

Pershing Philanthropic Solutions: Donor Advised Funds

Frequently Asked Questions

What is a donor advised fund (DAF)?

A donor advised fund, or DAF, is a vehicle that investors, also known as donors, may use to simplify and manage their charitable giving goals. Specifically, a DAF is a separately identified fund or account that is maintained and operated by a section 501(c) (3) organization, which is called a sponsoring organization. Each account is comprised of contributions made by the individual donor. Once the donor makes the contribution, the organization has legal control over it, however, the donor retains advisory privileges with respect to the distribution of funds and the investment of contributed assets.

How does a DAF work?

A donor makes a gift to the sponsoring charity and may be eligible for a tax deduction in the year the gift is made. The donor can then advise on investments thereby enabling contributed assets to potentially grow while recommending grants to their favorite charities.

What are contributed assets?

Contributed assets or contributions are irrevocable gifts from the donor to the sponsoring public charity. Contributions can be cash, securities, real property, closely held business interests, or other complex asset types if approved by the DAF sponsor.

How are contributed assets invested?

Some DAFs provide a selection of investment strategies or mutual funds, while others may allow the donor's financial advisor to manage the contributed assets, often at certain asset thresholds.

What is a grant?

Funds distributed from the donor's DAF to the qualified charities, as deemed by the IRS, are called grants.

How are grants made?

Clients can research charities and request grants through a DAF's donor portal. Once requested, the DAF sponsor performs due diligence to confirm that the grant is a qualified charity, as deemed by the IRS, and that the donor is not receiving a personal benefit from the grant. Once approved, the DAF sponsor sends the funds to the charity.

What types of clients use DAFs and why?

Many types of clients use DAFs. With minimums as low as \$5,000, DAFs may appeal to a wide range of investor types. Some of the primary use cases of DAFs may include the client's specific tax situation, degree of charitable focus, and the client's wealth management and estate planning strategy. DAFs can be established by individuals, families, corporations, trusts and even estates.

How can DAFs potentially benefit my clients?

DAFs may be an economical and efficient tool for charitable giving, offering several potential benefits:

- Contributing to a DAF separates the tax decision and the giving decision. Clients can achieve a tax benefit by contributing to the DAF during the tax year, and then recommend grants to charities over time.
- Low minimums for contributions and grants.
- Contributed assets grow tax-free.
- Contributions can be “bunched,” allowing donors to make a large contribution one year for tax benefit while spreading the grants over time.
- Donors can contribute complex and privately held assets, thereby turning appreciated illiquid assets into liquid assets that can be invested, potentially grow, and distributed via grants to support their values.
- DAFs can be used strategically in combination with other structures:
 - A DAF can be the charitable beneficiary to a charitable remainder trust.
 - Grants from a private foundation can be made to a DAF.
 - Income beneficiary of a charitable lead trust
- Using DAFs can enhance family engagement, bringing family members together to support their values and create a philanthropic legacy.

What do DAFs cost?

DAF sponsors charge an asset-based administrative fee, and some have minimum fees. If your client uses a DAF that allows you to manage the contributed assets in accounts held at Pershing, Pershing clearing and custody fees apply.

Do contributed assets have to be granted within a certain time period?

No. Unlike foundations that have a minimum annual distribution amount, some DAFs have a minimal periodic grant requirement to ensure that the DAF is actively engaged in its intended purpose.

Can my clients receive income from their DAF?

No. A contribution to a DAF is an irrevocable gift to the sponsoring public charity. Once made, the assets are the property of the DAF.

How can DAFs help me potentially grow my advisory practice?

Talking to your clients about their values and introducing them to DAFs may offer several potential benefits, including:

- Deepening client relationships by helping them support their values.
- Growing investment management fee revenue by managing contributed assets.
- Expanding client relationships with the potential to win new, non-DAF assets.
- Creating a bridge to future generations by engaging with the whole family.
- Growing client referrals.

What are some best practices for growing a DAF book of business?

- Establish relationships with CPAs to make them aware that you have access to DAFs. CPAs may suggest that their clients establish a DAF for tax reasons.
- Identify clients that regularly contribute to charitable organizations. They may not realize that a DAF can simplify their giving.
- Business owners that are thinking about selling, or clients that have concentrations of low-cost basis securities may benefit from a DAF.
- Most DAF activity is in the fourth quarter and DAFs often have early deadlines for new funds. To avoid a year-end rush, it is best to talk to clients about their charitable giving plans prior to November.

What DAFs are available through Pershing?

Through BNY Mellon Pershing, you have access to a selection of DAFs including two that enable you to manage the contributed assets. A white label solution is also available.

American Endowment Foundation (AEF) is a donor advised fund program with more than 30 years of experience in providing advisors with the ability to independently manage their clients' philanthropic contributions. No pooled funds are required, and advisors can use their normal custodial platform and investment management options.

BNY Mellon Charitable Gift Fund ("Gift Fund") offers a simple and tax-efficient way to maximize the impact of your charitable giving. A donor advised fund with the Gift Fund allows you to create an account that is designated for charity. Donors/Primary Advisors and Joint Advisors may recommend an allocation utilizing one or more of the investment strategies provided by the Gift Fund.

Renaissance Charitable Foundation (RCF) is an independent public charity dedicated to helping individuals reach their philanthropic goals through the Renaissance Charitable Gift Fund (RCGF) a donor-advised fund. RCF has partnered with Ren to promote the DAF, assist with implementation and with the ongoing administration tasks. With over 35 years of experience, Ren is an end-to-end charitable gift administrator for individuals, financial organizations, and charitable organizations; providing the administration and accounting for DAFs, CRTs, PIFs, CGAs, private foundations and special needs trusts.

For more information on Pershing's DAF options, please visit the NetX360+ Marketing Center.

Are my clients limited to the DAFs currently available through Pershing?

Your firm and your clients may use the DAFs of your choice including others that allow assets to be held at Pershing.

How are contributed assets invested when using AEF, the Gift Fund, or RCF?

If using AEF or RCF, you can manage the contributed assets, in accounts at Pershing, following the DAF sponsor's Investment Policy Statement. If using the Gift Fund, your client can select from a menu of investment strategies managed by BNY Mellon, N.A.

What are the steps to establish a DAF using AEF, the Gift Fund, or RCF?

1. The first step is for your client to select a DAF Sponsor and complete the DAF's application to establish a fund. Each DAFs' application can be found by accessing the links to their websites under Getting Started on the Philanthropic Solutions Comparison Chart.
 - o If your client selects the BNY Mellon Charitable Gift Fund, they can select one or more of the investment strategies offered by the Gift Fund.
2. If your client selects AEF or RCF, AEF/RCF will complete your new account paperwork to establish a non-profit organization account with your firm. Please note that AEF/RCF is the owner of the account therefore you will need to be licensed in the state where they are located.
 - o AEF is in Ohio
 - o RCF is in Indiana
3. Once the account is set up, your client can contribute cash, securities, or other property, if approved by the DAF sponsor.
4. Upon receipt of the contribution, the DAF will issue a tax receipt to your client along with credentials for their online donor portal.

How are grants made using AEF, the Gift Fund, or RCF?

If using AEF or RCF, once the grant is approved, the DAF sponsor will ask you to send the funds to them via ACH. Once received, AEF/RCF sends a check and grant letter to the charity. If using the Gift Fund, the Gift Fund staff will send a check to the charity upon grant approval.

Where can I learn more about charitable giving and DAFs?

- Access marketing materials and content on the NetX360+ Marketing Center for:

- The **Philanthropic Solutions Fact Sheet** - overview of the philanthropic solutions available through Pershing
- The **Philanthropic Solutions Comparison Chart** - provides side-by-side information on each DAF sponsor including contact information
- The **Philanthropic Solutions Education Library** (on the **Philanthropic Solutions** page) - provides educational materials on DAFs provided by our third-party partners
- For step-by-step instructions on establishing DAFs and DAF investment accounts:
 - Access each DAF's instructions using the links available on the **Philanthropic Solutions Comparison Chart**
 - Access the **How to Open a Donor Advised Fund Account Task Reference Sheet**, available in the NetX360+ Learning Center
- Stay on top of DAF industry insights and metrics by accessing top industry sources such as National Philanthropic Trust's Annual DAF Report and Giving USA

Where can I obtain information to share with my clients?

Information for donors is available on each DAF sponsor's website. Access website links in the Contacts section of the **Philanthropic Solutions Comparison Chart**.

If I have further questions, who can I contact?

For questions regarding the DAFs available through Pershing contact the DAF sponsor of your choice or your Relationship Manager.

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