

Family Charities Shift Assets to Donor Funds

Givers Gain Cost, Tax Benefits, But Sacrifice Some Control ... Leaving Paperwork to Others

By MIKE SPECTOR

Robert Morris started his own private foundation in the early 1990s to funnel money to private schools, churches and hospitals. But as the years went on, running it became a hassle.

There were annual tax forms, and Mr. Morris, now 56 years old, often had to chase down letters from charities assuring him they had received his grants. He paid at least \$2,000 annually in fees to lawyers and accountants. And he found it increasingly difficult to diversify his foundation's investments with only about \$100,000 in assets.

So in April, the San Francisco investment consultant closed down his foundation and transferred its assets to the Fidelity Charitable Gift Fund, a so-called donor-advised fund. It allows Mr. Morris to park his money in a variety of diversified investments, take an immediate tax deduction and recommend where grants should go later.

Frustrated by the upkeep, philanthropists are increasingly unwinding their private foundations into donor-advised funds, which invest assets and make grants to charities from individual accounts based largely on donors' recommendations. Some have been spurred by tough economic times: Donor-advised funds can cost thousands of dollars less to maintain than foundations -- a factor that has taken on increased significance as many foundations' assets have plunged.

The funds, which operate as independent charities, have other advantages besides allowing donors to take an immediate tax deduction after making contributions. Donors advise the fund on where the grants should go, but the funds don't have to make distributions as often as a foundation would. Donors can also give many types of assets -- including cash, securities and even art -- depending on the fund's specific rules.

Donor-advised funds normally have their own staff, which often pool investments on behalf of individual donors and attend to all necessary paperwork. That allows them to charge fees that are usually lower than the money you'd spend hiring independent lawyers, accountants or other staff to administer a foundation. The annual fees for a \$50,000 donor-advised fund at Vanguard, for example, are only \$425,* says Benjamin Pierce, the charity's executive director.

The Fidelity Charitable Gift Fund, which has about \$3.6 billion under management and was founded by Fidelity Investments, is on pace to increase the number of foundations it converts to donor-advised funds this year by about 43% from a year earlier. Vanguard Charitable Endowment Program, founded by Vanguard Group, converted about twice as many foundations into donor-advised funds in 2008 than a year earlier. Amid a surge in interest, the Schwab Charitable Fund, founded by Charles Schwab Corp., plans to introduce a program soon shepherding clients through the process of closing their foundation before moving the assets to a donor-advised fund.

Big institutional investment firms aren't the only place to look for donor-advised funds. These funds can be found through university and religious foundations, too. Another popular option: the several hundred community foundations across the U.S., which often focus on local areas they serve.

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*** Because the Board underwrites all administrative costs, Ocean Reef Foundation Donor Advised Funds have no administrative nor investment fees.**

The funds aren't for everyone. They legally retain final discretion on where to donate, though in practice, the donor's wishes are usually followed. A foundation can make more sense if the donor prefers paying personal staff to study making grants for a specific goal, like research on a particular disease. And, of course, heading a foundation in your own name carries a certain cachet -- though you can typically use your own name on donations made from a donor-advised fund as well.

Family Foundations

Talk of foundations often conjures images of multibillion-dollar philanthropic titans like Microsoft Corp. founder Bill Gates. But there are more than 64,000 private foundations in the U.S., many of them small. Among the 37,500 or so family foundations, about 60% have assets under \$1 million, according to the New York Community Trust, a community foundation.

An increased interest in unwinding foundations could fuel even faster growth for donor-advised funds. Though still a small piece of the more than \$300 billion Americans donate annually to charity, total assets in donor-advised funds reached \$27.7 billion in 2007, up from \$7.5 billion eight years earlier, according to National Philanthropic Trust, a donor-advised fund based in Jenkintown, Pa.

Donor-advised funds have another advantage: They don't impose annual distribution requirements. Foundations, by contrast, are required to make annual distributions of at least 5% of their assets, even when markets are plunging. Foundation assets declined about 28% on average last year, according to the Washington-based Council on Foundations.

Also, tax deductions for donor-advised funds are bigger. Donors can deduct half their adjusted gross income for an annual cash contribution, and 30% for appreciated securities. Donors to foundations can deduct only of 30% for cash gifts and 20% for appreciated securities.

Contributions made to donor-advised funds are irrevocable. But unlike with foundations, donor-advised funds' investment gains are generally untaxed. In addition, fund managers perform all record-keeping and perform due diligence on charities you recommend to receive grants.

The Privacy Advantage

Privacy is another potential benefit. Foundation tax forms, which contain details on grants and other revealing information about a donor, are easy to find on the Web. The public forms filed by donor-advised funds don't list individual accounts.

Still, the factor that drives most people to close a foundation is the heavy time commitment. Charles Buchanan inherited stewardship of a corporate foundation after his brother's Wisconsin paper company was sold a couple of years ago. The 77-year-old Glenmont, N.Y., resident and his brother and sister suddenly found themselves in charge of a significant charitable institution without an administrative staff.

"We all agreed that it was impractical to continue it," says Mr. Buchanan. His siblings each took a third of the remaining assets and sent them to various charities. Mr. Buchanan rolled over some \$450,000 of his cut to a Vanguard donor-advised fund in March.

Transitioning from a foundation to a donor-advised fund can take a few months. While rules for closing foundations and moving their assets vary state by state, doing so usually follows these steps: First, the foundation must adopt a dissolution plan. Foundation officials must notify proper authorities, which often includes a state attorney general. The foundation's remaining assets can often be moved through a final grant to a qualifying charity, which can include a donor-advised fund.

Finally, the foundation must file a final tax form to the Internal Revenue Service. State authorities may also require this form. Some donor-advised funds will walk you through the closing of your foundation.

