

# ALL THINGS DAF!

*Harnessing the Power of Donor-Advised Funds*

## **2020 Donor Advised Fund Predictions**

***By Jack Doyle, Amergent President & CEO***

The current situation(s) calls for a larger discussion than what we cover in an issue of **All Things DAF**. There are several opposing economic forces impacting the flow of DAF funds, and there are modest efforts in play when bolder actions are called for when appealing to donors.

When I create an outline, I try to carefully select what needs to go into this piece; I also consider what should not. I'll let you be the judges, because I didn't feel anything reported here should be left out.

As always, I offer this informed information from the DAF donor's perspective.

Some of the major moving parts here are 1) the state of the economy due to the virus 2) the impact on investor confidence and the stock market 3) the impact of the tax law changes that took effect in 2018 4) a shift in funds going into and out of DAF accounts in 2020 and 5) an overall passive approach to soliciting DAF Donors at all levels along the donor pyramid.

This is a lot bigger of a challenge than creating an Emergency Response Fund.

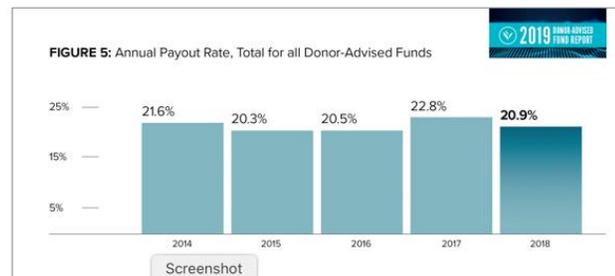
## **Background**

While we await the publication of the gold-standard of all reports on DAF, the Annual Report of the National Philanthropic Trust for calendar year 2019, we rely on what has been published.

1. For the last five plus years, payouts from DAF national sponsors have exceeded 20 percent.

### **Payout Rate Remains Above 20%**

Aggregate grant payout rates from donor-advised funds annually exceed 20 percent for every year on record. The payout rate for 2018 was 20.9 percent. This is less than the payout rate of 22.8 percent for 2017.



- In recent weeks, Fidelity Charitable reported their payout rate for the first quarter of 2020 has increased to 36 percent and Schwab Charitable reported their payout rate for the first quarter of 2020 has increased to 35 percent.
  - Most of this giving has been a result of many DAF donors **giving larger grants**; increased giving is not yet being attributed to more DAF donors and/or more grants being made.
  - It's good that more money is going to frontline non-profits, but not enough is going out.
  - In a little study we're doing, one client is a little behind in 2020 DAF dollars because of an un-renewed 2019 \$1M DAF grant. Four clients are ahead of last year by 10-50 percent and four other clients are ahead of last year in terms of DAF dollars by 50 percent, 200 percent, 300 percent and 500 percent.
  - A good place for everyone to start is to answer, "**How much are you ahead of last year?**" **If you're under 35 percent, you have some catching up to do.**
2. The impact of the tax law change was short-lived, and contributions into DAF accounts in 2020 will be very different from what went into these accounts in 2018 and 2019.

To recap: The new laws went into effect on January 1, 2018 and doubled the standard tax deduction for single and joint tax filers, effectively eliminating the need of many Americans to itemize deductions. As such, many Americans opted to give before December 31, 2017. The data from that time is now fully captured. Contributions to all donor-advised funds rose by a combined \$5 billion in 2017 or 23 percent. In 2018, contributions rose again by more than \$6.2 billion, or over 20 percent. Both periods outpaced the compound annual growth rate from 2014 to 2018. Also, more individual donor-advised fund accounts were created than ever before. Not enough time has passed to demonstrate a trend line, but it is clear that many donors found that donor-advised funds offered a solution to the challenges or changes presented by the new tax laws.

- More than half of the funds donated into DAF accounts are appreciated stock of publicly traded companies. 2018 and 2019 were good years. 2020 will not be good to investors and there won't be

a lot of appreciated stocks for donating. Funds into the DAF accounts from this source will decline in 2020.

- There were concerns expressed about donors prefunding their DAF accounts; you will also see it referred to as bunching. In order to overcome the loss of the SALT deductions for State and Local Income Taxes, donors were increasing their charitable contributions to increase the amount of this allowed deduction. This was a useful tactic for the near-term, but not a sustainable practice year after year for most people.
- 2020 will certainly NOT be a year for prefunding or bunching funds into DAF accounts.

2018, growth in contributions to donor-advised funds outpaced the growth rate of grants from donor-advised funds to charities. This reverses a four-year trend where grants grew faster than contributions. One factor for this may be “bunching.” For donors whose giving was impacted by tax law changes, “bunching” or effectively “pre-funding” their giving in a donor-advised fund allowed them to take advantage of the charitable tax deduction while consistently supporting their favorite charities. Donors who bunched their donations now may have several years’ worth of charitable assets in their donor-advised fund accounts and may continue to grant from them at a high rate. If true, we will see that grant growth will again outpace contribution growth in the next report.

- Why prefunding was a popular tax planning practice; emphasis on WAS.

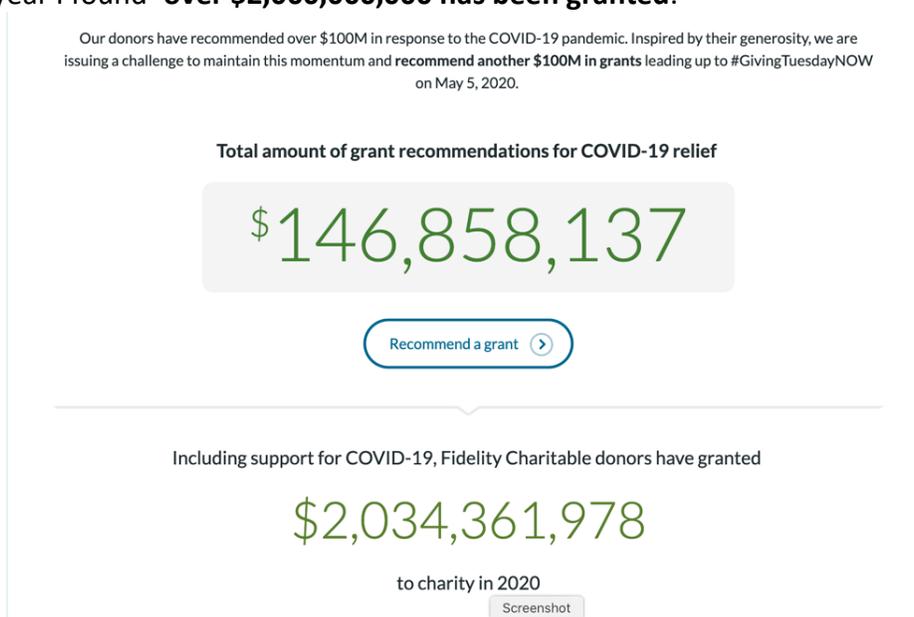
2-Income Family Calendar Tax Year				prefunding in only 1 year			+/-
	2018	2019	2020	2018	2019	2020	
Allowed Deductions	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	
Charitable Contributions	\$12,000	\$12,000	\$12,000	\$36,000	\$0	\$0	\$0
Subtotal	\$24,000	\$24,000	\$24,000	\$48,000	\$12,000	\$12,000	
Pick One							
Standard Deduction	\$24,800	\$24,800	\$24,800		\$24,800	\$24,800	
Itemized Deductions				\$48,000			
<b>3-Year Tax Deductions</b>	<b>\$74,400</b>			<b>\$97,600</b>			<b>\$23,200</b>

- The married couple on the left, taking the standard deduction in each of 2018, 2019 and 2020, will have a three-year tax deduction total of \$74,400. We hope they choose to continue making charitable gifts that are important to them, but there’s no guarantee (one of fundraisers’ worst fears).
- The married couple on the right had the opportunity to prefund their DAF account in December 2018 with appreciated stock; it’s likely the original cost of that appreciated stock might have been only \$18,000. They opted to file an itemized list of deductions for 2018 but plan to take the standard deduction for 2019 and 2020. The overall increase in their tax benefits for that three-year window will be \$23,200 greater.

- The overall charitable giving total for that three-year window is unchanged.
- The FED gets less tax revenues and the non-profits get no more than before.
- The current economy is on hold, the 2020 stock market has every sign of a recession, there won't be more funds going into DAF accounts than we saw in 2018 and 2019.
- There will be no winners here.

### 3. Let's look at the cash flow of charitable dollars.

- Money has been flowing into DAF giving accounts faster than the donors have been making grants, despite the fact that over 20 percent of the available funds were going out. Depending on your point of view, you have strong feelings about this. I'm on the side of the fence that feels that every year billions of dollars MORE get granted out, and that is a good thing. I'm aware there are people who feel that any dollar not granted out immediately represents what's wrong with the whole business of DAF giving. I feel the benefits have outweighed the complaints and everything is about to change.
- Let's use Fidelity Charitable as an example. They reported by the end of 2019 their DAF Donors had contributed a cumulative balance of \$31 billion. They granted out \$6.165B before the end of the year (the 20 percent payout reported before), while the donors contributed \$9.12B into their accounts. So again, more in than out.
- That's not going to be the case in 2020. Remember the donors gave out \$6B in all of 2019, and so far this year I found—**over \$2,000,000,000 has been granted.**



- This means they are on a record pace for granting out money.
- And yet, it's not enough and we need to inspire DAF donors to pick up their pace of giving. These funds aren't going to run out of money.
- There's one near-term concern about DAF funds at the national charitable sponsors – these funds are managed in the stock market. When the stock market goes down, so do the available grant dollars.
- Is it a lot? I looked at our giving accounts and found that Schwab Charitable has reported their March 31, 2020 account statements, while Fidelity Charitable has not. For the first quarter of

2019, our giving account at Fidelity grew by nine percent and our giving account at Schwab grew by 10 percent.

- By December 31 of 2019, our giving account at Fidelity grew by 13 percent and our giving account at Schwab grew by 12 percent.
- So, 2019 was about twice the rate of growth anyone expected. That's gone.
- For 2020, our giving account balance at Schwab Charitable has **declined by 15 percent** through March 31, 2020 and our charitable giving funds are invested in one of their moderate funds.
- These funds were irrevocably contributed to Schwab Charitable and must be used to make charitable gifts. There's a part of us that feels like we need to give more now before these funds decline any more.

4. The donors are getting encouragement to give more from all sides. Some of these efforts aren't as effective as you can be. You are part of the community of fundraising professionals. You know best how to effectively solicit donors at all levels of the donor pyramid. DAF donors represent unique challenges.

- Someone who makes regular, small grants from a DAF charitable giving account might be a donor of modest means, or could be testing you.
- We've closely observed nine programs' DAF outcomes:
  - The majority of the grants for a \$20 membership org come in at \$50
  - The majority of the grants come in at \$100 for five organizations
  - The majority of the grants come in at \$1,000 for three organizations
  - Most benefit from multiple \$10,000+ grants from donors who didn't start at that level
- There's no better time than the present to make your case for loyal donors to consider making the largest gift/grant of their lifetime.
- The DAF donor capable of making the largest grant you receive in 2020 will be found in any of the following places:
  - Among donors currently being cultivated by a major gift officer
  - Someone "holding" at the \$1,000 annual giving level in whatever program you have for the leadership level
  - Someone in the midlevel
  - Among the longstanding loyal donors at any level who have NOT yet disclosed **they have a DAF charitable giving account**
  - Among the long lapsed; many of the donors identified by our DAF donor model likely to have a DAF giving account are found among long lapsed donors. This might be a result of you not selecting them into regular communications.
  - And new responders to your acquisition outreach could become your largest donor before year-end. New donors added in response to your core control message (not to an emergency appeal) at a time of crisis, typically become very, very loyal donors.
- The DAF donors need to be getting the direct, steady reasons to give now. The national charitable sponsors are encouraging their donors to give more, but in a more passive way (they might not agree, but they're not direct response fundraisers).
- When I went to look at what Fidelity Charitable was doing, I found this "Take the Challenge" link on their home page. As a donor, I expected to be taken to a list of worthy frontline charities dealing with the pandemic.



### Take the COVID-19 Relief Challenge

Our donors have recommended over \$100M in response to the COVID-19 pandemic. To maintain this momentum, we are issuing a challenge to recommend another \$100M in grants leading up to #GivingTuesdayNOW on May 5, 2020.

[Take the challenge >](#)

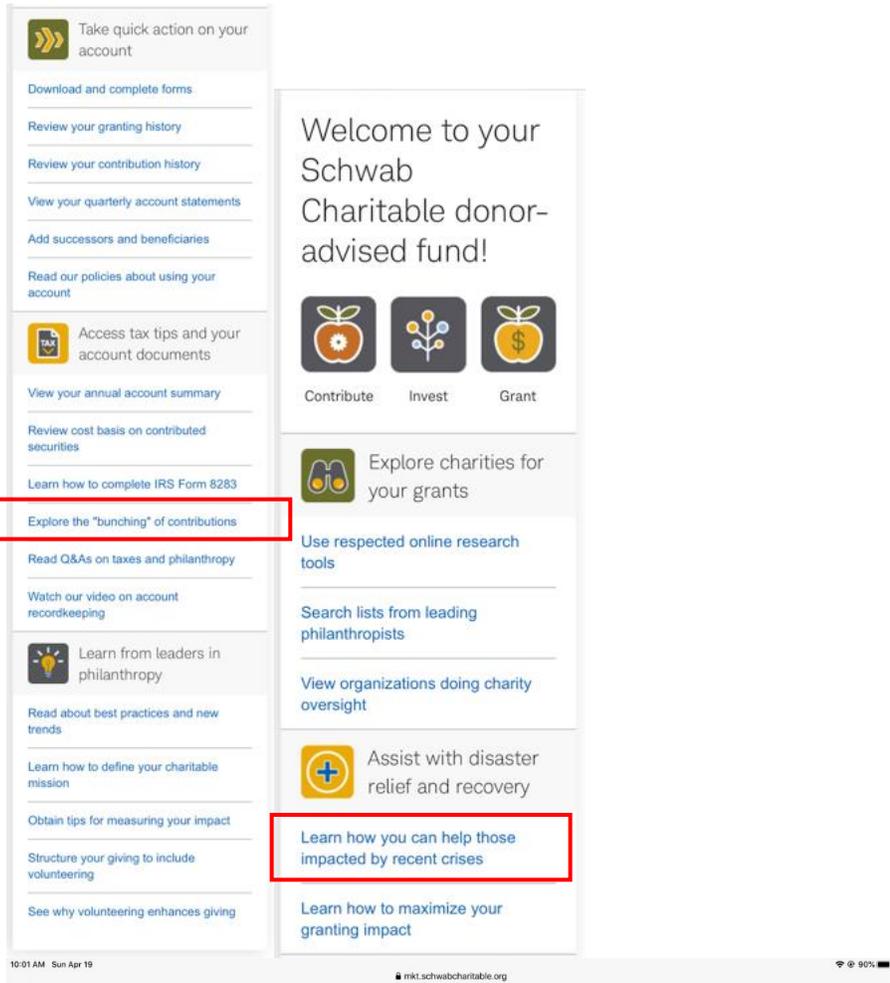
- I was taken into my own list of favorite charities, not to new ones. Then I found another generic call to action.

### How to help

We've identified three critical areas where giving can make the greatest difference in this pandemic. For each area, we've identified key ways to help and, working with the Center for Disaster Philanthropy, organizations actively working to provide aid.

 <b>Support</b> medical needs <p>Needs in this area range from providing crucial protective equipment for frontline health staff and necessary support for free clinics, to helping further the development of potential diagnostics and vaccines.</p> <p><a href="#">How to support &gt;</a></p>	 <b>Protect</b> vulnerable populations <p>Help protect the people who may be affected most deeply by the pandemic. Safety net organizations like food banks need your support now more than ever.</p> <p><a href="#">How to protect &gt;</a></p>	 <b>Sustain</b> all nonprofits <p>Nonprofits are facing an increased demand for services paired with strains on fundraising. Many organizations rely on in-person volunteerism, fundraising events or public performances to survive. Continue your support for the organizations you always have.</p> <p><a href="#">How to sustain &gt;</a></p>
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- That wasn't the kind of personalized donor experience I was looking for. But it is consistent with what donors are being told by the national charitable sponsors that matter most, and the larger community foundations like Silicon Valley Community Foundation.
  - Give to your favorite charities (sustain your giving)
  - Give to protect the most vulnerable among first responders (protect)
  - Give locally and protect the most vulnerable in your community (protect)
  - Give for research to find a cure (give everywhere to achieve this)
- Then I went to Schwab Charitable. They have navigation icons down the right side of their page. It took me awhile to go from the first page to "How to Help Your Community."
- I don't think a lot of donors of either DAF will be looking to dig layer by layer into these giving sites.
- You are much better equipped to get them into and out of their giving account with the DAF Direct widget if placed in many suitable locations throughout your website.



COVID-19 was declared a global pandemic on March 11, 2020. SARS-CoV-2 is a new SARS-related coronavirus that causes COVID-19, a pneumonia-type disease that was first detected in China's central province of Hubei this past December. The disease has spread exponentially and has created a global health crisis and emergency.

Schwab Charitable offers donors a variety of options to direct their support to those impacted by this pandemic. Donors may maximize their charitable impact by using their donor-advised fund accounts to recommend grants for immediate and ongoing support to charities of their choice.

For the fastest grant processing, we encourage you to submit your recommendation online by logging into your Schwab Charitable account and designating your grant for "Coronavirus Relief and Response" from the dropdown menu under the "Purpose of Grant" section.



- If you are new to this, you can get the free DAF Direct widget at [www.dafdirect.org](http://www.dafdirect.org)
- There is another widget available at [www.dafwidget.com](http://www.dafwidget.com) that contains hundreds of charitable sponsors and community foundations that your donors might be using.

5. So, what are you going to do between now and the end of 2020?
- 2020 requires high-impact giving.
  - You need to have a plan for an all-channel inbound/outbound outreach for an **Emergency Response Fund** – something that can be repeated.
  - Ask donors to consider the largest gift they can give to YOU.
  - Don't hesitate to inform those who have DAF giving accounts to USE them; everyone can improve the level of **personalization** they employ when it comes to this issue.
  - Be considerate and recognize they are also giving to important charities in their community where they are needed, and are helping at a rate of giving they've never done before. Remind them that no one has been through times like this before.
  - Stay at home and work from home means your donors can be reached; are you calling all of them to see how they are doing? A friendly contact will be appreciated.
  - Are you doubling down on **Matching Gift Challenge** appeals? You can create and deploy a different Matching Gift Challenge each month. When the funds raised have been used, you need more funds to keep up the work. Donors understand why they are needed and why you are asking.
  - Are you prominently asking for a DAF grant (adding a small line of copy on the back of the reply device doesn't count) in every communication, in multiple places?
  - Clearly bestow sincere appreciation in every letter of thanks to your DAF donor, and take every opportunity to confirm those funds were used as promised and more funds are needed as soon as they can give again.
  - Have a separate standalone DAF insert in your new donor acquisition outreach – use symbolic examples of the impact of a \$1,000 gift, a \$5,000 grant and a \$10,000 grant. You'll get a lot of \$100, \$250 and \$500 gifts because that's most new DAF donors give, but **unless you suggest those large amounts, you won't get consideration.**
6. Time for a plug for Amergent's DAF donor model. The time for doing this is now. DAF donors are giving bigger grants this year, but we aren't seeing the overall number of active DAF donors going up as much as they could.
- a. Everyone has donors with a DAF giving account who haven't yet used it to make a gift to you.
  - b. Everyone has DAF donors with known DAF giving accounts who haven't yet made a 2020 grant to you. Ask them to make it earlier this year. All evidence indicates many Fidelity Charitable and Schwab Charitable donors opted to give in the first quarter of 2020. Encourage **everyone** to make a grant before June 30<sup>th</sup>.
  - c. Reconnecting with high net worth, likely DAF donors, presently among your long-lapsed donors can't happen fast enough.
  - d. Increasing the overall number of active donors you know who have a DAF giving account is wise and essential before the second half of the 2020 fundraising year.