

# Donor Advised Funds For the Wise Donor ~ Investor

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**AEF**

AMERICAN ENDOWMENT FOUNDATION

# LETTER FROM THE PRESIDENT

Personally, I find great joy in talking with people about family philanthropy. The conversations are inspiring...they often share their hopes, dreams, and excitement. And although the decision to give may be a simple one, deciding how to structure your giving may not be as clear.

I have found that donors want help sorting out their options and weighing the merits of those options so that they can make decisions with confidence.

To this end...hope you find this guide useful.

A handwritten signature in blue ink that reads "Phil Tobin". The signature is written in a cursive, flowing style.

Phil Tobin  
President  
American Endowment Foundation

# I. Why a Donor Advised Fund

## A. What is a Donor Advised Fund?

A Donor Advised Fund is a family foundation alternative that provides simple, flexible, efficient ways to manage your charitable giving. You and your family can enjoy immediate and maximum tax advantages, make grants on a flexible time table, build your charitable legacy, and increase your philanthropic funds for future grantmaking.

B. When donors and their families are asked why they chose Donor Advised Funds, they mention one or more of the following:

- Want a vehicle to express their unique philanthropic intentions.
- Find the convenience and service attractive.
- Streamline their giving - keep track of grants, amounts, and giving history.
- Benefit from tax advantages and simplicity over other giving vehicles.
- Want continuing involvement in grantmaking – at levels right for them.
- Establish a vehicle to educate children and pass along family values.
- Enjoy flexible options to choose recognition, or manage their privacy – even total anonymity.
- Create a lasting legacy.

## CASE 1

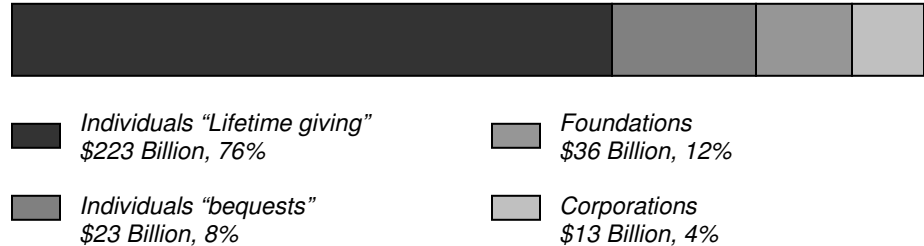
Cherry and Lee S. had several goals in mind when they established their family's charitable fund at AEF. First, they wanted to share their unusual good fortune in business and life with worthwhile charitable endeavors, yet did not have specific charitable organizations in mind at the time to actually distribute funds directly. Second, the couple wanted to instill a sense of philanthropy in their children and grandchildren by engaging them in grant recommendations at an early age. Third, Cherry and Lee wished to distribute their estate to their children at a level which would help care for their needs, but not distort their lifestyle. Fourth, they wanted to create a source of funds for the children and future generations to distribute to worthwhile charitable endeavors, so that they could share their parents' joy of helping others. And finally, five, Cherry and Lee did not want to be constrained by a preferred provider list or an affiliate relationship that might make sense for a particular institution but not for their personal situation. They wanted a platform independent of the investment provider and the ability to engage their trusted financial advisor to grow the funds available for future grant making.

Through AEF, Cherry and Lee have managed to award more than \$800,000 to worthwhile causes in the past eight years. And, they believe that they have achieved success in all their goals. They intend to transfer the major portion of their estate to their Donor Advised Fund upon their death (estimated to be \$3-5 million.)

## II. The Face of Philanthropy

Americans are uniquely generous. Since the founding of this country, philanthropy has helped define the American way of life.

### A. Source of U.S. contributions in 2006: \$295 billion



Source Giving USA Foundation™: Giving USA 2007

### B. Today's Donors

In the past decade, Donor Advised Funds have become the **fastest growing vehicle for family philanthropy**. They are powerful examples of the inventiveness and personalized expression that characterizes American philanthropy.

Today, donors approach charitable giving with the same commitment they do for financial goals, such as retirement planning and estate planning. They not only want to streamline their philanthropy to free up time, they want flexibility as their philanthropic goals change or develop. They have a better understanding of general finance and investments and are more likely to want a flexible vehicle and independent platform for their family's philanthropy.

### III. Considerations

Donors often find themselves with a bewildering array of considerations. Here are a few:

#### **A. Developing a charitable giving plan is both a financial and philanthropic endeavor.**

The largest transfer of wealth in U.S. history is expected to create opportunities and challenges, as assets are freed up from the sale or transfer of family businesses, real estate, and highly appreciated investments. Since the early 20th century, public policy in the U.S. has offered tax incentives for philanthropic actions. Those incentives, coupled with genuine charitable motivations, create a tremendous opportunity to help your favorite charities. Although many practice checkbook charity, just “giving it away” often falls short. Donor Advised Funds offer a powerful capability to stay involved in these meaningful assets for personal and family philanthropy.

#### **B. Accountability**

It is important to match the size of the contribution to the capacity of the charity. Capacity is a term that encompasses size, administrative capability, stability and accountability of the board. *Are the charity's administrative expenses reasonable? Does the charity have the sophistication to use a large gift effectively?* Large grants can be like a heavy rock dropped into the bottom of a small boat. Many small charities have become divided over large contributions due to the lack of a clear strategic plan, clear policies and investment experience. Also, some charities may treat contributions as “free money” and use them to pay for fundraising and administrative expenses, which is usually not what the donor has intended.

#### **C. Contributions**

Donors considering charitable contributions of illiquid, non-cash assets, i.e. closely held stock or real estate, should be aware that:

- Smaller charities are often not equipped to handle gifts of illiquid, non-cash assets. If accepted, the liquidation may be poorly handled resulting in fewer dollars to charity.
- Breaking up concentrated holdings for distribution to multiple charities creates execution challenges.
- Most larger charities want to liquidate gifts of illiquid, non-cash assets immediately. This may not be what the donor has intended.

#### **D. Mismanagement of Contributions**

Donors may have concerns that the value of their investments will be eroded with poor investment decisions, particularly with smaller charities.

### E. Recognition or Privacy

Donor's often personalize the Fund with a family name (e.g., "The Smith Family Charitable Fund"), involve family members in recommending grants, and name successors, so that the account can continue for generations. Charitable giving can also be quite personal. Common privacy concerns include:

- Being besieged by grant requests.
- Protecting children from unwanted exposure.
- Avoid having their personal lives come under scrutiny.
- Confidentiality in governance of the family foundation.
- Feeling that grant making may create awkward circumstances.

### F. Opportunities for Family Involvement

In addition to being a vehicle for developing a greater sense of personal wealth and self-esteem, donors often establish their family foundation as:

- A bridge for families that are geographically dispersed.
- An establishment of a family purpose and team spirit.
- A forum for meaningful intergenerational communication.
- Training wheels in "letting go" for older generations.
- A lasting legacy for preparing heirs to receive wealth.
- A way to remember or memorialize a loved one.

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## IV. Popular Family Foundation Alternatives

The two most popular family foundation alternatives are private foundations and Donor Advised Funds. For the following reasons and more, **Donor Advised Funds have become the fastest growing family foundation alternative.**

	Private Foundation	Donor Advised Fund
Ultimate and absolute control	Advantage	Disadvantage
Entry threshold	Disadvantage	Advantage
Tax deduction	Disadvantage	Advantage
Mandatory distributions	Disadvantage	Advantage
Ease of use and administration	Disadvantage	Advantage
Complexity	Disadvantage	Advantage
Cost	Disadvantage	Advantage
*Privacy	Disadvantage	Advantage

\*With the advent of the Internet, information is more available than ever. Today, anyone with a computer can access Guidestar ([www.guidestar.org](http://www.guidestar.org)) to gain information on any private foundation. Since all of the information is pulled from a foundation's tax return which is public record, anyone can see the asset balance, the directors, contact information, administrative fees paid, every grant that is made (organization name and amount), and investment management fees (holdings are sometimes included). In contrast, Donor Advised Funds provide donors with **flexible options for recognition or privacy.**

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### CASE 2

Louise H. received substantial assets when her parents died, so she established a Donor Advised Fund to support certain named charities in her small community. While the local foundation consisted of friends, she wanted greater privacy in her contributions and grant making. She wanted a neutral buffer. Louise chose AEF for its independence and uses it as the conduit for her giving.

## V. Donor Advised Fund Benefits

### A. Tax Benefits

Contributions are tax-deductible in the year they are made. Because AEF is a public charity, contributions qualify for immediate and maximum tax benefits. See <http://www.aefonline.org/tax-benefits.htm>

- Reduce income taxes immediately.
- Avoid capital gains on gifts of appreciated property.
- Avoid estate taxes.
- Investments in a Donor Advised Fund can grow tax-free.

### B. Separate Tax and Grant Making Decisions

Contributions to the Fund are fully deductible in the tax year in which they are made. Donors can realize immediate tax benefits, and avoid year-end pressures by recommending grants on the donor's own timetable.

### C. Simplicity and Speed

Donors can achieve the satisfaction of creating a lasting legacy and avoid the complexity and cost of a private foundation. A Fund can be established by completing a simple application and can be set up in as short as a day.

### D. Consolidated Record Keeping

Donors receive a quarterly consolidated statement of distributions. Since donors receive the tax deduction at the time of the contribution, they can eliminate the annoyance of having to track donation receipts from all the charities that they supported during the year.

### E. Recommendations On How Contributions Are Invested

Many programs offer flexible investment options. AEF's unique independence provides greater flexibility in investment options.

### F. Grant Making Opportunities

The Donor Advised Fund lets donors structure their giving over time, enabling them to plan and leverage the impact of their grants. Minimum grants sizes of \$250.

### G. Low Cost

Two benefits of these Funds are low cost and low administrative burden.

### H. Creation of a Lasting Legacy for Family Philanthropy

Donors typically establish a Donor Advised Fund to engage family members over successive generations.

### I. Recognition or Privacy

Donors can personalize the Fund with a family name (e.g., "The Smith Family Fund") or choose to make the Fund anonymous. Donors may want to support a charity without disclosing their identity to the organization. They can choose to do this on all their grants or selectively by individual grant.

## VI. What to look for in a Donor Advised Fund Program

The following is a simple list of questions to consider when assessing Donor Advised Funds for your philanthropic needs:

### A. Affiliations

Is the organization that sponsors a donor advised fund affiliated with another entity (for-profit or non-profit) or is it independent? How might these affiliations help or hinder your use of a Fund now or in the future?

### B. Contributions

What types of assets are eligible for contribution, e.g. cash, marketable securities, closely held securities, real estate, and life insurance? Is there a requirement that the contributed asset be immediately liquidated?

### C. Investments

What investment choices are available to you? Are contributions pooled or can each be separately managed? Can your financial advisor play an ongoing role in providing investment services for the Fund?

### D. Grant Distributions

Are there restrictions on grant distributions, i.e. geographic, religious, etc? Is there a minimum annual distribution requirement, or a maximum annual limit?

### E. Succession

You might also want to consider how flexible are the provisions for succession upon your death? Is involvement limited to you and your spouse?

### F. Online Access

Does the program offer secure online access to your account?

### G. Costs

Is there a set-up fee or termination fee? What is the annual administrative fee? Are there hidden fees: annual fees, minimum account level charges? Does the organization require a certain portion of the Fund to be set-aside for its own purposes? Will they allow you to transfer the Fund in the future?

## Comparison of Program Sponsors

Donor Advised Fund Program	Examples	Focus
Commercial Programs	Fidelity, Vanguard, Schwab	Product
Religious Programs	Christian Community Foundation, Jewish Communal Fund	Religious
Charity-specific Programs	Harvard, Nature Conservancy	Charity specific
Community Foundations	New York, Chicago, San Diego	Community
Independent Programs	AEF	Donor

## CASE 3

When George and Mary A. took their business public, its stock did well. Although they could establish a much larger Fund, they decided to start small as they developed their philanthropic plans. They established a Fund in the family's name with an initial contribution of \$10,000, and they appointed their children as successor advisors. In time, they have contributed the low basis company stock, and diversified their portfolio, avoiding capital gains tax. As the family has grown and become geographically dispersed, the Fund provides a forum to keep the family together, and as a tool to engage the grandchildren in their family values. Since its inception, they have recommended grants of more than \$600,000 to their favorite charities, and the grandchildren have learned to be philanthropists at an early age. They will always remember that they learned about philanthropy from their grandparents.

## VII. About AEF

Established in 1993, American Endowment Foundation (AEF) is a tax-exempt public charity approved by the IRS.

We formed AEF as the pure independent, national program for donors and their families, and we continue to set the standard for personalized, independent, conflict-free platform. Today, AEF is **the leading "independent" national Donor Advised Fund program.**

AEF's 100% independence is unique in the industry. While there are a number of Donor Advised Fund programs available, most have an affiliation to a for-profit service provider (mutual fund, broker, or bank) or specific charitable institution. We believe that true independence improves the reliability and enhances the flexibility of the Donor Advised Fund program - all of which contributes to its usefulness and objectivity.

- AEF is not affiliated with financial institutions.
- AEF receives no benefit from brokerage services, commissions, finder fees, or product sales.
- AEF does not sell financial products or services.
- AEF does not provide financial, tax or legal advice.

Our sole focus is Donor Advised Fund Administration.

## VIII. What Makes AEF Unique?

AEF's independence translates to flexible capabilities that address a variety of needs and situations:

### A. Greater Investment Choice

Most commercial and community foundation programs restrict investment choice to a limited menu of proprietary mutual funds or commingled investments. AEF does not commingle or pool investments. Contributed funds are segregated and can include a wide variety mutual funds and/or individual securities in separately managed portfolios.

**B. Investment Management**

Because most programs offer a limited menu of pooled investment options, they eliminate the donor's ability to recommend their trusted financial advisor. With AEF, you have the ability to maintain a relationship with an existing financial advisor. You and/or your advisor have greater choice in recommending an investment program for the Fund.

**C. Contribution Flexibility**

Many commercial Donor Advised Fund programs accept only cash and marketable securities. AEF can accept and hold a wide array of asset types, for example: life insurance policies, closely held stock, real estate, etc.

**D. Succession**

Some programs limit succession to the life of the donor and the donor's spouse and/or children of the donor. At that point, the family is no longer involved. AEF allows the Fund to continue over successive generations.

**E. Grantmaking Flexibility**

Some community foundations limit grants to their geographic area of interest. Many have grant limits, programmatic restrictions and preferences. AEF's scope is nationwide, and our independence creates a neutral platform for your charitable giving.

**F. Personalization**

Most commercial and community foundation programs promote their own corporate identity. AEF creates customized letterhead in the name of your Fund to be used in distributing grant checks to charities.

**G. Accessibility and Responsiveness**

AEF does not operate a call center. Donors and Professional Advisors communicate personally and directly with AEF's principals.

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**CASE 4**

Judy A. is an entrepreneur whose income varies widely from year to year. She established a Donor Advised Fund and contributes a little or a lot as her income and tax situation requires. She uses her Fund to support charities that focus on women's issues across the country. She likes the speed in which grants are made, and how the Fund eliminates the need for many tax receipts.

## IX. How Does an AEF Donor Advised Fund Work?

The procedure is **designed to be easy**. If you have questions, the experienced staff of American Endowment Foundation is available to guide you through every step of the process. To establish a Donor Advised Fund at AEF:

1. Download and print out a Program Description and Application from our website, at [www.aefonline.org/pd.htm](http://www.aefonline.org/pd.htm) or contact us to have it mailed to you.
2. Complete the simple application.
3. Contribute assets to your Fund. AEF will accept as little as \$10,000 as an initial contribution. When we receive your completed application, we will contact you or your professional advisor to arrange transfer of the assets you intend to give and to arrange the Fund's investment program.
4. When we accept your contribution, we send you a letter acknowledging your gift, and you can recommend grants online or in hardcopy.

You retain the right to advise AEF in administering the affairs of your Fund. Your role is that of an advisor (hence the name Donor Advised Fund). This concept of advice is key to your Fund's superior tax treatment by the IRS. Consider the following:

- Contributions, once received and accepted by AEF, are irrevocable.
- All recommendations from you are advisory. IRS regulations common to all Donor Advised Funds require that the sponsoring charity (in this case, AEF) must have final say on all recommendations.
- The Donor Advised Fund must be operated exclusively for charitable purposes.
- AEF can only consider grants to US-based, tax-exempt, public charities or to qualified governmental organizations.
- AEF will contact you immediately regarding grant recommendations that do not comply with tax regulations.

At AEF, we are committed to providing our donors and advisors with the tools they need to effectively manage their charitable giving. AEF has been sharing its independent and practical approach to philanthropy since 1993. Our unique independence translates to flexible capabilities that address a variety of needs and situations.

## Closing

AEF is dedicated to making philanthropy **understandable, useful and fun** for our donors and their families. Contact the American Endowment Foundation at **330-655-7552, 1-888-440-4233** or [info@AEFonline.org](mailto:info@AEFonline.org) to find out more.