Donor-Advised Funds: 5 Myths

Fidelity Charitable Gift Fund, the nonprofit arm of behemoth Fidelity Investments, now raises more money than United Way. It could soon eclipse the Gates Foundation as America's biggest grant maker.

1. **DAFs are just like foundations.** Contrary to popular belief, DAFs aren't required to pay out in any given year. Unlike a family foundation, DAFs are required to donate to a qualified 501(c) 3 eventually. Which means that the donor receives a tax incentive immediately but the funds can sit idle for as long as the donor chooses. The DAF can even be bequeathed and continue to sit idle during the course of the next generation.
2. **DAFs are multiplying, so charitable giving must be too.** From 2012 to 2017, total donation volume flowing into DAFs has been nearly two-thirds greater than total donation volume flowing out of DAFs. (National Philanthropic Trust)
3. **DAFs have made a positive impact.** Financial institutions aren't required to report itemized information on each DAF account they maintain on their 990 Schedule D so the impact of these funds can't be assessed- or much else. What we do have is a "DAF payout rate" as a key performance indicator. Using the IRS calculation for this, the median DAF payout rate for 2012 was slightly over 7 percent of the total value of funds held by financial institutions. More than a quarter of these reported a payout rate of less than 1 percent, including 466 institutions that reported no grants paid out at all. https://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?article=1017&context=philanthropy-forum
4. **Financial advisors encourage giving.** When a DAF sits idle, funds stay put and financial institutions make money. Advisors actually lose money in investment and management fees when DAFs pay out.
5. **Fund managers are neutral third parties.** The largest investment firms, Fidelity and Schwab, make recommendations to donors regarding which organizations to support (Fidelity Charitable makes recommendations) While this may not be a concern for your existing major donors whom you already have great relationships with, there are many donors that are hiding behind their DAFs that you may never be able to share gratitude with or practice the donor stewardship you believe in. The proliferation of DAFs means that they have become much more commonplace for "average" donors, making it harder to know and cultivate the middle of the pipeline.