FREQUENTLY ASKED QUESTIONS ON DONOR-ADVISED FUNDS AND PUBLIC POLICY

Donor-advised funds (DAFs) are a trending topic in philanthropy, with questions arising about their impact on giving and the outcomes that may result from public policy changes. This FAQ summarizes the available research to answer some common questions, acknowledging that this list can grow as new questions and research emerge. For an overview of DAF policy issues and Philanthropy Northwest’s position, see our one-pager or our blog post on the topic.

DAF Impacts on Charity

- Do DAFs increase overall charitable giving?
- Do DAFs make giving more accessible to middle-class donors?
- How do giving from DAFs and foundations compare?
- How do community foundation DAFs compare to commercial DAFs?

DAF Regulation Impacts

- How would a payout requirement affect DAFs’ payout rate and charitable giving?
- Would more DAF transparency affect anonymous giving?
Do DAFs increase overall charitable giving?

There is no evidence that DAFs increase charitable giving. DAFs are favored charitable vehicles for wealthy donors by providing a flexible way to centralize their giving, which helped DAFs go from receiving 4% of individual giving in 2010 to 22% in 2021, surpassing private foundations in contributions. But Americans overall have not given more of their income as donations to DAFs skyrocketed. The average person typically donates around 2% of their income, which fell to under 1.7% in 2021, its lowest level in decades.

DAFs might not increase giving because donors balance more giving to DAFs with less giving through other means. 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 other philanthropic vehicles like foundations and DAFs. Concerningly, individual giving continues to shrink relative to the growth of more structured philanthropy at the same time as increased wealth concentration at the top of the income spectrum.

However, while DAFs may not impact total giving much, they do affect the timing of when giving reaches charities. A national survey of over 400 nonprofit CEOs noted the most common concern about DAFs was that they delayed giving. This perception may exist because 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. Future research may clarify more about DAFs’ effects on donors and charitable resources.

Do DAFs make giving more accessible to middle-class donors?

DAFs do not democratize philanthropy. Starting a DAF may require a few thousand dollars or less, unlike a more expensive foundation, leading to the idea that DAFs bring in many donors with moderate incomes. DAFs are not exclusive to the rich, but there is no evidence that DAFs incentivize giving among the middle class. Rather, recent growth of the DAF market coincides with a top-heavy charitable landscape, where the wealthy represent a growing share of charitable giving and surveys find that lower- and middle-income people are less inclined to give in general.

The average DAF held around $450,000 in 2022. Most DAF donors are probably wealthy; the median income in the United States is around $71,000 and the average person donates under 2% of their income per year. A peer-reviewed cost-benefit analysis used 2014 tax return and DAF giving data to estimate that the
average DAF donor had an income above $2 million, noting the calculation as an underestimate.\textsuperscript{16}

How do giving from DAFs and foundations compare?

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.\textsuperscript{17} The average payout is near 8\%\textsuperscript{18} with a median slightly below 6\%.\textsuperscript{19} Community foundations give in a similar range but have no payout requirement.\textsuperscript{20} DAFs have no payout requirement either.

There are multiple ways to calculate DAF payout, but the most accurate method compares DAF grants to their assets each year, which puts the average payout around 15\%\textsuperscript{21} — much higher than the average foundation. However, the median payout rate may be lower\textsuperscript{22} because at least one-fifth of DAF sponsors — primarily community foundations — give out less than 5\% per year from their DAFs.\textsuperscript{23} Data on individual accounts is scarce, but paints a similar picture: a report on Michigan community foundation DAFs found that over one-third of their accounts make no grants in a typical year, and most give less than 5\%.\textsuperscript{24}

Some DAFs pay out less because sponsors do not make their accounts stay active. A 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.\textsuperscript{25}

Lastly, all the payout rates above also 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 up to 11\% of their grantmaking.\textsuperscript{26} Transfers to DAFs are also a small percentage of private foundation giving.\textsuperscript{27} Transfers occur for various reasons as donors and foundations see fit, but such practices inflate grantmaking totals. A private foundation may also funnel 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.\textsuperscript{28}
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 challenges. Commercial sponsors, which are national DAF-centered fundraising organizations and sometimes the charitable arms of financial companies, hold over 60% 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.

Commercial DAFs may have lower management fees and greater investment options, especially as some are also investment companies. The rapid expansion of DAFs has mainly been due to national DAFs, perhaps because some funnel financial clients directly to their DAF arms. Commercial DAFs also average higher payout rates than community foundation DAFs.

All types of sponsors have similar oversight concerns. A range of sponsors, from commercial sponsors to community foundations, provide at least several million dollars in funding to hate groups each year, not to mention other harmful causes. Additionally, all types of sponsors face questions about payout – due to a portion of their DAFs paying out very little – and around transparency, as data on DAFs, industry practices and funding opportunities are scarce.

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

A payout requirement on DAFs would likely increase charitable giving. A requirement would increase grants from low-paying accounts, have no impact on more generous accounts and is unlikely to affect how much donors give to charity.

Donors are unlikely to change how much they give, based on research on donor motivations indicating that people mostly give to charity due to altruism, internal satisfaction, social pressure, tax benefits and comparable reasons. A payout rule has little effect on such motivations. One study interviewed 40 philanthropy insiders in countries with DAF sponsor payout requirements, who agreed that the rules did not discourage donors.

Some philanthropies are also concerned DAFs would treat a payout requirement as a ceiling instead of a floor, giving the bare minimum. However, this occurs anyway,
as some DAFs currently treat the 0% floor as a ceiling. For example, a study of Michigan’s community foundation DAFs found that 37% of accounts give nothing in a typical year, and one-third of those accounts gave no grants throughout the study years of 2017-2020.42 Of course, if DAF payout rates clustered around a minimum requirement, the requirement could be increased to the socially desirable level.

Would more DAF transparency affect anonymous giving?

More DAF transparency is unlikely to limit donors’ ability to give anonymously, but it depends on the regulation. DAF transparency mostly centers on sponsors providing more in-depth reporting, communication and publicly available data about DAFs – not necessarily revealing donor names.

Broadly, anonymous giving is a practice that donors may choose for personal privacy reasons, or for more nefarious purposes like giving to hate groups.43 Aggregate data is not available on anonymous DAF giving, but it is an uncommon practice: one review of the largest five DAF sponsors found that under 5% of grants were anonymous.44 Anonymous giving is also not only for DAFs – donors can do the same with direct donations too.45

Anonymous DAF grants do pose a problem for nonprofits trying to build relationships with donors as well as ensuring funding accountability. In a 2020 convenience sample survey of over 400 nonprofits, a majority were concerned about their ability to reach DAF donors.46 The previous year, a survey of nonprofit CEOs found that hampered donor outreach was their top concern with DAFs.47 In both surveys, overall transparency was a potential concern.48 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 used in ways that are accountable to the public good.49

Broadly, recent regulatory proposals have not tried to remove DAF donor anonymity privileges. In California, where most of the nonprofit association’s members support more DAF payout and transparency requirements,50 a recent state bill 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.51 The recent federal legislative 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.52
Endnotes


