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Do-good offerings hit hard Top donor-advised funds have lost assets, reporting fewer contributions

By Sue Ascì

Donor-advised funds may be the fastest-growing vehicle for charitable giving, but this year's contributions may be diminished unless the market rallies soon.

The nation's three largest donor-advised funds are reporting that contributions have already declined this year. Worse, due to the market depreciation, the funds have lost assets.

The nation's largest donor-advised fund, the Fidelity Charitable Gift Fund, had \$4.1 billion in assets as of Sept. 30, down from \$4.9 billion in January. "Because of the market action, the assets have experienced a decrease," said Sarah Libbey, president of the Boston-based fund.

In addition, incoming contributions were down about 35% as of Sept. 30, compared with a year ago, Ms. Libbey said. And the number of new accounts was down about 7%, she added.

But more donors are making gifts to charities. "The number of grants processed is up 12% from September 2007," Ms. Libbey said. "It really supports the notion that the donor-advised-fund account is there at the ready to make those grants to charity."

However, the donation of appreciated securities as a percentage of contributions had also declined to 55% at Fidelity through Sept. 30, down from 69% for the same time period in 2007.

Donor-advised funds have gained in popularity partly because, when compared with private foundations, they offer more tax benefits. For a cash gift to a donor-advised fund, the contribution is tax-deductible up to 50% of the donor's adjusted gross income. The same cash gift to a private foundation is tax-deductible only up to 30%.

For a gift of appreciated assets or securities to a donor-advised fund, the gift is tax-deductible up to 30% of the donor's AGI. The same gift made to a private foundation is tax-deductible up to 20%.

The funds remain the fastest-growing charitable vehicle, with \$27 billion in assets as of Dec. 31, up 25% from a year earlier, according to the National Philanthropic Trust of Jenkintown, Pa. In that time period, new accounts increased 9.2%.

The majority of donations to many of these funds has been in the form of appreciated securities.

According to Eileen Heisman, president and chief executive of the National Philanthropic Trust, fund contributions are under pressure because of the economic downturn, and fewer appreciated securities will be donated this year.

"I think what you will see this year is that it will be like some of what we saw after 9/11," Ms. Heisman said. "People will sell their stock to get the tax write-off and give the gift in cash."

The Schwab Fund for Charitable Giving of San Francisco will probably receive more cash donations, said Kim Wright-Violich, president of the fund.

In its fiscal year ended June 30, 71% of contributions came in the form of securities, she said. That amount was at its lowest in 2003 at 57%.

"This year, it is likely to be lower than it was in 2003," Ms. Wright-Violich said. "I would not be surprised by a 35% drop in the percentage of securities we receive, which would result in less than 50% of the contributions' coming in the form of securities."

Like other funds, assets have declined, in Schwab's case, to \$2 billion as of Sept. 30, from \$2.2 billion in January.

Grants were up 33% for the third quarter year over year, even though contributions were down about 25%, Ms. Wright-Violich said.

"If you can set aside money when the economy is going well, it allows you to give to the charities in an environment like this," she said. "But if the trend continues, people just don't contribute as much as they would in good times."

Still, most people donate in the fourth quarter.

"I think people are going to sit real still and see what happens [with the economy]," Ms. Wright-Violich said. "Advisers are seeing more procrastination about this situation than they typically see. There will be a scramble at the end of the year."

The total of 693 new accounts year-to-date through September was down from 782 during the same time last year, she said.

Similar trends are occurring at the Vanguard Charitable Endowment Program in Malvern, Pa., which had \$1.76 billion in assets as of Sept. 30, down from \$1.85 billion at the first of the year.

Contributions to the fund year-to-date through September were down 6% to \$314.4 million, compared with \$333.9 million in September 2007.

Grants to charities rose 12%, to \$307.8 million, up from \$274.7 million in 2007. It also had more cash contributions, said James Barnes, chief relationship officer at the fund. The number of cash transactions increased 5%, but there has been a 4% decline in gifts of stock, he said.

"In September, new accounts were down 50% just for the month of September, compared to September 2007," said Ben Pierce, executive director of the fund. He is not anticipating a turnaround by year's end.

"The economy seems to be trumping any activity, said Anne Boyce, president of the Baltimore-based T. Rowe Price Program for Charitable Giving. "Things are coming to a halt. People don't have to make a decision until Dec. 31."

As of Sept. 30, assets in the fund totaled \$64 million, down from \$74 million on Dec. 31, 2007.

Contributions were down 30% year-to-date through September, compared with the same time last year, she said. "And grants going out have increased nearly 30% over the same time period last year."

Some say donor-advised funds may benefit from the down economy because donors can donate, get the tax deduction and decide on charitable recipients later.

"People want to make a gift but because of the economy they are trying to decide how to spread it around a little bit this year," said Bill Hewitt, national marketing director of Crown Philanthropic Solutions LLC, a New York-based technology firm that provides technology services for donor-advised funds. "They might look at donor-advised funds as the easiest way to make a gift before the end of the year and then take their time to make decisions about where the donations should go."

According to the Giving USA Foundation in Glenview, Ill., which reports research from the Center on Philanthropy at Indiana University in Indianapolis, giving usually experiences a flat or slow rate of growth following a recession. Total giving in 2003 was 1.2% less than in 2001. From 1989 to 1992, giving declined by 0.9%. And from 1972 to 1976, giving dropped 4.2%. This year, if the market doesn't rally, giving could drop 6% to 15% year-over-year, said Ms. Wright-Violich. But she believed that in the longer term, giving will recover quickly.

"First, taxes are likely to increase, and that will motivate people to do tax planning and seek tax deductions," she said. "Second, hard times often cause people to reflect on their values and their relative fortunes, and they may respond by trying to give more. Lastly, there is still an enormous amount of wealth transfer coming as the great generation dies and leaves their life's savings to their children."