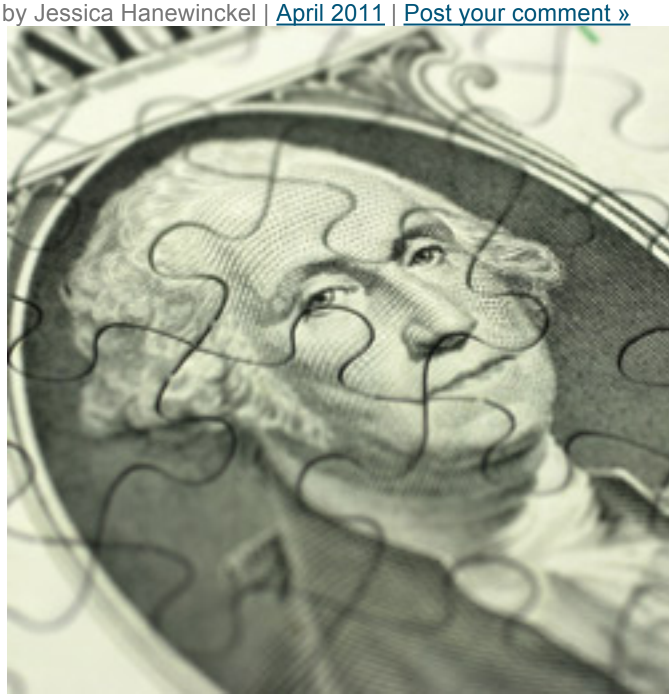
A Popular Plan for Charitable Giving

by Jessica Hanewinckel | April 2011 | Post your comment »



When it comes to determining which vehicle is most effective in increasing charitable giving, options abound, and each has its benefits and drawbacks depending on a donor's specific circumstances. But for about 700 families and individuals in San Diego, a donor advised fund established through the Jewish Community Foundation of San Diego is the way to go.

"[The donor advised fund] is the most popular type of find [at the JCF]," says Charlene Seidle, JCF vice president of philanthropy. "It's the most flexible and attractive to a wide variety of people, ages and giving levels, and it offers the most options within the framework of the fund."

According to Seidle, a donor advised fund is fast and easy to set up, requiring a simple form that can be completed in just a few minutes. A minimum of $1,800 is required to establish the fund, and after that, there are no minimum balance requirements or contribution amounts. The JCF charges an annual fee of 1.25 percent with balances up to $1 million, with a declining sliding scale for larger balances. The minimum fee is $15 per month. Grants can be made for as little as $100, and it's as easy as logging on to a donor's online account any time to see their balance, conduct transactions or change the fund's investments.

But it's not just the fund's simplicity that is appealing to many donors. According to Joseph Cohen, chair of the JCF Professional Advisor Council and founding principal and managing director at HoyleCohen wealth management firm, many donors appreciate the ample tax advantages the fund provides.

"There's the tax benefit in terms of getting a tax deduction for the assets you contribute, whether it's cash, securities or even real estate," Cohen says. "But there's a double tax benefit for assets that are appreciated, like real estate or stock. If you contributed that appreciated stock, you receive both the income tax benefit for the contribution, and you avoid paying the tax on the gain, so you really have two tax savings."

Cohen, who himself has had a donor advised fund with the JCF since 1997, says he recommends to his clients the option of a donor advised fund when he sees they have charitable incentive, which he defines as giving at least $3,000-5,000 a year. The higher the tax bracket, he says, the greater the tax deduction. Seidle stresses, though, that, "The Foundation works with individuals and families of many different backgrounds, ages and means."

Much of the fund's simplicity lies in its four investment pools. Depending on the assets they'd like to contribute and the time frame in which they'd like to give those assets away, donors can select from four pools, placing their assets in one or multiple pools, depending on their charitable goals: Short Term, which allows the donor to make grants immediately, or for funds that cannot sustain any loss of principal; Mid Term, for donors with giving objectives of three to five years and can afford a moderate risk of loss; Long Term, for donors with giving objectives of seven or more years and spending rates of about five percent of their assets per year; and an Endowment Pool, for donors with endowment-like giving objectives of 20 or more years, who are comfortable with moderate asset illiquidity and who plan to give away about five percent of assets annually. A portion of assets in the Endowment Pool are invested in non-public investments, like private real estate or hedge funds of funds.

"The great thing," Seidle says, "is that [we hope] the fund grows through those investment options, giving the donor more to give away to the community. [Growth, however, is based on the market and the performance of the pool. It is not guaranteed.] It's a very flexible, personalized, individualized approach to charitable giving, and it really marries the financial objectives with the philanthropic objectives."

Donor advised funds are a great alternative to direct giving because funds are consolidated, record-keeping and ease of management are dramatically simplified and the donor receives just one tax receipt a year. They also are a great alternative to private foundations because they don't require the donor to have such significant funds and are not nearly as complex. The absolute control is what attracts many people to the private foundation option, but they can actually find some form of autonomy and receive administrative and investment assistance through a donor advised fund with a lot more simplicity and less cost.

Donors play an advisory role in donor advised funds, hence the name. Though their assets are placed into the hands of the JCF, they're able to recommend to the JCF where they'd like the funds to go.

"Grants must be made to public charities [501(c)(3) organizations] that meet the Foundation's very broad charitable goals and overall mission," Seidle says. "This includes many different types of organizations in areas such as education, health and human services, and the arts. Last year, we gave to more than 1,200 different organizations."

La Jolla resident and JCF board member Barbara Bry established her own donor advised fund with her husband, Neil Senturia, in 2007.

“We like the concept of a donor advised fund,” says Bry, who actually had one established somewhere else before she switched to the JCF, “because you can give away appreciated stock in a big chunk and then allocate it over time where you want it to go, which just makes so much sense. [We came to the JCF] because it’s a very well run organization, very well managed. We loved the fact that they think about the needs of the Jewish community and the general community.”

Bry and Senturia, through their single fund, are able to support their wide range of interests, from Jewish Family Service and Congregation Beth El in La Jolla, to organizations related to women and children, technology and entrepreneurship, through the appreciated stocks they give to their fund.

“This has been a wonderful education for me,” Bry says. “It’s also helped my husband and me focus our philanthropy, so instead of just giving to a lot of different things, we’re more focused on giving larger chunks to a few things we really care about.”

The donor advised fund model has also allowed them to set up a charitable legacy for their children — an option that can be personalized to each donor’s guidelines and specifications. As Seidle describes the option, “Many people use the fund to create a legacy for the community. One of the most interesting combinations is to split the remaining balance of the fund after their lifetime to give their children the ability to advise part of the fund. The rest then goes to support organizations or areas of interest that have been important to the donor during his or her life.”

In Bry and Senturia’s case, they’ve set up a bequest housed in the JCF that will split the assets remaining in their fund after their lives four ways, for his two children and her two children. Their children will then be able to recommend where the money goes, sticking to their respective parent’s broad guidelines stating the type of charity and a time period of 10 years.

“I sort of feel our children are our best legacy,” Bry says. “And they’re part of the community. I’d like to enable them to play a role in making the future of that community better in a way that interests them.”

Bry’s oldest daughter, 29-year-old Sarah Kruer-Jager, established her own donor advised fund (separate from her mother’s charitable legacy for her) through the JCF with husband Jason Jager last month, inspired by her mother’s example as an active and generous philanthropist.

“[My husband and I] are both young and working hard, and I think it’s maybe somewhat common with a lot of our peers that they’re focused on raising a family, looking to buy a home and paying down loans,” Kruer Jager says. “This is an interesting experience and something that has happened a lot sooner than I would have thought, but it’s definitely a really neat opportunity and a way to give back, and probably something that needs to be given more attention in our generation.”

Unlike Bry and Senturia, who contribute appreciated stocks to their fund, Kruer Jager and her husband made a one-time cash contribution into the Mid Term pool that will hopefully grow over time. The beauty of the donor advised fund, Kruer Jager says, is that its flexibility allows for her husband and her to adjust their investments, add more assets to their fund, or do a number of other things to maximize their charitable giving as their lives and financial circumstances change.

As for being her mother's charitable legacy, she says, "For my sister and I, my mom has obviously been a huge and wonderful influence on us both…so it's a pretty big honor and something we can continue."

What Kruer Jager and her husband have done — becoming engaged in philanthropy as younger adults — is becoming more common, according to Seidle.

"Certainly a growing number [of young adults] is setting up sometimes modest donor advised funds to start to build a structure for their giving," she says. "Others get involved in their family's donor advised fund or foundation…and we're seeing another cohort of young givers — high school students and even younger. Through the Foundation's Youth Philanthropy programs…young people are making a difference in their communities."

Whatever a donor's age, a donor advised fund is often one of the best options for establishing a platform for their charitable giving. In fact, last year, the JCF awarded and facilitated 5,000 grants totaling $67 million, mostly through these funds.

"A donor advised fund is the single greatest tool available to help people get in touch with what I call their charitable capacity, their ability to give," Cohen says. "My experience is once people start using a donor advised fund, it actually increases their charitable giving over time and increases their happiness as a result."

Of course, Seidle adds, "before anyone considers making a charitable gift, it's always best to check with their own financial planner or accountant, because only that person can have a full picture of that individual's situation."

For more information on donor advised funds through the JCF, call (858) 279-2740 or visit www.jcfsandiego.org.

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Who May Establish a Donor Advised Fund

• Individuals or families to help manage personal giving
• Community organizations or groups of donors to support a particular cause or nonprofit
• Youth celebrating a bar or bat mitzvah
• Couples celebrating their wedding
• Those wishing to honor the memory of a loved one
• Corporations to outsource the administrative responsibilities of corporate giving

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Assets to be Contributed to a Donor Advised Fund

• Cash
• Closely held stock
• Life insurance

- Limited partnerships
- Long-term appreciated public stock
- Mutual funds
- Private foundation payouts or dissolutions
- Publicly traded securities
- Real estate
- Restricted stock
- Retirement plans
- Tax deferred savings plans