PHILANTHROPY NORTHWEST

FREQUENTLY ASKED QUESTIONS

FREQUENTLY ASKED QUESTIONS: DONOR-ADVISED FUNDS

Donor-advised funds (DAFs) are in the philanthropic spotlight, with questions about their impact on giving and how potential public policy changes could change DAFs going forward. This FAQ summarizes the best available research to answer common questions that Philanthropy Northwest hears across the sector, acknowledging that this list can grow as new questions and research emerge. For an overview of how DAFs work and policy issues surrounding them, see our one-pager or our blog post on the topic.

DAF Impacts on Charity

DAF Regulation Impacts

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Do DAFs increase charitable giving?

DAFs do not increase overall charitable giving, according to existing research. However, DAFs have become a much larger part of philanthropic assets. DAFs received more than 22% of individual giving in 2021, quadrupled from 2010. They hold around $230 billion in assets and, for the first time, are receiving more in contributions than private foundations.[1]

Still, the booming DAF market has not translated to more giving. A 2018 peer-reviewed study of DAFs found that charitable gains were minimal at best and the cost of charitable tax breaks for DAF donors was much larger.[2] Americans have also not given more of their income as donations to DAFs skyrocketed:[3] The average person typically donates around 2% of their income, which fell to 1.7% in 2022, its lowest level in decades.[4] Surveys both before and during the pandemic find that people are often giving less or perhaps giving through more direct means like crowdfunding.[5]

How can DAFs grow so much without much impact on total giving? Donors may be balancing more giving to DAFs with less giving through other means.[6] In the 1990s, before DAFs became popular, nonprofits received more than 90% of individual giving. Nonprofits now receive less than 65%; the rest goes to philanthropic vehicles like foundations and DAFs – and even some foundations have converted to DAFs.[7]

DAFs may have a minimal impact on total giving, but they do affect *when* giving reaches charities. A national survey of over 400 nonprofit CEOs noted the most common concern about DAFs was that they delayed giving.[8] When donors contribute to DAFs, they receive charitable tax deductions upfront, but funding often stays in DAFs for several years before being fully granted, if not longer.[9] Future research may clarify more about DAFs' effects on donors and charitable resources.

Do DAFs democratize philanthropy?

DAFs do not democratize philanthropy. Starting a DAF may require several thousand dollars or less, unlike a more expensive foundation, leading to the idea that DAFs "democratize" philanthropy by bringing in many middle-income donors.[10] DAFs are not exclusive to the wealthiest Americans, but there is not enough data to show that DAFs incentivize giving among the middle class. Recent growth of the DAF market instead coincides with increasing wealth inequality and a top-heavy charitable sector, where wealthy donors represent a growing share of formal giving to charity.[11] Surveys find that lower- and middle-income people may be less inclined to give in general, in part due to inequality and having less money to give.[12]

DAF account sizes provide a bit more evidence that DAF donors tend to be high-income. The average DAF held around $450,000 in 2022, though the median could be closer to $50,000.[13] In any case, as the typical American had only $8,000 in savings in 2022, the typical DAF donor is likely much wealthier.[14] One study used 2014 tax return and DAF data to estimate that the average DAF donor had an income above $2 million, which the study noted as an underestimate because high-income donors give through multiple channels and may have multiple DAFs.[15] The calculation would put the average DAF donor within the top 0.1% of income earners.[16]

Do some DAFs give to hate groups?

Some DAFs are significant funders of hate groups. The *Chronicle of Philanthropy* estimated that philanthropy gave several million dollars per year to hate groups in the mid-2010s. The top five funders were DAF sponsors: three commercial sponsors and two community foundations.[17] A 2023 investigation found that DAFs gave more than $200 million to hate groups from 2014-2022.[18]

For context, hate groups are organizations that disparage or advocate harm toward marginalized populations. Civil rights organizations have developed lists of groups fitting this description, often with crossover between such lists.[19] However, certain hate groups have nonprofit status and can receive charitable donations. The Internal Revenue Service, due to budget cuts and a desire to avoid political backlash or lawsuits, accepts almost every nonprofit application and allows hate groups to operate as charities.[20]

Some DAF sponsors screen for hate groups and do not allow grants to go to them.[21] Others do. Sponsors might adhere to donor grant recommendations for hate groups to appear “cause-neutral,” to avoid going against a donor’s wishes, or perhaps the sponsor did not provide enough due diligence.[22] Some DAF sponsors allow grants to other highly controversial causes beyond hate groups as well. On occasion, DAF sponsors receive media backlash or even protests due to funding organizations that spread hate, harm or misinformation.[23]

How do payout rates from DAFs and foundations compare?

The average DAF payout is much higher than the typical foundation, but there is wide variation. Many DAFs have a higher payout than foundations, but many others have a lower payout.

By law, private foundations must pay out at least 5% of their assets each year for charitable expenses, which includes both grants and most administrative costs.[24] The average payout is near 8%[25] with a median slightly below 6%.[26] Community foundations give in a similar range but have no payout requirement.[27]

There are multiple ways to calculate DAF payout, but the most accurate methods compare DAF grants to their assets each year, putting the *average* payout slightly above 15%[28] or the *median* payout rate a bit less than 10%.[29] Some DAFs give away a high percentage, but on the low end, at least one-fifth of DAF sponsors give out less than 5% per year from their DAFs.[30] Data on individual accounts is scarce, but paints a similar picture: a report of over 100 sponsors' accounts found that almost half of their DAFs gave out less than 5% during the first three years of the pandemic, with over one-fifth making no grants.[31]

A primary reason so many accounts are relatively inactive is because many DAF sponsors let accounts idle. A separate survey of over 100 sponsors found that almost one-fifth do not have inactive account policies. Most sponsors do, but the average policy is met if a DAF gives a grant of any amount every 4-5 years. Some sponsors also offer an "endowed DAF," which limits giving to a lower payout rate — 4-6% on average — so that they never spend down.[32]

Lastly, the payout rates above also come with a caveat: they include grants that do not go to charity, but rather are transfers between DAFs and between foundations and DAFs. Reports estimate that DAF-to-DAF grants represent more than 10% of their grantmaking.[33] Transfers to DAFs are also a small percentage of private foundation giving.[34] Transfers occur for various reasons as donors and foundations see fit, but such practices inflate grantmaking totals. A private foundation may also direct funds to a DAF to avoid disclosing where it makes grants or to meet its 5% payout requirement, even though funds can stay in their DAF indefinitely.[35]

How do community foundation DAFs compare to commercial DAFs?

Community foundation and commercial sponsors are distinct in their operations, but are legally the same and face many of the same problems. Commercial sponsors, which are national DAF-centered fundraising organizations and sometimes the charitable arms of financial companies, hold over 65% of the DAF market. Community foundations, which usually work within a local geography, hold almost 30% of DAF funds. The rest are public charities that support a specific topic area or population.[36]

Commercial DAFs may have lower management fees and greater investment options,[37] especially as some are also investment companies. The rapid expansion of DAFs has mainly been due to national DAFs,[38] perhaps because some funnel financial clients directly to their DAF arms.[39] Commercial DAFs also average higher payout rates than community foundation DAFs.[40] Meanwhile, community foundations can offer more local expertise and may work more closely with donors.[41]

As an industry, sponsors – whether community foundations or commercial funds – face similar accountability concerns. Some sponsors have practices in place to ensure funding reaches communities in an equitable and timely manner.[42] But others face questions about payout, due to a portion of their DAFs paying out very little.[43] Others face questions around transparency, as data on DAFs, industry practices, and funding opportunities are scarce.[44] Finally, there are concerns about some sponsors supporting harmful causes like hate groups (see page 3).

How would a payout requirement affect DAFs' payout rate and charitable giving?

A payout requirement on DAFs would likely increase charitable giving. On the grantmaking side, it would increase giving from low-paying accounts.[45] For example, a survey of over 100 DAF sponsors found that 22% of DAFs gave $0 from 2020-2022, and another 23% gave less than 5% of their assets.[46] This result lines up with previous research finding a significant portion of DAFs with low payout rates,[47] which a payout requirement can address. Of course, if DAF payout rates clustered around a minimum requirement – as some currently do around 0% – it could be increased to the level that could best serve communities.

On the donor side, research indicates people are unlikely to change how much they give with or without a DAF payout requirement. People mostly give to charity due to altruism, internal satisfaction, social pressure, tax benefits and comparable reasons.[48] A payout rule (or lack thereof) is not a primary reason. One study interviewed 40 philanthropy insiders in countries with DAF sponsor payout requirements, who agreed that the rules did not discourage donors.[49] Maintaining the status quo without a payout requirement is not increasing charity, as academics find that DAFs may do little, if anything, to increase giving overall in their current form.[50]

Would more DAF transparency affect anonymous giving?

More DAF transparency is unlikely to limit donors' ability to give anonymously, but it depends on the specifics of any new regulations. Anonymous giving is a practice that donors – whether through a DAF or other means[51] – may choose for personal privacy reasons, or for more nefarious purposes like giving to hate groups.[52] Most DAF grants are not anonymous: data from over 100 DAF sponsors found 4% of grants to be anonymous (9% of grant dollars), while a review of the largest five DAF sponsors also found that 4% of grants were anonymous.[53]

Most regulatory proposals have not tried to remove DAF donor anonymity privileges. In California, a state bill in 2020 aimed to increase data collection. The bill, which did not pass, did not attempt to reveal donor names or remove the practice of DAF anonymity, but it did not prohibit the collection of names either.[54] A 2021 federal proposal, the Accelerating Charitable Efforts (ACE) Act (H.R.6595/S.1981), only addressed anonymity under certain circumstances and would not have forbade it or revealed personal donor information. It did not pass either.[55]

A larger transparency concern is that DAF grants and the DAF industry may share too little information and data, making it harder for nonprofits to build relationships with donors or develop reliable funding streams. In a 2020 convenience sample survey of over 400 nonprofits, a majority were concerned about their ability to reach DAF donors.[56] The previous year, a survey of nonprofit CEOs found that hampered donor outreach was their top concern with DAFs.[57] In both surveys, overall transparency was a potential concern.[58] Some state nonprofit associations, including the Minnesota Council of Nonprofits and California Association of Nonprofits, also favor more transparency regulations for DAFs to ensure funds are accountable to the public good.[59]

Endnotes

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[43] *See* James Andreoni and Ray Madoff, "Calculating DAF Payout and What We Learn When We Do It Correctly" (Working paper, *National Bureau of Economic Research*, 2020), 7, https://www.nber.org/papers/w27888; Jeff Williams and Brittany Kienker, *Analysis of Donor Advised Funds from a Community Foundation Perspective* (Grand Rapids: Council of Michigan Foundations, 2021), 12, 18, https://www.michiganfoundations.org/resources/analysis-donor-advised-funds-community-foundation-perspective *for aggregate examples of some DAFs paying out less than 5%.*

[44] Hannah Martin, Ellie Buteau and Kate Gehling, *The Funding Landscape: Nonprofit Perspectives on Current Issues in Philanthropy* (Cambridge: The Center for Effective Philanthropy, 2020), 6, 9-11, https://cep.org/portfolio/the-funding-landscape-nonprofit-perspectives-on-current-issues-in-philanthropy/; *see* Una Osili et al, *Nonprofits and Donor-Advised Funds: Perceptions and Potential Impacts* (Indianapolis: Indiana University Lilly Family School of Philanthropy, 2020), 9, 39, https://scholarworks.iupui.edu/handle/1805/24001 *for another report highlighting transparency and accessibility issues between DAFs and nonprofits; see also Americans' Understanding and Opinions about Charitable Foundations and Donor-Advised Funds* (Washington, D.C.: Institute for Policy Studies, 2020), https://ips-dc.org/ipsos-poll-72-percent-of-americans-support-an-emergency-charity-stimulus/ *for a public opinion survey highlighting transparency and payout concerns.*
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