

## We've Arrived. Now What?

*The rise of national donor-advised funds* by Kim Wright-Violich

When I interviewed for my current position at Schwab Charitable in 1999, the nonprofit was still a start-up and just launching a “donor-advised fund” giving program. Though I had been active in the charitable sector for 15 years, I was not yet familiar with donor-advised funds.

Although the Cleveland Foundation pioneered the donor-advised fund concept in 1914 and New York Community Trust formalized a donor-advised fund program in 1931, it was the launch of several national donor-advised funds by financial services companies in the 1990s that made them accessible and affordable to tens of thousands of Americans. Judging by their explosive growth, donor-advised funds have clearly met a need. In 2006, the nation’s 99 largest funds had more than \$19.2 billion in assets and donated more than \$3.5 billion annually to charity.

Briefly, donor-advised funds are charitable giving accounts offered by a sponsoring charity that are designed as a more accessible, simpler, and less expensive alternative to private foundations. Donors contribute tax-deductible assets to their accounts, advise the sponsoring charity on how it should invest the assets so that they grow before they are granted, and recommend grants from their accounts to charitable organizations of their choice over time. The sponsoring charity does the record keeping and due diligence and, unlike private foun-

dations, can protect a donor’s identity if that is requested.

Successful as national donor-advised funds have been, we face several challenges in continuing to meet donors’ needs. But first, the reasons for the funds’ success.

**They democratize philanthropy.** Urban Institute senior fellow C. Eugene Steuerle speculated in a 1999 article that donor-advised funds’ efficiencies would “democratize endowed savings by making it a manageable process for people of average means.” Indeed, the efficiencies gained from aggregating donors and processing high volumes of charitable transactions have kept costs down and allowed the large national donor-advised funds to lower fees and charitable account minimums. Charitable accounts at these funds incur costs of approximately 1 percent, meaning that 99 percent of all dollars go to charity. These funds’ simplicity, low cost, and use of technology for transactions make it possible for those with only \$5,000 to participate. Today, more than 100,000 Americans are using donor-advised funds.

**They leverage corporate-nonprofit partnerships.** National donor-advised funds validate several new theories

and approaches to social change. For instance, in their article in the spring 2007 issue of the *Stanford Social Innovation Review* (“How Nonprofits Get Really Big”), William Foster and Gail Fine found that the fastest-growing nonprofits leverage a single source of funds or relationship, rather than pursue diverse funding sources. The largest national donor-advised funds take advantage of their relationship with the financial services companies that sponsored their launch by leveraging the companies’ systems and infrastructures as a model of efficiency and using their reputation as a springboard for marketing to their customers.

**They reduce barriers to giving.** A 2006 Bank of America–sponsored study of high net-worth philanthropy (conducted by the Center on Philanthropy at Indiana University) highlights some specific needs that national donor-advised funds have met. In the research, households with incomes in excess of \$200,000 or assets in excess of \$1 million identified the greatest barriers to increasing their charitable giving as red tape (16 percent), the time it takes to give (20 percent), access to research on prospective non-

**KIM WRIGHT-VIOLICH** is president of Schwab Charitable. She also serves on a number of nonprofit boards, including Northern California Public Broadcasting, the Haas School of Business Center for Non-profit and Public Leadership, Grace Cathedral, and Kericho Children’s Home in Kenya.



profits (35 percent), and lack of knowledge about organizations needing support (36 percent). National donor-advised funds have begun to chip away at these barriers and have successfully minimized the red tape and time pressures associated with the charitable giving process: The sponsoring charity files the tax return, meets public inspection requirements, does the accounting, and sends out grant checks. Donors receive just one tax substantiation letter for each contribution, even though they can use the contributed funds to recommend dozens of grants to charities.

The funds have also given donors easier access to more research and information to help them decide which organizations they would like to support. Improving the quality of information to include social impact metrics remains an enormous challenge for the entire philanthropy sector, but the scale and technology infrastructure of national donor-advised funds position them to make progress in this area as well.

***They simplify and stabilize the flow of funds to charities.*** Donor-advised funds benefit small and start-up charities around the country by relieving them of the complexities of accepting securities as contributions. Charities instead receive cash in the form of a grant check, freeing them up to focus on what they do well, rather than on the intricacies of stock transactions and investing. In addition, charities have the potential to receive more dollars due to the appreciation and dividend income earned on the charitable assets waiting to be granted.

***The funds also serve as a stable funding source for charities during economic downturns.*** Although contributions to Schwab Charitable decreased during the recession of 2001–02,

grants increased 10 percent to 20 percent, responding to the charitable sector's needs. In the first quarter of 2008, the most recent recessionary period, Schwab Charitable contributions have decreased 9 percent compared with the same period in 2007, while grants have increased 49 percent.

Overall, the portion of assets granted out each year for the top three national donor-advised funds has averaged between 20 percent and 30 percent, more than three times the 6.5 percent average granting rate (percent of assets granted) for private foundations. Schwab Charitable, for one, has given away more than 30 percent of the assets contributed since its inception; charities have received more than \$1 billion out of the \$3 billion contributed.

### Looking Forward

National donor-advised funds are in a unique position as aggregators of more than 100,000 donors and \$20 billion in assets poised to be granted. And although we have done a great job reducing the costs and complexity of giving, it is also our duty to use our position to continue helping donors decide which charities to support, and to address any remaining lethargy in the system.

Although the donor-advised fund industry is in a high-growth phase, all boats will rise if we worry less about competing with each other and instead find ways to work together. I invite my peers in the sector to brainstorm creative ways to make charitable giving an even more information-driven, efficient system in which capital flows to charity are not driven by serendipity and reputation—as is often the case now—but by results.

We should also add our collective voices to the many industry luminar-

ies, think tanks, and foundations that are calling for more robust and easily accessible data sources on social impact and effectiveness to inspire an even greater flow of dollars to charities that do great work. The potential for impact is tremendous, as collectively we can influence more than \$20 billion of charitable contributions and tens of thousands of nonprofit board members and donors.

Community foundations have provided valuable on-the-ground expertise to help donors make local giving decisions, but their traditional model is labor-intensive, costly, and time-consuming for donors. We should reach out to community foundations to uncover ways in which we might work together to create a more efficient technology-enabled method of disseminating information that results in even more informed decisions.

Finally, we should help our donors put their charitable assets to work while those assets wait to be granted, exploring more socially responsible and mission-related investment options. We might also find more effective ways of connecting donors with like-minded people so that they can share philanthropic ideas and best practices, but do so in a way that protects their privacy and respects their busy schedules.

I think back to my interview nine years ago and marvel at how we have simplified and improved our donors' giving experience. Yet our success does not mean we can rest. Rather, it gives us the opportunity to pursue the next round of improvements in the charitable sector. And if donor-advised funds can continue to facilitate innovative, efficient, and more inspired charitable giving, our impact on philanthropy will be as significant in the next decade as it was in the last. □

