

Understanding the Lure of the Endowment Fund

Most Nonprofit Organization boards have discussed, at one time or another, starting an endowment fund. A strong endowment is a powerful tool to insure the future perpetuation of the organization.

So why is it that all organizations don't have an endowment fund? Many organizations simply do not have the human resources available to devote to the establishment and maintenance of a fund. In many small nonprofits the executive director acts as the program director, the controller, the fund raising chairman, among other responsibilities. This situation results in the endowment fund being given low priority and rarely receiving the attention it deserves.

From Myth to Reality

The prevalent myth that must be dispelled is that building an endowment is fund-raising ... it is not! Fund-raising has a short-term focus, both from the perspective of the organization and the donor. Endowment building is for the organization's effective life span! With such a lofty purpose, it is not surprising that endowment building requires significant resources.

The organization should have an endowment or planned giving committee. It can be constituted with volunteers, who are knowledgeable and well connected. Its members must accept fiscal responsibility, and stewardship over the funds.

The Committee, in conjunction with the professional staff, must clearly identify the purpose for the endowment and how it relates to the mission of the organization. A clearly defined vision is essential when you approach prospective donors.

Have a Compelling Case

The good news is that there are thousands of donors, over 70% of households in America make charitable contributions. Additionally, a Cornell University study has estimated that more than \$10 trillion will change hands in the next 15 years as the next generation passes and leaves its wealth to others. The bad news is that there are tens of thousands of charities competing for these dollars. Your organization must differentiate itself from other charities and provide the donor with a unique reason as to why their charitable dollars should go to you.

Get Yourself Organized

First of all, you must know what you are trying to accomplish. The donors will want to know your intended purpose for the endowment in order to feel comfortable with their contribution. In addition to being interested in specifically what the endowment will be used for, they will want to know how uses will be determined, what the investment policy is, how safe the assets are, and who will be managing the fund. Certainly, the endowment fund must relate directly to the purpose or the mission of the organization.

Know your Donor's Needs

The donors have many options for designing the form of their contribution. You must be sufficiently knowledgeable of these options to communicate effectively with prospective donors as to what

approaches might be beneficial to them. The actual structuring of the gift is best left to professionals, such as attorneys and accountants.

There are numerous “vehicles of planned giving” and each has a different effect/outcome for both the donor and the organization. The following are few examples.

Gift Annuities – a gift annuity combines your gift to charity with an annuity which the charity purchases on the donor’s behalf through a licensed life insurance company. The donor’s guaranteed annuity payments will continue throughout his or her lifetime, unaffected by changes in the economy or interest rates. If the donor wishes, the annuity can be written to cover them and their spouse through both lifetimes.

Charitable Remainder Trusts – a charitable remainder trust is a deferred giving arrangement under which the donor may transfer property (cash, securities or real estate) to a trustee. The donor, and/or other beneficiaries, retain the right to the income from the trust either for life or for a specified period of time. The charity receives whatever remains in the trust after the specified term, or after death of the last beneficiary, whichever has been stipulated in the trust document.

Life Insurance – life insurance is an economical vehicle for giving a larger and more lasting gift to a charity than might otherwise be possible, without drawing on the donor’s current assets or depleting the donor’s estate. There are several ways of having a legacy through life insurance. The donor can give to a charity through the irrevocable gifting of a new insurance policy or through an existing one that is no longer needed to ensure the donor’s family’s welfare. By giving through life insurance, the donor can make a significant future gift with only a small annual or monthly outlay.

Bequests – providing for a charitable gift in your will can be accomplished by including a bequest to the charity of the donor’s choice. “Bequest” is simply a term used to describe a gift in the donor’s will specifying that a certain percentage of his or her estate, a particular asset, or a specific dollar amount is to be directed to a natural beneficiary.

Aside from a little knowledge in the area of “how” planned giving works, the well-equipped organization also understands “why.” Whether it be religion, self-perpetuation, recognition, altruism, tax savings or another reason, it is prudent to understand why a donor is or would be willing to support your organization.

Create a Team

Because of the breadth of knowledge that must be possessed, generally a non-profit organization cannot successfully initiate, develop, build and maintain an endowment fund, without putting together a team that consists of some experts outside of the Nonprofit’s internal organization.

The first decision that must be made is whether the organization will partner with its local community foundation or “go at it alone.” The community foundation has much to offer in the area of expertise. Aside from being a faithful steward and prudent manager of philanthropic assets, the community foundation exists to help local donors accomplish personal charitable and estate planning objectives in a cost-effective manner. Additionally a community foundation brings a wealth of resources to the table. They have experience and expertise, offer creative ideas, encouragement, solicitation, consultation, and partnerships and, generally speaking, will do everything in their power to assist the organization. Even if an organization chooses the community foundation route, a team must be assembled. The

individual donor will likely need to involve their attorney, their accountant, their financial planner, their family, possibly a broker and certainly representatives from the non-profit organization and the community foundation.

There are some considerations an organization should recognize, if they intend to utilize a community foundation. First, the legal control over the endowed assets transfers to the foundation. Also, the foundation adopts their own investment policy, and there is a fee for the service that they provide. Finally, the law requires that the community foundation's board of trustees have final approval over all distributions.

If the organization decides to internally develop their endowment, they will need to fill many of the roles that otherwise would be filled by the community foundation. One of the most significant of these is investing. The supporters will want to know the investment policy and the related strategy that you are employing. The organization will have to develop its own policies and strategies and will need to foster relationships within the investing and asset management community to make it all work.

Take Action!

Take that first step. Establish and educate an endowment committee. Build the necessary team. Remember that the purpose of an endowment is to allow your organization to reap benefits for its useful lifetime!