

So What Exactly *Is* an Endowment?

Endowment is one of the most misunderstood terms in our charitable sector. Given the fact that “endowment” lacks a formal legal definition, this should hardly come as a surprise.

There are many who still hold on to the traditional definition of an endowment – that is, funds that are held permanently by a charity where the annual income derived from those funds is used to support the charitable activities/programs of the organization. While this definition is not necessarily an incorrect one, it is rather limited and isn’t overly helpful as we try to navigate the modern world of endowments.

Over a decade ago, changes to the disbursement quota rules in Canada ushered in a new era of charitable giving. These new rules eliminated some of the most onerous spending restrictions for charities and allowed for considerable flexibility in the structuring of charitable gifts.

Under the old rules, if a donor wanted the gift to support the long-term health of the organization (for example, creating a chair position at a university), they would have typically needed to place prohibitive restrictions on the gift which limited the encroachment on the capital of the gift and thus created a structure where the gift could be held in perpetuity, or for a very long period of time.

The new rules eliminated these restrictions and created an open-playing field for charitable gifts. For example, if a donor wanted to structure a gift so that it was used over a fixed number of years, the charity would be able to accommodate such a gift. If a donor wanted a charity to spend the income from a gift over a period of years, and then spend the capital in a lump sum at a future date, this could be done. In other words, when it comes to the structuring of charitable gifts, there is a great deal of flexibility, provided there is agreement between the donor and the charity.

So what does this mean for endowments? It probably means we need to take a broader view of the term. Some organizations are using terms like “spend-down endowment” to describe these new arrangements.

Donors are often looking to structure their gift so it is spent over a period of years, rather than being held in a perpetual arrangement. While traditional permanent endowments may continue to exist, the new model allows for donors and charities to work together to achieve impact. Are these new structures true endowments? Or does it really matter what term we use, as long as the donor and charity are working together to create impact?

