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Wealthy Investors Ditch Private Foundations in Favor of Donor Advised Funds

By Aziza Kasumov June 19, 2019

Donor-Advised Funds (DAFs) are pulling assets away from some small private foundations, and in some cases, wealthy investors are even switching out one for the other altogether, DAF sponsors and wealth advisers say.

“There’s a fair amount of private foundations that are revisiting the ‘why,’” says Jacqueline Valouch, head of philanthropy at Deutsche Bank Wealth Management, who advises clients on the landscape of available philanthropic vehicles. “They look at the options available today that haven’t been available when the patriarch or matriarch started the foundation,” such as more sophisticated DAFs, she adds.

“We’ve been noticing it for years,” says Eileen Heisman, president and CEO of the National Philanthropic Trust (NPT), a DAF sponsor. “It’s just so much work to keep a private foundation going versus with a DAF, where you get to do almost the same things,” she adds.

DAF assets have been growing more than three times as fast as private foundation assets. Assets in DAFs increased about 27% from 2016 to 2017, to $110 billion – private foundations, during the same time period, only saw their assets grow 8%, to $856 billion, according to the most recent 990 data analyzed by NPT.

Most of that growth probably comes from people setting up new DAFs as opposed to transferring assets from private foundations, says Kirk Hoopingarner, attorney and partner at law firm Quarles & Brady. “But it’s a type of thing that is seen, and I present as an alternative whenever [clients] are frustrated by the private foundation apparatus and they find it too cumbersome,” he adds.

Small foundations with less than $5 million in assets are the most likely to make such a switch, wealth advisers and DAF sponsors say.

About “88% of all foundations are under $5 million,” cites **Ken Nopar**, senior philanthropic advisor at the **American Endowment Foundation**, a DAF sponsor. “But there are very few advisors that would recommend today that someone with $5 million or less would create a foundation,” he adds. For small foundations without ambition to grow, the administrative costs can be “a handful,” says Don Greene, national philanthropic client relationship executive at Bank of America Private Bank and Merrill.

Other factors can also draw high-net-worth families and individuals to DAFs: They allow for anonymity, they don't have a mandatory annual payout rate of 5%, and they don't require a separate filing with the Internal Revenue Service. Tax benefits can be another factor – DAFs give tax breaks for privately held assets at their appraised fair market value, whereas private foundations only consider the base value.

For private foundation clients, those factors, Greene says, "may have turned into things they weren't anticipating," such as public visibility, high costs and a certain "hassle factor."

With DAFs, on the other hand, "you don't have to worry about all the compliance, accounting, the 990s," Heisman says. "Donors love the ease of it."

Technology plays a role as well – especially for younger clients.

"Everybody's so used to online banking, and now, with a DAF, you can do all that online, too," Heisman says, citing online granting tools as an example. "If you've got donors that are more directed on who they want to give to and what amounts and at what time," says Greene, such online tools are a great fit.

On the flip side, some clients continue to prefer their private foundations – especially on the larger end of the spectrum, where both investment customization and issuing grants become more complex.

With a foundation, "you can do things the way you want," Greene says.

For some donors, however, the question isn't one of either/or. They have both a private foundation and a DAF, switching between vehicles depending on what they're donating and what they're trying to achieve.

"There will be situations when they might give a grant through their DAF," says Page Snow, chief philanthropic and marketing officer at Foundation Source, an organization that advises mostly smaller foundations. She adds that she hasn't seen any of the group's 1,500 clients close a private foundation to turn it into a DAF.

"There's always going to be room for both," Valouch says. "As clients explore the options they have in philanthropy, they'll find that there is a benefit in having the vehicles complement each other."