

July Headlines Make the Case for a Mandate to Charities: *Build Endowment*

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A few headlines caught my attention in July. One was (not surprising) news that charities had seen a decline in giving during the first quarter of 2008. *Philanthropy News Digest* reported “For the first time in two and a half years...overall revenue declined during the quarter, falling 1.8 percent, with only 40 percent of organizations reporting positive revenue growth.” PND citing a study by Target Analytics.

While not a large decline, and not considered an indication of any long-term trend, the reduction can have potential detrimental effects on funding sources – and programmatic capability - for particularly vulnerable organizations.

The second headline was in relation to the purchase of Anheuser Busch, headquartered in St. Louis, Missouri, by Inbev, a Belgian company. Again, *Philanthropy News Digest* reported on concerns in the St. Louis non profit community regarding the transition from a local corporate citizen to a multinational, and potential effects on their philanthropy: “While InBev has pledged that it will maintain a civic presence in St. Louis, it has given no assurances that it will match the \$13 million that A-B donated to nonprofits and charities in the region in 2007.”ⁱ

The concern is a rational one. As corporations merge or are acquired by those headquartered in other areas of the nation – or world - funding priorities and levels can shift reducing grant making activity either regionally, or entirely. Here in Maine in recent memory we’ve experienced a couple of recent reductions in philanthropy through acquisitions. When UNUM resulted from the Union Mutual/Provident merger and more recently when MBNA moved its operations to Delaware and was then was acquired by Bank of America, many charities around the state were effected, according to news reports.ⁱⁱ

A July 17, 2008 posting by the PND reported on the suspension of grant making by the McCune Foundation, due to loss of asset value...“the foundation owns more than 4.8 million shares of National City, which has been battered by rising defaults on mortgages and other types of loans. Since April 2007, the stock's value has fallen more than 90 percent, causing the value of the foundation's stake in the company to drop from \$185.1 million to \$17.4 million.”ⁱⁱⁱ

The picture that develops is one of organizations that rely on funding from corporations, foundations and individuals. With all sources of funding being external, such organizations are vulnerable to the economic downturns that bring these types of headlines. Bear markets, mergers and acquisitions, and a general “tightening of the belt” on the part of the public conspire to put the squeeze on charitable operating budgets at best, and at worst, shut them down entirely.

Organizations that have recognized and embraced the notion that they can create their own sustainability by focusing on growing their endowments to support their operations and programming stand to fare far better during economic downturns. Consider that universities such as Yale and Harvard support their operations by as much as 33% from the annual board-approved allocation of funds provided from endowment. Consider further that in the case of Yale, most of the endowment that it has was the result of planned gifts between the years 1955 and 2005. ^{iv}

The good news is that data is tending to support the notion that the potential for growth of endowment – whether through gifts from estates to charity or the funding of foundations that have the potential to become long terms funders in philanthropy – is bearing out the predictions of increased – if not unprecedented - wealth transfer to charity between 1998 and 2052.

Looking at growth/reduction in giving trends, the *Giving USA – 2008 Report* published by the Giving USA Foundation found the most growth in giving during the period 1991 – 2005 in grants from foundations (community and private combined) followed by gifts by bequest, supporting the notion that individuals are committing more and more resources to charitable purposes through foundations and estate planning. Many are seeing these trends as evidence of the (conservative) estimate of \$6TR transfer of wealth to charity during the period 1998 – 2052 predicted by John Havens and Paul Schervish of Boston College.

Giving In Maine - A Report on Philanthropy 2008 published by the Maine Community Foundation and the Maine Philanthropy Center, noted that “The charitable assets under the stewardship of Maine foundations nearly doubled in the last five years, from \$800 million to \$1.5 billion, growing 92% compared with a 74% growth rate in the nation as a whole” which could be interpreted as evidence on a more local level of that \$6TR transfer of wealth for charitable purposes.

Percentage of Giving Growth/Decline (Inflation-Adjusted)

<u>Source of Gifts:</u>	<u>1967 – 1990</u>	<u>1991-2005</u>
Individuals	2.5%	3.5%
Estates	.8%	5.9%
Corporations	3.1%	3.5%
Foundations	>1%	9.5%

Source: *Giving USA – 2008 Report*

Organizations can participate in this wealth transfer by encouraging their donors to include them in their estate plans. New data suggests that the most receptive audience for

these suggestions are those in their 50's and 60's who are educated and motivated by the idea of doing good.^v.

How can organizations successfully engage in these conversations and be proactive in building their endowments? With robust planned giving programs that are designed to encourage donors to participate in the opportunities matching the needs of the organization, including appropriate stewardship of those gifts and their donor relationships.

Most colleges, university and hospitals have departments staffed with professionals whose training and expertise is focused on estate and charitable gift planning. However, organizations can also work with outside support services to provide staff and board with requisite education and develop the necessary policies and procedures to support planned giving within the development efforts.

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ⁱ Reported July 16, 2008, citing Moore, Doug. *"Area Nonprofits Got Millions From A-B."* St. Louis Post-Dispatch 7/15/08

ⁱⁱ See *Life Without MBNA*, MaineBiz, April 7, 2008, www.mainebiz.biz/news12641.html?Type=search

ⁱⁱⁱ PND Citing Zlatos, Bill. *"McCune Foundation Extends Suspension of New Grants."* Pittsburgh Tribune Review 7/16/08

^{iv} *Yale Endowment 2005*, at

www.econ.puc-rio.br/Mgarcia/Seminario/textos_preliminares/Yale_Endowment_05.pdf

^v See *Bequest Giving Study* for Campbell & Company, Executive Summary at

www.philanthropy.iupui.edu/Research/Bequestgivingstudy-CampbellCompanyFellow.pdf