

# White Paper

Ideas Without Limits<sup>SM</sup>

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## Donor-Advised Funds An Increasingly Popular Charitable Giving Strategy

In line with generally rising levels of prosperity and a heightened interest in charitable giving, **assets** of the nation's largest donor-advised funds **reached \$19.2 billion** at the end of 2006, **up more than 21% from a year ago**, according to a survey by *The Chronicle of Philanthropy*.

In 2006, individual investors gave over \$222 billion dollars<sup>1</sup> to charities—nearly \$12 billion more than in 2005. Yet, investment professionals may still be reluctant to broach the subject of charitable giving with their clients because they:

- › Are unaware of the various options available
- › Are afraid of overstepping the bounds of the client relationship
- › Think that establishing a formal charitable giving plan is too difficult and complex
- › Don't understand the benefits a formal charitable giving plan can bring to their clients
- › Don't feel that they can add value to their clients' charitable giving decisions

However, the reality is that about “75% of US households want to learn more about **charitable giving strategies**.”<sup>2</sup> When investment professionals initiate a discussion with their clients about charitable giving and how it can be incorporated into an overall financial and estate plan, they will more than likely receive a positive reception.

### Top 5 Reasons Why People Give

1. Because they are asked
2. Compassion for those in need
3. Personally believe in the cause
4. Affected by the cause
5. Give back to the community

Source: National Philanthropic Society

<sup>1</sup> Giving USA 2007 yearbook

<sup>2</sup> *The Future of Advice*, Tiburon Strategic Advisors 2005

Over the next 50 years, researchers estimate \$15 to \$50 trillion will be donated to charity.

Center on Wealth and Philanthropy, Boston College

## Create A Lasting Legacy of Giving

Relatively unheard of a few years ago, donor-advised funds are now one of the fastest growing forms of charitable giving. In 2006, *The Chronicle of Philanthropy* found that donors contributed \$6 billion to donor-advised funds—a 25% increase over 2005. Simple, cost-efficient and flexible, donor-advised funds are becoming an extremely popular form of giving, and should continue to play an important role in overall financial and estate planning.

Donor-advised funds are charitable giving vehicles that are established by a sponsoring public charity, which considers making grants to other charitable organizations based upon the donors' recommendations. The sponsoring charity handles all of the administrative details, enabling the donors to focus their attention on the more enjoyable effort of creating a lasting legacy by supporting their favorite charities and passing on their family values to children and grandchildren.

Donor-advised funds are easy to establish—typically, completing a short application is all that is required. Donors can then begin making irrevocable contributions to the charity's donor-advised fund accounts, take the maximum allowable tax deduction, and begin recommending grants on their timetable.

## Hands-on Philanthropy

Donor-advised funds allow donors to contribute to multiple charities throughout the year—providing donors and their family members with the opportunity to actively participate in researching and recommending which charities should receive grants, as well as the amount and timing of those grants. This “hands-on” capability is one of the reasons donor-advised funds continue to grow in popularity. More and more, individuals want to have a say in how their charitable contributions are utilized on an ongoing basis.

A donor-advised fund can also allow donors the option to remain anonymous. For a variety of reasons, donors may wish to have a buffer between themselves and the charity receiving the grant. The sponsoring charitable organization can make the contribution, while the donor remains in the background to suggest the amount and the recipient.

## Identify The Right Charitable Giving Strategy

As with any investment plan or strategy, donor-advised funds may not be right for every client. Because each sponsoring charity is responsible for the fiduciary oversight of its donor-advised fund program, including the approval of all grant recommendations, sponsoring charities may impose a number of restrictions on a donor's ability to make grants. Donors may be restricted from giving to charities outside their local community or to charities with certain values or objectives. In addition to restrictions on grants, investment choices can also vary greatly among donor-advised fund programs. Some may require the donors to select from the investments offered through the sponsoring charity's program, while others can allow the donor's investment professional to be involved in the management of the assets in the donor-advised fund. Additionally, while some donor-advised fund programs allow donors to appoint successor advisors, others do not.

**"82% of all households want to contribute more to charity in the future."**

*The Future of Advice*  
Tiburon Strategic Advisors

**A donor-advised fund satisfies many of the same goals and values that lead individuals to establish a private foundation, but without the associated costs, legal fees, annual excise taxes, minimum payout requirements, and loss of privacy.**

	PRIVATE FOUNDATION	DONOR-ADVISED FUNDS
Cost Efficiency	Costly to setup and administer	Cost Efficient
Maximum Distributions	Required	Not Required
Annual Excise Taxes	Applicable	Not Applicable
Allowable Tax Deductions	Limited	Maximum
Can Involve Investment Professional	Yes	Depends on the Donor-Advised Fund
Enables Anonymity	No	Yes
Entry Threshold	High	Low

### A Valuable Tax Management Tool<sup>3</sup>

Because donor-advised funds are the property of a tax-exempt organization and, as such, are generally not subject to annual taxes, assets grow at a faster rate—which means clients can donate more to their favorite charities. In addition, donor-advised funds may enable donors to:

- › Take the maximum allowable tax deduction upon each contribution
- › Help tax-effectively facilitate the transfer of wealth or a business
- › Avoid year-end pressures associated with charitable giving
- › Avoid potential estate taxes
- › Avoid payment of capital gains taxes
- › Help manage an inheritance for future generations

Deciding whether a donor-advised fund is appropriate will depend on each client's particular financial situation and objectives—clients should consult with their legal and tax advisors to determine if a donor-advised fund is appropriate for them.

## Separate Yourself From The Competition

Initiating a discussion with clients and prospects about donor-advised funds provides an opportunity to:

- › **Strengthen existing client relationships** by demonstrating the ability to align the client's financial and personal goals
- › **Potentially attract new prospects** who may be interested in a broader, more comprehensive range of services
- › **Potentially consolidate assets** from other firms for ongoing management
- › **Establish relationships with the next generation** for longer-term asset management
- › **Gain a competitive edge** over advisors that do not offer charitable giving solutions

By introducing and discussing the value of donor-advised funds with clients and prospects, investment professionals can set themselves apart from the competition and help clients realize their long-term charitable giving goals.

<sup>3</sup> The information presented in this document is for informational purposes only and should not be construed as either tax or legal advice. Readers should consult their tax or legal advisor regarding their specific situation.

## The Pershing Solution

Through an arrangement with American Endowment Foundation (AEF), investment professionals can take advantage of the expertise and experience of a leading sponsor of donor-advised funds. AEF is completely independent and not affiliated with any financial institution. Because AEF does not sell any financial products or services or benefit from any finder fees, brokerage services or commissions, AEF is able to offer donor-advised fund solutions that are uniquely flexible. With a low initial minimum contribution of \$10,000, donor-advised funds through AEF enable clients to:

- › **Invest** in a broad range of securities, including stocks, bonds, and mutual funds
- › **Contribute** assets to be held in-kind
- › **Maintain** a relationship with their existing financial advisor. The recommended advisor can work with AEF to establish an investment approach that is balanced and customized.
- › **Recommend** where investments are custodied
- › **View** the assets held in their donor-advised fund account
- › **Donate** concentrated or illiquid holdings and other asset types—such as real estate and life insurance policies. AEF has the expertise to accept a wide array of assets.
- › **Name** successor advisors so subsequent generations of their family can continue to be involved in grant making

Donor-advised funds offered through AEF enable investment professionals to help clients design and conduct their charitable activities as efficiently and discreetly as possible. AEF provides all recordkeeping and administration for each donor-advised fund, including fiduciary oversight, fund accounting, statement preparation, tax reporting, independent audit, and compliance with Internal Revenue Service rules and regulations.

Take advantage of Pershing's powerful brokerage platform and custody services, and AEF's unsurpassed commitment to service and administrative excellence, to help your clients achieve their ongoing charitable giving objectives.

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