Unlocking the Power of DAFs

How Funders Can Overcome Psychological and Operational Barriers and Use Donor-Advised Funds More Effectively

By Drew Rabe and Betsy Erickson

Over the past 30 years, donor-advised funds (DAFs) have become an increasingly popular choice for many funders. With low costs and minimal administrative headaches, DAFs are easy to set up, and funders receive their tax advantage right away, regardless of when they start recommending distributions to on-the-ground organizations. That's because DAFs, unlike private foundations, have no minimum distribution requirement.

However, this can be a harmful recipe for stagnation in some cases, preventing needed funds from flowing to pressing issues. Without the outside pressure of a deadline to spur giving, DAF balances too often continue to grow without funders following through on their charitable intentions. This feels to many like a tax-law oversight, making DAFs a major source of controversy. And it keeps large quantities of money on the sidelines that could otherwise be supporting needed social change efforts. Given the urgency of the problems philanthropy is trying to solve, it's reasonable to wonder whether a vehicle that provides funders with few guidelines and no deadlines is the right model.

Many funders are passionate about doing good with their DAFs but currently aren't fulfilling their charitable ambitions. Here, we'll explore tactics DAF-holders can use to combat stagnation and overcome the barriers—both psychological and structural—that are holding them back, enabling them to put their charitable dollars to work and fulfill the expectations of their roles as funders.

Overcoming Psychological Barriers to Effective Giving

For high-net-wealth individuals and families, complexity is a fact of life. In addition to their personal, professional, and family priorities, they're also responsible for managing multiple workstreams and stakeholders related to their philanthropy. And on top of that, they're navigating a world that's undergone more change in the past few decades than at any time in human history. Defending democracy, strengthening our educational system, fighting for racial equity, combatting climate change: these challenges don't have quick fixes, and it's no easy task for funders to wrap their minds around all the factors at play.

While funders are often extremely high-performing individuals, they don't always have the skills or time to untangle these complicated issue areas on their own. Increased public scrutiny on how the wealthy manage their philanthropy has raised the stakes even more. Funders feel enormous pressure to not make a misstep—so it's no wonder that many of them end up virtually frozen, giving reactively to disaster relief, alma maters, or personal connections, if they give at all.

These psychological barriers are significant, yet funders must address these challenges in order for philanthropy to live up to its charge. These five tactics are proven practices to help funders ramp up their giving.

1. Process and Plan

Funders are human, and it's natural for them to have feelings about navigating change and complexity. The best way to manage those feelings? Having the facts. Making an effective, actionable plan with clear milestones—whether it's a target number of grantees, payout percentage, or spend-down timeline—puts necessary boundaries around funders' giving and keeps tasks concrete.

2. Think of Giving as Learning

One surefire way for funders to get stuck is to expect immediate results or demand perfection, either in themselves or in the grantees they support. By reframing to focus on learning and improvement, it becomes easier for funders to proceed with curiosity and humility—because grantees know the issues best, and progress depends on their expertise as much as on funders' dollars and insights. Impactful funders learn about the root causes of the issues they care about, the challenges changemakers are facing, and what they can bring to help solve those problems.

3. Narrow the Landscape

Even if a funder narrows their focus to a single issue, the sheer volume of giving options within that issue can leave them too overwhelmed to act. To avoid this, funders can take a series of gut-based narrowing steps to identify the approaches that resonate.

Take the area of climate change: a funder might decide that while funding research isn't motivating, they're energized by translating research into storytelling that mobilizes the public. Finding grantees doing this work is much more feasible than trying to understand the entire climate change landscape, making it easier to proceed from theory to action.

4. Define a Giving Persona

When a funder is passionate about their giving areas and approach, the work becomes more meaningful, and stagnation gives way to excitement. A clear giving persona can help funders give in ways that align with their skills and interests, while also driving more impact than generic grantmaking. For example, instead of focusing on early childhood education broadly, a funder who created their wealth as a venture capitalist might look for emerging leaders or organizations in that space and provide early-stage funding to help them succeed.

5. Overcome Interpersonal Tensions

Many funders decide how to distribute their philanthropic assets together with family members or loved ones. Families are working across more generations than ever, and—as is the case in so many contexts—polarization is at an all-time high, which can stop a funder's impact work in its tracks. Bringing in a neutral, third-party facilitator can help chart a path forward, as outside parties can be better positioned to promote healthy power dynamics and find mutually satisfying ways to give.

Case Study

Creating a Manageable, Massively Scaled Giving Strategy

A few years after an Arabella client experienced a wealth event and received tax advice to create a DAF at a large provider, she was feeling stressed that her organic, reactive approach to giving couldn't keep pace with her impact goals—or her rapidly growing assets. She didn't want her DAF to balloon and exist forever, and so she hoped to establish a pace for her giving that matched or exceeded market returns. Arabella's first step was to help the client reflect on her emotions and change her mindset, structure, and process to adapt to her new circumstances. We teased out what she was feeling: guilty for having the assets in the first place, pressured to make the right decisions, and overwhelmed by the number of grantees and issues out there.

Knowing this, we helped the client shift to a learning posture, giving her a lower-pressure space to experiment, and then added structure to ramp up her giving. We helped divide her giving into buckets that aligned with her motivations for making different types of gifts: organizations she was personally connected to; "heartstrings" giving that allowed her to be responsive to causes like fighting hunger or helping Ukrainian war refugees; and strategic systems-change giving that allowed her to develop budgets and strategic plans to protect human rights and the environment. That simple sorting, combined with light issue research and establishing a culture of learning, allowed her to manage her giving with more excitement and engagement.

Avoiding Operational Limitations on Effective Giving

There are also adjustments funders can make to combat stagnation and prime their DAFs for maximum impact on complex issues, including enlisting outside support from consultants. Most major DAF providers don't offer consulting services, leaving funders to navigate their philanthropy journey on their own. Funders should be frank with their DAF providers about the support they need to move forward confidently with their impact work and ask what support the DAF provider is willing to offer, whether it's related to their personal journey as a donor or the programming they want to fund.

Beyond this, some ambitious funders might be interested in types of giving that most commercial DAF providers don't support. Commercial DAF providers often compete on fees, and it tends to be most profitable for them to take a "point-and-click" approach that restricts funders to making straightforward grants to 501(c)(3), US-based public charities. However, DAFs are legally permitted to make grants to organizations beyond 501(c)(3) recipients; it just requires more work on the DAF provider side. For example, DAFs can give to certain non-501(c)(3)s if expenditure responsibility is exercised. In addition, for the complex, multidimensional issues facing philanthropy today, basic grants alone aren't going to cut it—which is why some DAFs on the market have evolved to provide funders with far more options.

Some new solutions apply a networked model, combining DAFs with other tools under one umbrella. Traditionally, if funders want to use multiple vehicles, they have to build huge networks with numerous entities and large staffs. A network with a DAF at the center, though, can unlock the power of multiple vehicles in a way that is both impactful and administratively easy. Funders can seamlessly supplement their grantmaking work by launching new projects or initiatives, doing impact investing, supporting lobbying and advocacy work, and more. This model is analogous to the difference between having one wealth advisor and an entire family office. The core service at the center remains the same, but for funders with a broader set of goals or a more ambitious agenda, this networked model keeps the funder's experience streamlined while providing much, much more.

How a Family Might Use a Networked DAF to Enact Systems Change

Imagine that a multi-generational family wanted to go beyond traditional grantmaking and drive systems change in some of the biggest issues of our time: gun violence, climate change, and economic inequality. They hoped to become leaders in these fields, but they were not able to work on their philanthropy full-time and did not feel they had the relevant expertise or charitable platforms to drive that level of impact. Having professional program staff and a broader range of tools than traditional grantmaking was critical to their vision, and they knew a traditional DAF would limit them. Using different kinds of capital in different combinations across different platforms could give this family the tools they need to solve big problems and foster more social impact.

This family could use a DAF from a high-end provider as a starting point to connect with a broader network of philanthropic entities engaged in advocacy, grantmaking, impact investments, research, and more. When they and their expert staff saw a gap in the field or a particularly high-impact opportunity, this approach would allow them to pursue it in any number of ways: for example, by commissioning research reports, lobbying for policy change, making recoverable grants, or giving directly. They could also bring in operational and strategic consulting support to help them plan, evaluate, and refine their strategy and actions. With the right set of vehicles at the ready and guidance from a trusted advisor, the family could quickly, effectively, and compliantly make use of a much broader range of tactics to build a better world.

Unleashing the Full Potential of Your DAF

Current critiques of DAFs as stagnant repositories of tax-advantaged funds are too often true—but funders and their advisors can do better, and already do. By directly addressing the psychological barriers to giving and avoiding the limitations inherent in some current DAF structures, funders can use DAFs as powerful tools for moving philanthropic funds into the hands of those who need them most. With the right structures and guidance, DAF-holders can realize the full potential of their DAFs as a tax-advantaged way to invest funds that is also a flexible, powerful engine for transformative giving and social impact.

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