Donor-Advised Funds vs. Private Foundations

Creation and Ongoing Expenses

Many donors choose to establish donor-advised funds rather than private foundations, especially if the total giving fund will be less than $10 million dollars.  As you know, private foundations must handle their administrative processes (distributions, due diligence, separate 990-PF tax filing, etc.) whereas a donor advised fund with the Coastal Community Foundation does not have these requirements.  Administrative considerations and expenses usually become the primary driver for opting for a donor advised fund.  Time, expertise, and administrative costs can be onerous for private foundations of $10-15 million and under.  If the donor chooses to provide these services themselves, he or she must dedicate a substantial amount of time and resources annually.  Even if the services are outsourced, the comprehensive expenses can average 300-400 basis points per year (exclusive of investment management), which is far greater than the administrative fee structure at CCF.

Privacy Concerns

When a donor becomes known within the community as a generous philanthropist, it is very common that nonprofit organizations will contact them with funding requests.  This is expected as organizations wish to connect interested donors with their programs.  However, not every donor wants to be “known.”  If a donor is sensitive about privacy, a private foundation is not the best option because the foundation’s tax returns are public documents.  Asset amounts, investment management statements, grants list, roster of board members (and their addresses) all become public information that is easily searchable.  With a grant from a donor advised fund, a donor may be as private – or public – with their giving as he or she chooses.  Grants from a DAF may be anonymous or list the fund name.

Economies of Scale and Grantmaking Purchasing Power

If a donor is interested in having a philanthropic vehicle in perpetuity, a private foundation has some limiting factors.  Private foundations must distribute 5% of assets annually and does not discriminate against “bull” or “bear” markets.  If the market drops, the payout requirement must be fulfilled.  Further, administrative costs are applied against the 5% payout requirement for private foundations, which can significantly diminish the annual grantmaking funds available for the foundation.  In contrast, a donor advised fund does not have a payout requirement.  A fund advisor may choose to give less money in down years as a means to protect the long-term grantmaking power of the fund.  However, CCF does have a policy that funds be “active” a minimum of once every 36 months.  Reduced administrative costs mean more funds can be directed to your philanthropic objectives.

Family Philanthropy and Passing-Down Charitable Values

Whether a donor chooses a private foundation or a donor advised fund, a long-term philanthropic vehicle is an excellent way to pass down charitable values across multiple generations.  At CCF, a Relationship Manager will work interested families in organizing annual meetings to review grant recommendations and may also engage CCF’s program staff to provide in-depth information and expertise on nonprofit organizations operating in our nine-county service area.