

Introducing the Donor-Advised Fund

Understanding Donor-Advised Funds (DAFs) is one thing; helping a particular client recognize how a DAF can help him or her reach social-impact goals is another. Fortunately, DAFs are relatively simple options with attributes that resonate with socially conscious investors.

However, that doesn't mean you simply need to explain how a DAF works and your client will sign on the dotted line. As with any investment opportunity, helping your client understand the opportunity starts with understanding your client's motivations and objectives.

BEGIN WITH A CONVERSATION

For many people, investing and charitable giving exist in separate worlds. At best, many people think of those worlds as loosely connected: If they invest well enough, they might someday be able to contribute toward making the world a better place. As a result of this kind of thinking, many people never consider discussing their charitable ambitions with a financial advisor.

That's why you need to start the conversation by asking a few simple questions:

- What are you passionate about?
- What changes do you want to see in your lifetime?
- Is your faith important to you?
- Are there causes you currently support?
- Why do those causes move you?

By asking questions like these, you not only gather information, but you also help the client see you as someone who is interested in their larger ambitions. And once you've had this conversation, you can suggest a vehicle for reaching those social-impact goals.

SHARE THE BENEFITS

As you introduce the DAF concept, keep things simple – after all, that's one of the key appeals of the DAF: It's simple. Here are some key points to share with the client:

- **A DAF is straightforward:** A client and financial advisor work with a chosen nonprofit to create a DAF for the client. Assets are then deposited into the DAF and invested. Proceeds from the investment are distributed as grants to nonprofit organizations.

- **A DAF takes away administrative burdens:** Because the assets that go into a DAF are no longer owned by the donor, he or she is not responsible for administrative matters such as executing grant distributions, record-keeping and tax reporting.
- **A DAF allows for a voice in giving:** Even though the assets in the DAF are no longer owned by the donor, he or she can make recommendations about which nonprofits receive grants from the DAF.
- **A DAF can create a family giving legacy:** The ability to make grantee recommendations can be shared with and passed on to family members.
- **A DAF delivers tax benefits:** DAFs can help donors avoid capital gains taxes and receive immediate tax deductions.
- **A DAF delivers for social good.** The Global Investing Network reports that 88% of survey respondents said DAFs met or exceeded their financial-performance expectations.

BALANCE IMPACT WITH TAX BENEFITS

In the past, you might have made your strongest DAF appeal based on the tax advantages DAFs deliver. However, in recent years, surveyed investors have said that, while tax deductions and estate tax impact continue to be important to them, the desire to make a difference is even more important.

With that in mind, be sure that you help your client see that, with a DAF, he or she doesn't have to choose between impact and tax breaks. DAFs deliver on both counts, and they can be especially helpful when a client anticipates a major liquidity event, faces capital gains on appreciated assets and wants to create a legacy of giving.

REMOVE THE BARRIERS

In many cases, when you talk to clients about options like DAFs, they immediately become intimidated, worrying that those kinds of vehicles are only for the extremely wealthy or for people with the time to manage added paperwork and such.

But a DAF actually simplified clients' giving. Working with our partners at RenPSG, a financial advisor can help a client set up a DAF and put it into operation in a matter of days. And, from then on, the client's load is actually reduced: RenPSG handles tax reporting, gift documentation and distribution, and more. This allows clients to focus on making a difference with the wealth they've earned.