



Self-Regulating Donor Advised Funds

An Analysis of Inactive Account Policies and Endowed DAFs

By Dan Heist and Kendra Stone
Brigham Young University

TABLE OF CONTENTS

SECTION 1	ACKNOWLEDGEMENTS	1
SECTION 2	ABSTRACT	2
SECTION 3	KEY FINDINGS 3.1 Inactive DAFs 3.2 Endowed DAFs	3
SECTION 4	DEFINITIONS	4
SECTION 5	INTRODUCTION 5.1 Industry Standards 5.2 ACE Act	5
SECTION 6	DATA AND METHODS	7
SECTION 7	INACTIVE ACCOUNT POLICIES 7.1 Inactive Account Policy Stages 7.2 Variation among DAF Sponsor Types 7.3 Sponsor-Level Grantmaking Policies	9
SECTION 8	ENDOWED DAFS 8.1 Definition 8.2 Sucession Options 8.3 Endowment Investment Options 8.4 Endowed DAFs and Sponsor Size	18
SECTION 9	DISCUSSION AND CONCLUSION	24
SECTION 10	REFERENCES	26
SECTION 11	AUTHOR BIOS	27

ACKNOWLEDGEMENTS

The authors of this paper, Dr. Dan Heist and Ms. Kendra Stone, would like to acknowledge Philanthropy Roundtable for their generous support of this research. We would also like to acknowledge Mr. Pohaikealoha Chandler and Ms. Christina Forrester for their many hours of work on this project. The findings, conclusions, and opinions presented in this report are the sole responsibility of the authors.

ABSTRACT

Many are concerned about the flow of money through donor advised funds (DAFs) to other charities. Two issues that affect the flow of money from DAFs are when DAF accounts are inactive and the existence of endowed DAFs. This report analyzes internal policies from the largest DAF sponsoring organizations. We find that the vast majority of sponsors, at least 83%, have written policies about regulating inactive accounts. We find that almost half (47%) of DAF sponsoring organizations offer an endowed DAF. Like endowments, endowed DAFs limit their annual spending to preserve the principal, and like DAFs, they allow donors privileges to advise grantmaking on the spendable funds. The internal policies on these two issues generally follow industry standard but vary somewhat in the details of how they are administered.

KEY FINDINGS

Inactive Account Policies

1. Almost all DAF sponsoring organizations (83–91%) regulate inactive accounts through internal policies. These represent over 88% of DAF assets held by sampled sponsors.
2. DAF sponsoring organizations' inactive fund policies follow a regular pattern reflecting industry standards.
3. On average, DAF sponsoring organizations intervene after 36 months of no grantmaking.
4. While trying to “reactivate” a DAF, sponsors allow an average of 18 months for donors to respond before closing the account or assuming the grantmaking.

Endowed DAFs

1. About half of DAF sponsoring organizations (47%) offer an endowed DAF to donors.
2. Endowed DAFs are explicitly designed to sustain long-term philanthropy by regulating grantmaking in accordance with the sponsoring organization's annual spending policy.
3. Endowed DAFs usually have multiple options for succession: continue with successor advisors, transfer to the sponsor's unrestricted endowment, establish a designated endowment, or distribute funds outright to a charity.
4. Smaller sponsoring organizations are more likely than large sponsors to offer endowed DAFs.

DEFINITIONS



Donor-advised fund (DAF): A charitable giving account managed by a nonprofit sponsoring organization that allows donors to make tax-deductible contributions into the account and maintain advisory privileges to choose investment options and make grant recommendations. They are referred to as DAFs or DAF accounts.

DAF sponsoring organization: The 501(c)(3) public charity organization that hosts DAFs. Also called DAF sponsor or sponsor.

Inactive account: A DAF account that has not engaged in grantmaking activity for a certain time period, which is determined by the sponsor's internal policies. Also called inactive fund, dormant account, or dormant fund.

Donor advisor: The donors who have advisory privileges to make grant recommendations.

Grant: Money transferred from the DAF sponsoring organization to another qualified nonprofit organization (the grantee).

Contribution: Donations made into a DAF account. Contributions to DAFs are tax-deductible because they are irrevocable gifts to a 501(c)(3) organization (the sponsor).

Reactivation effort: A sponsor-initiated action encouraging the donor advisor of an inactive account to bring the account back to active status.

Reactivation solution: A donor-determined action (typically recommending a grant) that brings an inactive account back to active status.

Final solution: A sponsor-determined action to resolve the inactive status of an account when the donor advisor has been unresponsive to the sponsor's reactivation interventions.

Endowed DAF: A DAF that limits grantmaking according to an annual spending policy, like an endowment, and allows for advisory privileges on the grantmaking, like a DAF.

National sponsor: A DAF sponsoring organization that offers DAF services to a wide range of clients and does not have a geographic focus or a cause-related focus. This category includes organizations that are associated with commercial financial services providers.

Religiously affiliated sponsor: A DAF sponsoring organization that is affiliated with a religion and supports grantmaking with a religious focus.

Community foundation sponsor: A DAF sponsoring organization that represents a specified community (often a geographic one) and primarily supports grantmaking activity that targets the needs and charitable priorities of that community.

INTRODUCTION

The growth of donor-advised funds (DAFs) has raised public concern that DAF money is not being used fast enough. Recent research has brought awareness to two issues related to this concern. First, there is evidence that some DAF donors do not actively use their accounts. Williams and Kienker (2021) found that under 10% of DAF accounts in the state of Michigan did not make a grant over a 4-year period. Similarly, Vance-McMullen and Heist (2022) found that between 2017 and 2020 about 14% of accounts did not make grants. These accounts could be considered “inactive” or “dormant.” Many DAF sponsoring organizations have their own policies about regulating inactive accounts, but those policies are not well known or well understood. A Candid (2019) survey of more than 200 community foundations found that over two-thirds of respondents “reported the existence of a policy to address donor advised funds (DAFs) that remain ‘dormant.’” The second issue is that many DAF sponsoring organizations offer an “endowed DAF” to donors. Vance-McMullen and Heist (2022) found that about 10% of DAF accounts in their sample of community foundations and religiously affiliated organizations were formally endowed DAFs. These types of DAFs are designed for long-term and post-mortem philanthropy. The Candid (2019) survey also found that smaller community foundations typically have a higher proportion of endowed DAFs than larger community foundations have. This study collected DAF policy documents from over 100 of the largest DAF sponsoring organizations and analyzed how these organizations regulate their inactive funds and, if applicable, their endowed DAFs.

Industry Standards

DAF sponsoring organizations are required to establish clear, IRS-approved policies for account management before receiving tax-exempt status. On the IRS Form 1023, all DAF sponsoring organizations must “provide a complete description of [their] program, including the specific advice that donors may provide. Describe in detail the control you maintain (or will maintain) over the use of the funds” (IRS Form 1023, 2020). However, the IRS does not provide specific guidelines for inactive account policies. Despite the lack of specific guidelines from the IRS, industry standards have arisen among DAF sponsoring organizations to have institutional policies on a wide range of DAF-related issues, including the regulation of inactive funds. The Council on Foundations has established industry standards and provides free sample documents, which members are encouraged to use as a template for their policies. For example, they offer a Sample Fund Activity Policy, Donor-Advised Fund Policies, and Donor-Advised Fund Agreement (Council on Foundations, n.d.-a).

The Sample Fund Activity Policy outlines acceptable types of grant activity, a framework for activating grantmaking, and definitions of terms used in the sample policy. It lists seven

examples of possible actions for fund activity. It does not recommend a certain period of time for acceptable inactivity before activating grantmaking, but it encourages the sponsor to establish a determined time frame. If a fund should become inactive, the sample suggests that the sponsor contact the advisor, encourage the advisor to activate the fund, begin making grants from the fund themselves, or transfer assets to an internal unrestricted fund (Council on Foundations, n.d.-b). The great majority of inactive account policies included in this study reflect, at least to some degree, the Council on Foundations template. Analyzing the policies collected for this study illuminates the consistent self-regulation within DAF sponsoring organizations, which prioritize and facilitate regular grantmaking.

Accelerating Charitable Efforts Act

Legislative proposals such as the Accelerating Charitable Efforts (ACE) Act have been introduced in Congress to regulate the flow of money through DAFs. This legislation would create a 15-year shelf life for money being given through a DAF. This shelf life means that money contributed to a DAF, and any earnings it accrues within the DAF, would need to be completely granted within 15 years, including the year the contribution is made. This study analyzes and reports on DAF sponsoring organizations' policies that are (either directly or indirectly) related to the proposed legislation. First, the study analyzes DAF policies that regulate inactive accounts. These inactive fund policies do not regulate the shelf life of all money being given through DAFs, as proposed in the ACE Act. However, our findings suggest that DAF sponsoring organizations are already regulating grantmaking and that the time periods related to grantmaking are much shorter than the 15-year window proposed in the ACE Act. Second, this study analyzes DAF sponsoring organizations' policies regarding endowed DAFs. These policies promote long-term grantmaking that could become illegal under the ACE Act. Endowed DAFs are meant to last much longer than the 15 years proposed in the legislation. We hope that findings from this study will inform policy makers on how such legislation could affect philanthropic giving through DAFs.

DATA AND METHODS

The sampling frame for this study included the largest 158 DAF sponsoring organizations based on 2019 year-end DAF assets. These organizations included national sponsors, community foundations, religiously affiliated organizations, and a few universities. The research team used multiple data collection methods to obtain written policy documents from these sponsoring organizations. First, the research team scanned through the websites of each organization for policy documents. If policy documents were not found online, the research team made an effort to contact the organization through email or phone calls to obtain them. If an organization did not respond within 2 weeks after the first email, a second email was sent. Phone calls were made to some organizations in order to collect more policy documents. Several organizations did not have emails or phone numbers on their websites, but rather online request forms. The team filled out the request forms to contact these organizations. If no response was received after two attempts to contact an organization, the organization was considered “missing” and was dropped from the analysis.

Of the 158 organizations in the sampling frame, information on inactive accounts was obtained from 103 organizations (65% response rate), and information on endowed DAFs was obtained from 136 organizations (86% response rate). Tables 1 and 2 describe in more detail the information we collected from various sponsor types. Policy information was collected in the form of official policy documents, content published online, PDFs published online, or PDFs emailed to the team. Some organizations emailed sections of their policies to the team or simply provided information about their policies via email. The research team then analyzed policy documents, using qualitative analysis software to identify themes and patterns. Both authors worked on the qualitative analysis of the policy documents, and an intercoder reliability rating of over 90% was reached.

Table 1. Descriptive Statistics for DAF Sponsors with Inactive Account Policies

Sponsor Type	Yes		No		Withheld		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
National DAF Sponsors	14	78%	0	0%	4	22%	18	100%
Community Foundations	61	88%	5	7%	3	4%	69	100%
Religiously-Affiliated Organizations	11	79%	2	4%	1	7%	14	100%
Educational	0	0%	2	100%	0	0%	2	100%
Total	86	83%	9	9%	8	8%	103	100%

¹ Our goal was to collect information about inactive account policies from at least 100 organizations. Assuming a two-thirds response rate, we started with a list of the top 150 organizations and then added 10 more, but later found two organizations with duplicate entities.

² Collected from Tax Year 2019 Form 990s, Schedule D, Part I, line 4a.

Table 2. Descriptive Statistics for DAF Sponsors Offering Endowed DAFs

Sponsor Type	Yes		No		Total	
	Count	Percent	Count	Percent	Count	Percent
National DAF Sponsors	1	5%	20	95%	21	100%
Community Foundations	57	59%	39	41%	96	100%
Religiously-Affiliated Organizations	5	28%	13	72%	18	100%
Educational	0	0%	1	100%	1	100%
Total	63	46%	73	54%	136	100%

Please note that we do not cite the name of any DAF sponsoring organizations in this study. Even though much of the data we collected is publicly available, some of it is not, and we assured all participants that we would keep their policy information confidential. Furthermore, we did not want to draw undue attention to any particular sponsor or be misunderstood as trying to represent any particular sponsor.

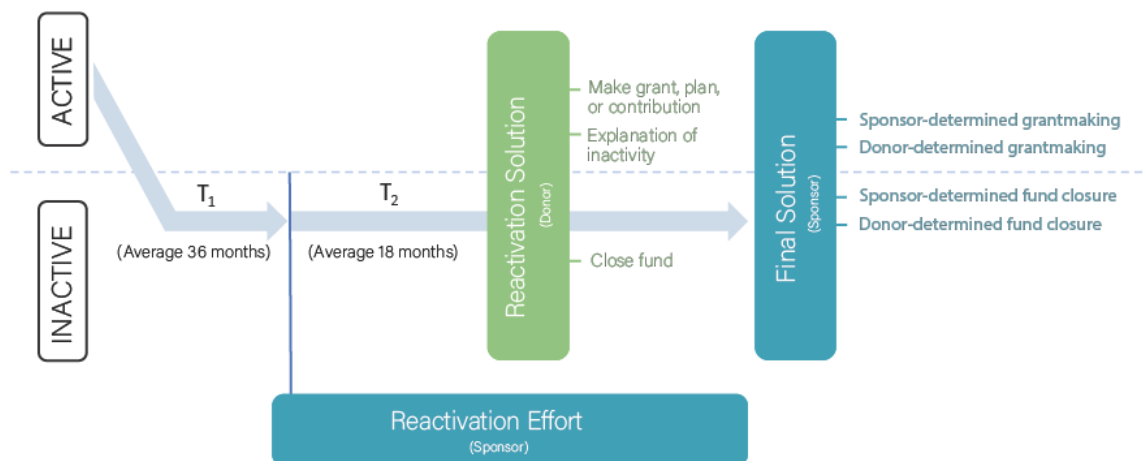
INACTIVE ACCOUNT POLICIES

The vast majority (83%) of the DAF sponsoring organizations in our sample have a written inactive account policy. Some of the organizations (8%) withheld their policies from us. So the range of possible organizations with inactive policies is 83–91%. Remember, all DAF sponsoring organizations when applying for tax-exempt status are required to describe the “control [they] maintain (or will maintain) over the use of the funds” (IRS Form 1023, 2020). The policies we analyzed follow a basic pattern with similar stages. The following sections explain the common stages and some of the differences observed between organizations.

Inactive Account Policy Stages

Most inactive account policies at DAF sponsoring organizations include several stages, shown in Figure 1. First, the organization defines when an account is considered inactive or dormant. For example, one policy states, “Inactivity is when no grant recommendations are received for a period of one year and the fund advisor(s) cannot be contacted.” In the next stage, the organization makes an effort to contact the account’s donor advisors to encourage grantmaking or other solutions: “Staff will contact the donor advisor(s), to make them aware of the low grantmaking activity, and discuss the donor’s philanthropic goals and grantmaking intentions for activating the grantmaking of their fund.” Third, the donors have time to take action. Fourth, if the donors do not take action, the sponsor either assumes grantmaking for the account or closes the account and redistributes the assets (e.g., “If Fundholders do not respond within 90 days [the sponsor] reserves the right to make a grant from the fund.”). While almost all organizations follow this basic pattern, their policies differ in the timing of stages, how many times they contact the donor, and where the funds are granted or reallocated.

Figure 1. Pattern of Inactive Account Policies



Inactivity Definition

The critical measure of account activity is grantmaking. Organizations generally define DAFs as inactive if they stop recommending grants for a certain period of time. This initial period of no grantmaking is referred to in this study as T_1 . Some sponsors also include the following stipulations in their inactivity definitions:

- Granting less than the sponsor's annual spending policy—often 5% of assets
- Not responding to the sponsor's attempts to contact
- Making no additional contributions to the account balance
- Providing no reasonable explanation for a pause in grantmaking

T_1 Initial Inactivity Period

More than three-quarters of inactive policies (78%) specify a time period (T_1) after which an account is officially considered inactive (see Figure 1). For example, policies will commonly read, "If a fund has not made any grants for a three-year period . . ." The initial period of inactivity (T_1) ranges from 12 months to 84 months in the organizations sampled. The average is 36 months, with a median of 36 months and mode of 36 months.

Reactivation Effort

Once a DAF is considered inactive, the sponsoring organization tries to reactivate it. One policy explains the organization's effort in these words: "[the sponsor] will make every effort to contact the Fundholders to encourage them to recommend a grant." The term reactivation effort refers to the sponsor's actions, after T_1 expires, designed to recommence active grantmaking (see Figure 1). Certain sponsors' reactivations are more extensive than others, and all involve at least one attempt (but often multiple attempts) to contact the donor advisor(s). Forms of attempted contact mentioned in the sampled policies include phone, email, standard mail, and certified mail. Not all policies specify their mode of attempted contact. The vagueness of provisions such as "The [community] foundation will attempt to contact the advisor" leaves some questions as to how these policies are actually being implemented.

One quarter (25%) of the sponsors will undertake multiple reactivation efforts. This second (or third) effort is similar to the first, using one or more of the previously listed methods of attempting to contact the donor. For example, one policy states, "The [Community] Foundation will contact the advisor a second time, again via email or phone call." If contact is made, then the sponsor requests that the donor make a grant or take some other action to reactivate the account. If contact is not made, sponsors will implement a final solution as discussed below.

A minority of sponsors (14%) will actually begin making grants from the inactive DAF account as part of the reactivation effort, after attempts at contacting the donor advisor have been unsuccessful. In this scenario, the fund remains inactive until the donor begins recommending grants again, but the sponsor will make grants from the account to ensure the funds are being

granted. These grants can be made in one of two ways:

1. In accordance with the account's succession plan or granting history. For example, one policy states, "[the sponsor] will issue a grant from the account to an eligible public charity in accordance with the account's succession plan, granting history."
2. In accordance with the sponsor's spending policies. This can mean transferring funds from the donor account to an internal unrestricted fund. According to such a policy, "the Foundation will distribute a grant to the Foundation equal to the Foundation's Spending Policy based upon the Donor Advised Fund's value to the Foundation as of the most recent quarter ended." Use of the term "Foundation" in this quote refers to this specific sponsoring organization, which is a community foundation.

Reactivation Solutions

Once contacted by the sponsor, donors usually have several ways to reactivate their DAF. The universal way to reactivate a DAF is to begin recommending grants. Some sponsors also allow other options for donors, such as establishing a grantmaking plan that explains the donor's timing, an explanation for why they are not actively grantmaking, or in very few cases, making an additional contribution to the account balance. More details about these reactivation options, as well as the option for donors to close the fund, are given below. If a donor advisor makes a grant or takes other action to reactivate the fund, the account is no longer considered inactive and fund management proceeds as usual.

1. Recommending a Grant

All policies seek and accept grant recommendations as the preferred way to reactivate a DAF. Policies commonly read as follows: "[The sponsor] will request that the primary account holder make a grant recommendation." Most policies do not specify a minimum amount for how much the grant needs to be, so a grant of any amount would satisfy the requirement to remain active. Some policies, however, do require a minimum grant amount ranging from \$200 to \$500, as stated in the following policy excerpt: "At least one \$250 grant recommendation is required from a DAF account every three years in order to meet [the] Minimum Account Activity Policy." Other sponsors require minimum payout percentages, such as 5% or 10% of the account balance, which are sometimes determined by the sponsor's annual spending policy. For example, one sponsor asks for "grant recommendations from all accounts that have not distributed at least 5% of their net assets over the previous five-year period." Grantmaking is the preferred activity, but some exceptions are made, as explained below.

2. Charitable Plan

About one quarter of the policies (26%) allow donors to reactivate their account by providing a charitable plan for the timing of their grantmaking, such as a plan to grow the account balance in order to make a large gift in the future. They may, as stated in one policy, "Identify a

plan for the fund that necessitates a delay in grantmaking (i.e., a specific charitable project) with an estimated restart date.” These plans outline the donor’s need to grow their account balance in order to fund a specific charitable project in the future. Such policies typically require that the donor set a time frame for this planned growth (3 years is the maximum allowed within the sample), so that inactivity does not continue indefinitely.

3. Explanation of Inactivity

Some policies (11%) allow accounts to remain active if the donors contact the organization and explain why they are not actively grantmaking. Understanding that certain life events can affect a donor’s ability to recommend grants, these organizations allow for an explanation of inactivity as a way to keep a DAF activated. Certain policies list extreme illness, divorce, or other major life events as examples of reasonable explanations. One sponsor states that they will extend the allowable period of fund inactivity if they are “in communication with the donor advisor(s) or their representatives and if there are circumstances, for example the administration of a donor advisor’s estate or a divorce, that makes an extension reasonable.”

4. Close Fund

Donors may also choose to close the fund at this time, in which case the full balance is granted out in accordance with the terms detailed in the sponsoring organization’s policies or according to donor intent. Donors close their account by “grant[ing] out the balance of the fund,” either to recommended charities or to a fund at the sponsoring organization. This option is available to the donor at any time and is different from a forced closure, which we will discuss later, as it is the choice of the donor.

T₂ Reactivation Period

Reactivation efforts by the sponsor and reactivation solutions from the donor often occur within a set time period. In this study, the time period associated with this reactivation effort is called T₂. Within the T₂ time period, the sponsor will continue to make contact, “ask[ing] the primary donor to make a grant recommendation” to reactivate the account. This time period precludes indefinite unresponsiveness or inactivity. At the end of the T₂ period, if the account is still inactive, the sponsor will move to final solutions.

More than half of the inactive policies specify a length of time for T₂. The average T₂ period for the sampled policies is 18 months, with a range of 0–84 months. The median is 12 months, and the mode is 12 months. A few policies (9%) define the reactivation period by the number of contact attempts, either two or three attempts. But measuring the reactivation period by time is far more common.

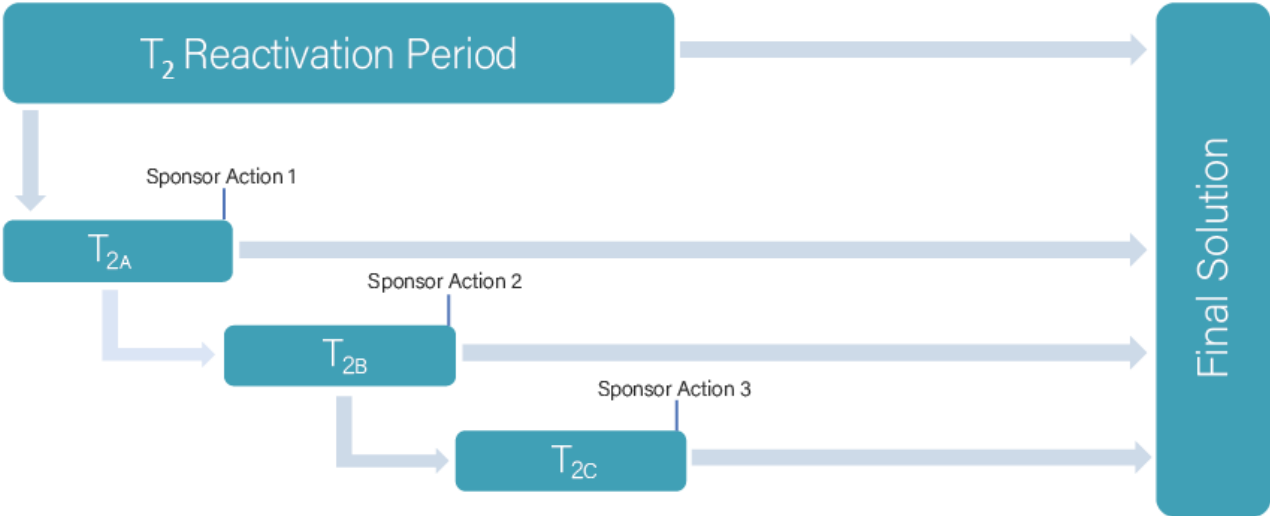
Typically when a T_2 period is specified in the policy, the sponsor will define it as one single period. For example, one policy states, "After two years in which no grants are distributed from an account, [the sponsor] will make grants from the giving account to qualified charitable organizations." Sometimes, however, the sponsor will divide the reactivation period into smaller periods. We denoted these smaller, distinct periods as T_{2A} , T_{2B} , and so forth (see Figure 2). This approach is illustrated in the following example:

The fund advisor of any Donor Advised Fund that has not made a grant in any three-year period [T_1] will be notified of this deficiency in writing and will be asked to choose from one of the following actions:

1. Recommend a grant from the Donor Advised Fund to an eligible nonprofit organization;
2. Identify a plan for the fund that necessitates a delay in grant making (i.e., a specific charitable project) with an estimated start date;
3. Grant out the balance of the fund

The Fund Advisor(s) will be given ninety days [T_{2A}] from the date of notice to undertake one of these actions. If no response is received after ninety days, [sponsoring organization] will distribute a grant equal to the [Community] Foundation's Spending Policy. . . . Such grants will continue for a total of five years [T_{2B}], at which point the fund will be considered terminated and (all assets will be) transferred to the Permanent Fund.

Figure 2. T_2 Reactivation Period



Final Solutions

If the donor advisor does not take action to reactivate the account during the appointed T_2 period, the process moves to final solutions. These solutions are actions taken by the DAF sponsor organization. The sponsor will either assume the grantmaking for the account or close it by distributing the full balance of the account. When deciding where to grant, the sponsor will distribute funds either to grantees that were predetermined by the donor or grantees that it determines. Therefore, sponsors will enact one (or more) of the following four options:

1. Assume grantmaking (donor-determined grantees)
2. Assume grantmaking (sponsor-determined grantees)
3. Close the DAF (donor-determined grantees)
4. Close the DAF (sponsor-determined grantees)

Assume Grantmaking (Donor-Determined Grantees)

Assuming grantmaking means that the DAF sponsoring organization will initiate grants from the inactive account to a grant recipient of the donor's choice. The sponsor will look to the initial fund agreement for predetermined guidelines, to the DAF's grant history, or to an interest area that the donor has otherwise indicated. These options are illustrated in the following policy excerpts:

- "The [Community] Foundation will deem the advisory period to have ended and will initiate distributions from the fund in accordance with the provisions outlined in the fund agreement."
- "The [community] foundation . . . may initiate grantmaking in the spirit of the fund's purpose and/or prior grantmaking."

Assume Grantmaking (Sponsor-Determined Grantees)

In some cases, the DAF sponsoring organization will initiate grants from the inactive account to grantees decided by the sponsor or into the sponsor's general-purpose fund. Grants can be made directly to charitable organizations approved by the sponsor's trustees, or as in the following policy excerpt, the sponsoring organization may "transfer the required amounts to the [DAF sponsoring organization's] Undesignated Fund."

The sponsor's ability to advise the fund is established through its variance power. Variance power is legally assumed as soon as any assets are contributed to the fund at account opening, which is irrevocable. One policy explains the variance power as follows:

Variance power gives [the sponsor] the authority to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations if, in the sole judgment of [the sponsor]'s board of directors, such restriction or condition becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served.

Most DAF policy documents include language articulating this legal power so the donor is aware of it when establishing the fund.

Fund Closure (Donor-Determined Grantees)

Many sponsors will permanently close a DAF if the donors do not respond to the reactivation efforts. Often, the sponsor will close the account by transferring the full balance in a manner aligned with the donor's desires. This can be done in several ways, as shown in the following excerpts from four different policies:

1. Transferring the balance to a new, named "Field of Interest (FOI) fund aligned with the fund founders documented expressed charitable purpose"
2. Transferring the assets "pursuant to the documented Succession Plan for the Donor Advised Fund," which may entail transferring funds either directly to a charitable beneficiary or to another charitable fund
3. Granting the full balance "based on the account granting history"
4. Notifying the donor that the fund will be closed and the balance granted to a public charity, but giving the donor the opportunity to "recommend that the balance of the fund be granted to one or more Section 501(c)(3) public charities of their choice"

Fund Closure (Sponsor-Determined Grantees)

Some DAF sponsoring organizations will close an unresponsive, inactive DAF account by transferring the full balance in a manner they—not the donor—determine. Sometimes this is the case if the donor's preferences are not specified. In all cases sampled, this process entails transferring the balance to one of the sponsor's designated funds or their unrestricted endowment, as shown in the following policy:

If the fund agreement does not specify a charitable purpose and the fund's grant making history does not reveal a clear charitable purpose, the fund's remaining assets will be transferred to either: (a) an endowment fund of the [Community] Foundation if the fund was established as an endowment fund by the donor, or (b) to one of the [Community] Foundation's Board-designated endowments or unrestricted funds."

Multiple Options for Final Solutions

Sponsoring organizations that offer more than one final solution typically do so to give preference to donor intent. Consider the following common scenarios.

1. The sponsor will close the fund, giving preference to the donor's intent. If there is no succession plan or granting history, only then will the sponsor close the fund in its way. This model is the most common and is illustrated by the following policy:
[The sponsor] reserves the right . . . to grant the entire balance of the DAF account . . . in the following order of priority, to successor charities designated in the DAF's Legacy Option; in accordance with the account's grant history; if no designated successor charities or grant history, to [the sponsor]'s Giving Fund.

2. The sponsor will assume grantmaking, giving preference to the donor's intent. If there is no grantmaking history and the sponsor has no information on the donor's charitable preferences, then the sponsor will make grants according to its own preferences. This is illustrated by the following policy:

If there is grant history with that [inactive] DAF, then we grant to the same or similar charities in the same general ratios. If there is no grant history with that DAF and nothing suggesting a charitable giving strategy on any of the paperwork, then we make 4% annual grants from that DAF to charities that approximate the Community] Foundation's overall giving.
3. Other policies will assume grantmaking if the fund is above a certain asset level, otherwise they will close the fund. For example, another policy says:

If the fund balance is greater than \$25,000, the fund will be maintained as a separate, named, unrestricted, or donor documented field of interest fund [not a DAF]. If the fund balance is less than \$25,000, the fund will be retired and the remaining balance will be contributed to [the sponsoring organization]'s 'Fund for the Common Good' to support annual grantmaking to identified areas of need.

Variation among DAF Sponsor Types

We saw some variation among the different types of DAF sponsoring organizations. As seen in Table 3, all of the national sponsors that we had information from have an inactive account policy, but four of them did not share their policies with us. Neither of the universities in our sample reported inactive account policies, but universities use DAFs for very specific and unique purposes. The sponsors that have inactive account policies include 61 community foundations, 14 national sponsors, and 11 religiously affiliated organizations. Data shows some variation in the length of T_1 and T_2 periods across these sponsor types (see Table 3). For example, community foundations have an average T_1 of 33 months while national sponsors and religiously affiliated organizations have slightly longer T_1 s (42 and 45 months, respectively). However, national sponsors and religiously affiliated organizations have shorter reactivation periods of about 1 year (11 and 13 months, respectively), while community foundations have a longer reactivation period of 22 months. Our small sample size makes it difficult to generalize about sponsor types. But these findings are an indication that different types of sponsors may manage inactive accounts slightly differently, even while following industry patterns and trends.

Table 3. Inactivity (T₁) and Reactivation (T₂) Periods by Sponsor Type

	Count	Avg T ₁	Avg T ₂
National DAF Sponsors	14	42.0	11.4
Community Foundations	61	32.7	22.3
Religiously-affiliated Organizations	11	44.6	13.2

Sponsor-Level Grantmaking Policies

Typically, account inactivity is determined at the account level. But in six of the policies we analyzed, the DAF sponsors hold the entire organization accountable to a certain threshold of grantmaking—5% of total assets for the organization. These policies specify that if sponsor-level grantmaking falls below this threshold, then the sponsor will identify individual accounts that have fallen below that 5% grantmaking threshold. It will designate those accounts as inactive and require more grantmaking from them. Although sponsor-level inactivity occurred in only six inactive account policies, it is interesting to note that five of those were national sponsors and one was religiously affiliated. Such findings from this study provide important insights into how DAFs are internally regulated and how sponsor types can shape policies.

ENDOWED DAFS

Almost half of the DAF sponsoring organizations in our sample—67 out of 135—offered some form of an endowed donor advised fund. As common as endowed DAFs are, little has been written about them, and they are not well understood. This report defines what endowed DAFs are and explains the various policies that shape how endowed DAFs are used by donors.

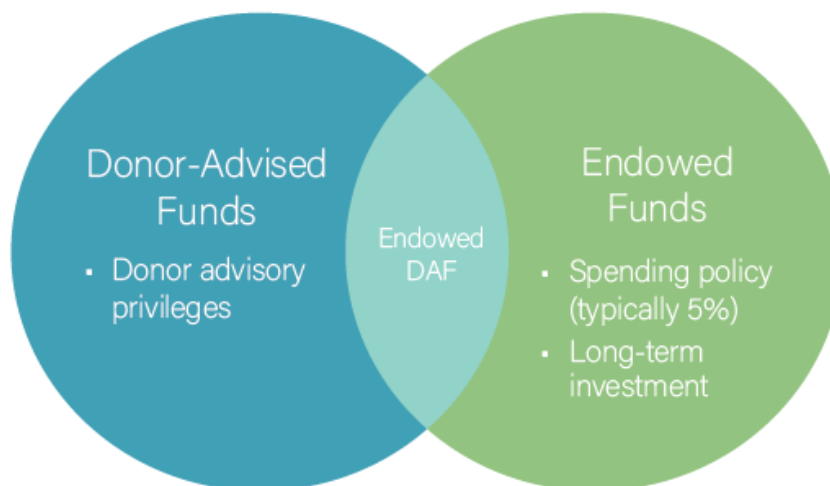
Definition

One of the aims this research is to establish a clear definition of what endowed DAFs are and explain how they operate. From the policies collected for this study, we found two key elements in defining endowed DAFs, as shown in Figure 3.

1. Donor Advisory Privileges. Grantmaking from the fund remains donor-advised, not permanently designated or sponsor-directed.
2. Spending Policy. In order to preserve the principal of the fund, yearly grantmaking from the fund is limited by the sponsoring organization’s annual spending policy.

The policies around endowed DAFs emphasized that the purpose of endowed DAFs is to support long-term philanthropy. Consider the explanation of both regular (short-term) and endowed (long-term) DAFs from one sponsor: “DAFs can be short-term but can also be set up as a long-term fund as an endowment to last long into the future.” Endowed DAFs are a hybrid of endowments and DAFs.

Figure 3. Endowed DAF Definition



Donor Advisory Privileges

It is important to distinguish between endowed DAFs and other endowed funds. Endowed DAFs allow donors to continually advise the funds that are available for grantmaking. Donors can select different charities to support each year, whereas traditional endowed funds are established to support one charity or charitable purpose in perpetuity. While regular endowments usually allow for the charitable purpose to be changed, they are not set up to allow the donor continual advisory privileges. Endowed DAFs give donors the privilege to recommend grants, just like regular DAFs, but the donors are limited in how much they can grant.

Spending Policy

Endowed DAFs are designed to last for a long time. Like regular endowments, they have grantmaking payout rates that are limited by the sponsor organization's spending policy in order to preserve the fund's principal. The average annual spending policy for the sponsors sampled is 4.4% with a range of 4–6%. This annual rate is subject to change. According to one sponsor, the payout rate is "based on the [Community] Foundation's payout policy and the payout percent set annually by the [Community] Foundation's Board of Directors." These rates follow industry standards established for endowments and any state laws that govern endowments.

Sponsors often articulate these two elements that define endowed DAFs in their fund policies and online content. For example, one fund policy illustrates this definition by allowing the donor to select between two funding options in the account application:

Donors may choose to make their Donor Advised Fund permanent by limiting the amount available for grant distributions per the [Community] Foundation's Spending Policy.

- I would like my fund to be able to make grant distributions from the entire balance (unrestricted)
- I would like my fund to be permanent and limit the amount available for grantmaking to the spending policy of the [sponsoring organization] (endowed)

The use of the word permanent in the excerpt above can be misleading. An endowed DAF must have a succession plan in the event of the death of the primary donor(s). During the donor's lifetime, endowed DAFs operate as a hybrid. But upon the death of the primary donor(s), the fund is repurposed according to the succession plan. The various succession options offered by sponsoring organizations are explained below.

Succession Options

DAF sponsoring organizations typically allow donors multiple options for succession plans for their endowed DAF. The succession plan determines what happens to the endowed DAF after the death of the founding donors. (Succession plans are also sometimes used for the closure

of an inactive DAF.) The succession options offered in the policies in the study's sample include:

1. Charitable beneficiary
2. Successor advisor
3. Legacy endowment
4. Sponsoring organization

DAF sponsoring organizations also offer these same succession options for spendable DAFs. Many organizations require that a succession plan be in place when a DAF is established.

Charitable Beneficiary

Establishing a charitable beneficiary means that a portion or the entire account balance is granted to one or more charities named by the donor. One policy explains it as follows:

A donor may choose to terminate or "sunset" the Donor Advised Fund account upon death or incapacity by recommending distribution of the assets to one or more charitable organizations subject to the review and approval by [the sponsor] at the time of transference.

The number of successor charities allowed may be capped (the maximum allowed by organizations in this sample is 10).

Successor Advisors

Many DAF sponsoring organizations offer the founding donor the option to elect successor advisors and may even require the founding donor to do so. One such organization says, "When you establish an Account, you will be asked to choose a successor(s) to assume all Account privileges (such as overseeing donations and making grant suggestions) upon the death, incapacity or refusal to serve of all donor-advisor(s)."

Certain sponsors limit account privileges for successor advisors, as shown in the following excerpts from three different policies:

- "The [Community] Foundation allows for an unlimited number of Successor Advisor(s) who may recommend grants from the Fund but may not invade principal."
- "Successor advisors have the same privileges as the original advisors regarding grant recommendations but do not have authority to request a fund amendment."
- Donor-advisors may appoint successor advisors for "one generation for funds less than \$1 million, and unlimited for \$1 million funds and above."

Some sponsors also allow successor advisors to split the DAF's remaining balance into multiple new DAFs—one for each successor advisor to manage individually. Only 5% of sponsors in this study offer successor advisors as their sole DAF succession option.

Legacy Endowment

One succession option for an endowed DAF is to turn it into a traditional endowment—often called a “legacy endowment.” Legacy endowments exist in perpetuity, have a designated purpose, and are often named funds. Legacy endowments are similar to regular endowed funds, except they are established post-mortem. The terminology for these types of funds varies across organizations. Sponsors will sometimes use the word legacy in a way that does not align with this study’s definition of a legacy endowment. Alternatively, they will sometimes use other terms for a legacy endowment, like “permanent fund” or simply “endowed giving program.” Of the 63 sponsors in our sample that offer an endowed DAF, 37 (59%) offer a legacy endowment succession option. Of these, 17 (27%) offer legacy endowments as their exclusive DAF succession option.

Sponsoring Organization

Many DAF sponsoring organizations offer the option to donate to their own general endowment fund. While this succession option clearly benefits the sponsor, none of sponsors in this study offer gifts to their general endowment fund as their exclusive DAF succession option. Other options may include a “special purpose fund” or “area of interest fund” managed by the sponsor. For example, one policy states that a donor may name “a particular area of interest or type of charitable cause to be supported and requesting that the Trustees make grants from the fund to support charitable purposes in that area of interest.”

Occurrence of Succession Options

In addition to grantmaking to charitable beneficiaries, the overall occurrence of other succession options within the sample is as follows:

- 59% offer legacy endowments
- 47% offer successor advisors
- 44% offer direct gifts to the sponsor

These findings are significant in answering the research question of what ultimately happens to the assets in an endowed DAF after the donor’s death. Apart from granting to charitable beneficiaries, the two most prevalent succession options are designating successor advisors and establishing a legacy endowment. The fact that these two options are the most prevalent is significant because they are also the only two succession options that allow an endowed DAF to exist (in some form) in perpetuity. Successor advisors can manage the fund so that it continues to operate as an endowed DAF in the same way it did during the founding donor’s lifetime. Legacy endowments allow endowed DAF funds to remain in a separate, named, permanent fund, although no longer donor advised.

Endowment Investment Options

Endowed DAFs are designed for long-term philanthropy. DAF sponsoring organizations offer the option for endowed DAFs to be invested in ways that are designed for long-term growth

to preserve principal and sustain long-term grantmaking or require endowed DAFs to be invested in such ways. The investment policy of one organization states, “The investment objectives of [the sponsor] are to provide for long-term growth of principal and income without undue exposure to risk to ensure that donors are able to recommend grants on a continuing and reasonably consistent basis.” While the investment approach does not define an endowed DAF, it is an important characteristic of endowed DAFs. Furthermore, endowment investment options also explain how some donors use spendable DAFs (non-endowed DAFs) like endowed DAFs, even if they are not formally endowed.

Prior research found that only about 10% of DAF accounts at community foundations and religiously affiliated organizations were officially designated as endowed DAFs, but many more donors used their DAF like an endowment—35% of DAFs had a payout rate under 5% (Vance-McMullen & Heist, 2022). While reviewing the investment policies for endowed DAFs, we found that the investment options are usually available for spendable DAFs as well. This means that donors who give through a spendable DAF may choose long-term growth investment options and use their DAF like an endowment, without formally agreeing to a spending policy. Moreover, some sponsor organizations allow donors to change their spendable DAF to an endowed DAF even after initial funding, as shown here:

Fund Founders may request to make their Donor Advised Fund permanently endowed by limiting the amount available for grant distributions to the [Community] Foundation’s Spending Policy. Fund Advisors must make this request in writing. Once permanent, successor Fund Advisors may not change the distribution arrangement.

Therefore, DAFs that are currently spendable may become endowed DAFs at some future point.

Endowed DAFs and Sponsor Size

Endowed DAF policies are more common among smaller organizations in our sample (note that we sampled policies from the 158 largest DAF sponsors, so size is relative within this group). Table 4 gives information on the total DAF assets of sponsors in this sample. One prevalent criticism of DAFs is the belief that large sponsors are simply holding the majority of DAF assets instead of using them for charitable grantmaking. This is an important finding to consider, since the majority of DAF assets are managed by a very small number of sponsors. The top 20 sponsors account for 81% of all assets in this 135-organization sample.

Table 4. Differences in 2019 Year-End Assets of DAF Sponsors that offer Endowed DAFs

	Offer Endowed DAF	Do Not Offer Endowed DAF
Total DAF Assets	\$16.6 billion	\$124.1 billion
Organizational DAF Assets: Average	\$263.1 million	\$1.7 billion
Organizational DAF Assets: Median	\$159.1 million	\$290 million

This finding is supported by the 2019 Candid survey, which analyzed endowed and non-endowed DAF assets. The survey looked at total assets from each community foundation surveyed and found that smaller sponsors tend toward endowed assets more frequently than larger sponsors (Candid, 2019). The report explained (Candid, 2019),

Smaller, emerging, and growing community foundations that may be focused on asset growth typically have a relatively high proportion of endowed assets. Larger community foundations, with an increased focus on diversifying their portfolios and providing flexible options for donors to engage in philanthropy, are more likely to have a higher proportion of pass-through funds.

Offering endowed DAFs helps smaller sponsors establish stability and longevity of charitable giving for the distinct philanthropic purposes they serve.

DISCUSSION AND CONCLUSION



This report publishes original data that reveals trends in how DAFs are managed and regulated by sponsoring organizations, particularly regarding inactive and endowed DAFs. Importantly, it finds that sponsor policies are designed to encourage and regulate active grantmaking. In addition, the findings show that many sponsors offer endowed DAFs to promote long-term sustainable philanthropy. We also find some evidence that differences in the size and type of DAF sponsors relate to differences in inactive account policy details and whether or not they offer an endowed DAF.

The report identifies the four stages of DAF sponsoring organizations' inactive account policies: first, defining inactivity; second, reactivation effort; third, reactivation solutions; and fourth, final solutions. These stages form a common pattern across most DAF sponsoring organizations, but we also found some variation in how sponsors handle certain aspects of inactive accounts. The common pattern indicates industry standards that have emerged among sponsors, and the variation indicates that different sponsors serve donors with different needs and are able to adjust their policies to reflect the philanthropic activities of their donors. Overall, the near-ubiquitous presence of inactive account policies suggests that DAF sponsoring organizations exist to facilitate the practice of philanthropy and that they self-regulate how to best accomplish their distinct philanthropic missions.

The average time period allowed for a DAF to go without grantmaking is 36 months, and the average time period for a DAF to start grantmaking again is 18 months—a total of 54 months or 4.5 years. These policies do not require the complete distribution of all contributions within this time period and often do not even require a minimum amount to be granted. Therefore, these policies cannot be seen as a complete solution to the concerns about the timeframe within which DAF money is being used. Indeed, they were not designed for that purpose. They were designed to ensure that DAF donors are actively engaged in whatever philanthropic strategy they may have for their DAF account. The time periods indicate that DAF sponsoring organizations hold themselves accountable to ensure that money designated for charity does not sit indefinitely but is being actively used. These time periods should not be misunderstood to represent the normal use of DAFs. In fact, there is much evidence that a large portion of DAF money is granted more quickly than within 4.5 years and that there is wide variation in how quickly donors grant their DAF money (Vance-McMullen & Heist, 2022; Williams & Kienker, 2021). Both Vance-McMullen and Heist (2022) and Williams and Kienker (2021) used data sets that spanned 4 years, a period shorter than the average amount of time represented in most of the inactive account policies in this report. More research using account-level data over a longer period of time will be needed to see how effective these policies are in ensuring that grantmaking recommences.

Almost all of the sponsors have inactive account policies, but slightly fewer than half of the sponsors in our sample offer an endowed DAF. The size of the sponsor seemed to matter—90% of the top 20 sponsors have inactive account policies, but only 20% of those organizations offer endowed DAFs. On the opposite end of our sample, we obtained inactive account policies from 40% of the smallest 20 sponsoring organizations, but 60% of those organizations offer endowed DAFs. Large DAF sponsoring organizations, which manage most DAF assets, are more consistent with inactive policies and offer fewer endowed DAF options. Relatively smaller DAF sponsoring organizations tend to promote sustained, long-term giving and may regulate the frequency of grantmaking less strictly. This finding contradicts the argument that larger organizations are trying to hold on to DAF assets by minimizing grantmaking to maximize administrative profits.

The percentage of sponsors that offer endowed DAFs is higher than the authors had anticipated, and these findings were carefully reviewed. The fact that endowed DAFs are more common than may be expected underscores the need for more research on this topic. It also underscores the possibility that the nature of DAFs, as a philanthropic vehicle, is misunderstood. DAFs are an extremely flexible philanthropic vehicle that comes in different forms and supports a wide range of philanthropic activity. For example, some donors move their money through a DAF very quickly (typically within a year), some donors put a large amount in and grant it within about 10 years, and some donors intentionally establish a DAF to sustain long-term philanthropy (see Heist et al., 2022). This last group of donors, who use the DAF for the long term, may establish an endowed DAF. Those who are concerned about how fast money is moving through DAFs should also take into account that many DAFs are designed to sustain long-term philanthropy.

The basic premise of this study was that there are concerns about how DAFs are being used and managed. After reviewing over 100 policy documents, we conclude that DAF sponsoring organizations are generally being managed by policies that encourage grantmaking and thoughtfully allow for a wide range of philanthropic activity including long-term, sustainable grantmaking. Donors not using or misusing DAFs may continue to be a concern in public discourse, but this study brings more information to that discussion. DAF sponsors generally seek to regulate themselves in addressing these issues.

REFERENCES

Candid. (2019). Survey results. CF Insights.

<https://annualsurvey.cfinsights.org/dashboard/year/2019/tab/funds/>

Council on Foundations. (n.d.-a). Sample documents.

<https://cof.org/resources/sample-documents>

Council on Foundations. (n.d.-b). Sample fund activity policy.

<https://cof.org/content/sample-fund-activity-policy>

Heist, H. D., Cummings, B. F., Farwell, M. M., Cnaan, R., & Andrews, E. (2022). Tubs, tanks, and towers: Donor strategies for donor-advised funds giving. *Nonprofit Management & Leadership*. Advance online publication. <http://doi.org/10.1002/nml.21544>

IRS Form 1023. (2020, January). www.pay.gov.

<https://www.pay.gov/public/form/preview/pdf/101>

Vance-McMullen, D., & Heist, H. D. (2022). Donor-advised fund account patterns and trends (2017–2020). Donor-Advised Fund Research Collaborative.

<https://www.dafresearchcollaborative.org/s/DAFRC-Patterns-and-Trends-Report.pdf>

Williams, J., & Kienker, B. (2021). Analysis of donor advised funds from a community foundation perspective. Council of Michigan Foundations.

<https://michiganfoundations.org/resources/payout-study>

AUTHOR BIOS



Dr. H. Daniel Heist is an Assistant Professor of Nonprofit Management and Social Impact at the George W. Romney Institute for Public Service and Ethics at Brigham Young University. He researches philanthropy, charitable giving, and volunteering. Dr. Heist is a leading expert on DAF research and cofounder of the Donor Advised Fund Research Collaborative. Before receiving a PhD in Social Welfare from the University of Pennsylvania, Dr. Heist spent 9 years as a professional fundraiser, including 5 years as a Major Gifts Officer with LDS Philanthropies. Dr. Heist earned a Master's degree in Philanthropic Studies from the Lilly Family School of Philanthropy at IUPUI and was a Certified Fundraising Executive (CFRE). His professional experience in fundraising informs his research on philanthropy.

Kendra Stone is an Executive MPA candidate at the George W. Romney Institute for Public Service and Ethics at Brigham Young University. She has worked for over 10 years as an editor and, before beginning graduate school, also worked in account management. Kendra is interested in helping individuals and organizations engage in effective charitable giving through improved policies and management. She received her Bachelor of Arts in Humanities with an emphasis in English Literature from Brigham Young University.