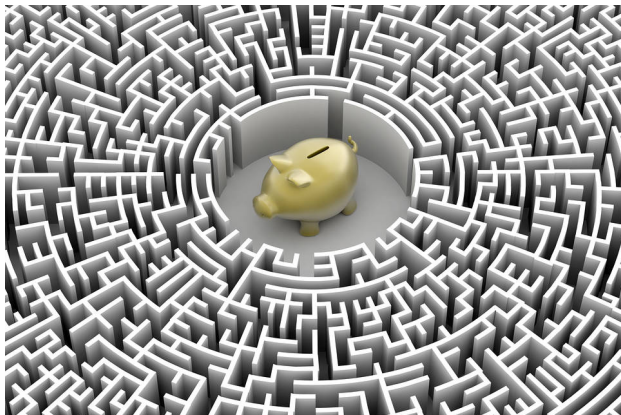


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WEALTH MANAGEMENT

You Have a Donor-Advised Fund. Now What?



WSJ Wealth Expert Jonathan Guyton looks at four questions to consider when deciding to distribute money in your donor-advised fund. PHOTO: GETTY IMAGES/ISTOCKPHOTO



By

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Jun 4, 2017 10:00 pm ET

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If you opened a donor-advised fund in recent years, you're not alone. Assets held by such funds have exploded. Nearly 270,000 individual DAF accounts (including 10% of our firm's clients) now hold close to \$80 billion in assets with the average account at about \$235,000, according to data for 2015 from the National Philanthropic Trust. But of the \$22 billion added to DAFs in 2015, less than \$15 billion was paid out to charities. So this stash-in-waiting for America's charities will soon top \$100 billion.

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Donors no doubt enjoy telling their DAFs to make gifts (technically grants) to the religious, educational, social and artistic charities they support, after the immediate tax break they receive for funding to a DAF.

But this is only the beginning.

Like in other aspects of your financial life, having a plan—or some guiding policies—can make a real difference for your chosen charities and causes. Here are four questions to

consider.

How much of your DAF assets should you grant to charities each year? 10%? 20%? 50%? These questions can frame your decision. Remember, your entire DAF will ultimately go to charities—whether you get to choose them or not. If your DAF holds \$200,000, imagine paying out \$40,000 (20%) to charities annually. Choose a different amount if this seems too little or too much. And consider acting before December: The calendar year is irrelevant to your tax benefits, but your charities have lean months throughout the year.

What factors matter when deciding how to invest the money in your DAF before you grant it to charities? In short, the longer the time over which it is paid out, the more should be invested in your DAF's stock-fund options. Keep five years of intended donations in its short-term bond funds, and give grants from these when the stock market is down. After all, it's at such times in the economy when the life-altering work of your favorite charities may be hanging in the balance.

THE EXPERTS



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What about future contributions? Donors start DAFs for a variety of reasons. It's likely you chose to 'pre-fund' several years of charitable giving and found DAFs an appealing solution. Whatever the reason—a large bonus, stock option exercise, concentrated stock position hitting an all-time high or

required IRA distributions—you probably contributed (far) more than you typically give directly to charities in most years.

Many personal aspects affect further funding, but it's likely you will add to your DAF. Why? Well, if you felt wealthy enough to fund it once (perhaps being “conservative” in the amount), you're already conditioned to consider doing it in future years. While you may not do so every year, you almost surely will some years.

Having a default policy in this area will help immensely. Imagine doing between 0.5% to 1% of financial assets annually. Or you could tie it to a net worth threshold; e.g., “I/we will contribute 1% of our assets yearly, as long as our net worth exceeds \$X million and 0.5% when it is below this.” Experiment with such guidelines until you find one that works for both your head and your heart.

What determines where your DAF assets go when you are no longer able to make granting decisions? You should plan on this being the case. That's why you should devote time to thinking about 1) the organizations named as final DAF beneficiaries (when did you last review these?); and/or 2) the people you named—likely when opening your DAF—to make these choices when you no longer can. Conveniently, some DAF plans allow for both. Otherwise, assets go to the charitable causes listed in the DAF's account application.

Do embrace this part. It's a wonderful way to involve future generations in your family's charitable legacy.

When policies and guidelines like these are in place, you're well on your way to maximizing the good work you've started—to the benefit of more than you'll ever know.

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