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Dwindling Reserves

Declines in new gifts serve as bleak omens for donor-advised funds in 2009

By Noelle Barton and Ben Gose

Set aside money during good times, and it will be there to give away at your leisure — including when charities are in greatest need. That has always been one of the top pitches for donor-advised funds, and the deep recession of 2008-9 is providing a tough test of whether that selling point will hold true.

A new *Chronicle* survey of 95 of the nation's biggest donor-advised funds found that donors did in fact distribute generously from their funds during the 2008 bear market. But early results from a tiny subset of groups that provided full 2009 data paint a bleaker picture of grant making.

In 2008, donors made grants to charities that comprised a median 23 percent of the assets held by the funds at the end of the year. That's a higher median share than donor-advised funds distributed from 2004 to 2007, when median annual distributions in *The Chronicle*'s survey ranged from 18 to 21 percent of assets.

Among the 91 organizations that provided two years of data, total grants to charities increased from $4.8-billion in 2007 to $5.4-billion in 2008, a jump of 12.5 percent. But the funds saw declines in new gifts, due to sharp stock-market declines, which hurt the tax advantages of giving to donor-advised funds. The total value of gifts to the organizations dropped from $7.4-billion in 2007 to $6.8-billion in 2008, a decline of 8 percent.

'They Took Us Seriously'

Donor-advised funds were among the fastest growing forms of giving during the bull market that ended in 2007, with assets nearly doubling during the five-year period ending that year. But in 2008, combined assets for the 94 organizations that provided *The Chronicle* with two years of data dropped 6 percent, from $23.7billion in 2007 to $22.3-billion in 2008.

Donor-advised funds allow people to donate cash, stock, and other assets to special accounts, claim a charitable tax deduction on their federal income taxes, and then recommend how, when, and to which charities their money should be distributed. The funds are managed primarily by financial companies and community foundations, but other charities, such as Jewish federations and universities, also manage them.

Donors have become such good students of the donor-advised model — giving generously out of funds that they may have financed years ago — that some of the organizations that house their assets are hurting.

As asset levels shrink, some organizations face a tough time covering their expenses. A few have already raised fees, including the $1.7-billion Vanguard Charitable Endowment Program, in Boston, which in July raised its annual administrative fee to six-tenths of 1 percent of assets, a 5-percent increase.

Many other groups are studying their cost structure, to determine whether they are covering their costs with their donor-advised offerings.

The Baltimore Community Foundation is an extreme example of the trend — in the last three months of 2008, donor-advised gifts to the foundation dropped 50 percent, but grant making rose by 80 percent.

The trend has continued through the first six months of 2009: New gifts total less than $2-million, but the foundation has distributed $7.2-million from donor-advised funds.

"It's what we told donors to do," says Thomas Wilcox, the foundation's president. "We said create donor-advised funds in good times so that you can use them in less good times. They took us seriously."

Donor-advised assets at the foundation have fallen from $95.4-million in December 2007 to $67.4-million as of this June.

Mr. Wilcox says it responded by freezing salaries for all 28 employees and cutting one unfilled position.

Donors Pull Back

In 2009, a different trend appears to be taking shape: Donors are pulling back on their grant making to charities, in addition to putting less new money into their funds.

The Chronicle asked survey participants for as much data for the 2009 fiscal year as they could provide. While many groups provided partial-year data, 10 organizations whose fiscal years ended in April and June, including three of the largest providers, the Fidelity Charitable Gift Fund, in Boston, the Vanguard fund, and Schwab Charitable Fund, in San Francisco, provided full 2009 data, albeit estimated.

This subset provides the best early glimpse of how the stock-market carnage that began in earnest last September is affecting donor-advised funds.

Combined giving to the 10 organizations' donor-advised funds dropped by 37 percent in 2009, to $2.2-billion, and total grant making from the organizations fell by 10 percent — to $2-billion.

At Fidelity, new gifts to the fund fell by 40 percent in 2009, to $959-million. That organization's donors distributed $1-billion, 13 percent less than in 2008. The combination of donors' earmarking in grants slightly more than they contributed, coupled with the weak stock market, sent assets in the Fidelity fund crashing to $3.8-billion, down from $4.7-billion in June 2008 — a 20-percent hit.

Sarah C. Libbey, the fund's president, notes that even though grant making dropped in 2009, it still topped the distributions from the fund just two years earlier, in 2007, when fund holders awarded grants worth $995-million. Adjusted for inflation, the grant levels are flat when compared with 2007.

State of Giving

Still, many charity officials had hoped that grant making from donor-advised funds would increase during the recession, as it did in 2002, when grants rose 5 percent.

Donors who are reluctant to make new gifts to charity this year — when the tax benefits of giving stock are tempered by low equity prices — might instead tap their donoradvised funds, experts contended.

So much for theory. At Vanguard, grants fell from $432-million in 2008 to $375-million in 2009, a drop of about 13 percent.

"Some people had speculated that folks would use their donor-advised funds to fill in and support the charities of their choice in these tough times," says Benjamin Pierce, the organization's executive director. "We flat out didn't see that at all. The decline that started in mid-September was so deep and abrupt that people just got paralyzed."

But Steve Gunderson, president of the Council on Foundations, whose membership includes 571 community foundations, isn't ready to throw in the towel on 2009.

In July, the council surveyed 260 community-foundation leaders, and 51 percent of them said they would maintain or increase support from their donor-advised funds to charities this year.

Mr. Gunderson says leaders have also told him anecdotally that they would reduce the number of staff members and eliminate travel before cutting grants budgets.

"Without exception, every foundation I have talked to has said the first priority is to maintain grant funding at every possible cost," Mr. Gunderson says.

Bright Spots

Even amid the economic turmoil, some groups continue to receive record levels of gifts.

Although it is still tallying how much it raised, the National Philanthropic Trust, in Jenkintown, Pa., expects to top the $150-million it received in 2008 by about 25 percent for the fiscal year that closed in June, according to Andrew W. Hastings, a spokesman for the foundation.

In 2009, the foundation forged a new partnership with UBS, the financial firm, to offer donor-advised funds to its clients. The foundation also received $25-million from the early termination of a charitable remainder trust.

McCownGordon Construction, a company in Kansas City, Mo., added to gift totals at the Greater Kansas City Community Foundation in 2008 by coming up with a novel approach for the holiday presents it sends to clients.

Instead of sending out frozen steaks or gift baskets, as it has in the past, the company made a contribution of $7,500 to its donor-advised fund at the community foundation.

McCownGordon then had the community foundation send $50 "giving cards" to 150 of the company's clients — which allowed the recipients of those cards to tap the company's donor-advised fund to support the charities of their choice. (The foundation nevertheless received gifts totaling only $60.3-million in 2008, down by more than a third from 2007.)

The company plans to use the giving cards again during the 2009 holiday season.

"It has been unbelievably well received," says Pat McCown, the company's chief executive. "So many people have said 'The steaks were nice, but this gift card is so appropriate given where the economy is.'"

Some trends should bolster donor-advised funds over the long term. Many organizations say they continue to benefit from donors' conversion of their private foundations into donor-advised funds.

Mr. Pierce says Vanguard received 12 such conversions last year — in part because small foundations with dwindling assets find that they can save on administrative expenses by converting.

And even while the dollar value of gifts to donor-advised funds in *The Chronicle*'s survey dropped in 2008, the number of accounts at 93 organizations that provided data for two years increased by 11 percent, to 116,096.

Reducing Risk

Some fund holders decided to reduce risk-taking with the assets already in their accounts. At donors' requests, National Philanthropic Trust provided the option of a money-market fund that invests only in U.S. Treasury bills, and Rockefeller Philanthropy Advisors, in New York, added a cash-equivalents fund.

"All of us felt at some point last year that we had had enough fun in the markets," says Melissa Berman, president of Rockefeller Philanthropy Advisors.

Leaders of organizations that offer donor-advised funds say a rebound in assets in 2009 is still possible, but will hinge on the recovery of the economy and stock market.

David H. Wills, president of the National Christian Foundation, in Alpharetta, Ga., says he would settle for a flat market from now on.

"Stability encourages charitable giving," he says. "It is volatility that causes fear. When things start going up and down, and down and up, that's when people close their hands."

Candie Jones contributed to this article.