



# Building Endowment with Planned Gifts



Date: February 23, 2017

Time: 1:00 – 2:30 Eastern Time

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# Agenda

- Endowment Basics and Formation
- Endowment Structure, Management and Spending
  - UPMIFA and its applicability to endowment management
  - Management and Spending Policies
  - Endowment minimums
  - Donor Restrictions
- Overlap Between Endowment and Planned Giving
- Strategies to Build Endowment Through Planned Giving



# Endowment Basics

## Endowment

- Generally a gift whose principal is maintained intact
- Some of endowment can be spent each year
  - Historically only “income” could be spent
- State law (UPMIFA) governs management and spending
- Agreements with donors can override state law



## Endowment Variations

- True endowment
  - Gift principal inviolate, in perpetuity
  - Spending limited to interest, dividends, ordinary income
- Self-liquidating endowment
  - Complete disbursement by a date certain
- Quasi-endowment, reserve fund
  - Board designates funds to function as endowment
  - Retains right to invade principal

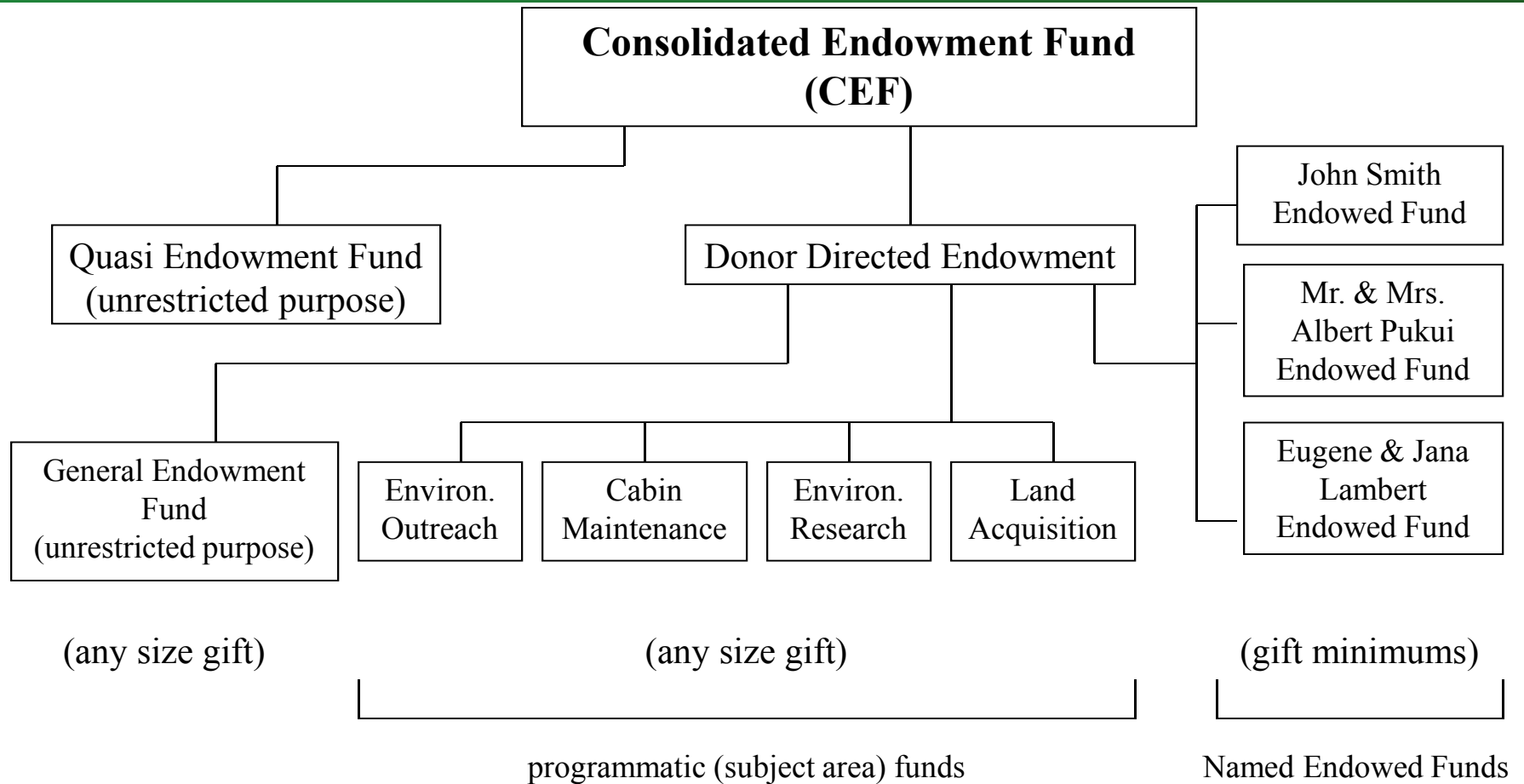


# Endowment Management Entities

- Endowment housed at non-profit
- Separate foundation option
  - For example, a university or hospital foundation
  - Frequently a Type I supporting organization
- Related organization option
  - Umbrella organization that manages endowments of related organizations (denominations or affiliated faith entities)
- Community foundation option
  - Manages endowment on behalf of non-profits in community foundation's service area



# Consolidated Endowment Fund





## Endowment Structure and Management

- Uniform Prudent Management of Institutional Funds (UPMIFA)
- Adopted in 49 states except Pennsylvania
  - See page 6 for PA rules
- Eliminated “historic dollar value” that held principal inviolate
- Charity has discretion to distribute or accumulate principal and income



# Endowment Accounting

- Endowment Accounting/Fund Tracking
  - Fundamentals: beginning balance, plus gains & losses, less distributions, ending balance
  - What to track
    - General endowment fund
    - Programmatic funds
    - Named endowed funds
      - Pros and cons
      - Ways to track
  - Endowment investing





## UPMIFA Endowment Management

- Board can set spending policy it considers “prudent” taking factors into consideration
- A spending rate in excess of 7% is per se imprudent (may be local variation)
- Applies prudent person standard
- Escape plan for “old” or “small” endowments
  - Model =  $> \$25,000$  and over 20 years old
  - Ohio =  $> \$250,000$  and over 10 years!



# Endowment Spending Policies

- Board discretion to set spending rate each year
- Endowment valuation subject to short term fluctuations in value
- Moving Average  
Use the value of the endowment over a 3 to 5 year period to smooth out peaks and valleys in market
- Inflation Based  
Adjust last market value by CPI or Higher Education Price Index



## Named Endowed Funds - Current Gifts

- Minimum amounts (current gifts)
  - Depends on purpose, administrative cost, practicality
- More restrictive the purpose, higher minimum
- Fund agreements
  - Purpose of the fund
  - Investment and management of the fund
  - Ideally a variance provision (“For purposes most closely matching donor’s intent...”)



## Named Endowed Funds - Deferred Gifts

- Minimum amounts
  - “Lock in” at today’s levels
    - Future gift fully endowed at today’s minimum
  - Multiplication rule of thumb
    - Use a multiplier in anticipation of future need (2x?)
  - Present value approach
    - Present value of future gift must equal today’s minimum
  - Leave open to date of maturity
    - Future gift subject to then current minimums



## Funding Endowment with Planned Gifts

- Gift source is typically bequest, beneficiary designation, estate gift
- Gift annuities and endowment
  - ACGA assumption is 50% residua of gift principal
  - Residua could easily fall short of endowment minimum
  - Endowment agreement to backstop CGA
    - “To the extent the residua of my annuity is insufficient to meet the required minimum gift amount, I direct my executor to make up the shortfall from my estate.”



## Funding Endowment with Planned Gifts

- Charitable remainder trusts and endowment
  - May be multiple beneficiaries
  - Endowment gift may be a percentage of CRT remainder
  - Remainder beneficiaries may be revocable
- Solutions
  - As with CGA, shortfall to be made up from donor's estate
  - Gift designated for endowment made irrevocable



## Funding Endowment with Planned Gifts

- Charitable lead trusts
  - Annuity v. unitrust lead interest
- Retained life estates
  - Uncertainty of proceeds
- Pooled Income fund
  - Concerns similar to CGA and CRT



## Named Endowed Funds - Deferred Gifts

- Fund Agreement
  - Ideally donor executes agreement prior to death
- Endowments created by bequest
  - Is the gift suitable given donor restrictions?
  - Is gift within the charity's mission?
  - Is the gift purpose legal, practical, and within charity's mission?





## Donor Restrictions Matter

- Consider gift restrictions are perpetual
- Evans v. Abney, Created park for the enjoyment of white women and children. Land reverted to family
- Robertson v. Princeton, \$35M gift to benefit Woodrow Wilson school at Princeton. Princeton returned \$90M after failing to follow donor instructions.



## Donor Restrictions Matter

- Daughters of the Confederacy v. Vanderbilt, \$50,000 gift in 1933 for residence call known as “Confederate Memorial Hall” to Peabody College
- Merged with Vanderbilt in 1979
- Unilaterally renamed “Memorial Hall” in 2002
- Vanderbilt ordered to pay \$1.2M



## Overlap Between Endowment and Planned Giving

- Notion of a legacy
- Long-term stability for a charity
- A focus on assets
- A focus on individuals
- Catalyst for change



## Strategies to Build Endowment Through Planned Giving

- A. Allocation of deferred gifts to endowment
- B. Promotion of endowment
- C. Creative gift arrangements
- D. Endowment stewardship
- E. Well conceived and managed endowment program



## A. Allocation of Deferred Gifts to Endowment

- Key policy decision, preferably made prior to the receipt of the charity's first large unrestricted deferred gift!
- A less painful way to set aside resources for endowment



## A. Allocation of Deferred Gifts to Endowment

- Range of options
  - Evaluated on gift by gift basis
  - A portion of each deferred gift
  - Entire amount of deferred gift
- Builds both true and quasi endowment

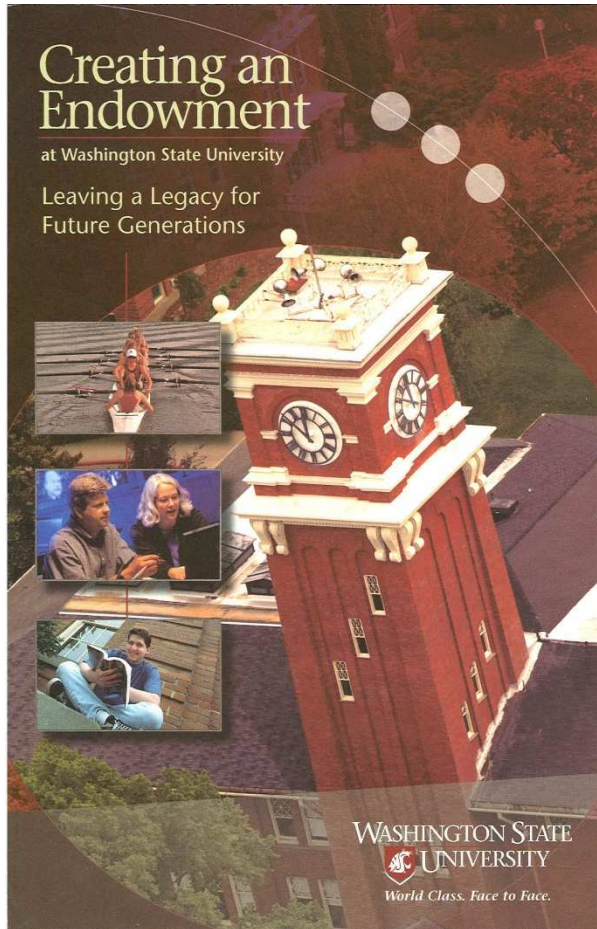


## B. Promotion of Endowment

- Endowment often finds a marketing “home” with planned giving
  - Another way to make a gift
  - Include in existing planned giving outreach:
    - “Ways to Give” brochure
    - Articles, ads, donor stories, inserts
    - Website
    - Endowment brochure



## B. Promotion







## B. Endowment Promotion

- Incorporate into planned gift discussions
- Can be a good way to introduce subject of a deferred gift
  - Endowing the annual gift

“Sam, you have been a faithful contributor for many years. Have you ever considered endowing your gift? For example, if you were to provide for a \$25,000 bequest in your will, you could assure that income of \$1,000 per year, or possibly more, would continue in perpetuity in your name.”



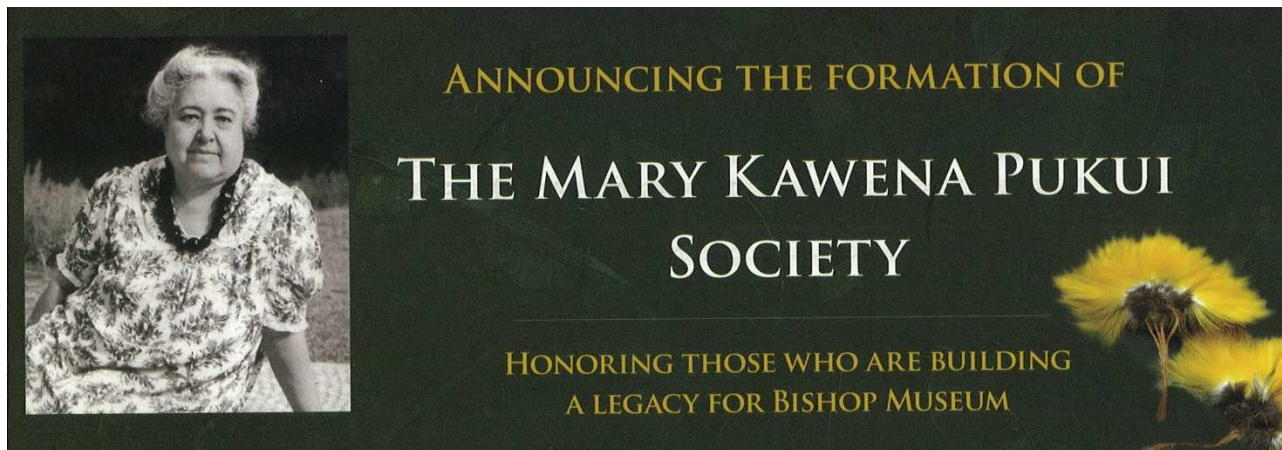
## C. Creative Gift Arrangements

- Virtual endowment
  - Annual gifts equal to spending rate on endowment used for donor's restricted purposes
  - Deferred gift that fully endows fund at donor's death
- Amortized endowment
  - Term pledge that includes
    - Funds sufficient to meet current endowment payout
    - Additional funds to fully endow the fund balance



## D. Endowment Stewardship

- Membership in Legacy Society
  - All endowment donors
  - Donors with named endowed funds
  - Donors making endowment gifts of a certain size





## D. Stewardship

- Basic considerations
  - Distributions being spent towards the intended purpose
  - Regular reporting to donors/loved ones
    - Overall endowment fund
    - Programmatic fund
    - Individual endowed fund



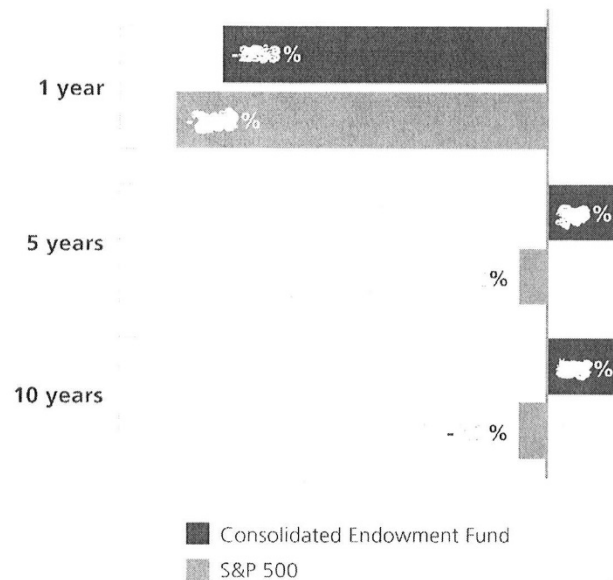
# D. Stewardship

## CONSOLIDATED ENDOWMENT FUND PERFORMANCE Fiscal Year Ending June 30, 2009

The financial crisis that shook capital markets worldwide left its impact on the CEF. Performance was down -2.3% in fiscal year 2009. Although dissatisfied with the results, the Board set liquidity as its top priority and the investment team moved swiftly to defensively reposition the portfolio and actively reduce risk. These actions mitigated to some extent the damage wrought by the severe market conditions and positioned the CEF for future recovery.

In light of the 2008-2009 financial crisis and subsequent drop in the CEF market value, the Board of Regents proactively adopted an interim spending policy. This policy decreases year over year distributions to campus programs from FY08 levels by 25% in FY09 and another 25% in FY10. Thereafter, distributions will be held at the reduced FY10 level until market conditions warrant a return to normal spending. The Board will determine the appropriate next steps no later than June 30, 2013.

The CEF is designed to provide support to the University in perpetuity. This long term horizon, combined with prudent asset management and spending policy positions the CEF to recover over time. The University remains committed to the mission of the CEF, supporting current and future generations of scholars.





# D. Stewardship

## Consolidated Endowment Fund Report for Mr. & Mrs. John and Jane Sample Fiscal Year Ending June 30, 2009

Fund Name: Class of 1941 Endowed Scholarship Fund  
 Department: Student Financial Aid  
 Year Established: 1995  
 Purpose: To provide scholarships to undergraduate students with academic merit and demonstrated financial need.

Fund Principal Activity			Distributions <sup>2</sup>	
	Contributions	Market Value		
6/30/08 Balances:	\$85,220	\$199,808	FY2009 Distributions to Programs:	\$6,767
Additions: <sup>1</sup>	\$0		FY2010 Projected Distributions: <sup>3</sup>	\$5,075
6/30/09 Balances:	<u>\$85,220</u>	\$144,704		

Fund Name: Judson Falknor Endowed Professorship in Law  
 Department: Law School  
 Year Established: 1990  
 Purpose: To enhance the University's ability to attract and retain distinguished faculty in the School of Law.

Fund Principal Activity			Distributions <sup>2</sup>	
	Contributions	Market Value		
6/30/08 Balances:	\$324,253	\$703,350	FY2009 Distributions to Programs:	\$23,821
Additions: <sup>1</sup>	\$0		FY2010 Projected Distributions: <sup>3</sup>	\$17,866
6/30/09 Balances:	<u>\$324,253</u>	\$509,377		



## Summary

- Endowment or endowment alternative?
- Synergy between planned giving and endowment
- Strategies for increasing endowment through planned gifts
- Exciting world of endowment governance (UPMIFA )



# Questions and Answers







## Still Have a Question?

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