GLENMEDE
PRIVATE WEALTH

Everything You Need to Know About DAFs

If philanthropic giving is important to you, and you want to explore ways it can benefit your wealth plan, consider a donor-advised fund (DAF). There are many advantages to DAFs for both you and the charities you support, but characteristics can vary from one DAF to another.

Why You Might Consider a DAF

One way to support your favorite charity in a way that can benefit both you and the charity is through a DAF. You, as the donor, contribute cash or other assets to a DAF account, which is maintained and operated by an organization classified as a 501(c)(3) public charity, the "sponsor." Since your DAF is maintained by a 501(c)(3) public charity, you would subsequently benefit from an immediate tax deduction for your donation. When you are ready, you can request a grant from your DAF to the charities of your choice. Contributions to a DAF are irrevocable, meaning once you contribute to the account you cannot withdraw from your DAF. Additionally, the sponsor now has legal control over the assets, but you retain advisory privileges with respect to the distribution of funds and the investment of assets.

Three main types of organizations can administer a DAF:

- A single-issue charity
- A community foundation or religious organization
- A charity affiliated with a financial institution

How It Works

A DAF is like a charitable savings account: A donor contributes assets to the fund and then recommends grants to qualified charities when the donor is ready.

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5
The donor makes an irrevocable contribution of personal assets.	The donor receives a charitable tax deduction for the year of the contribution.	The donor names the fund, advisors and any successor advisors and/or recommends charitable beneficiaries.	The contribution is placed into a DAF where it can be invested and grow tax-free.	At any time, the fund advisors can recommend grants from the DAF to qualified charities.

The Benefits

The tax advantages of a DAF are one of the biggest draws for donors. By contributing cash to your DAF, your tax deduction may be up to 60% of your adjusted gross income. But you are not limited to only cash contributions. In many cases you can also donate stocks, bonds, mutual funds, real estate, life insurance policies, privately held business interests and other appreciated assets, with a resulting deduction of up to 30% of adjusted gross income. For highly appreciated assets, this is especially valuable as you can remove the assets from your portfolio and generate an income tax deduction without realizing capital gains.

Since assets donated to a DAF do not need to be distributed immediately, your DAF can be invested to grow tax-free as long as you make periodic grants in accordance with the sponsor's distribution requirements. If you intend for your DAF to grow over the long term, you typically are allowed to recommend an investment allocation designed to support that goal. This ultimately could lead to your preferred charities receiving more money than you would have given them without a DAF.

Not All DAFs are Created Equal

Depending on the sponsor organization, as well as your individual DAF agreement, there can be notable differences you should understand as you explore your options.

Minimums & Fees

Some DAFs have no minimum contribution requirement for establishment, while others may require an initial contribution of, for example, $25,000 or more. You should confirm if a minimum account balance must be maintained, and/or if a certain level of grantmaking activity is required to keep your DAF active. Additionally, the cost of a DAF can vary considerably depending on the sponsor and how the DAF is invested. When comparing the cost of different DAFs, be sure you understand what fees will apply for both administrative and investment services. Some sponsors charge a flat administrative fee, while others apply a tiered fee schedule that varies based on the DAF's balance.

Advisory Privileges

You maintain advisory privileges with respect to how your DAF assets are invested, but your investment options may vary among sponsor organizations. Some sponsors allow you or your financial advisor a great deal of latitude when recommending investments for your DAF, while others might limit investment options to a preselected menu of approved funds or investment pools.

You also receive advisory privileges with respect to how DAF assets are distributed. Meaning, you can recommend when, in what amounts, and to which charitable organizations you would like to make grants from your DAF, but the sponsor organization is not required to follow your wishes. DAF grants may only be made to qualified charitable organizations. DAF sponsors can vary in what they consider qualifying. Some DAFs allow grants to private foundations, certain supporting organizations or foreign charities.

Others may restrict specific requests. For instance, a religiously affiliated DAF sponsor might decline a grant recommendation for a cause deemed inconsistent with the sponsor's values, or a community foundation might limit the amount of grants distributed in a given year to a certain percentage of a DAF's assets. Before signing a DAF agreement, make sure you understand in what circumstances the sponsor typically will or will not follow your recommendations. As an added benefit, a DAF sponsor may provide you with access to consultants or tools to help you research nonprofits aligned with your philanthropic goals.

Be mindful that DAF sponsors may set minimum grant amounts. Conversely, some sponsors offer endowed DAFs that are intended to carry on in perpetuity, and therefore cap grants at a certain percentage of the DAF's balance.

Administration

Using a DAF can provide more structure and organization than one-off donations directly to a charity, although the ease of administration may differ depending on the DAF sponsor. The type of platform used, the expertise of the sponsor and the level of client service can influence your experience. For example, one DAF platform may make it easier to make a contribution or grant recommendation, or it may give you easier access to your DAF activity and holdings through an online portal. Another sponsor might be faster in processing grant payments. Be clear about the service and administrative ease you want, and ensure the sponsor you select meets your expectations.

Lastly, consider what will happen to your DAF when you pass away. A sponsor organization may allow you to appoint successors upon your death, ranging from one or two generations to perpetuity, depending on the sponsor. Some sponsors may allow you to name one or more charitable beneficiaries to receive any funds remaining at your death as either a lump sum or disbursed over a number of years. If you pass away without an established successor or charitable beneficiary, your DAF assets may automatically be transferred to the sponsor's general fund. This should be clearly stated in your DAF agreement.

Discuss Your DAF Options with a Professional

Funding a DAF can be a strategic method of supporting your philanthropic goals, while also benefiting your overall wealth plan. As you contemplate whether a DAF is right for you, lean on your relationship team to help you understand DAFs and the differences among them.

Contact your Glenmede Relationship Manager to learn more about DAFs.