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Building Endowment with Planned Gifts



Date: February 23, 2017
Time: 1:00 – 2:30 Eastern Time
Presenter: Jeff Lydenberg
 Vice President, Consulting
 PG Calc Incorporated




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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

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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


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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


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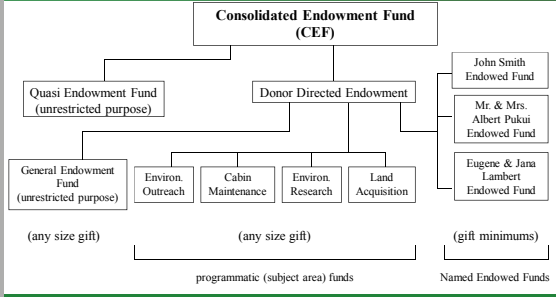
Endowment Management Entities

- 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

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Consolidated Endowment Fund



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graph TD
    CEF[Consolidated Endowment Fund (CEF)] --> QEF[Quasi Endowment Fund (unrestricted purpose)]
    CEF --> DDE[Donor Directed Endowment]
    QEF --> GEF[General Endowment Fund (unrestricted purpose)]
    GEF --- GEF_note["(any size gift)"]
    DDE --> EO[Environ. Outreach]
    DDE --> CM[Cabin Maintenance]
    DDE --> ER[Environ. Research]
    DDE --> LA[Land Acquisition]
    EO --- EO_note["(any size gift)"]
    CM --- CM_note["(any size gift)"]
    ER --- ER_note["(any size gift)"]
    LA --- LA_note["(any size gift)"]
    EO --- EO_group["programmatic (subject area) funds"]
    CM --- EO_group
    ER --- EO_group
    LA --- EO_group
    DDE --> JSF[John Smith Endowed Fund]
    DDE --> MRAF[Mr. & Mrs. Albert Pukui Endowed Fund]
    DDE --> EJLF[Eugene & Jana Lambert Endowed Fund]
    JSF --- JSF_note["(gift minimums)"]
    MRAF --- MRAF_note["(gift minimums)"]
    EJLF --- EJLF_note["(gift minimums)"]
    JSF --- JSF_group["Named Endowed Funds"]
    MRAF --- JSF_group
    EJLF --- JSF_group
  
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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


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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


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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!


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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


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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...”)


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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


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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."


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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


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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


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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?


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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.


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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

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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


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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


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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


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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

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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


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B. Promotion

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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."


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C. Creative Gift Arrangements

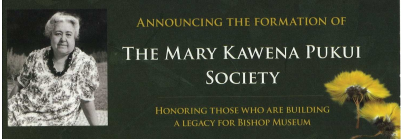
- Virtual endowment
 - Annual gifts equal to spending rate on endowment used for donor's restricted purposes
 - Deferred gift that fully endows fund at donor's death
- Amortized endowment
 - Term pledge that includes
 - Funds sufficient to meet current endowment payout
 - Additional funds to fully endow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

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D. Endowment Stewardship

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



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Summary

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


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Questions and Answers



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Still Have a Question?

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