

Why We Love Donor Advised Funds

By Todd Lueders, President/CEO, Community Foundation for Monterey County

One of the Community Foundation's donor advisors recently said he thought that donor advised funds are "the best thing since Chardonnay." He's also a winemaker and an estate planner, so he may have been exaggerating just a touch. But whether you compare these types of funds to your favorite wine, the invention of sliced bread, or Motherhood and Apple Pie, we think they are a uniquely valuable option for charitable giving for the right kind of donor or family.

A little over 1/3 of the Community Foundation's total assets, about \$50 million, are in the form of donor advised funds. A donor advised fund can be set up in one day by signing a simple fund agreement letter and making one call to a stockbroker or writing a check. But it also offers a flexible, potentially permanent structure to bring a high level of professional management to any donor or family with real charitable intent.

Why are these types of funds so popular, and how do they differ at the Community Foundation, as opposed to a commercial gift fund or a university?

The answer for many donors and professional advisors begins with the fact that they are not private foundations. Therefore, they have no minimum annual distribution, pay no excise tax on their net investment income, don't file a tax return, offer a higher (30% versus 20%) charitable deduction for gifts of capital gain stock or other property, can hold interests in business enterprises, don't have to exercise special rules governing grants to non-public charities, and can make scholarship and research grants. (See attached chart)

In addition, an advised fund at the Community Foundation has unique features that no other entity can offer – the deep local knowledge of community needs that its professional staff has in every possible area of charitable giving. Whether it's animal welfare, education, community and social services, the environment, health care, or the arts, the Community Foundation's professional staff is in touch with the agencies that are doing the best work in these areas on a daily basis. And for a donor who wants to do some international giving or recommend grants in a different part of the country, the Community Foundation has instant access to the expertise of more than 700 other community foundations throughout the U.S. and hundreds more in other countries.

But that's not all. A donor advised fund can be started with as little as \$10,000 for a temporary fund to be given out within 24 months or \$25,000 for a permanent fund. Donor advisors who establish a permanent fund get immediate diversification in a balanced, professionally managed pool of funds that provides long-term growth potential and protection of principal. All donor advisors also become colleagues with hundreds of other local donor advisors who may share their interests, and partners with the Community Foundation staff that keeps them up to date on the major local trends in

whatever field they care about most. A donor advised fund can be created with a gift of cash, real estate or any other appreciated asset, and the Community Foundation has expertise in managing and/or selling all kinds of property. Commercial gift funds and financial service companies cannot and do not offer an array of services like that.

Just as important are the ways that the Community Foundation can help families create and nourish a new tradition of family philanthropy without the administrative headaches of a private foundation. Most community foundations allow at least one generation beyond the original donors to participate as donor advisors. Bringing parents and children together to support all their favorite charities can create strong family bonds that focus on shared values and the concept of giving back to the community.

When the period for advice ends for any reason, donor advised funds typically become named funds of the Community Foundation's General Endowment, so the family name lives on in perpetuity. Or a donor advised fund can also become a named field of interest fund at that stage, such as the "Jones Family Fund for Animal Welfare", leaving the choice of future grantees at the discretion of the Community Foundation's Board of Directors.

I encourage charitable giving in whatever form it may take in our community – through a donor advised fund, a planned gift such as a charitable remainder trust, a meaningful annual gift, or a simple direct bequest. Our donor advisors are very valuable partners in our efforts to improve the quality of life for everyone in our county. That is our basic mission, and there is no limit to what we can do together – with or without a glass of Chardonnay.