

Donor-Advised Funds: 10 Essential Things to Know



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Advisors, attorneys and accountants are increasingly recommending donor-advised funds to clients interested in charitable planning.

Each year many more donor-advised funds are being created than are private foundations. Among the ten largest DAFs, four are national (Fidelity, Schwab, Vanguard, National Philanthropic Trust, four are local community foundations (Silicon Valley, New York, Kansas City, and Chicago), and two are religious (National Christian Foundation and Jewish Communal Fund).

Even among similar types of DAFs, there are many differences in the offerings and selecting the most appropriate one can be a difficult task. When working with clients to choose a DAF it's essential to understand what the clients want to achieve with their charitable donations, yet many advisors also rightfully want to be able to work with an organization that will work well with them.

Here are some questions advisors should ask fund sponsors when helping clients select a DAF:

1. What types of grants recommended by donors will the DAF sponsoring organization approve?

Advisors will not want to utilize a particular DAF if their client will not be able to support his or her favorite charities through the fund. Generally DAFs are able to support most 501C3 organizations, but there are sometimes restrictions (I.E. religious, international, etc.).

2. What resources are provided to help clients identify causes or charities and plan their giving?

Can the DAF help educate its account holders how to be more effective donors and feel a greater sense of pride and satisfaction? How is this done? Many, if not most, donors know exactly what they want to support, but some would appreciate the help and suggestions.

3. What are the investment options?

Can you manage the investments in the client's DAF account? Some DAF sponsors including the American Endowment Fund, Fidelity, Schwab, some Community Foundations, and others enable advisors to manage the money in their clients' DAF accounts. The minimum DAF account size for which they can manage the money ranges from zero to \$1 million.

4. What types of assets can the DAF accept besides personal checks?

Many DAFs accept publicly traded stock, privately-held C- and S- company stock, real estate, life insurance, art and collections. Complex assets have been sources for many of the largest donations to DAFs in recent years and the trend is accelerating.

5. Can the assets in a DAF account be transferred to another DAF sponsor?

Advisors may change the DAFs with which they work and DAF account holders may also want to change for various reasons.

6. Are there restrictions on the amount that can be granted from a DAF?

Is the DAF unrestricted or is it a donor-advised endowment fund in which often only 5% of the principal can be distributed annually? Most clients who want to give during their lifetimes do not often select endowed DAFs.

7. What happens when the DAF account creator is no longer alive?

How many successor advisors (often heirs) can be named? Can the DAF holder designate charitable beneficiaries to receive the final amount in the fund? Some clients will want to know who will decide where the assets in their DAF will be distributed and who will decide if no successor advisors are designated or allowed.

8. What are the specific account details for this DAF?

What is the minimum required to open one? What is the minimum grant recommendation amount? How can DAF holders recommend grants: Online, call, mail? How long does it take to approve the recommended grants? Can repeated grants to the same non-profits be scheduled in advance? What are the costs?

9. Who is the primary contact?

Who will be the primary contact for the advisor and client, both when establishing the account and on an ongoing basis? Some clients prefer to conduct their business on an online platform only, while others want to talk to a real person.

10. How can the DAF sponsor be a resource to the advisors?

Many advisors welcome the efforts of some DAF sponsors to educate them about charitable giving so they can best help their clients, while others appreciate the opportunity to meet or connect with other local professional advisors at events that the DAF sponsors.

Ken Nopar is the Principal of Nopar Consulting, a firm that trains wealth management firms, banks, and other professional firms how to have the charitable planning conversation with clients and how this discussion benefits the firms and clients. The firm's website is www.noparconsulting.com.