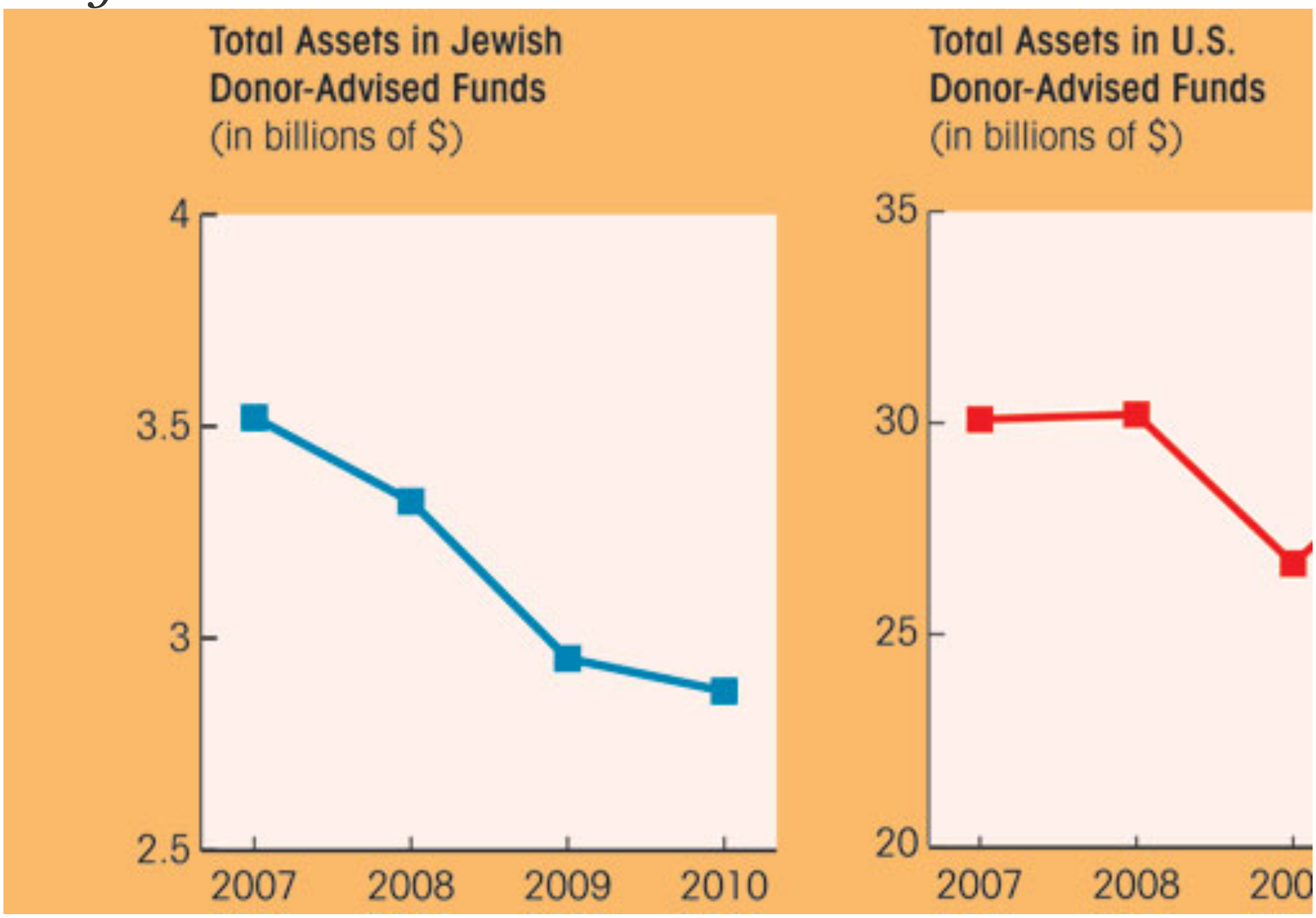
Fast-Growing Charity Funds Raise Issues

Donor-Advised Funds Can Hold Cash for Longer Periods



NATIONAL PHILANTHROPIC TRUST/IRS RECORDS

Poor Performance: Jewish donor-advised funds have done poorly in recent years, left, compared to the sector as a whole.

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Donor-advised funds are the fastest growing method of philanthropy that you've probably never heard of.

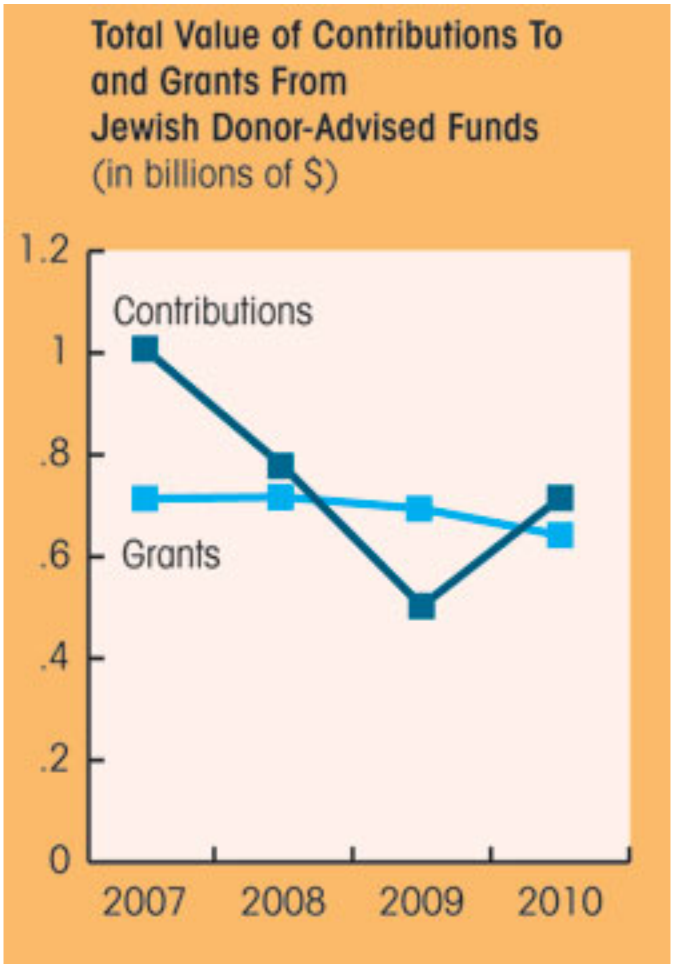
Nationwide last year, these funds had assets totaling $30 billion. Almost $3 billion was held by Jewish institutions, the largest of which — the Jewish Communal Fund of New York — had assets of almost $1 billion, making it among the wealthiest fund programs in the country.

Joe Imberman, associate vice president of planned giving and endowments at the Jewish Federations of North America, said that donor-advised funds have been among the fastest-growing segments of Jewish philanthropy in the past decade, partly because they make giving easier for donors. As a result, the community has benefited from hundreds of millions of dollars in grants, Imberman said.

But critics say donor-advised funds make it *too* easy for donors to reap the rewards of making a tax-deductible contribution without the money actually going directly to a charity. Technically, donors can hold on to assets or money in their donor-advised fund for decades before they pay out grants; in some cases, they pass on the funds to future generations.

"The public is harmed in more than one way: not just reduced revenue to the federal government, but a delay of resources reaching the charitable sector," said Ray Madoff, a professor at Boston College Law School, where she is a specialist in trusts and estates.

Fund executives disagree. Marjory Kaplan, president of the Jewish Community Foundation of San Diego, said the majority of donors open funds with the best of intentions.



IRS RECORDS

Kaplan said that donors' ability to store up philanthropy was especially useful during the recent recession. Although donations to the donor-advised funds she administers shrank during the past five years, annual grant making increased.

According to tax records, the San Diego foundation paid out $53 million in grants in 2010, compared with $44 million in 2007.

"So many people told me they would never have been able to help if they hadn't had money in their funds," Kaplan said, adding that grants went to a swath of causes — local and national, Jewish and secular.

For some, though, the level of secrecy surrounding donor-advised funds compounds mistrust. Charities that administer funds must report all recipients of their grants, but donors can choose whether to withhold their identities to recipients. In effect, this allows individuals and even foundations, which usually have to operate at a greater level of openness, to make unlimited, anonymous donations.

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So, for example, during 2010, the Jewish Communal Fund of New York awarded more than $1 million to pro-settler groups such as the Hebron Fund and the Central Fund of Israel. It also awarded $5,000 to a group that aims to cure Jews of their sexual orientation, Jews Offering New Alternatives to Homosexuality.

Jewish Communal Fund executive vice-president Susan Dickman said she saw no problem with such grant making. “Our goal is to facilitate our donors’ philanthropy and to do it within strict legal parameters,” Dickman said, adding that it was not her organization’s job to judge which were the right or wrong grantees.

Yet one of the reasons donor-advised funds have such generous tax breaks is that, technically, donors cede control of their money once they put it in a fund — but in practice that rarely happens.

There are questions, too, about the performance of Jewish funds, which appear to have lagged behind their peers in recent years, in terms of contributions, assets and grants.

The National Philanthropic Trust, which analyzes the year-end filings of donor-advised funds, found that in fiscal year 2010, the average U.S. fund had regained its assets to almost equal pre-recession highs. But a Forward analysis of tax returns from almost 80 Jewish donor-advised fund programs found that assets among the largest 10 funds during the same period fell 10%. Among Jewish funds nationally, assets fell by almost 20%.

Jewish funds also fared poorly in terms of contributions. While contributions to donor-advised funds fell 16% nationwide between 2007 and 2010, in the Jewish community they fell by 30%.