



AEF

AMERICAN ENDOWMENT FOUNDATION

Summer 2009

GPS

for your clients' financial goals

not your father's newsletter

Private Foundations Moving to DAFs

Private foundations are wonderful charitable vehicles for clients. They help families pass on philanthropic values to their children and encourage involvement in their communities. However, in this economic downturn, cost-conscious investors are turning to donor-advised funds instead. Why?

This trend was noted in the Wall Street Journal of April 22, 2009, "Frustrated by the upkeep, philanthropists are increasingly unwinding their private foundations into donor-advised funds that can cost thousands of dollars less to maintain than foundations - a factor that has taken on increased significance as many foundations' assets have plunged."

These frustrations involve the necessary time commitment of overseeing a charitable institution, however large or small. Administrative expenses add to this frustration. A donor-advised fund can alleviate these burdens for your clients.

But, did you know that a recent survey found that over 70% of investors have never heard of a donor-advised fund? Those that have, however, are flocking to DAFs. Since the mid-1990s, over 100,000 donor-advised funds have been established with assets totaling over \$19.5 billion.

What is motivating clients to close their private foundations and move to donor-advised funds?

Tax Advantages top the list. Whereas PFs are required to pay annual excise taxes, DAFs, as public charities, are free of such obligations. Besides that, DAFs avoid tax on capital gains because non-cash assets are transferrable. One more thing: DAFs enjoy a

50% deduction on adjusted income compared to 30% for PFs.

Privacy is a factor. DAFs enjoy complete anonymity due to the lack of public disclosure. Private foundations really aren't that private. The continual barrage of requests for funding from public sources can testify to that.

Administrative expenses are greatly reduced with a DAF. No need to hire an accountant, lawyer, administrator and clerical help. The American Endowment Foundation's in-house staff takes care of those hassles and assumes those costs, even down to providing liability insurance.

Philanthropic legacies for families are easily passed down from generation to generation with a DAF. However, when it is time to pass on a PF to those next in line, the transition can be overwhelming.

Investors are in good company if they choose to switch their foundations to DAFs. The Wall Street Journal of September 10, 2008, related, "Laurance R. Hoagland, Jr., CIO of the William and Flora Hewlett Foundation, which has \$8.5 billion in assets, uses a DAF for his personal charitable giving." Why do this, when he could probably set up his own foundation in his sleep? The article goes on to quote Mr. Hoagland as saying that he has "enough administrative inconveniences in his life" without overseeing a foundation of his own.

AEF can help your clients gain this advantage. We have all the necessary tools to make a smooth transition to a DAF. Please contact us at 888-440-4233 for more information.