# Creative Use Of Donor-Advised Funds In Estate Planning

By Jay Healy

Gifts to charity can play a pivotal role in estate planning. A well-crafted gifting plan can greatly reduce estate tax liabilities while satisfying a desire to leave this world a little better than we found it.

However, large or complicated gifts can pose logistical problems. If your existing will and estate plan is a compromise for the sake of simplicity, or if you have put off the hard work of integrating your philanthropy into your will, read on. A donor-advised fund could be the tool you've been missing.

### View from the top

A donor-advised fund is a public charity that acts as a pass-through vehicle, accepting contributions and making contributions to other tax-exempt organizations. In exchange for a contribution, donors are afforded two privileges: The ability to recommend to whom and when the funds get distributed as well as how the funds are invested in the interim.

These recommendations are non-binding, but the donor-advised funds make every effort to accommodate their donors. The funds even track a donor's assets in a separate account to facilitate the investment and gifting recommendations.

There are more than 600 community foundations throughout the country offering donor-advised funds while maintaining a direct presence. **The Hope Christian Community Foundation** has been doing just that since 1998.

### Will you or won't you?

If your charitable intentions are to leave a cash gift to your local church or alma mater, then your attorney can write a simple bequest into your will.

However, if you want to leave gifts to multiple organizations, make your gifts contingent on some criteria, donate real property or simply maintain the flexibility to implement future changes, then creative use of a donor-advised fund may be a better approach.

Simply create the John and Mary Smith Fund with the **Hope Christian Community Foundation** and in your will make that fund the recipient of all the assets you intend for charity. In addition, if your IRA assets are intended for charity, name your donor-advised fun as the beneficiary for those accounts as well.

Next, consider how you want that money distributed, over what time frame and with what flexibility. Craft a "letter of instruction" to be carried out by either the fund provider or someone you name as a successor advisor to your fund.

This letter of instruction can be as detailed as you want. Name 50 different organizations. Include a second tier of beneficiaries to be included if your assets are of a certain level. Require that conditions be met by the recipient before your gift can be received. Specify the timing of gifts. Break the distribution down by dollar or percentage. Create a lasting endowment without the cost of a private foundation. And most importantly, have the flexibility to change your wishes without redrafting your will.

Let me caution here that this letter of instruction is not a legally binding document, so you need to feel comfortable with both the institution behind the donor-advised fund as well as your successor advisor. Some funds will be more receptive to the idea of executing your testamentary wishes than others. This may be one area in which a local community foundation has advantages.

The executor of your estate or a trusted family member may be a good choice to oversee the fund when you're gone. In your letter of instruction you can give them as much (or as little) flexibility so you want. Once your letter of instruction is drafted, revisit it on a yearly basis, making changes as needed to reflect your current circumstances.

### All in the family

Let's not stop there. The fun's just starting. Use the opportunity of drafting your letter of instruction to craft a truly inspired philanthropic plan. Examine your values. Identify your areas of interest. Invite your family into the conversation. What impact would the Smith family like to have on society? What is the best way to affect that impact? Just talking through these issues with your children can be constructive.

Go one step further and create an individual fund for each of you children to advise. Imagine the impact of making them stewards of your wealth instead of just heirs.

### Why wait?

If this strategy is intriguing, why not begin now by opening a donor-advised fund and using it to facilitate your lifetime giving? The tax benefits of donating appreciated assets to charity are undeniable, but the reality of doing so for each individual donation is off-putting.

Why not fund your account once or twice a year with appreciated securities when the timing is right and then make your smaller yearly (or even monthly) donations our of your fund when needed? This strategy will simplify your life and most likely make your giving more tax efficient.

However you choose to use it, a donor-advised fund is a valuable tool which can help you add focus, flexibility and efficiency to your gifting plan.

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