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Donor-Advised Funds Expected to Face Growing Challenges on 'Orphan' Funds

JERRYE AND ROY KLOTZ/WIKIMEDIA COMMONS

Louisburg College, in North Carolina, received $35,000 from a donor-advised fund established by the late Elizabeth Mohn, an alumnus.

By Alex Daniels

After Elizabeth Mohn died, leaving behind $355,000 in a donor-advised fund with no clear plan for its use, Phil Tobin, head of the charity that housed the fund, began to look for clues about where to give her money.

Mr. Tobin, co-founder of the American Endowment Foundation, began by looking for groups Ms. Mohn had supported before her death in a nursing home in 2000. Using that information as a guide, he and staff members at the fund made 59 grants over the next 15 years, mostly to Christian charities, including the Billy Graham Evangelistic Association, Oral Roberts University, and Restoration Bridge International.

As he dug deeper into Ms. Mohn's past, Mr. Tobin discovered she was a 1930 graduate of Louisburg College, which was then a two-year women's teacher-training school in North Carolina. So he directed $35,000 to the institution in her name.

When donors die without leaving guidance for their charitable funds, "we don't just put it in an unrestricted account," says Mr. Tobin. "We step in and try to do the best we can to replicate their intent."

Donor-advised funds don't often have to play detective like Mr. Tobin did. Donors usually leave instructions for what to do with their accounts.

But that could change as a growing share of donors reach old age and the number of donor-advised funds continues to surge. Experts say the amount of money left in accounts without named successors or beneficiaries is likely to grow.

That worries some critics of the funds, who warn that the biggest funds don't have a strong incentive to give the money to charities because of the management fees they earn from investing the money over time.

"What are they saving the money for, other than to have it under management?" asks Ray Madoff, a professor at Boston College Law School. "There are tremendous charitable needs in our country. We shouldn't be so lax about getting the dollars out there."

Charities that hope to benefit from the funds are also worried: They fear that orphaned funds won't be given to charities that have long-standing relationships with donors.

Millions Left Behinds

The amount of money left in funds without named successors or designated beneficiaries is relatively small. Still, it adds up to millions of dollars each year. For instance, Fidelity Charitable, the largest of the donor-advised funds, has $34-million in an asset pool largely collected from orphaned accounts, a tiny slice of its $13.2 billion in total assets.

As funds like Fidelity have grown larger, they have attracted attention because they face no requirement to distribute money, unlike foundations, which must give charities at least 5 percent of their assets a year.

Donor-advised fund managers argue that forcing people to distribute money from their accounts in a set time would prompt fewer people to put money into the funds. Donors have flocked to the funds, they say, because they offer a relatively easy way to give, by allowing donors to take an immediate tax deduction while giving them time to decide which charities to support.

Managers of the funds say they aren't worried that vast sums will be left undesignated for a cause after donors die.

The vast majority of donors name a successor, according to Fidelity Charitable.

But in cases when they don't name a successor or spell out which charities they'd like to support, their money is added to a financial pool called the Trustees' Philanthropy Fund, which currently holds $34 million.

Last year, $900,000, or 0.007 percent of Fidelity's total assets, were added to the trustees fund from accounts left without an adviser or from funds that haven't distributed a penny in seven years, which in 2014 accounted for $314,000.

Fidelity Investments also has made direct contributions to the fund.

In 2014, Fidelity's trustees made about $1.7 million in grants from the fund, about 5 percent of its balance. The grantees, which are listed on the fund's website, included the Center for High Impact Philanthropy, which received $52,000, the San Antonio Area Foundation, which got $192,000, and City

Harvest, which received $47,000.

The trustees used "time-tested methods of impactful giving practices," wrote Amy Danforth, president of Fidelity Charitable, in an email to *The Chronicle*. "The fund is a positive force in philanthropy, having directly benefited grantees with nearly $16 million" in support since 1991.

The trustees, she wrote, prefer to make grants that help expand the management capabilities of nonprofits, including support for website design, fundraising, and data and evaluation efforts. She declined a request to provide more detail about the process of choosing and awarding grants.

Most Leave Instructions

Like Fidelity, other big funds run by companies report similarly small portions of undesignated money they must distribute after people die.

In 2014, nine people with donor-advised funds at Schwab Charitable died without leaving instructions, according to Kim Laughton, Schwab's president. In such instances, the funds are transferred to the Schwab Charitable Philanthropy Fund. The current fund balance is less than $1.5 million and generally stays under 0.03 percent of Schwab's $6.4 billion in total assets, she says. That relatively small amount "has no meaningful impact on our assets under management," according to Ms. Laughton.

She declined to provide a list of grantees supported by the fund.

"Our board is very active in making grants out of the fund to support charities with the goal of increasing charitable giving," wrote Ms. Laughton in an email to *The Chronicle*.

The Vanguard Charitable Endowment Program, which manages $4.5 billion in its donor-advised funds, pours abandoned donor accounts into what it calls its general fund.

After awarding $591,000 in grants last year, the fund had a balance of $1.1 million, That excluded donations made to Vanguard's Sustainable Disaster Recovery Fund, an account that gives money to support rebuilding in areas hit by natural disasters. The disaster fund is intermingled with the general fund. Vanguard declined an interview request and would not provide information on charities that received grants from the general fund.

Philanthropy's 'Gray Area'

Alan Cantor, a nonprofit consultant who has been urging Congress to impose spending rules on donor-advised funds, says there is a "gravitational pull" toward treating the abandoned funds as long-lasting endowments, because doing so provides Fidelity, Schwab, and others with a regular source of revenue.

While the amount of money in those funds is a tiny sliver of the total amount controlled by the donor-advised fund giants, Mr. Cantor says a single grant from one of them could help keep some of the charities he works with afloat.

Small nonprofits are frustrated, he says, because it is nearly impossible to cultivate relationships with trustees at a national fund and very difficult to discern, from the scant information the national funds provide about their giving strategies, whether a nonprofit meets a big fund's criteria.

"Donor-advised funds are the gray area of the philanthropic universe," he says. "This is the gray area inside the gray area."

Peter Dunn, executive director of the Central New York Community Foundation, says donors go through an "elaborate process" to make their wishes for their donation known. Their options include naming advisers to succeed them after they die, picking nonprofits that will receive funds over a specified time or designating a "field of interest," a cause or community the donor would like to support, and leaving the details up to the foundation.

In the rare event that a donor leaves no instructions at all — which happens only occasionally, Mr. Dunn says — the community foundation absorbs the money so it can be used for "broad, unrestricted purposes."

Given the high volume of donations flowing into national funds, it may be hard for those organization to pin down what a donor wants to do with a gift after death, Mr. Dunn says. But at a small foundation that makes grants in one region it's easier to get a clear picture of a donor's intent.

"If you're acting on a transactional basis, it may be different," he says. "But we make a real point of engaging with folks."

Send an email to Alex Daniels.