UNDERSTANDING DONOR-ADVISED FUNDS: HOW GRANTS FLOW DURING RECESSIONS

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Executive Summary
This research report provides an empirical basis for better understanding donor-advised funds. Using ten years of data from one thousand DAF sponsors, the article finds that many DAFs act more as pass-through philanthropic intermediaries than "parking lots" for charitable dollars. However, we find that the type and size of the sponsor does affect the way that money flows through the organization. Most importantly, we find that grantmaking out of DAFs stays relatively constant through periods of economic recession, when assets and contributions drop significantly.

On the Form 990, the IRS collects 4 measures of DAF sponsor activity:
1. Number of accounts
2. Amount of contributions, or money going into the DAF
3. Value of assets
4. Amount of grants, or money going to another 501 (c)(3) public charity

We use these four measures from 2007 – 2016 for approximately one thousand DAF sponsors, categorized into three different organizational types: National, Community Foundation, and Special Issue.

DAFs are not foundations. We compare grants to contributions and asset levels over time. We find that grants relate strongly with both asset levels and contributions. In other words, holding assets constant, DAFs grant more when they receive more contributions within a year. While seemingly intuitive, this provides evidence that donors are not granting purely on assets, like foundation endowments, but are making grants based on a continual flow of contributions.

Flow Rates measure a different aspect of donor-advised funds. Because DAF grants are not solely based on assets, using the common "payout rate" measure of DAF activity does not fully or accurately describe DAF activity. Some people donate money in and out of DAFs within the same year. We try to account for this activity by comparing grants to contributions within each year. We call this measure the "flow rate" and find that over time the median flow rate is about 85%. In other words, for every $1M in contributions $850,000 is redistributed in grants during the same year. While the data are aggregated at the organization level, and do not describe individual behavior, this new measure helps to clarify the more pass-through nature of DAFs.

Not all DAF sponsors behave the same. We compare how the median payout rates and flow rates vary among the different sponsor types, as well as different sizes of DAF sponsors. We find that National sponsors actually have the highest payout rates, averaging around 22%, but lowest flow rates, around 70%. By contrast, community foundations donor-advised funds have lower median payout rates over time, about 10%, suggesting that their clients treat them more like foundations. While single-issue charities have the highest flow rates, indicating that their clients use them like temporary holding accounts. These findings indicate a diversity of purpose and function among donor-advised funds, and suggest that applying findings about large sponsors like Fidelity Charitable or the Silicon Valley Community Foundation to all DAFs is misguided.

DAF granting is recession resilient. We finally compared how DAF metrics changed as macroeconomic factors changed over time. We found that when the economy experiences a recession, grants from DAFs either remain constant or decrease only slightly, even when the contributions into DAFs and the asset levels of DAFs both drop precipitously. Compared to other forms of charitable giving (individuals, corporations and foundations) that all decline during recessions, DAF granting is resilient to negative shocks in the economy. This finding suggests that donor-advised funds may play an important role in the greater nonprofit economy during recessions by serving as "rainy-day funds."

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