

THE Endowment HANDBOOK



The Complete Guide to
Building a Resilient Cause

LAURA MACDONALD

WILEY

Praise for *The Endowment Handbook*

“My working relationship with Laura spans two decades of witnessing the wisdom and counsel she has shared with thousands of non-profit organizations across the United States and the world. This book is a challenge to seize this moment of the greatest wealth transfer in history. It is a compelling and pragmatic guidebook for the nonprofit professional, board member, and donor alike.”

—Steven S. Moore, Chief of Staff,
The Columbus Foundation

“I have turned to Laura MacDonald on many occasions to make the complex simple in this essential world of charitable giving. In *The Endowment Handbook*, readers will see what all of us in the sector have come to expect: thoughtful consideration, practical application, and commitment to lasting impact for nonprofits. She has made endowments – thought to be reserved for elite institutions – accessible to all nonprofits looking to achieve long-term sustainability and impact in our communities.”

—Josh Birkholz, CEO of BWF
Author of *Fundraising Analytics and Benefactors*

“*The Endowment Handbook* is not just a book; it’s a manifesto for building a community of passionate advocates who, together, can transform visions of positive change into permanent, tangible realities. It will take you on a journey through the essential elements of donor engagement and help you discover how to nurture relationships that withstand the test of time. It’s a rewarding journey. Take it!”

—Russell N. James III, J.D., Ph.D., CFP®,
Professor & CH Foundation Chair in
Personal Financial Planning

“*The Endowment Handbook* is chock full of practical and useful information to help charities of all sizes and complexities to better serve their constituencies, grow their institutions, and secure their economic future. This comprehensive guide is state-of-the-art, insightful, and easy to read with many real-life examples and success stories. *The Endowment Handbook* is an excellent training guide and reference manual. It should be required reading for all nonprofit leaders – both board and staff members.”

—**Diana S. Newman**, Author and retired
consultant to nonprofit organizations

“Laura MacDonald is one of the most insightful thinkers on philanthropy in the nonprofit world today. Our members have benefitted tremendously from her deep knowledge of fundraising trends and the philanthropic environment. But perhaps even more important is the way that she advocates for financial resilience and enduring relationships as fundamentals for organizations to deliver on their commitment to their communities. This book will be a vital guide for all of us in the years ahead.”

—**Simon Woods**, President and CEO,
League of American Orchestras

“As CEO of National 4-H Council, I have witnessed firsthand the transformative power of strategic financial management in advancing our mission. Laura MacDonald’s *The Endowment Handbook* is a timely and indispensable resource for nonprofit leaders navigating the complexities of financial resilience, particularly through endowment management. A standout feature of the book is MacDonald’s nuanced exploration of strategic reserves, crucial for complementing traditional endowments, especially in times of crisis. *The Endowment Handbook* is a must-read for anyone committed to enhancing the financial resilience and impact of nonprofit organizations.”

—**Jill Bramble**, CEO, National 4-H Council

“Laura MacDonald provides this generation of philanthropy professionals a comprehensive look at how endowments can create lasting impact while also motivating donors and potential donors to give at the highest levels possible. Her insights will help organizations establish thoughtful donor-centric methods for communicating the benefit and opportunity inherent in endowed funds. Critically, Laura addresses the newest endowment tools available for crafting donor impact. As a tool for good, this book creates momentum for organization executives, boards, and philanthropy leadership teams to address the opportunities endowments provide.”

—**Ben Golding**, CEO, Advancement Resources

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*Dedicated to all those who inspire generosity through
their devotion to the common good.*

Contents

Foreword	xiii
Preface	xvii
Part 1: Financial Resilience	1
1 What Is Endowment?	5
2 Are You Ready to Build Endowment?	33
3 A Summary of Endowment-Building Methods	55
4 Making the Case for Support and Marketing Endowment	75
5 Policies and Practices for Managing Endowment	109
6 Alternatives to Endowment	135
Part 2: Enduring Relationships	155
7 Who Gives, Who Gives to Endowment, and Why	161
8 How Endowment Donors Give and How They Are Engaged	189
9 Achieving and Measuring Success	217

About the Author	243
Acknowledgments	245
Appendix: References and Resources	247
Bibliography	269
The Donor Bill of Rights	275
Index	277

Foreword

In *The Endowment Handbook*, Laura MacDonald has revived muted conversations about endowments. Building on previous efforts, she moves the subject of endowments into this time and space, making it relevant for today. She argues that setting up an endowment is not just a random event. It must be intentional and backed by big considerations.

The book does three things at once: it provides a refreshed, quick, and brief history of endowments; it helps to define endowments; and it “workshops” those who are envisioning endowments. Laura’s style of intentionally blending information and teaching makes the book a rich resource, and many will find the hidden treasure that they are seeking.

This is an excellent overview of the concept of endowment. It provides a succinct explanation of the different types of endowments and carefully draws the distinction between them from an organizational and donor perspective. Laura helpfully debunks several commonly held myths that hinder actions or create false excitement about endowments. She takes in the wider landscape and presents a condensed history of endowments and the potential pitfalls of establishing and maintaining one. She categorically states that this particular investment structure is not for everyone and, at the same time, argues for the important role that an endowment plays in the distribution of resources in communities, and invites us to do more to ensure the equitable distribution of funds through our nonprofit investment strategies.

Many institutions' archives preserve minutes where boards discussed setting up endowment, yet the idea was never implemented. I was privy to such historical manifestation at the very time that Laura asked me to review and provide feedback to the manuscript of her book. From my own position as board chair of an organization in conversations about endowment, I was curious and hungry for knowledge. From Laura's perspective, she relied on my extensive international experience to make judgements about the relevance of the book outside the United States and whether the language level of the book would be accessible to people for whom English is just one of their many languages.

My answer is "yes" to both questions. This is a difficult book to write and yet well written, with illustrating stories and statistics. It shows sound scholarship yet not mired in jargon. Clare Flynn, Director of Advancement at the United World Colleges, a federation of 18 schools in 18 countries, had this to say about the book:

"This book is an excellent practical resource, for those in governance, leadership, and operational roles, who find themselves considering an endowment for future sustainability. Laura offers the notion that 'big gifts stem from big ideas' for the many of us in the nonprofit sector involved in raising funds for the organizations and causes close to our hearts. Laura's book offers sound, practical advice and guidance for fundraisers and nonprofit marketers making the case for and demonstrating the impact of endowment support. She invites nonprofit leaders, staff, and supporters to come together to diligently craft their own compelling case for endowment as an opportunity to distill a shared vision for the future."

Laura and I have had more than 20 years of professional relationship that has addressed the needs of international organizations with a global reach. Indeed, a book like this has many audiences and can provide guidance anywhere in the world. There are those for whom this book describes their reality and others who want to learn from

what has worked elsewhere. People will use this book in seminars and as a reference during research. For many like me, the book will be a resource to empower volunteer leadership on boards.

The book draws its knowledge and examples mainly from the United States, a country renowned for advanced philanthropy and where endowment – especially in institutions of learning like universities – is a praxis rather than a discussion. Many US endowments benefit the whole world. Rarely do people associate the grants they receive from foundations such as Ford, Rockefeller, Packard, Carnegie, and others as emanating from endowments. Indeed, millions of dollars from foundations to communities all over the world are evidence of the potential return on endowed investments.

One of the debunked myths is the popular but false belief that endowments are the end of fundraising. Schools such as Harvard or Stanford have endowments from which they serve needs while they continue to raise more funds. Because they have endowments, they are in a better position than those without when it comes to managing various financial risks.

Laura MacDonald's book is a great companion for volunteer leaders who serve on countless nonprofit organizations, schools, universities, city councils, libraries, museums, and so on. Volunteers at the helm of board leadership are entrusted with important decisions, but not always equipped with information and knowledge. In fact, leadership exposes management and boards to unimaginable complexities. Contrasts between scarcity and plenty, poverty and wealth, continue to create shameful gaps between those who have and the ones without. In the context in which I operate today, I am particularly convinced that endowment to support scholarships for students from vulnerable situations is a big idea inviting big endowment investments. Education is the leading proven equalizer to combat the inequalities in our societies.

With a wealth of examples and stories from real situations where endowments have worked and not worked, this book offers convincing proof that endowments are of immense value to organizations and institutions. It is a powerful book, with great

stories and a message that is current and important. The ideas in this book can help boards and management address their fears and answer the genuine questions that must be dealt with before, during, and when an endowment is the option of choice. With such a dearth of new books on endowments, I believe that this book has the potential to ignite interest in new research and books on endowments. In sum, this book is both a call to action and a manual on how to do it.

—Musimbi Kanyoro
Nairobi, Kenya
April 1, 2024

Preface

In my work with nonprofit organizations across the country – and occasionally around the world – I encounter a wide range of attitudes. Some board members build up treasure as they worry about an organization’s future despite an enviable balance sheet. Across town, a scrappy executive director may be prepared to throw every dollar they have to solve a wicked problem today without regard to next month’s payroll. Some prominent institutions consist of a small group of community stakeholders while other powerful movements build a global corps of supporters and partners. Between these extremes are almost two million 501(c)(3) organizations in the United States alone – and thousands more non-governmental organizations (NGOs) around the world – all striving to do good work today and ensure their impact for the long haul. The most resilient are built upon a solid foundation of loyal donors and dependable funding – from endowments or their functional equivalents – that enable them to pursue their mission with confidence.

This is a particularly opportune moment to focus on endowments and the people who create them. In May 2023, a headline in *The New York Times* declared that “The Greatest Wealth Transfer in History is Here” (Smith, 2023). The article estimates that older Americans will pass down \$84 trillion by 2045. While the majority will go to heirs, as much as \$12 trillion may be bestowed upon nonprofit organizations according to the financial research firm Cerulli Associates. Imagine an additional \$12 trillion fueling the causes that save lives, conserve the environment, and elevate the human experience. If that amount were endowed, it would create perpetual revenue

equal to the *total* amount given to nonprofit organizations in the year 2020. But the funds will not magically appear. The organizations that receive a share of this bounty will be the ones that do the hard work to create systems and nurture relationships. Those that simply wait and hope are unlikely to benefit.

The Purpose of This Book

This book is intended to help nonprofit organizations create and nurture the systems and build the relationships that will fuel their cause and elevate their mission. It is focused on two key resources: money and people. While there are other important keys to resilience, such as brand, reputation, revenue diversity, disciplined budgeting and planning, relevance and impact, as well as an engaged board, even these factors are rooted in people, money, or both.

Who should care about the health and resilience of the nonprofit sector? Everyone. Whether someone gives to, works in, or is served by the nonprofit sector, the impact of charities is abundant. Nonprofit organizations employ approximately 12% of America's workforce and represent 5% of the total economy. The annual report *Philanthropy and the Global Economy*¹ produced by the research team at Citi estimates the global value of philanthropy at \$2.3 trillion per year, or just under 3% of global GDP.

Many everyday citizens are unaware of all the ways their lives are impacted by nonprofit organizations. They are not aware that philanthropy supports the places where they learn, worship, and heal; the well-being of the environment that surrounds them; the experiences that bring them delight and wonder. A thriving nonprofit sector is essential to both our economy and our common good and can be achieved through the prudent management of these two critical ingredients: money and people.

More specifically, *The Endowment Handbook* is directed toward the current and future nonprofit leaders and development professionals who are responsible for nurturing relationships with donors,

securing gifts, and managing endowed and reserve funds, especially those in mid-size and smaller nonprofits. Endowments are disproportionately held by larger, older, predominantly white institutions that have ample knowledge of how to build and manage endowments (although they, too, will find helpful guidance here). With this book, nonprofit organizations of any size and in every sector can develop the ability to begin an endowment and increase it over time by cultivating mutually rewarding relationships with their donors.

Overview of the Content

This is meant to be a practical guide, offering nonprofit professionals, board members, and donors with specific steps that can be taken to strengthen the organizations that serve the common good, organized in two parts.

Part 1

This is a discussion of financial resilience, most notably endowment: how it is defined, built up, and deployed in service to a cause as well as some of the criticisms and pitfalls to avoid. The first five chapters owe much of their content and inspiration to Diana S. Newman's book *Endowment Building*, which was published in 2005 by John Wiley & Sons as a part of the *Nonprofit Essentials* series. Here, the book is updated to reflect changes in the economy, donor behavior, and the regulatory environment. Diana is a friend and mentor who spent the final decade of her career as executive vice president of Benefactor Group, the firm I established in 2000. It was an honor to work with Diana, and an even greater tribute when she assigned her rights in the original publication to the firm.

Part 1 also discusses other means of financial resilience, such as strategic reserves, which may complement an endowment in strengthening an organization's resilience. Reserves have grown in importance and popularity as organizations – and especially their

donors – confronted the constraints of endowed funds during the financial pressures of the COVID-19 pandemic. Much more than a “rainy day fund,” modern approaches to financial reserves balance fiscal stability against the flexibility to invest in social ventures and other innovations. Reserves can provide the required startup capital when an idea shows promise to advance the mission and strengthen the bottom line, and may even fund the growth of the endowment, in a virtuous cycle. In recent years, entrepreneurial donors have shown a preference for the flexibility of reserves over the staid dependability of endowments. Chapter 6 also explores other, less common, ways to achieve reliable financial resources.

**Endowment and Reserves
Are Not the Same**

While both endowments and reserves involve assets held for the long-term financial health of an organization, they are two very different concepts. One is meant to be held in perpetuity, releasing only a small portion of the invested funds to support programs and operations. The other is a revolving fund to manage temporary disruptions in operating cash or to provide one-time funding for episodic opportunities.

Comparing Endowment and Reserves

	Endowment	Reserves
Purpose	A permanent fund	Temporary funds
Primary types	True, quasi-, and term	Emergency (operating) and strategic
Policy and regulation	UPMIFA (true endowment only), GAAP	GAAP

	Endowment	Reserves
Accounting treatment (time)	Permanently restricted or temporarily restricted	Unrestricted
Accounting treatment (purpose)	May be restricted or unrestricted	
Goal	Perpetuity	Temporary financial needs or opportunities
Investment horizon	Perpetual	Short term

Part 2

This part shifts from financial matters to focus on the individuals whose hard work and generosity fuel causes, whether they are the donors who make gifts; the nonprofit professionals who secure and manage funds; or the broad corps of stakeholders who advocate, volunteer, and elevate the mission in myriad ways. Building resilience requires a coordinated and cooperative effort, rooted in enduring relationships. It cannot be delegated to any single individual. The keys to building enduring relationships are explored in these chapters.

Most nonprofit organizations, regardless of their fiscal heft, continue to call on donors to fuel their cause. The focus is on individual donors because they – rather than corporations or institutional foundations – provide as much as 85% of all charitable dollars given, according to *Giving USA*² (through direct giving, bequests, or closely held foundations), and are therefore the focus of these chapters. This part explores questions such as how and why people make charitable contributions – especially contributions to endowment – and

how to earn and maintain their loyalty. Like any business model, the most stable system is one that relies on a significant proportion of its current “customers” (that is, donors) to provide recurring support. Because customer (donor) acquisition is both expensive and unpredictable, it is essential to retain these long-term relationships.

Finally, the concluding chapter (Chapter 9) provides various means to achieve and measure the success of relationship- and endowment-building strategies and ensure the desired benefits for the cause and those it serves.

The Resources appendix provides descriptions of various resources used in building and managing endowment and reserved funds, as well as links to templates and examples on various websites.

Disclaimer

Nothing in this book should be misconstrued as legal, accounting, or investment advice. While examples of methods for each are included in the text, they are just that: examples. Please consult with certified professionals, and – in the case of planned giving vehicles – encourage or *require* your donors to do the same. For one thing, I am simply a fundraising practitioner and unqualified to dispense formal guidance in these areas. In addition, this book reflects the legal and societal context of its time, which may well have evolved by the time a reader is applying its content.

Throughout this book, examples are drawn from the author’s experience. For the most part, the organization is not named. In some cases, the examples are actually a composite of several organizations, donors, and/or situations. In all cases, they are rooted in one or more actual events.

A Few Notes About Language

The words “cause,” “organization,” “institution,” “charity,” and “nonprofit” tend to be used interchangeably throughout the text,

although their meanings are not identical. While “nonprofit” has emerged as the dominant descriptor in North America, some have sought to replace this with the moniker “for impact,” and most of the rest of the world uses “non-governmental organization” (NGO). A “cause” addresses a broad social issue such as racial justice or pediatric health or conservation of the environment. Many separate nonprofit organizations may work toward the same cause, each with its own programmatic approach, budget, and base of supporters. Trends point to donors’ increasing loyalty toward a “cause” versus loyalty to any single nonprofit institution that serves the cause. For example, a donor may be committed to reducing food insecurity, but could express that loyalty through a gift to the foodbank one year and a gift to a nonprofit urban farm the next. The ability of any single organization to build financial resilience and enduring relationships depends, in part, on the resonance of its cause, its ability to differentiate from others serving the same cause, and its consistent cultivation of deep relationships that retain the donor’s loyal support to their organization’s pursuit of that cause.

Throughout the book, the words “donor” and “supporter” are frequently transposed, with a preference for the former. While “donor” implies someone who has given money, “supporter” is often understood as a more inclusive term that embraces those who have also given of their time, talent, ties, and testimony – traits that are also desirable and often lead to the giving of treasure.

“Major gifts” and “major donors” are frequently mentioned, reflecting the increasing reliance on big gifts to secure sufficient resources. Each organization has its own definition of “major donor,” which is best determined using the Pareto principle: calculate 80% of contributed revenue and then, starting with the largest donor and in descending order, count the number of donors whose collective gifts provide that amount. Often it is just 5–10% of the total donor roll – the cut-off represents the organization’s “major gift” threshold. However, use caution in applying the label because *any* donor could consider themselves “major,” depending on the size of their gift in proportion to their capacity and/or their dedication of time and

talent in addition to treasure. And for purposes of building endowment, it is often a donor's loyalty, rather than the magnitude of their gifts, that signals the likelihood of a legacy gift.

Is it "development" or "advancement"? It depends on whether the marketing team reports to the same leader or has a separate (sometimes siloed) structure. Throughout the book, I tend toward "development," because most of the references are to those with specific fundraising responsibilities whether their department is called "development," embedded within "advancement," placed in "external relations," or somewhere else. When there is a distinction, it is clearly identified. As explored in Chapter 7, it may be prudent to consider different titles altogether.

Part 2 describes the various traits of donors, including their generation. Here, the definitions developed by the Pew Research Center are used, with the terms "Millennial" and "Gen Y" treated as interchangeable.

Discussions of who gives to endowment, how they give, and why they give lean heavily on research into the traits, motivations, and behaviors of planned giving donors. Not all gifts to endowment are planned gifts, and not all planned gifts are directed to endowment. Nevertheless, there are few studies that look at endowment donors in isolation, while there is abundant research on planned giving donors, so the latter serves as a proxy.

Onward

Readers are drawn to this book because they are (or are preparing to be) involved in the enterprise of building endowment or reserves and nurturing relationships. The journey will require more than new skills and knowledge. Building resilience requires a shift in culture: from focusing on today to focusing on tomorrow; from funding operations to fueling dreams; from scarcity to abundance. Those who can navigate this journey will find great reward as the causes they are devoted to flourish.

—LMac

Notes

1. Andrew Pitt, Amy Thompson, and Karen Kardos, “Philanthropy and the Global Economy,” *Citi Group* (Citi GPS: Global Perspectives and Solutions, November 2021), <https://www.citigroup.com/global/insights/citigps/philanthropy>.
2. Considering the sum of all gifts attributed to individual donors, bequests, and the half of foundation support that can be allocated to closely held family foundations and donor advised funds.

PART 1

Financial Resilience

resilience, n.

The quality or fact of being able to recover quickly or easily from, or resist being affected by, a misfortune, shock, illness, etc.; robustness...¹

Introduction

In the familiar fable attributed to ancient Greek storyteller Aesop, the tortoise wins the race even though the hare has much more speed. The moral that “slow and steady wins the race” embodies many of the ingredients that can sustain a cause for the long haul: tenacity, humility, and determination. Like the tortoise, nonprofit leaders are adept at turning disadvantages into advantages, at understanding the need for consistent effort, and at facing adversity and insurmountable odds. All of those qualities can – and should – be applied when developing financial resilience.

Should nonprofit organizations focus on money when they’re not about profit? Of course they should! “Nonprofit” is simply a tax designation, not a business model. As with any enterprise, financial resources are necessary to fuel operations. Employees and

vendors must be compensated, debts repaid, and dreams funded. Even “overhead” must be supported. As Dan Pallotta, the provocative author of *Uncharitable*, declared in a March 2013 TED Talk, “the next time you’re looking at a charity, don’t ask about the rate of their overhead. Ask about the scale of their dreams.”

For any cause to achieve and sustain the scale of their dreams, it must be more than a bootstrap operation, scrambling to shift money from one pocket to another like an exhausting and never-ending gerbil wheel. It is through endowment, reserves, and enduring relationships with loyal supporters that an organization can pursue its cause from a place of strength and stability.

In the YWCA (a global movement working in more than 100 countries to mobilize the power of millions of women, young women, and girls), there is a common saying that leaders “plant trees whose shade they will never enjoy.” Leaders who accept the duty to create a resilient cause often do not enjoy the benefit of their labors. While they scramble to meet both the needs of today and the needs of the future, it is their hope that generations of successors will find their path less challenging and will be able to devote more energy to solving wicked problems or achieving brilliance, and less to the pursuit of funding.

Some may question whether it is appropriate to set money aside for the future through endowments or reserves, proclaiming it “hoarding” when there are pressing needs today. Others point to the necessity of generational equity, or not prioritizing the needs of today over the needs of tomorrow or vice versa. Perhaps the apt metaphor is a marathon: the training and discipline to get ready for that future race pays dividends today in better health and stamina (or a larger, more loyal donor corps) while it also provides a pathway to meet future goals. Just like someone running a marathon, a successful competitor sets a steady pace (like the tortoise) and understands that endurance is more important than speed. Too often, organizations are seduced by the idea that their efforts today will yield results tomorrow and set off at an unsustainable pace (like the rabbit), only to lose interest