Appreciation in Donor-Advised Funds: An Analysis of Major Sponsors

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Key Points

- Donor-advised funds (DAFs)—individual tax-advantaged accounts through which individuals set aside funds for current and future charitable use—have become the fastest-growing vehicle for charitable giving in recent years.
- From 2015 to 2019, investments for assets managed by the four largest DAF sponsors—Fidelity Charitable, Vanguard Charitable, Schwab Charitable, and the National Philanthropic Trust—led to returns that made available almost $2.66 billion reserved for future charitable donations. Because those four organizations represent slightly less than half (46 percent) of all DAF accounts, net returns for all DAFs plausibly made available more than $5 billion reserved for future charitable donations.
- An analysis of national charitable-giving data indicates no evidence that the appreciated assets are not being expeditiously disbursed. Rather, even as DAF contributions have increased, so, too, have grants to all other major categories of charitable organizations, including human services, health, education, and religion.

Donor-advised funds (DAFs)—individual tax-advantaged accounts through which individuals set aside funds for current and future charitable use—have become the fastest-growing vehicle for charitable giving in recent years. The number of these individual charitable accounts has mushroomed from 241,507 in 2014 to 728,563 in 2018.[1]

The charitable analogue to individual retirement accounts or health savings accounts, DAFs allow individuals to realize a tax deduction for contributions, including appreciated stock, and then disburse the moneys over time to nonprofit charitable organizations of their choice. In contrast to other individual, tax-advantaged accounts—such as 401(k)s—that require minimum distributions, DAFs provide no benefit to a donor once a contribution has been made. The funds can be used for only charitable purposes.

This report uses IRS data from the four largest organizations managing DAFs (Fidelity Charitable, Vanguard Charitable, Schwab Charitable, and the National Philanthropic Trust) to get a sense of the magnitude of their asset appreciation, controlling for new contributions made to the accounts and grants recommended by donor advisers (the individuals who open the account) to on-the-ground charitable organizations. It finds that account appreciation alone—controlling for new contributions and grants—has made available an additional $2.66 billion reserved for future charitable use from 2015 to 2019. Because these four DAF-sponsoring organizations account for less than half such overall accounts, an additional $2.66 billion in DAF asset appreciation may have taken place. The finding is especially important in states where DAFs are concentrated—including California, Illinois, Massachusetts, New Jersey, New York, and Texas. What's more, national charitable-giving data do not indicate that DAF appreciation has come at the expense of direct charitable giving, which has, similarly, increased year-over-year.

About Donor-Advised Funds

DAFs date back to the 1920s when the New York Community Trust first began to group individual accounts under its central management.[2] However, they have grown mainly since 2006, when they were legislatively formalized under a provision of the Pension Protection Act.[3] In 2008, the IRS issued a rules interpretation that further laid the foundation for the proliferation of DAFs.[4] The IRS ruled that nonprofit organizations that served as a home for DAFs were themselves serving a bona fide nonprofitable charitable purpose. In the years since, major national financial management firms—including Fidelity, Vanguard, and Schwab—have established nonprofit charitable arms through which individual investors can establish individual charitable accounts managed by large central offices.

Donors typically choose, as with individual retirement accounts, whether they want to invest undisbursed funds aggressively or conservatively, a choice that likely reflects the time frame in which they plan to grant the moneys. (A conservative strategy would imply the hope for long-term growth, perhaps with a major gift in mind, at some point in the future.) DAFs also provide the option of anonymous giving, something some donors backing controversial or personal causes may prefer.

Charitable assets under management have grown. According to the National Philanthropic Trust 2019 DAF report:

> Charitable assets in donor-advised funds grew from $112.10 billion in 2017 to $121.42 billion in 2018, an 8.3 percent increase. From 2014 through 2018, charitable assets rose by a compound annual growth rate of 14.7 percent. Growth includes contributions and investment yield less assets distributed in grants.[5]

Yet, individual accounts have remained far smaller than the assets controlled by major foundations. Compared to the Bill & Melinda Gates Foundation ($36 billion),[6] the Ford Foundation ($12 billion),[7] and the MacArthur Foundation ($7 billion),[8] DAF accounts average $166,000.[9] They are, in effect, small, personal foundations for middle-class donors. Arguably, DAFs help democratize philanthropy, making it more accessible to a wider reach of donors. While the number of DAF accounts has steadily risen in the past few years, reaching more than 720,000, the average asset total in DAF accounts has fallen, indicating their growing accessibility.[10] Increasingly, DAFs are a vehicle for middle-class donors to establish what amount to mini-foundations managed on their behalf by major financial firms.

DAF Appreciation = Starting Assets + Contributions – Grants

The growth of DAF accounts, however, has not come without controversy. In contrast to philanthropic foundations, rules governing DAFs do not require a minimum disbursement of funds. This has sparked calls for such "payout" rules, especially because a small number of DAFs have been established by the prominent wealthy, including Facebook founder Mark Zuckerberg, whose DAF is managed through the Silicon Valley Community Foundation.

As a practical matter, even by the most conservative measure, donor advisers transfer funds at a rate higher than the 5 percent required of philanthropic foundations, with payout flow ranging from 14 to 23 percent, depending on methodology (although scholars have sparred on this count).[11]

Table 1. Aggregated Financial Data of the Four Largest Sponsors

Category	990 Reference	6/30/19	6/30/18	6/30/17	6/30/16	6/30/15
Total Assets, Beginning of Current Year	Part I, Line 20	$54,691,754,363	$43,323,822,985	$32,703,130,641	$30,510,933,027	$26,403,831,581
Contributions	Part I, Line 8	$17,419,694,682	$16,891,300,562	$13,297,034,845	$8,284,092,377	$8,824,533,739
Grants	Part I, Line 13	$11,015,650,054	$8,651,020,236	$6,869,441,301	$5,673,772,274	$5,227,117,943
Investment Income	Part VIII, Line 3A	$1,118,284,323	$806,439,454	$582,049,965	$663,780,356	$721,008,730
Net Unrealized Gains (or Losses) on Investments	Part XI, Line 5	$1,090,226,592	$1,665,553,071	$3,397,115,934	($1,203,939,253)	($424,964,186)
Net Gain (or Loss)	Part VIII, Line 7d	$1,000,927,546	$779,067,905	$273,993,142	$263,813,407	$337,671,689
Total Assets, End of Current Year	Part I, Line 20	$64,354,452,290	$54,691,754,363	$43,323,822,985	$32,703,130,641	$30,510,933,027
Number of DAFs, End of Year	Sch D, Part I, Line 1	210,857	185,811	148,168	128,593	116,953

Source: Author's calculations using the IRS Form 990 for Fidelity Charitable, Vanguard Charitable, Schwab Charitable, and the National Philanthropic Trust.

One methodological complication involves how to treat new account contributions, which may occur at the end of a calendar year. If such contributions—made at the tax year deadline—are included when gauging the extent of contributions disbursed as grants, that rate may be understated because so little time remains in the year.

This discussion, however, fails to note another significant aspect of assets housed in DAFs: capital that has not been directed as grants that appreciates in value. Because donor advisers themselves can neither recapture funds they have designated for their charitable account nor realize any personal financial gain from them, the growth in their undisbursed balance leads to an increase in funds that can, by law, be used for only charitable purposes. It is true, as critics emphasize, that there is no set period in which these funds must be disbursed. But it is also true that they are reserved for future charitable use only.

This report uses data provided by the four largest sponsors of DAFs—Fidelity Charitable, Vanguard Charitable, Schwab Charitable, and the National Philanthropic Trust, which aggregated the data—to gauge the extent of that account appreciation. Table 1 aggregates financial data for all DAFs managed by those sponsors, which comprise 46 percent of all DAF accounts. The table isolates asset appreciation—that is, the increase in potential charitable assets that results from the investment of undisbursed funds in bond and equity markets, through vehicles managed by the DAF sponsor. (The assets are estimated based on a $256,000 average for account assets for the four firms analyzed.)

The key in Table 1 is the aggregated net gains, found from IRS Form 990 (required of all nonprofits), Part VIII.[12] By adding the individual figures for the years 2015–19, the appreciated value of undisbursed assets in these DAF accounts totaled some $2.66 billion. Because the four organizations examined comprise slightly less than half of all DAF accounts, it is plausible to assume that, from 2015 to 2019, more than $5 billion has, because of DAF asset appreciation, become available for only one purpose: future charitable giving.

Geographic Impact

The availability of these assets for charitable purposes may have varying effects in different states. Donor advisers are free to direct their grants to any organization, not necessarily those in their geographic area. However, a significant portion of their grants will likely be made locally. A 2016 Manhattan Institute report found donors using national DAF organizations and those using community foundations in Chicago, Dallas, and Denver support many of the same local organizations.[13] Thus, the availability of DAF appreciated assets can increase charitable giving in areas where they are concentrated.

The same four organizations—Fidelity, Vanguard, Schwab, and the National Philanthropic Trust—that provided asset appreciation data have also provided data on their donor advisers' geographic location. Therefore, in addition to estimating the extent of appreciated DAF assets—reserved, by definition, for future charitable use—it is possible to estimate the percentage of all DAFs found in each state and the number of DAF accounts held in each state.

DAFs are concentrated in states where households are more likely to be relatively affluent and itemize their tax returns—a function of both relative income and the degree of state and local taxation. DAFs are common, in other words, in many high-tax blue states. DAF asset appreciation can be of particular importance to charitable organizations in California, Florida, Illinois, Massachusetts, New York, and Texas, among other states.[14]

Table 2. Aggregated State Data, as of June 30, 2019

State*	Percentage of "Big Four" DAFs Nationwide Located in the State	Number of "Big Four" DAFs Located in the State	Estimated Dollars Reserved for Future Charitable Giving ("Big Four" Total Assets)**
Arizona	1.6%	3,374	863.74 million
California	15.0%	31,629	$8.09 billion
Colorado	2.7%	5,693	$1.46 billion
Connecticut	2.1%	4,428	$1.13 billion
Florida	5.4%	11,386	$2.91 billion
Georgia	2.6%	5,482	$1.40 billion
Illinois	4.5%	9,489	$2.43 billion
Indiana	1.5%	3,163	$809.73 million
Massachusetts	7.4%	15,603	$3.99 billion
Maryland	2.1%	4,428	$1.13 billion
Michigan	2.3%	4,850	$1.24 billion
Minnesota	3.1%	6,534	$1.67 billion
Missouri	1.8%	3,795	$971.52 million
North Carolina	3.0%	6,326	$1.62 billion
New Jersey	3.1%	6,537	$1.67 billion
New York	7.2%	15,182	$3.89 billion
Ohio	3.1%	6,537	$1.67 billion
Oregon	1.4%	2,952	$755.71 million
Pennsylvania	3.2%	6,747	$1.73 billion
South Carolina	1.0%	2,109	$539.90 million
Tennessee	1.3%	2,741	$701.70 million
Texas	6.4%	13,495	$3.45 billion
Utah	1.5%	3,163	$809.73 million
Virginia	2.6%	5,482	$1.40 billion
Washington	3.4%	7,169	$1.83 billion
Wisconsin	1.7%	3,585	$917.76 million

Note: All states that are not included had less than 1 percent of DAFs nationwide. *Determined based on the address of the primary donor. **This total does not represent the total assets of national "big four" DAF sponsored accounts. The remainder is dispersed among states with less than 1 percent of DAFs nationwide (in which data were not available). Nor is the 2019 "Total Assets" number in Table 1 representative of all DAF accounts nationwide. According to the National Philanthropic Trust, there were an estimated total of 873,228 DAF accounts in 2019 among all charitable sponsors.
Source: National Philanthropic Trust.

The data in Table 2, it should be emphasized, represent only the percentage of DAFs held by the four reporting organizations, not DAFs managed, for instance, by local community foundations. (These likely have smaller individual balances, as the average of all DAF accounts—$166,000—is lower than the average of the top four organizations, $256,000.) Thus, DAF asset appreciation may well affect other states. Still, the assets and account holder figures in Table 2 should be roughly doubled to gain a full picture of DAF assets and accounts.

The small number of DAFs managed by major financial firms in some states does not necessarily mean that such accounts are absent in those states. There are more than 800 community foundations dispersed across the US that may also manage DAFs and that may thereby realize asset appreciation. (See Table 3.)

Table 3. Community Foundations Locations

State	Number of Community Foundations	State	Number of Community Foundations
Alabama	10	Montana	38
Alaska	5	Nebraska	21
Arizona	7	Nevada	4
Arkansas	10	New Hampshire	1
California	63	New Jersey	6
Colorado	23	New Mexico	9
Connecticut	14	New York	25
Delaware	2	North Carolina	18
Florida	33	North Dakota	6
Georgia	15	Ohio	54
Hawaii	1	Oklahoma	7
Idaho	3	Oregon	6
Illinois	32	Pennsylvania	40
Indiana	78	Rhode Island	1
Iowa	24	South Carolina	11
Kansas	27	South Dakota	6
Kentucky	15	Tennessee	5
Louisiana	7	Texas	32
Maine	2	Utah	2
Maryland	14	Vermont	1
Massachusetts	15	Virginia	23
Michigan	65	Washington	26
Minnesota	26	West Virginia	15
Mississippi	9	Wisconsin	27
Missouri	7	Wyoming	2

Source: Council on Foundations, "Community Foundation Locator," https://www.cof.org/page/community-foundation-locator.

The Impact of DAFs on Charitable Giving

Even as they build assets for future charitable giving, do DAFs inhibit near-term giving? This issue can be scrutinized through the prism of *Giving USA 2020*, the Indiana University Lilly School of Philanthropy annual compendium of the extent and types of charitable giving in the US, based on tax return data.[15]

Giving USA 2020 (which examines the year 2019) gives reason to believe that the impact of DAFs is either positive or neutral. In 2019, charitable giving, both individual and corporate, notably, reached its highest historic figure, $449.64 billion. Charitable giving by individuals, specifically, rose 4.7 percent, to $309.66 billion.[16]

These increases in giving could mask some assets in DAFs because *Giving USA 2020* includes contributions to DAFs—even if they are not then redirected to operating charities—in its total charitable giving. Such contributions are included in a broader category that includes other types of organizations, such as advocacy groups, under the rubric "public society benefit organizations." Giving to such organizations rose 13.1 percent between 2018 and 2019, increasing to $37.16 billion.[17]

Giving USA 2020, however, is careful to track grants made from DAFs. Thus, grants made from appreciated DAF assets are also reflected in its accounting. In this context, note that every category of charitable giving that the Lilly School tracks increased from 2018 to 2019. For instance, giving to human organizations rose by 5 percent to

$55.9 billion, while giving to health organizations rose 6.8 percent to $41.46 billion.[18]

Broadly, then, overall annual direct charitable giving to operating nonprofits—whether food pantries, biomedical research, or museums—has risen, while DAF assets, DAF appreciation, and the number of DAF account holders have also increased. Thus, there is little reason to see DAFs as a "tax loophole" undermining or inhibiting direct charitable grant making. DAFs' asset appreciation appears to have contributed to grants received by the full range of charitable organizations.

Conclusion

DAFs are the fastest-growing charitable-giving vehicles in the US. In addition to increasing numbers of such accounts and charitable grants disbursed from them, DAFs may hold more than $5 billion in appreciated assets, realized through investment and which, by law, are reserved for only one purpose: future charitable giving. This can be viewed as a charitable endowment, funds that can be directed for charitable purposes in times of crisis or that can be dispersed in large lump sums to reflect a donor's lifetime charitable goals.

Some donors may, indeed, prefer to use DAFs simply to "pass through" their charitable giving directly, and fully, to operating charities in the near term. But the potential of appreciated assets demonstrates a value in "giving and holding"—waiting to disburse contributions while one's assets gain value. Because, ultimately, all appreciated assets will have to be disbursed, this decision as to the timing of charitable giving should be understood as personal and need not be regulated.

About the Author

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Notes

1. National Philanthropic Trust, "The 2019 DAF Report," 2019, https://www.nptrust.org/reports/daf-report/.
2. New York Community Trust, "Our History," https://www.nycommunitytrust.org/about/history/.
3. Council on Foundations, "Pension Protection Act," https://www.cof.org/ppa#:~:text=The%20Pension%20Protection%20Act%20(PPA,provisions%20that%20affect%20charitable%20giving.
4. Internal Revenue Services, "Donor-Advised Funds Guide Sheet Explanation," July 31, 2008, https://www.irs.gov/pub/irs-tege/donor_advised_explanation_073108.pdf.
5. National Philanthropic Trust, "The 2019 DAF Report."
6. Peter Kotecki, "Bill and Melinda Gates Were Just Named the Most Generous Philanthropists in America—Here Are Their Biggest Projects," Business Insider, August 20, 2018, https://www.businessinsider.com/biggest-projects-of-generous-philanthropists-bill-and-melinda-gates-2018-8.
7. Ford Foundation, "Ford Foundation Commits $1 Billion from Endowment to Mission-Related Investments," press release, April 5, 2017, https://www.fordfoundation.org/the-latest/news/ford-foundation-commits-1-billion-from-endowment-to-mission-related-investments/.
8. John D. and Catherine T. MacArthur Foundation, *30 Years of the John D. and Catherine T. MacArthur Foundation*, September 2008, https://www.macfound.org/media/article_pdfs/MacArthur_30years.pdf.
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11. H. Daniel Heist, "Understanding Donor-Advised Funds: The Behavioral Economics, Macroeconomics, and Public Policies Relating to an Emerging Trend in Philanthropy," University of Pennsylvania Scholarly Commons, 2019, 1–119, https://repository.upenn.edu/edissertations/3346/; and James Andreoni and Ray Madoff, "Calculating DAF Payout and What We Learn When We Do It Correctly," National Bureau of Economic Research, October 2020, 1–13, https://www.nber.org/papers/w27888.
12. I took the following steps to calculate this figure, using IRS Form 990. First, on Line 3, I entered the gross amount of interest income from savings and temporary cash investments; dividend and interest income from equity and debt securities (stocks and bonds); amounts received from payments on securities loans, as defined in section 512(a)(5); and interest from notes and loans

receivable. I did not include unrealized gains and losses on investments carried at fair market value. I did not deduct investment management fees from this amount, but I reported these fees on Part IX, Line 11f. Second, I entered on Lines 7a through 7c all sales of securities in Column (i). I used Column (ii) to report sales of all other types of investments (such as real estate, royalty interests, or partnership interests) and all other non-inventory assets (such as program-related investments and fixed assets the organization used in its related and unrelated activities). On Line 7a, for each column, I entered the total gross sales price of all such assets. I totaled the cost or other basis (less depreciation) and selling expenses and entered the result on Line 7b. On Line 7c, I entered the net gain or loss. I showed any loss in parentheses. On Lines 7a and 7c, I also reported capital gains dividends, the organization's share of capital gains and losses from a joint venture, and capital gains distributions from trusts. I combined the gain or loss figures reported on Line 7c, Columns (i) and (ii) and reported that total on Line 7d. I showed any loss in parentheses. I did not include any unrealized gains or losses on securities carried at fair market value in the books of account.

13. Howard Husock, *Growing Giving: American Philanthropy and the Potential of Donor-Advised Funds*, Center for State and Local Leadership at the Manhattan Institute, April 2015, https://media4.manhattan-institute.org/sites/default/files/cr_97.pdf.

14. On Line 5, I reported the net unrealized gains or losses on investments reported in the organization's audited financial statements (or other financial statements). This amount represents the change in market value of investments that were not sold or exchanged during the tax year.

15. Indiana University, Lilly Family School of Philanthropy, *Giving USA 2020: The Annual Report on Philanthropy for the Year 2019*, 2020.

16. Abby Rolland, "Giving in 2020: There May Be Some Clues from 2019," Indiana University, Lilly Family School of Philanthropy, June 19, 2020, https://blog.philanthropy.iupui.edu/2020/06/19/giving-in-2020-there-may-be-some-clues-from-2019/.

17. Rolland, "Giving in 2020."

18. Rolland, "Giving in 2020."