A Case Study in Focused Donor Advised Fund Fundraising

PG Calc Webinar

Presented by:

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I. INTRODUCTION

For the past 10 years, we have seen a marked increase in Donor Advised Funds, including both the amount of Donor Advised Funds that are open, and the total dollars being held in those accounts. According to the National Philanthropic Trust, contributions to Donor Advised Funds in 2011 comprised 4.8% of total individual giving. By 2019, that number had climbed to 12.7%. But how can we as organizations and fundraisers reach these dollars? Do we continue our traditional outreach to individuals and think of Donor Advised Funds as just a gift type like checks or credit cards? Should we assign and steward Donor Advised Funds like Family Foundations? Are the sponsoring organizations the gatekeepers or just processing requests? And what about coding, tracking, and reporting on these gifts? Are we monitoring growth to inform marketing strategy and reporting out what our organizations are receiving from Donor Advised Funds to our leadership? Just as we cannot expect bequests to "come in anyway," we must create ownership and oversight within our organizations to solicit gifts actively and effectively from Donor Advised Funds.

Below is the start of a story that does not yet have an ending – and hopefully never fully will. It is the story of how Fred Hutchinson Cancer Research Center began to answer the questions above and started to create a strategy around Donor Advised Funds while solving other challenges along the way.

II. A BRIEF RECAP OF DONOR ADVISED FUNDS

A donor-advised fund, or DAF, is a giving vehicle established at a public charity. It allows donors to make a charitable contribution, receive an immediate tax deduction, and then recommend grants from the fund over time.

The first version of a DAF was issued in 1931 by the New York Community Trust. The sweeping changes of the 1969 Tax Reform Act included the important division between public charity and private foundation, paving the way for the favorable tax treatment given to DAF contributions. In 1991, following the receipt of public charity designation from the IRS, Fidelity Charitable was founded, with Vanguard Charitable following in 1997 and Charles Schwab Charitable in 1999. Despite this long history, it wasn't until the Pension Protection Act of 2006 that DAFs were formally added to the IRS code and regulations.[1]

Yet, it is this last decade of existence that has captured the attention of the not-for-profit world with a tripling of annual DAF contributions. This increase is not limited to one cause. The expansion of commercial donor advised funds marketing not just to individuals, but also to the financial advisors who work with them, has increased individual awareness of, and access to, DAF accounts. Overall advances in technology have made it easier for individuals to use these funds as an extension of their suite of financial tools, and online features make donations to their favorite charities just a click away. At many sponsoring organizations, a DAF can be funded with as little as $5,000, which makes it far easier to create than a private foundation. Additionally, two separate pieces of tax legislation – one proposed, one enacted – have spurred individuals to change their behavior in how they give to maximize their tax

[1] Berman, Lila Corwin. "Donor Advised Funds in Historical perspective." *Digital Commons at Boston College Law School*, https://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?article=1014&context=philanthropy-forum. Accessed 1 May 2021.

deductions. In 2011, the Obama Administration proposed limiting the value of all deductions, including charitable deductions, for high-earning households (households with annual adjusted gross incomes exceeding $200,000, or $250,000 for couples). In 2017, Congress passed the Tax Cuts and Jobs Act, which nearly doubled the Standard Deduction. According to the Tax Policy Center, those itemizing their deductions were estimated to have dropped from 30% to 10%. The concern over the future of the charitable deduction, and increasing the standard deduction, created an incentive for donors to stockpile their deductions in their newfound charitable piggy banks – their DAFs.[2]

III. The Beginning of the Fred Hutch DAF Journey

Like it does for many of our donors, the story of Fred Hutch's DAF journey begins with the advice of a financial advisor. It was January 2018 and I was attending our annual Hutch Awards at what was then Safeco Field. I was hosting a table of members of the Fred Hutch Professional Advisory Council, the volunteer group who advise our planned giving team on complex gifts and serve as ambassadors for our work. We were at the time-honored moment in every live event where, as a table captain, I was collecting gifts from my fellow attendees. When passing me his gift, one of my Council members asked me if we had ever considered adding DAF as a gift type to the form? He started sharing the large increase he was seeing in contributions to DAFs amongst his clients, and he thought non-profits would be smart to remind donors to use these funds when making any gift, regardless if they were filling a corporate table at an event or deciding their family priorities for the year.

Later that afternoon, I passed on the suggestion to our event team. As you may have guessed, making an off-handed suggestion to your colleagues who just finished producing an event for 800 people in coordination with Major Leagues Baseball is not the best way to effect change at your organization. And so, we take the first pause in our journey.

Fast forward 10 months. I had been newly promoted to the lead role of our planned giving program and was attending my first strategy retreat with my fellow program directors. We were almost halfway through the fiscal year, and each director was tasked with brainstorming ways their team could help bring in more gifts to improve our end-of-year forecast toward a very ambitious goal. Since planned giving is not well equipped to bring in short term gain, I focused on pursuing asset-based gifts that planned giving could help promote, including DAFs.

My first step was to try and take a review of our current DAF giving, which I soon realized was not possible. Although we had records for sponsoring organization with links to individual donors, the coding itself had intertwined with Qualified Charitable Distributions (QCDs) over the years in part because checks from commercial DAFs and financial accounts were often coming from the same address. There is also not a gift type for DAFs in our CRM software, so pulling out clean data attributed to donors versus the sponsoring organizations was not possible at first.

At the same time we started to review how people were seeing DAF usage anecdotally with their donors and realized there were inconsistencies in how pledge documentation was being used around DAFs, how donors were using DAFs at events, and missed opportunities to learn more about DAFs in conversations with donors.

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[2] Heisman, Eileen. "Donor Advised Funds Were Up Almost 300 Percent This Decade. Why?" *Worth*, 31 Dec. 2019.

We realized that our needs around DAF usage and understanding was not a marketing issue, but had bigger challenges on tracking, compliance, and general knowledge throughout our team.

With so many challenges to launching a DAF effort, we reached our second pause, this time until the end of the fiscal year. Once June 30 passed, I was able to enact my plan to create a DAF Task Force that would include members from as many teams on Philanthropy as I could recruit.

IV. Creation of a DAF Task Force

With the need to gather more information, and make sure we were also all on the same page, we launched our DAF Task Force in September of 2019 with our first meeting. I asked for each program director to appoint a member of their team to join us for a monthly, 30-minute meeting for 3 months.[3] We had team members from annual giving, gift services, data reporting & analytics, fundraising events, donor communications, philanthropic (major) gifts, and prospect research. Each meeting was devoted to three agenda topics at most so we could keep our meetings brief – easier for both buy-in and scheduling – and focused on tasks we could do in succession. We also intended this first run of meetings to end in November so that we would not interfere with the increased workload that always corresponds with the end of the calendar year. We found these meetings to be extremely productive while still allowing everyone to hear concerns from each other, learn how each used similar information, and dispel myths as a group.

V. Compliance

In 2017, the IRS issued Notice 2017-73 to assert their interpretation of DAF rules. The following were among the issues outlined by the IRS as needing to be observed:

- No Incidental Benefits allowed to donor/donor advisors from the charity receiving the DAF distribution
- No gift splitting, which is defined as using a DAF to pay for the amount above an item's fair market value while utilizing a personal form of payment (e.g. check, credit card) for the fair market value of the item itself. For example, if a ticket to an event is $500, with a fair market value of $150, then a donor engaging in gift splitting might pay for the ticket with $150 via check and $350 via their DAF.
- No benefits providing more than an incidental (rather than insubstantial) benefit
- Permissible to satisfy a personal pledge under certain circumstances[4]

To make sure our DAF Task Force was on the same page, our first meeting focused on DAF structure and compliance – specifically tax acknowledgements, gift splitting, and non-binding pledges. I had noticed in our original audit that our acknowledgement letters for DAF gifts still included tax language and did not reference the DAF sponsor organization. A few years prior to the DAF Task Force, our

[3] See appendix 1 for sample agenda

[4] Not all charities consider this to be a safe harbor to accept multi-year payments from DAFs since this is only a Notice and not a Treasury Regulation. Although the Hutch has decided to accept multi-year payments from DAFs, each charity should conduct its own assessment.

organization had gone through a process to streamline our acknowledgements to as few templates as possible, and our gift services team was ever watchful of the creep to add in more specific acknowledgement requests. By discussing the legal needs around the changes to the letter – not issuing a false tax acknowledgement that made the gift look like it had come from the donor, and the best practice of referencing the DAF in the letter, we were able to achieve buy-in for these changes.

Next, we discussed the concept of gift-splitting and incidental benefit, which we were still seeing happen on occasion at our events. Our events team shared they were still seeing a handful of donors purchasing tables with DAFs, either in whole or in part, and were not sure in these situations of what to do. We decided to establish the process of bringing these one-off situations to the planned giving team so that we could answer questions regarding the use of DAFs with donors directly. However, to encourage the use of DAFs for the "raise the paddle" portion of our events, we added signage at checkout to encourage donors to pay for these donations through their DAFs, as well as with stock or qualified charitable distributions.

Finally, our Task Force addressed the multi-year gifts from DAFs. Although binding pledges are not permitted to be paid from a DAF, Fred Hutch interpreted that non-binding pledges could be as outlined in Notice 2017-73. Our challenge was that at this time pledge documentation was being created by individual program assistants working with front line fundraisers on the philanthropic (major) gifts team. We realized we would need to not only educate all frontline fundraisers on the importance of asking whether a donor was intending to use a Donor Advised Fund for any portion of a multi-year commitment, but that the planned giving team would also need to ensure all gifts of DAFs utilized the Fred Hutch Letter of Intent template versus our binding-pledge agreements. This launched a separate initiative to streamline the gift documentation process, which resulted in a checklist for frontline fundraisers when closing gifts, including a question on if donors will be using DAFs to fund their gifts.

VI. TRACKING

Our next big issue to tackle was creating a report that showed all the donors who had been giving to us from DAFs, their average gift size, and which sponsoring organization they were using. However, we soon realized this would be very difficult to achieve once we were all in the same room. In part because of the similar addresses and firm names between commercial DAFs and financial institutions, DAFs and QCDs had become deeply intertwined in our system. This ended up launching a separate project, which took almost 6 months in total, going through records to first separate out which institutions were sponsoring organizations, and which were financial institutions, and recoding each gift associated with DAFs and QCDs.

Up to this point, these DAFs and QCDs had been coded to the organizational or corporate record, in the same way that private foundations had, and not to the gifts, which made it impossible to pull the data back out to review. Although gifts had been properly hard credited and soft credited over time, we could not tell which were DAFs, which were foundations, and which were QCDs. The work our gift services and data reporting & analytics team took on was extraordinary.[5] My role was simply to help them identify the gifts correctly and create a better system for recognizing them in the future. If you have never actually opened the mail and deposited one of these gifts, you may not realize how incredibly misleading and non-uniform some of these gift letters can be. In addition, a DAF holder can choose to

[5] See appendix 2 for sample DAF gift entry

name their fund anything they choose, including adding the word “foundation” to the name. Sorting through these records took time and patience, and an incredibly detailed plan by our gift services team to update each record. I continue to partner with my colleagues in gift services and data reporting & analytics to troubleshoot identifying these gifts as they come in.[6]

Once this project was complete, our data reporting & analytics and reporting team was able to create a dynamic report in tableau where we could track the ongoing receipt of DAFs and QCDs (which we refer to as IRA Charitable Rollover at Fred Hutch) on a daily basis. The report shows us how many gifts have been received each year, from which institutions, and the overall average size of DAF and QCD gifts.[7] This clean-up has created confidence across the philanthropy team in our data, and the knowledge that each donor is receiving the correct acknowledgement letter.

VII. MARKETING

The initial goal of our DAF task force was quite simply to add a checkbox to all of our gift forms, be they for events or for annual giving mailings, so that donors could alert us if they wished to give via their DAF or other assets like stock or QCD.[8] We used the task force meetings to gather all the forms we knew of, review them, and figure out the best way to add them. Not only was this an efficient way to make changes, but it made our task force members into “DAF advocates” on their own teams as new gifts forms were created.

Our next goal was to make recommendations for our website. Our goal here was to add DAFs to our main “ways to give” drop down to make the option more obvious to donors perusing our site. Specifically, we wanted to bring the DAF information that lived on the planned giving microsite, run by our marketing partner MarketSmart, to the main Fred Hutch website, which would also make the subject of DAFs searchable on our main site. This plan eventually got tabled as we did not yet have enough buy-in for this project, which would have caused us to change the wire frame structure of our site. We decided to table inclusion of DAFs on our website, as well as a widget that would allow donors to search for and immediately link to their sponsoring organizations website, until a DAF 2.0 Task Force could be convened with different members. The DAF Task Force also took a much-needed pause so members could complete projects like our DAF/QCD data clean-up and our gift agreement workflow.

VIII. OUTREACH

With the DAF Task Force officially paused, I began my own work to try and create relationships with the larger commercial DAFs. My reasoning behind this was simple. At several previous organizations, I had held assigned relationships with philanthropic advisors at our local community foundation in an effort to steward gifts from a variety of donors: anonymous, known donors who did not respond to our personal outreach, and any future donors the community foundation might recommend our way. Since community foundations had a history of researching and recommending charities to their DAF holders, this had made sense.

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6 See appendix 3 for sample training slides on QCDs vs DAFs
7 See appendix 4 for tableau report
8 See appendix 5 for examples

However, I had observed through my interactions with other fundraisers, that most organizations assumed that commercial DAF sponsors were not engaged with their donors in similar fashion. I wanted to connect with these organizations to try and debunk this myth and see what sort of partnerships could be formed. My goal was to contact Fidelity Charitable, Vanguard Charitable, Charles Schwab Charitable and the National Philanthropic Trust.

Finding contacts at these organizations overall proved to be challenging. There is little information listed on their websites that alludes to organizational structure or how they engage with operating non-profits. So instead I chose to go the route of LinkedIn. I was able to connect rather quickly with a local team member of Fidelity Charitable, who was equally eager to get to know me. (My outreach to her was at the start of the pandemic in Spring 2020, so this may have increased my odds.) After an initial Zoom call, I asked her to join our Professional Advisory Council at Fred Hutch and continued to engage with her around strategy for soliciting DAFs.

The other three proved a little harder to reach, especially Vanguard Charitable, which did not appear to have any representatives on the West Coast. But each member I reached was equally interested in engaging and sharing information about their organization. Also, each representative came to the meeting with a report of how much Fred Hutch had received from their DAF funds in the previous year, which I appreciated. All were open to me reaching out to them if I wished to steward an anonymous gift.

From my interactions, it appeared that although Fidelity Charitable was the most hands on in recommending organizations to their donors, they each had an active marketing arm aimed at encouraging financial management firms to partner with them as a charitable solution for their clients. They also were vocal advocates of unrestricted giving to non-profits, which I also appreciated. The representative from Fidelity Charitable actually ended up joining our local planned giving council as well, and I know will be very active in our non-profit community going forward. I have invited these individuals to our annual professional advisor event at Fred Hutch and am passively stewarding them with Fred Hutch mailings. But our front-line fundraising and prospect research teams are aware of my outreach to them as they interaction with major donors with DAFs at these organizations.

In December of 2020, we did reach out to Fidelity Charitable to ask them for help with a gift of Bitcoin. Although the donor ultimately decided to make the gift via check, it was nice to have another local partner to turn to for help with a complex gift.

IX. DAF Task Force 2.0

In early 2021, my boss launched DAF Task Force 2.0. Unlike the first group, the members this time were fellow program directors – my peers. I felt I would have better chances if she took over leading the group to gain both visibility and buy-in with our Vice President of Philanthropy, and to move us through the more challenging issues like the website and assignments strategies for sponsoring organizations.

The DAF Task Force 2.0 is still active and meeting as of the writing of this paper. Almost immediately we were able to change our website to include DAF information with more prominence (see https://plannedgiving.fredhutch.org/daf/). We have also added DAF language to more high touch mailings and the annual giving team is more actively discussing DAF marketing now with both me and their outside marketing partner.

The next challenge that we have started to address is with prospect research and management. Our goal is to remove some of the community foundation assignments from our foundations team and treat them more like professional advisor assignments with frontline fundraisers, each taking a few contacts into their portfolios to steward. The prospect research team is also working on a report to evaluate the DAF gifts we are already receiving and using DAF gifts as a higher indicator when making assignments and rating new prospects. This work however is only at the beginning, and I expect it will still be several months before we have a final plan in place. Once we have reports in place to allow the prospect research team to see and track the activities of DAF donors, I hope we can establish metrics on increasing DAF gifts much in the same way we have goals for donor acquisition or retention.

X. A Note on White Label DAFs

A quick side note on "white label" DAFs, which are DAFs that are run in-house. You will notice this question did not come up as part of our DAF Task Force. This is for two reasons. The first, and most important part, is that prior to 2018, our executive leadership team had explored this option and had decided it was not something they were interested in pursuing. The second is that in my own anecdotal research with colleagues at other institutions, I found that unless you are a very large organization, white label DAFs are not widely used even when they have been established.

You can create a white label DAF by partnering with an outside institution to administer it or do so yourself. Based on my brief research, there are several options for a white label DAF: 1) closed universe – gifts must be to a program at your institution, 2) open universe – gifts can be to any institution through your white label DAF, or 3) a 50/50 program – every gift to an outside institution triggers an equal gift to your institution. However, with the ubiquity of competing DAFs on the market – at least over 900 at this point according to the DAF widget on the Fred Hutch website – and the amount of business development put into the online tools for the larger DAFs, I fully understand why our executive leadership team did not wish to pursue this course.

XI. DAFs and Equity

It is impossible to discuss DAF gifts without acknowledging the controversy surrounding them. If you follow the writings of Vu Le, either through his work with Community Centered Fundraising, or for his though provoking pieces through his blog *Nonprofit AF*, you know that many fundraisers question the equity of allowing donors to take a charitable deduction for gifts to DAFs or private foundations without dispersing money directly to an operating charity. Professor Ray Madoff, a professor at Boston College Law School and Co-founder and Director of the Boston College Law School Forum on Philanthropy and the Public Good, is leading the charge on DAF reform. If this is your first time hearing these two names, I highly recommend you start following them and reading their arguments around the ethics of this type of giving and the reforms they are outlining.

My desire to create a DAF task force at Fred Hutch is not an implicit endorsement of DAFs as they currently exist. I agree that many reforms need to happen. Some will need to come from changes to the current law, such as disallowing private foundations to use distributions to DAFs to meet their annual 5% payout requirement. Some of them need to be changes instigated by the sponsoring organizations themselves, like exercising their ability to disallow donations to certain charities, such as those on the Southern Poverty Law Center's list of U.S. Hate Groups, in addition to the charities they already limit gifts to when under investigation for their standing as a public charity. I am not sold on the idea of adding a minimum distribution to DAFs like a private foundation considering that the National Philanthropic Trust shows an average distribution from DAFs of over 20% of their funds annually and several sponsoring organizations do now make internal requirements for distributions within a certain time frame. However, I think Professor Madoff makes excellent arguments on this topic. And as Vu Le often points out, we cannot wait to push for changes to these structures, especially when so many of the people we seek to help through our non-profits need help now and could immediately benefit from the money sitting in DAFs and private foundations, as well as our own endowments.

I whole heartedly believe that DAFs can help charities in many ways – accepting complex gifts, bringing up charitable contributions to first time donors and creating giving plans, and being an advocate for organizations to receive unrestricted gifts. But far more transparency does need to happen, and it should include non-profits working with sponsoring organizations in partnership to solve these issues together.

XII. CONCLUSION

As you can see, our DAF task force was not only an evolution of our thinking about DAFs, but also it was a rethinking of how we collaborated across our Philanthropy team. For me personally, I would like to think I have become a better partner to the other teams in philanthropy in addition to advocating for needed change in our organization.

As you decide how you will address DAFs in your own organization, keep in mind that DAFs are an increasingly large part of the giving pie and therefore warrant special attention. If you are not using DAFs to better track or screen potential major gift donors, you are missing the bigger picture of what they can give, as well as a key indicator of their charitable intentions. And the only way to move funds from DAFs to our non-profits is identify them, get their attention, and connect with them. And just like putting bequest language on your website or response forms, including DAF information signals to your donors the importance of these types of gifts, and to the rest of your organization the work it takes to solicit them intentionally.

XIII. APPENDIX

Appendix 1

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CURES START HERE

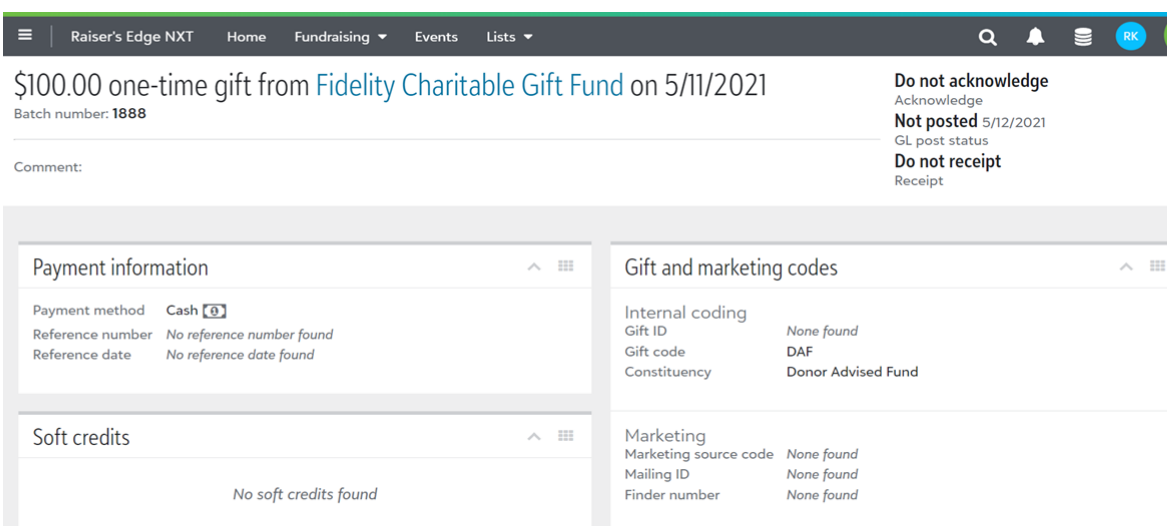
AGENDA

November 13, 2019

DAF Task Force

1. Share DAF language on fall mailing insert for PGOs
2. Share DAF language suggested for Gala and used for talking points
3. Share DAF acknowledgement letter
4. Working on DAF/Stock/IRA Rollover Brochure
5. Check in regarding DAF Coding
6. Some fun DAF facts from Renee's webinar

Appendix 2



Appendix 3

Is this gift from a DAF?

YES

- Community Foundation
- Has "charitable" in title – Fidelity Charitable, Charles Schwab Charitable, Vanguard Charitable
- The "foundation" is administered by a Community Foundation

Probably Not

- Gift is from a financial entity – bank, wealth management firm, etc.
- Gifts from family foundations (usually a quick google search will yield a tax ID number to confirm if it is a stand alone foundation)

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Is this gift from an IRA Charitable Rollover?

Probably Yes

- Donor is over 70 ½ years of age
- Gift is from a financial entity that administers retirement plans
- Looks like a personal check, but from an IRA Account or accompanied by a personal note stating it is from an IRA

Definitely Not

- Donor is younger than 70 1/2
- Gift is from a charitable organization

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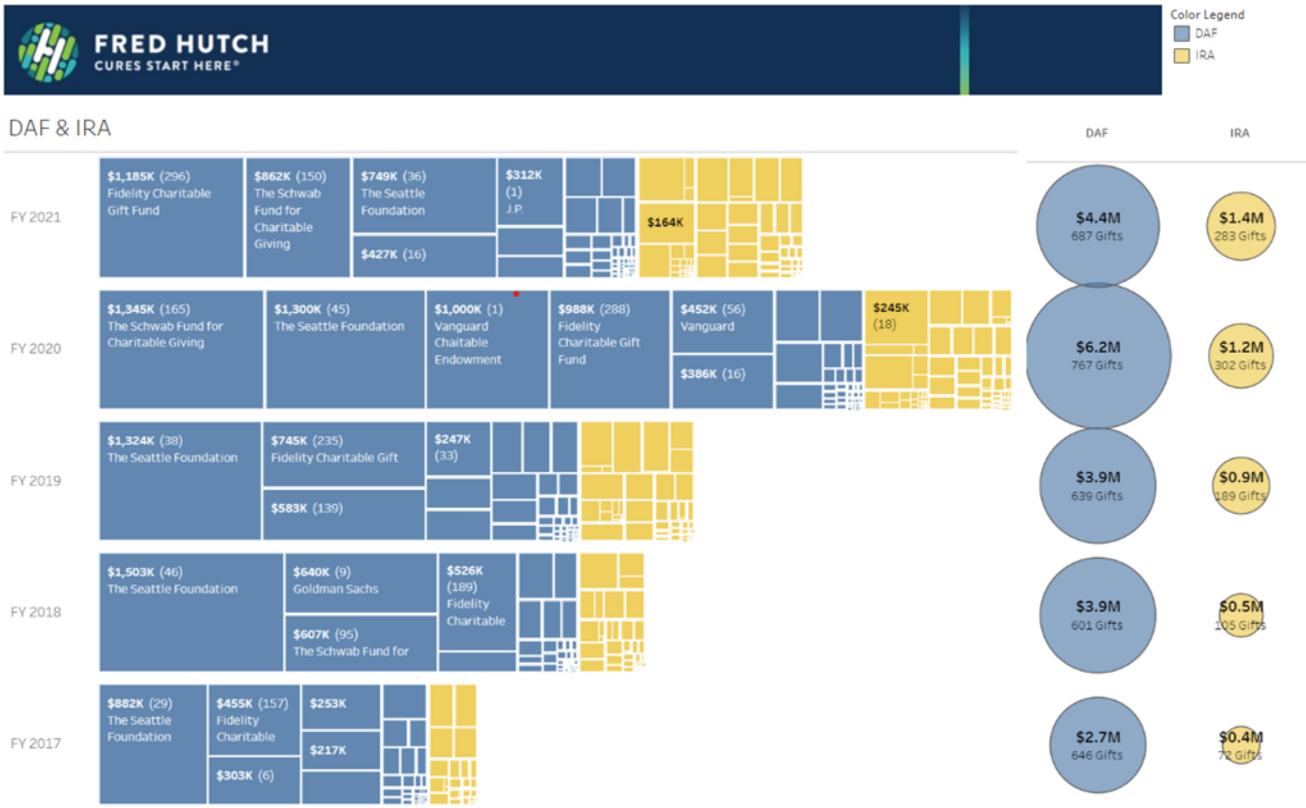
Appendix 4



	Avg. Amount	Max. Amount	Number of Records
FY 2021	$5,886	$312,285	969
FY 2020	$6,937	$1,000,000	1,065
FY 2019	$5,847	$750,000	825
FY 2018	$6,283	$750,000	705
FY 2017	$4,276	$430,000	718

☑ (All)
☑ Q1
☑ Q2
☑ Q3
☑ Q4

Appendix 5

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YOUR INFORMATION

Name(s) ____________________

Address ____________________

City/State ____________________

Zip ____________ Phone ____________

Email ____________________

☐ Please contact me about my gift payment options (Donor Advised Fund, Stock, IRA Rollover)

☐ I have included Fred Hutch in my will or trust

IMPACTFUL GIVING

☐ $10,000 ☐ $5,000 ☐ $2,500

☐ Other ____________

Please charge my: ☐ VISA ☐ Discover

☐ MasterCard ☐ American Express

Name on Card ____________________

Card # ____________________

Exp. Date ____________ CVV# ____________

Signature ____________________