
The Rise of Donor-Advised Funds and Impact on Philanthropic Giving

Informative Report

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What is a Donor-Advised Fund?

A donor-advised fund (DAF) is a philanthropic vehicle that enables individuals, families, or organizations to make tax-deductible charitable contributions to a fund, usually managed by financial institutions or community foundations. Once assets are donated to the DAF, donors no longer have direct control over them but can suggest grants to qualified nonprofit organizations. This approach provides donors with an immediate tax deduction for their contributions and allows them to strategically allocate funds to charities of their choice over time, offering flexibility and the potential for investments to grow. DAFs are a popular tool for simplifying and structuring charitable giving while maximizing tax benefits.

Donor-advised funds have rapidly grown by more than 400% throughout the last decade, which is faster than any other charitable vehicle. Collectively, DAFs currently rank among the largest recipients of charitable funds in the United States. DAFs are most often used as individual giving vehicles through annual fund campaigns, but can also be used for large, one-time donations for comprehensive, capital, or special project campaigns. While data is limited due to the nature of these funds and how they are managed, research conducted in recent years points to emerging trends which nonprofit organizations should take note of as it relates to DAFs and the future of philanthropy.

Notable Donor-Advised Fund Growth Trends:

1. In 2021, the number of donor-advised funds increased by 28% to 1,285,801 and the average DAF grew in size by 9% to \$182,852.
2. Contributions to DAFs in 2021 totaled \$72.67 billion, which surpassed the total value of DAFs in 2020 of \$49.58 billion, a 46% increase.
3. Payout rates increased to 27%, which was the highest payout rate recorded to date and surpassed the ten-year average rate of 22% for donor-advised funds.
4. Growth rates increased from an average of 23% to 28% during 2020 and 2021. The previous ten-year average rate of change for donor-advised fund grantmaking is 17.5% from 2011 to 2020.
5. Fidelity Charitable, which is considered the largest commercial sponsor of these funds, noted the number of DAFs increased by 9% in 2022, and DAFs established by individuals in their 20's and 30's grew by 14%.
6. Despite economic uncertainty and inflation concerns in 2023, the establishment of new DAFs, fund assets and fund grantmaking continue to be on the rise.
7. Donations can be made from one DAF to another DAF. This is a growing trend and is considered a charitable donation; however, these transfers are not benefitting nonprofits, but rather cycling from one fund to another for various reasons. Foundations can also donate to DAFs as part of a foundation's annual charitable payout requirement.

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Donor-Advised Fund Grantmaking Trends:

1. Donor-advised fund grants to qualified charities increased by more than 60% throughout 2020 and 2021, totaling approximately \$45.74 billion* in 2021, more than five times the grant funding awarded from DAFs in 2012.
2. Even with a decline in the markets in 2022, DAFs accounted for roughly 3.5 million grants, totaling about \$23 billion. In addition, DAF grantmaking outpaced investments.
3. 23% of Fidelity Charitable grants in 2022 were from new donors to organizations, while 77% were from current donors. On average, donors recommended 12 grants throughout the year.
4. Schwab Charitable also reported an 8% increase in funds awarded through DAF grants in 2022.
5. Unrestricted grants to organizations remain the most common type of grant awarded from a DAF.
6. Donors are increasingly using DAF grants to support recurring giving to organizations. In 2022, Schwab Charitable reported a 20% increase in DAF grants that were configured as recurring gifts.
7. While funds gain interest and there are no restrictions on annual distributions, Fidelity Charitable reported that 75% of dollars contributed to donor-advised funds are dispersed within five years.
8. Donor-advised fund grants by recipient:
 - 29% education
 - 14% religious
 - 13% public society benefit
 - 12% human services
 - 9% arts & culture
 - 9% health
 - 7% international
 - 5% environmental and animals

Who Establishes a Donor-Advised Fund?

1. A broad range of donors find DAFs appealing for personal and financial reasons and DAFs are easily established.
2. More than 60% of donors who establish a fund are near retirement and range in age between 50-65.
3. There are three types of donors who have established DAFs:
 - a. Donors who focus on short-term goals and move funds quickly in and out of accounts annually
 - b. Donors who donate large sums of funds up front and grant money over a short time period
 - c. Donors who have a calculated and long-term approach to their philanthropic goals

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4. As of 2022, national or commercial firms managed 60% of these funds, community foundations managed 26% of funds and single-issue organizations, such as universities, managed 13% of funds.
5. The establishment of a new DAF is most often introduced by financial advisors and wealth managers.
6. Select large corporations also offer employees DAF opportunities.
 - Example: Eli Lilly and Company
7. Traditional and endowed DAF options are available based on philanthropic goals.

Donor-Advised Fund Benefits:

1. Donors receive an immediate tax deduction when contributing to the fund.
2. Funds are managed, invested, and grow tax-free, requiring low overhead costs.
3. Select firms also provide concierge services for larger DAFs.
4. There is no required annual distribution; however, institutions have policies for inactive funds.
5. A broad range of assets can be invested including cash, securities, stocks, mutual funds, real estate, transfers and grants from private foundations, life insurance, etc.
6. Requires \$0-\$5,000 minimum contribution and there is no limit on the contribution size.
7. Donors can self-direct donations from funds; however, they are not required to do so.
8. Fund advisors can present funding opportunities and disburse funds.
9. Giving can be anonymous with no public record reported.
10. Funds may be passed onto successors and charitable beneficiaries.

Donor-Advised Fund Fundraising Opportunities for Arts and Nonprofit Organizations:

1. **Leverage Growth to Bolster Fundraising:** Given the extraordinary expansion of DAFs throughout the last decade and growth trajectory of these funds, this charitable donation vehicle presents a significant opportunity for organizations to bolster fundraising programs for various annual fund and campaign fundraising initiatives.
2. **Prioritize Relationship Building & Messaging:** As part of this endeavor, organizations should prioritize relationship building with individual donors while also cultivating and educating donor-advised fund advisors from financial institutions, community foundations and, when applicable, single-cause organizations. While donors can self-direct grants from DAFs, fund advisors can also present new opportunities and initiatives to donors and, in some cases, help direct funds to specific organizations.

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Furthermore, organizations should consider cultivation, messaging, and stewardship strategies when working with donors who have access to these funds as it relates to multi-year commitments, pledges, and campaign fundraising. DAFs provide donors flexibility that aligns with their philanthropic goals. Donors can respond quickly to crisis fundraising campaigns and urgent needs, and donors who have access to large DAFs can make major annual gifts or significant leadership gifts.

3. **Data and Donation Sources:** Combined with a commitment to relationship building, organizations should prioritize data research and donation tracking data sources, both of which are central to identifying current donors who may have DAFs. While information is limited, prospect research software may also provide insight on prospective donors who have a donor-advised fund.

Pathways to Cultivating Support from Donor-Advised Funds:

1. **Prioritize Building Relationships with Donors:** The donor relationship is essential to this work. Organizations should focus on cultivating and stewarding relationships with donors who have access to DAFs. Do not prioritize the fund more than the donor.

Given the structure of DAFs and limited public information, organizations should focus on awareness of clues that will indicate donors have access to such funds. These clues may include research and substantial giving to other organizations with limited or no record of gifts, donors revealing they have access to a DAF, as well as insight from organizational stakeholders and board members.

2. **Consider Fund Access and Philanthropic Goals:** Determine if an individual, couple, or multiple family members have access to the fund. Assess if the donors have short- or long-term philanthropic goals for the fund and if they plan to pass the fund onto beneficiaries.
3. **Funds Remain Donor-Advised, Not Controlled:** While maintaining a donor-centric approach, bear in mind that these funds are still donor-*advised* and not donor-*controlled*. Therefore, identifying, cultivating, and stewarding relationships with fund advisors is also critical.
4. **Consider the Limitations of Donor-Advised Funds:** Research indicates that donors may use funds for recurring gifts to an organization and a majority of DAF grants are from current donors; however, there are limitations that may create more challenges for organizations as they identify, steward, and cultivate donors who have access to a donor-advised fund.

Fund information available through wealth screening software can be very limited or unavailable. In addition, funds may be granted with little information from the individual donor. Donors are not required to include their contact information with a grant. Donors cannot make multi-year pledges and receive tangible benefits. These limitations underscore the importance of building strong relationships with donors in addition to well-aligned stewardship and cultivation strategies.

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- 5. Cultivate and Market Using the Planned Giving Model:** Build awareness of opportunities to support the organization using donor-advised funds that includes two primary audiences: donors and fund advisors. Promote opportunities similar to a planned giving model, affirming that the organization accepts these funds. Create opportunities for donors to notify the organizations that they have a fund. In addition, highlight opportunities for donors to facilitate collaboration between organizations and fund advisors.

Sources:

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"How the DAF Industry Controls the Data and Attempts to Control the Narrative" Dan Petegorsky, Inside Philanthropy
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"Donors Remain Loyal to DAFs as Overall Giving Declines" Amanda L. Cole, NonProfitPRO
* includes donor-advised fund transfers to other donor-advised funds

*For additional information or to learn more about attracting
Donor-Advised Funds for your arts organization please contact
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