a DAF, your tax deduction decision is separate from your grantmaking decision. There is no minimum annual grant distribution requirement as is true for private foundations. You can make grants on your own convenient timetable.

Grantmaking support. Some community foundations supply information on the activities of various charities and how to choose charities for grants. iGiftFund offers access to professional philanthropic counselling on larger funds.

Donor recognition. Some sponsors provide letterhead stationery.

Visibility choice. With DAFs, clients can give anonymously or with full recognition.

Legacy of family philanthropy. A DAF that is set up and managed as an endowment will continue grantmaking in perpetuity.

Educational benefits. DAFs that involve both parents and children in grantmaking can be a rich training ground to pass on family values and establish a tradition of family philanthropy.

An easy decision-making structure. The donor is involved in all decision making, unlike a private foundation whose board must be consulted, which can be a time-consuming process.

An alternative to a bequest. A straight bequest to your favorite charity is always an option, but a DAF offers you and your family the flexibility of an ongoing legacy.

The ability to receive donations from private foundations. Private foundations must distribute five percent of assets yearly and, if they have not decided on a specific charity, they could give the five percent to a DAF for later decision making.

Compatibility. DAFs work well in conjunction with other charitable giving strategies, such as charitable remainder trusts, charitable lead trusts, private foundations, bequests, and insurance policies. In addition, private foundations can set up a complementary DAF, thus giving the donor choice of which strategy works best. The private foundation that wants to terminate can roll its assets into any DAF.

Disadvantages of Donor Advised Funds

When considering DAFs, there also exist some potential disadvantages:

Lack of absolute control. Unlike a private foundation where the donor has absolute control, the donor's role in a DAF is advisory while the sponsor has final authority. However, depending on the flexibility of the DAF sponsor, the donor is likely to realize most of the benefits of the private foundation without the cost, taxes, lack of privacy, and compliance hassles of a private foundation.

Lack of investment choice. Some sponsoring organizations limit investment choice and the ability of your FA to participate. However, this is the not the case with iGiftFund.

Lack of flexibility. Some donors like to support a wide range of charitable organizations or causes. Some DAFs have program limits or geographical restrictions. Again, this is not the case with iGiftFund which is a *national* DAF sponsor.

Limitations. Some sponsors limit succession to the life of the donor and spouse or down one generation. Others, like iGiftFund, offer *unlimited* succession.

No income. DAFs are not a technique to be used if you want income from contributed assets.

No staffing. DAFs lack the ability to hire staff, as is possible with a private foundation.

DAFs can only support qualified charities. This is an IRS requirement.

DAFs vs. Private Foundations

Although private foundations have long been considered the gold standard of family philanthropy, DAFs offer some distinct advantages to both small and large donors. Primarily, DAFs are simple to start and run, and have grantmaking as their main focus. Private foundations allow you to have more control and visibility, but more work and cost are involved.

You should weigh the following factors when choosing between a private foundation and a DAF:

Size of initial contribution. Opinions vary, but most experts agree that private foundations don't make economic sense for less than $5 million. A donor can set up a DAF with as little as $5,000.

Administration fees. Fees for a private foundation can range up to three and a half percent, whereas administration fees on DAFs are typically less than one-half of one percent.

Desire for control. A wealthy donor, particularly an entrepreneurial one, often likes the control that a private foundation offers. In addition, there may be opportunities for family members to work in the foundation and to be paid by the foundation. Expenses for family meetings to do the foundation governance and grantmaking can be covered. Attorneys, CPAs, and investment brokers all can be handpicked. However, a key question is how will the foundation run after the initial donor is gone?

Visibility. All private foundations are public record. In contrast, DAFs are totally private.

Tolerance for complexity. If a family cannot deal with the tax, legal, compliance, and financial matters required of a private foundation, a DAF makes more sense.

Functionality of the family. How well does the family function in terms of its decision- making capabilities? If the family is not strong in this area, grant making may be all the family can handle and a DAF may make more sense than a private foundation.

Note: See below for a cost comparison chart.

Case Examples

Flexibility is the hallmark of DAFs. Here are three illustrations of how these funds were used in different situations:

One family had historically performed "checkbook philanthropy," writing many checks to many organizations up to a yearly total of $25,000. The family then switched to a DAF to accumulate funds and to research multiple projects to which they could contribute and make a more significant impact.

Two parents had seven children and 11 grandchildren located across the country. They wanted a simple tool that would allow them to work together and support charitable local causes of the family. With the help of their trusted financial advisor, the parents established a DAF, creating a simple way to:

- Determine family values and family mission statement.
- Work together as a family to carry out that family mission.
- Teach the younger generation to become responsible, caring adults.
- Create and pass-on their family legacy for generations to come.

A donor who set up a private foundation was wise enough to realize that over time, his family could run into problems in trying to manage the foundation. To remedy this potential situation, he set up conditions within the private foundation document to require that the foundation be rolled into a donor-advised fund if irreconcilable disagreements arose among family members.

Who is a DAF right for?

A DAF can be a solution if you…

- …are experiencing an extraordinarily high income year.
- …will be selling a highly appreciated asset in the near future (closely held stock, real estate, a business, or something else).
- …want to support several charities through one substantial gift.
- …want maximum flexibility to change the charitable beneficiaries over time.
- …want to involve a spouse, children or grandchildren in charitable giving.
- …are currently making cash gifts to numerous charities, but would benefit by giving appreciated assets instead.
- …are experiencing fluctuating income, but want to maintain a steady level of charitable giving.
- …are concerned about the complexity or lack of privacy of a private foundation.
- …want to support a charity but is not confident with the organization's investment management capability.
- …want to keep your charitable giving confidential.
- …wish to support a charity but wants to ensure that the gift is used as he or she intended.

Something Remarkable

Most donors don't go into philanthropy to build something ordinary. They are doing this to create something unique, something meaningful, something remarkable… and that intent can differ from donor to donor.

At iGiftFund, we aim to provide for a new kind of platform that supports the way people give in the 21st century. We created an independent platform through which a wide range of donor fund options can be a personal expression of their individual and evolving needs–who they are they now, the values they hold, the family's mission to carry out those values, the legacy they want to leave for future generations, and how they want to make their world a better place.

The result is iGiftFund.

These are our core beliefs:

- **Each donor is unique**. We focus on what you want your legacy to be and how we can help you accomplish that.
- **Giving is personal.** We won't force or lobby you to have anything in your fund that you don't want.
- **We always play well with others.** Closed ecosystems are limiting, divisive, and outdated.
- **Transparency is essential.** Our independence is your independence. Objective advice shouldn't come with proprietary investment products and unspoken agendas.
- **Your fund shouldn't become outdated**. It should evolve with you and your family and their needs and desires.
- **Each donor has the right to true independence**. No matter where you are on your journey of giving, and where you hope to be in the future, true independence serves you and your trusted financial advisor. Simply put, with your help, you can create something remarkable.
- **We're here to help, and it's our pleasure to serve you.**

DAFs versus Private Foundations – Cost Comparison

Cost Comparison iGiftFund vs. Private Foundation	iGiftFund	Private Foundation
Minimum start-up donation:	$5,000	$5,000,000+
Startup time:	15 Minutes	Weeks or months
Startup costs:	None	Substantial
Admin Fees:	45 bps (0.45%) or less	Range from 2.5%-4%
Annual AGI deduction limits:*		
Cash:	60%	30%
Securities & property:	30%	20%
Valuation of gifts:	Fair market value	Fair market value for publicly-traded stock cost basis for all other gifts
Annual minimum distribution:	None	5% of net asset value annually
Excise taxes:	None	1% to 2% of net inv. income
Privacy:	Confidential or recognition	No Privacy
Ongoing admin responsibilities:	Included	Ongoing administration, legal, state and federal filings
Fun:	Fun!	Not fun

Note: In contrast, private foundations offer no privacy and no anonymity. Thanks to the internet, anyone with a computer can access information about any private foundation through services like Guidestar (www.guidestar.org).

Since all of the information is pulled from a foundation’s 990-PF (sometimes, a scanned copy of the original 990-PF is available), anyone can see the asset balance, the directors, salaries, contact information, administrative fees paid, every grant that’s made (including the amount and recipient organization’s name), and investment management fees (holdings are sometimes included).