Are Endowments a Lost Soul?

The endowment is a bit of lost soul. It's a term with no true legal meaning but a whole bunch of different interpretations. It's a word embraced by some fundraising organizations yet frowned upon by others. Endowments are like perennial flowers – we don't necessarily want to spend much time cultivating them but heck, we sure do love them when they sprout each and every year.

Endowment is a term with no recognized definition and the term is not defined in the *Income Tax Act*. For most of us, an endowment is simply a fund which is kept aside in perpetuity to provide earnings for the long-term benefit of the organization. It's the charitable "savings account" from which interest can be drawn on an annual basis to fund the charity's programs and activities. Let's leave it at that. This isn't a technical piece on endowments so I'm not going to go down that road.

What has amazed me over the course of the last few years is the number of senior fundraisers, charity executives and Board members who have taken the opportunity to denigrate endowments, suggesting that they should not be an integral part of an organization's fundraising strategy.

Don't get me wrong. There will always be a place for annual and major gifts. We know that capital campaigns will continue to be an important force in fundraising. But suggesting that endowments don't belong doesn't necessarily serve the long-term interests of the organization or the sector as a whole. For all but a few charities (e.g., organizations that have been formed in support of a short-term cause or a particular event), there must be a renewed focus on building the endowment fund.

Charity A versus Charity B

Let's take a look at two charities. Charity A, the Long-Term Hope Mission, made a conscious decision in 1990 to focus on endowment building. Over 30 years ago, the Board of Directors passed a resolution that ensured that all undirected bequests would be placed into the organization's endowment fund. Furthermore, the organization's fundraising staff (not just its Planned Giving personnel) strategically began to incorporate the endowment fund into their donor conversations. By doing so, they gave their donors the choice of focusing on the short and/or long-term interests of the organization.

Charity B, the Live for Today Society, has always had a strong fundraising program. While the organization never made a conscious decision NOT to focus on endowment building, it just didn't. For the most part, bequests and other deferred gifts were used to support the organization's immediate needs. The fundraising staff typically did not talk to donors about endowment gifts unless the donor insisted. Only planned giving staff typically talked about anything beyond an immediate gift.

Let's also assume that Charity A and Charity B are similar in size with equal resources spent on fundraising activities.

As a result of decisions made almost two decades ago, Charity A has an endowment fund with a current balance of nearly $18 million. Charity B has an endowment fund of $4 million. Over 20 years, not only has Charity A received more donations into its fund, it has also benefited from the long-term growth of the capital markets. In fact, I think these differences are actually quite conservative based on the relative focus on endowment building.

Let's assume that both charities have similar spending policies, aiming to spend approximately 5% of their endowments each year on the organization's charitable activities (again, we'll assume that this is achievable within the organization's disbursement quota position).

In 2009, Charity A will "receive" $900,000 from its endowment fund while Charity B will receive only $200,000, a difference of $700,000.

As we know, the past two years have presented some serious fundraising challenges for charities. Imagine the relative health of these two organizations trying to weather the storm of decreased immediate gifts. For Charity A, the endowment could be a buffer against program cuts or staff layoffs (and I'm not just talking about fundraising staff here!). Will Charity B be able to sustain itself – will it survive and thrive?

The answer is *perhaps*. Perhaps Charity B will make it through the storm with its own brand of diligence and hard work. My point, however, is that its immediate best interests have been potentially compromised by a lack of focus on the long-term health of the organization.

<u>It's About Choice</u>

As gift planners, we sometimes get bogged down in the technical nature of our profession. Admittedly, I am a big fan of many of the technical planning solutions that enable donors to give in creative and meaningful ways. But at the end of the day, many of these artistic solutions simply do not apply to the majority of Canadians. In fact, I would suggest that endowment (in the loosest definition of the term) provide donors with an opportunity to support their favourite charities in different ways.

The biggest issue today with donor choice is that these options are sometimes not presented to them by the fundraiser. With capital campaigns and immediate issues on the front burner, it's no wonder that endowment building often gets shunned to the corner. But how many donors, if given the option, would opt for the latter. How would this impact the long-term needs of Canadian charities? How might it hamper charities in the short run?

The answers to these questions are important but perhaps less so that creating a TRUE donor-centered environment where donors understand not only the needs of the organization but the options and structures available to them in order to fulfill those needs.