

## Private Foundations vs. Donor-Advised Funds

### 12 Reasons Why Today's Private Foundation May Be a Better Choice for Your Clients

When clients ask you about charitable giving vehicles, is your first thought to recommend donor-advised funds? After all, they're fast, easy, and solve the immediate need. Plus, they require minimal ongoing effort from the client to manage.

If your financial institution or institutional services provider has its own donor-advised fund, those charitable assets stay under your umbrella. If not, you're faced with introducing your clients to a competitor.

While donor-advised funds are a great option for many, a private foundation could be a better choice for your philanthropic clients.

However, a private foundation is rarely considered, unless the client specifically asks about the option. That's because many financial advisors, as well as attorneys, believe that a private foundation is inherently expensive, complicated, and time-consuming, both to set up and to manage. And unless the client is going to fund it with at least \$5 million, it just doesn't make sense.

#### **That was true 20 years ago, but not today.**

Times and private foundations have changed. Private foundations can be established quickly, with as little as \$250,000, and are easily administered with an outsourced management firm, such as Foundation Source. By working with Foundations Source, your clients get a powerful giving vehicle, and the investment account stays under your care. We don't custody assets, sell financial products, or provide investment advice. We help cement your client relationships by expanding your range of services and keeping competitors at bay.

Here are 12 reasons why a private foundation might be the better choice for some of your philanthropic clients:

#### **1. A private foundation is a legal entity controlled by the founder, not just a name on a giving account that's housed and controlled by a public charity.**

Among high-net-worth individuals, holding onto control of assets is a common priority. Happily, private foundations provide complete control. Unlike a donor-advised fund, where donors cede all legal control the second they deposit funds into their giving account, a private foundation is a freestanding legal entity that's 100% controlled by the donor. Your client decides how and where the assets are managed; and has final say on how those charitable assets are spent.

Frankly, having an account at a donor-advised fund rarely matches the visceral sense of ownership and satisfaction that comes from establishing one's own charitable organization. All other things being equal, your clients would likely prefer a private foundation. It's the defining mark of financial achievement: the ability to make a difference in people's lives through one's own private foundation.

**2. Your client can fund the private foundation with a wide array of assets.**

Investment options for a private foundation are as broad as the types of grantmaking allowed. Private foundations can own nearly any type of asset, including partnerships, real estate, jewelry, closely held stock, stock options, art, and other valuables. Donor-advised funds often limit investment options to cash equivalents, publicly traded securities, and shares of mutual funds. Donations of real property and other nonmarketable securities typically are sold or liquidated by the organization.

**3. Foundation Source makes setting up and running a private foundation as fast, safe, and easy as a donor-advised fund.**

Foundation Source is the nation's largest third-party administrator for private foundations. We provide back-office administration, online foundation management tools, and philanthropic advisory services, all under one roof. It's the only thing we do. Your clients provide the funding and the vision; you manage the assets; and we handle everything else. We set up the foundation, monitor activities for potential compliance issues, and handle all required state and federal filings. We even track the foundation's 5% Minimum Distribution Requirement and post it in the secure, online "command center" provided by Foundation Source, so your clients always know exactly where they stand in meeting this obligation.

When previously established private foundations switch to our service, it's not uncommon for us to find issues in need of remediation, due to actions by a prior accountant or their own mistakes. In some of these cases, we've even succeeded in getting previously imposed IRS penalties abated.

**4. Now your clients can start a private foundation with as little as \$250,000, and be up and running in just three days.**

Due to our large client base, we've achieved economies of scale that reduce the cost of establishing and maintaining a private foundation. In turn, lower fees have dramatically lowered the threshold to private foundation ownership. It now makes sense to consider a private foundation with an endowment of just \$250,000.

There are many reasons why donors start a foundation at the \$250,000 level. In fact, 67% of all private foundations have less than \$1 million in assets. Increasingly, we've seen foundations being set up by younger donors who want to be active in their philanthropy during their lifetime, rather than through a bequest. Some donors like to start small as they learn about philanthropy then add to their endowment over time; others set up their foundations in anticipation of a future liquidity event.

Because we've revolutionized the process for establishing new private foundations, your client's foundation will be ready for funding and to start making grants in less than a week.

**5. Your client can be reimbursed for expenses incurred while carrying out foundation activities.**

Interestingly, we see many of our clients paying their philanthropic expenses out of pocket, to maximize the dollars that go to supporting nonprofits. However, having a private foundation allows the donor to make the choice. With a donor-advised fund, there is no option and no means of reimbursing legitimate charitable expenses. Expenses that can be reimbursed by the foundation include board meetings, administration, site visits, legal counsel, and even costs associated with starting the foundation, including Foundation Source's fees.

**6. Foundations enjoy a world of giving options.**

Gifts from a donor-advised fund are typically restricted to straightforward donations to U.S.-based 501(c)(3) public charities. Private foundations provide many more avenues to achieve the donor's philanthropic goals, including:

- Funding tax-exempt organizations that are not 501(c)(3) entities
- Making grants directly to individuals and families facing hardship, emergencies, or medical distress
- Supporting organizations based outside the U.S.
- Making loans, loan guarantees, and equity investments that serve a charitable purpose
- Providing funding to for-profit businesses that support the foundation's charitable mission
- Setting up and running scholarship and award programs
- Running their own charitable programs
- Hiring staff, including family members

**7. Private foundations can exist in perpetuity within the control of the family.**

With a private foundation, the family is able to maintain legal control of the entity for unlimited generations. With a donor-advised fund, the family never has legal control, and advisory privileges often end after a few generations.

**8. Your client's name is on the grant check.**

Creating a family legacy of giving is one of the rewards of philanthropy. With a private foundation, it is the name of the donor's foundation, often the family name, that's at the top of the grant check, providing well-earned recognition for the financial support that keeps nonprofits going. With a donor-advised fund, while the donor is recognized in the body of the accompanying grant letter, it's the sponsoring organization's name on the check.

**9. Your client can hand-deliver the check directly to the organization.**

There are certainly occasions when donors prefer to personally deliver a grant check to the organization, be it a fundraising event, a recognition dinner, or even a board meeting. Although that's easy to do with a private foundation, it's simply not an option when giving through a donor-advised fund because the donor is not an agent of the organization and therefore is not given control over the execution of grants.

**10. Private foundations serve as a training ground for younger generations.**

One concern advisors often hear, especially from first-generation wealth creators, is that their children, raised in affluence, won't grow up with the same drive and values as their parents. Private foundations serve as excellent forums for instilling ethics and imparting valuable business skills. Younger family members may be directly engaged in the governance, decision making, and day-to-day activities of running the foundation. Through this active participation, they acquire skills in financial management, leadership, communications, teamwork, and planning.

By nature, private foundations are family oriented and collaborative. They exert a unifying force, similar to a family business, by erecting a formal structure that links several generations working together toward a common philanthropic goal. By providing a reason to meet and converse, they are the glue that holds together family members who are geographically dispersed. The cohesive board structure of a private foundation simply doesn't translate to a donor-advised fund, which permits any named advisor to make grant recommendations on their own initiative.

**11. Your clients can make pledges on behalf of the foundation.**

While a foundation may not fulfill personal pledges made by your client or family members, the foundation itself may make pledges. With a donor-advised fund, since the donor never has legal control, he/she has no authority to make a pledge obligating fulfillment by the hosting charity.

**12. Your client can negotiate and enforce grant agreements with grant recipients.**

It's commonplace for private foundations and grantees to enter into an agreement setting forth the purpose, terms, and conditions of a grant, as well as benchmarks of progress and reporting requirements. Donor-advised funds offer no such option, so your client has little discretion over how the grantees use their funds.

### **About Foundation Source ([www.foundationsource.com](http://www.foundationsource.com))**

Foundation Source is the nation's largest provider of comprehensive support services for private foundations, bringing unparalleled knowledge and expertise to clients across the country. The company's administrative services, online foundation management tools and philanthropic advisory services provide a total outsourced solution for private foundations. The result: better-run, more effective foundations and more enjoyable philanthropy. Our clients supply the funds, the vision and the philanthropic goals; we provide everything else.

Today, Foundation Source provides its services to more than 1,100 family, corporate and professionally staffed foundations coast to coast, ranging in size from \$250,000 to over \$500 million. The company provides its services directly to philanthropically focused families and institutions as well as in partnership with the nation's leading private wealth management firms, law firms and accounting firms. Foundation Source is headquartered in Fairfield, Connecticut, with auxiliary locations in Atlanta, Chicago, Dallas, Denver, Los Angeles, New York City, Philadelphia, San Francisco, South Florida, and Washington, D.C.



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