



FLAWED STUDY MAKES ERRONEOUS CLAIMS ABOUT DAFS

BY ELIZABETH MCGUIGAN
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KEY POINTS

- ◆ **A 2021 REPORT USES FLAWED METHODOLOGY TO FALSELY ASSERT DAFS HAVE LED TO LESS MONEY FOR CHARITIES, IGNORING THE SIGNIFICANT BENEFITS OF DAFS TO DONORS, CHARITIES AND THE COMMUNITIES THEY SERVE.**
- ◆ **TOP EXPERTS IN CHARITABLE SECTOR RESEARCH HAVE IDENTIFIED SIGNIFICANT PROBLEMS WITH THE REPORT'S METHODOLOGY.**
- ◆ **POLICYMAKERS MUST TAKE A CRITICAL LOOK AT THESE DATA, WHICH ARE UNFORTUNATELY BEING CIRCULATED ON CAPITOL HILL IN SUPPORT OF PROPOSED RESTRICTIONS ON POPULAR GIVING VEHICLES.**

In May 2021, noted donor-advised fund critics Ray Madoff, a Boston College law professor, and James Andreoni, a professor of economics at the University of California San Diego, published a report with the Boston College Law School Forum on Philanthropy and the Public Good called “Impact of the Rise of Commercial Donor-Advised Funds on the Charitable Landscape.”¹ The title connotes a sweeping analysis of the charitable sector and a rigorous discussion of the impact of donor-advised funds (DAFs), but the report leaves the reader with more questions than answers. Most problematic is the methodology, which excludes religious institutions, despite the fact that these are among the leading recipients of charitable gifts.²

The report claims the recent growth of giving to DAFs and foundations meant \$300 billion less in contributions went to so-called “working charities” between 2014 and 2018.

THIS POLICY BRIEF WILL ADDRESS THREE MAJOR FLAWS WITH THE METHODOLOGY BEHIND THIS ESTIMATE AND SUGGEST ADDITIONAL AREAS FOR STUDY:

1. METHODOLOGY IGNORES UNIQUE BENEFITS OF DAFS TO CHARITIES.

The assumptions about what giving would look like in the absence of DAFs ignore the benefits DAFs offer to donors, which encourage giving, and to charities themselves thanks to asset appreciation within DAFs that yields larger gifts.

2. DIFFERENT DATASETS WERE COMPARED.

The dataset used excludes many small nonprofits and religious organizations, leading to a fundamental underestimation of how much individuals give to charities each year. The authors arrive at the estimated “shortfall” by comparing apples to oranges: their estimates, which exclude religious giving, to annual data published by Giving USA, which include religious giving.

3. GIVING IS NOT DOWN, IT IS UP.

The premise relies on only one measure of charitable giving: donations as a share of disposable income, ignoring the actual increase in money going to charities over recent years.

DAFS FACILITATE CHARITABLE GIVING

The authors’ premise is simple: “While giving to donor-advised funds has increased significantly since 1991, there is no evidence that this has resulted in any overall increase in individual charitable giving.” There is an unasked question here of whether the existence of a charitable giving vehicle should be expected to yield an increase in giving to begin with, or whether, as research shows, giving trends are driven by economic factors such as stock market performance.³

Putting this question aside, this Policy Brief will consider whether the presented findings support the authors’ premise. The data clearly support the assertion that giving to DAFs has increased significantly since 1991.⁴ Where the report falls short is in its claim that this growing popularity has essentially cannibalized overall giving to charitable organizations. There is no evidence for this assumption.

In fact, the opposite may be assumed. DAFs offer donors simple, flexible and broadly accessible ways to give to charity over time in strategic ways that meet the giving goals of the individual. The popularity of DAFs may be fueling charitable giving that would otherwise not take place.⁵

Regardless of whether this is the case, it is important to remember that every dollar a donor puts into a DAF is irrevocably committed to charitable giving. The funds may never be used for anything besides a gift to an eligible 501(c)(3) organization. It is up to the donor to determine when that distribution is made, within the dormant account policies of the sponsoring organizations. The presence of assets within DAFs is what some call an “American

endowment”⁶ and the impact of these accounts is magnified by how they allow for assets to appreciate over time. According to a report by scholar Howard Husock for the Philanthropy Roundtable and the American Enterprise Institute, this appreciation has created roughly an additional \$5 billion from 2015–2019 in DAF assets—all dedicated to charitable giving.⁷

By design, DAFs do not lead to giving shortfalls. All funds within DAFs must go to charities, whether they are distributed quickly or allowed to grow for larger ultimate gifts.

In a *Chronicle of Philanthropy* article discussing the controversial nature of the Madoff-Andreoni report, Andreoni “said his report with Madoff needed to make at least one assumption, namely what individual giving would look like if donor-advised funds had never existed.” Even he acknowledged that the “shortfall” they came up with “may not be on the nose.” Husock has said this kind of speculation is the problem. Husock was quoted in the same article as arguing it is wrong to assume “that absent the availability of DAFs and their advantages, the volume of charitable giving would have stood at the same level and that funds would instead have been disbursed directly to operating charities.”⁸

Madoff and Andreoni’s analysis of the impact of a single charitable giving vehicle on the broad, complex charitable landscape is, at best, more akin to a thought experiment than a rigorous analysis of what drives charitable giving over time—and how the popularity of DAFs impacts overall giving.

METHODOLOGY FLAWS UNDERESTIMATE GIVING

When hypothesizing a “shortfall” in funds going to charities, the authors pick two time frames to apply their one single measure of giving. There is no control for the various tax changes that occurred over this period, such as the 2017 Tax Cuts and Jobs Act (TCJA), which arguably impact charitable giving more than the mere existence of a giving vehicle.

Aside from these issues, the methodology used to arrive at the “shortfall” figure is flawed.

In calculating gifts from individuals to charities, the authors use data reported annually on Form 990 to the Internal Revenue Service. However, this misses a large swath of charities. There are some 300,000 religious organizations that are not required to submit 990s and another large number of groups only submit shortened forms, which give less information about sources of income.⁹ Excluding these charities seriously underestimates how much individuals give directly to charity each year, since religious congregations and smaller groups depend heavily on such support.

Not only are these charities excluded, but the authors compound this error by comparing their estimate of individual giving to the one produced annually by Giving USA. They argue charities receive a smaller share of this giving now than they did between 1987 and 1991 because a larger share is going to DAFs and foundations. But this is a flawed comparison since the Giving USA estimate includes religious giving.

Noted scholars in philanthropy have publicly questioned the data used. In a news report, Leslie Lenkowsky, a professor emeritus at the Indiana University Lilly School of Philanthropy, and

Howard Husock, said the authors used data that omit these working charities. According to the article, they say that had the full data been included in the analysis, “the study would have showed that more money from donor-advised funds and foundations went to charities,” and “the research includes apples-to-oranges comparisons.”

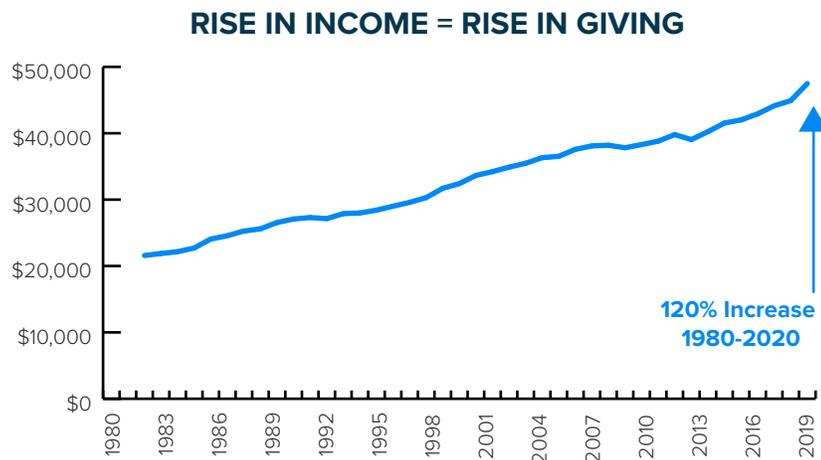
Others were quoted in the same news story about problems with the methodology. A statistician at the Lilly School, which publishes Giving USA, a major data source for the Madoff-Andreoni report, weighed in on the misuse of the data. Jon Bergdoll “disagreed with the methodology leading to Madoff and Andreoni’s central conclusion that working charities received 94.1% of what individuals gave from 1987 to 1991 while receiving only 74% of what individuals gave from 2014 to 2018.” Bergdoll said “the comparison is distorted largely because the 2014 to 2018 analysis drew on data that excluded most religious groups, which are not required to file full informational returns, and compared the result with figures derived from earlier data that included estimates of giving to religious groups.”

With such fundamental flaws in the design of the report, it is difficult to conclude there is a significant shortfall in giving due to the popularity of DAFs.

CHARITABLE GIVING IS GROWING

The authors consider only one measure of charitable giving as a percentage of disposable income, their barometer for whether giving has increased over time. There is certainly value in examining giving over time as a share of disposable income as they do. Yet, relying too heavily on one lens ignores the fact that disposable income has increased over the period analyzed. On a dollar basis, if giving as a share of disposable income stays steady while income rises, charities receive more money today than in 1991, even adjusted for inflation.

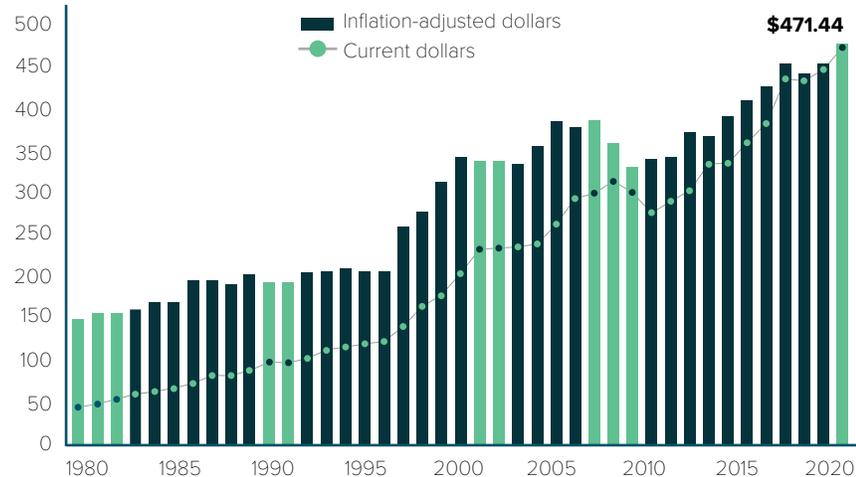
REAL DISPOSABLE PERSONAL INCOME: PER CAPITA, CHAINED 2012 DOLLARS, ANNUAL, SEASONALLY ADJUSTED ANNUAL RATE



Source: U.S. Bureau of Economic Analysis, fred.stlouisfed.org

According to Giving USA's latest data, total giving, adjusted for inflation, has increased from \$195.02 billion in 1991 to \$471.44 billion in 2020.¹⁰ As a share of the U.S. economy (or GDP), total giving in 2020 represented 2.3%, up from 1.7% in 1991.

TOTAL GIVING, 1980-2020 (IN BILLIONS OF DOLLARS)



Source: Giving USA 2021: The Annual Report on Philanthropy for the Year 2020

As Husock and Lenkowsky said in a letter to the Chronicle of Philanthropy, “One does not have to be an economist or law professor to see that giving to all three entities — charities, DAFs, and foundations — has been rising almost steadily during the past three decades. ... One might believe that if DAFs and foundations had received less, ‘working charities’ would have obtained more. But there is no factual basis for thinking so.”¹¹

IMPLICATIONS OF FLAWED RESEARCH

The Madoff-Andreoni report holds serious implications for policymakers. Critics of DAFs are presenting this research as support for new restrictions and payout requirements for DAFs.¹² As lawmakers consider such counterproductive policy changes, it is important to take a critical look at the research supporting these changes and the flaws with the underlying arguments and methodology.

DAFs have grown as popular charitable giving vehicles because they are easy to set up and offer donors a flexible approach to giving, with low overhead costs. Whether housed with community foundations, themselves “working charities,” or through national sponsors, DAFs facilitate the charitable giving that benefits all Americans and should be cheered, not restrained.

ENDNOTES

- 1** James Andreoni and Ray Madoff, “Impact of the Rise of Commercial Donor-Advised Funds on the Charitable Landscape,” Boston College Law School Forum on Philanthropy and the Public Good, May 2021. <https://www.bc.edu/content/dam/bc1/schools/law/centers/philanthropy/2021-forum-philanthropy-report-daf-impact.pdf>
- 2** Giving USA 2021: The Annual Report on Philanthropy for the Year 2020. Researched and written by Indiana University Lilly Family School of Philanthropy. Sponsored by Giving USA Foundation, a public service initiative of The Giving Institute. ©2021 Giving USA Foundation.
- 3** Giving USA 2021: The Annual Report on Philanthropy for the Year 2020. Researched and written by Indiana University Lilly Family School of Philanthropy. Sponsored by Giving USA Foundation, a public service initiative of The Giving Institute. ©2021 Giving USA Foundation.
- 4** National Philanthropic Trust, “2020 Donor-Advised Fund Report,” February 2021. <https://www.nptrust.org/reports/daf-report/>
- 5** Elizabeth McGuigan, “Why Americans Should Cheer the Use of Donor-Advised Funds,” Feb. 4, 2021. <https://www.philanthropyroundtable.org/home/blog/post/roundtable/2021/02/04/why-americans-should-cheer-the-use-of-donor-advised-funds>
- 6** Howard Husock, “The pandemic and a ‘rainy day fund’ for American charity,” The Hill, Nov. 25, 2020. <https://thehill.com/opinion/finance/527022-the-pandemic-and-a-rainy-day-fund-for-american-charity>
- 7** Howard Husock, “Appreciation in Donor-Advised Funds: An Analysis of Major Sponsors,” American Enterprise Institute and the Philanthropy Roundtable, Feb. 2021. <https://www.philanthropyroundtable.org/home/resources/briefings/appreciation-in-donor-advised-funds-an-analysis-of-major-sponsors>
- 8** Michael Theis, “Scholars Debate Whether Donor-Advised Funds Deprive Charities of \$300 Billion,” Chronicle of Philanthropy, June 8, 2021. <https://www.philanthropy.com/article/scholars-debate-whether-a-300-billion-estimate-on-harm-to-charities-from-dafs-is-accurate>
- 9** Doug Irving “Faith-Based Organizations Promote Well-Being in Underserved Communities,” RAND Review, Jan. 4, 2019. <https://www.rand.org/blog/rand-review/2019/01/faith-based-organizations-promote-well-being-in.html>
- 10** Giving USA 2021: The Annual Report on Philanthropy for the Year 2020. Researched and written by Indiana University Lilly Family School of Philanthropy. Sponsored by Giving USA Foundation, a public service initiative of The Giving Institute. ©2021 Giving USA Foundation.
- 11** Michael Theis, “Scholars Debate Whether Donor-Advised Funds Deprive Charities of \$300 Billion,” Chronicle of Philanthropy, June 8, 2021. <https://www.philanthropy.com/article/scholars-debate-whether-a-300-billion-estimate-on-harm-to-charities-from-dafs-is-accurate>
- 12** See for example, S. 1981, introduced by Senators Angus King (I-ME) and Charles Grassley (R-IA) in June 2021. Full text available here: <https://www.congress.gov/bill/117th-congress/senate-bill/1981>

ABOUT THE AUTHOR

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