

## ANOTHER LOOK AT ENDOWMENT

From our firm's 35 years experience working exclusively within the not-for-profit sector, and based on our assessment of current economic realities within that sector, we have been recommending to some of our clients that they consider offering *present-term endowment* along with *permanent endowment* gift opportunities.

### ***Permanent Endowment***

Funds retained and invested as permanent endowment is a goal for most not-for-profit organizations. It provides a reliable source of predictable income. However, for many donors the financial impact from an endowment gift may not satisfy their personal goals to provide *meaningful* financial support for their favored charities.

**Financial Impact:** A \$1 million gift for permanent endowment which generates 5% in annual income will provide \$50,000 each year to meet the expressed needs of the organization along with the wishes of the donor; a significant financial investment with limited financial impact.

An additional factor to consider is that some major donors have expressed reluctance to provide permanent endowment because it could eliminate the need for an organization to be continuously accountable to its donors, i.e. its "investors".

### ***Present-Term Endowment***

A gift of present-term endowment can provide that a specific dollar amount of the retained funds, rather than an annual percentage, can be allocated for expenditure each year.

**Financial Impact:** A \$1 million gift for present-term endowment which provides \$100,000 in annual income would require invading principal to add to generated annual income. This would deplete the endowment within 14 years based on a 5% average return on retained funds. However, over that period of time meaningful financial support will have been provided by, and evident to the donor.

Depleting present-term endowment dedicated to an ongoing financial need would require fundraising to replenish the principal; every 14 years based on the example used. As an alternative to depleting the funds, a donor collateral bequest could secure the permanency of the intended endowment.