Better Than Endowments

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Charitable organizations are always grateful to have endowments. But *having* an endowment is different from *creating* an endowment. Given the needs facing nonprofits today, should creating new endowments be a priority? I would argue that in many cases donors and nonprofits should create something that is far more beneficial than endowments – what I call Aspirational Impact Funds.

First, a word about endowments. Sometimes creating endowments make perfect sense. A classic example is starting a maintenance fund at a museum for the perpetual preservation and display of artifacts. In that case, the time span is the same for both the charitable mission and the investment method. It's a forever mission, so a forever investment aligns perfectly.

At other times, there is a jarring disconnect between mission and method. For example, think of critical, time-limited missions, like research on eliminating the HIV virus and ending the scourge of AIDS. What's the value of ensuring a large endowment for AIDS research a hundred years from now if there are people literally dying for a cure today? Shouldn't all the available funds go into research now so there will be no need for those funds in the future?

If endowments seem singularly inappropriate for fighting dread diseases, they can also be imperfect vehicles for organizations whose missions are less urgent and life-threatening. Nevertheless, endowments are all too often the default vehicle of choice for major gifts.

Why? Well, there's the tug of tradition and prestige, which influences both donors and nonprofits.

Another factor encouraging endowment creation is that some donors conflate their individual investment strategies with their approach to charitable giving. In preparing for retirement, there's a clear case to be made for piling money up for the future. If, say, Mary Johnson at age 45 is earning more than she needs now, then she should absolutely be saving it for old age, when she will undoubtedly need the money. In doing her charitable giving, Mary may then forget that nonprofits are not individuals preparing for their retirements, but rather organizations with compelling needs that should be addressed right away.

Yet another influence encouraging endowment building is the gravitational pull exerted by the financial services industry. There's money to be made in money that's invested – so, consequently, financial advisors push endowments.

But one clear reason donors create endowments is that nonprofits have no creative alternatives at the ready for donors who approach them with the idea of making an endowment gift.

Nonprofits need to brainstorm creative alternative uses of major gifts – namely, the creation of what I call Aspirational Impact Funds. These are essentially hybrid funds that provide focused operational support over a set period of years, in the process creating both an exciting advancement for the organizational mission and significant recognition and satisfaction for the donor. Creating and structuring Aspirational Impact Funds is a pragmatic variation on the old game of, "What would we do if someone gave us a million dollars?" Here, it's more like, "If someone wants to give us a million dollars, how should that gift be structured?"

Here are some examples of effective Aspirational Impact Funds:

- A museum that had typically been open six days a week finds that for budgetary purposes it may need to close a second day a week. Then the museum leadership speaks with the Shapiro family, who agree to make a major gift that will underwrite the costs of being open one day a week for the next five years. Each Tuesday, the museum puts up a sign announcing that it is a “Shapiro Family Tuesday.” The guards even welcome people to the museum saying, “Welcome to the museum! It’s a Shapiro Family Tuesday!”

- A small college finds itself struggling to meet the scholarship needs of its student body. Because of the college’s modest financial aid capacity, talented students are matriculating elsewhere. In response, Jane Verducci, their largest donor, tells the college she would like to create a $5 million permanently endowed scholarship fund. The college convinces her instead to create the Verducci Scholars Program, which will spend down the principal and earnings from her gift in the course of the next ten years to underwrite the education of dozens of Verducci Scholars, many of whom will be attracted to the campus by this remarkable opportunity. Not only will the students be helped and launched on their careers by the Verducci gift, but their very presence will improve the reputation of the college and attract other top students.

- An environmental research institution in a remote location is having a hard time attracting and retaining young staff members. It convinces its board chair, Maria Velazquez, to make a million-dollar gift to create the Velazquez Fellowship Program. Each semester for ten years, the organization will provide a paid internship to a promising graduate student, who will receive the title of “Velazquez Fellow.” One of the Velazquez Fellows may stick around and eventually become the CEO of the organization. Others will become important researchers elsewhere. One may go on to win a Nobel Prize.

- A land conservation group has grown tired of the continual boom-and-bust fundraising cycle, where a critical piece of land becomes available, and the organization then cranks up an emergency campaign to raise hundreds of thousands of dollars to buy the parcel before a deadline passes. After speaking with its largest donor, the organization announces the Ivan Petrovski Fund – $5 million held in reserve that can be used as a source of money for proactive acquisitions of critical parcels of land as they become available.

All of these funds share two key attributes: They help the organization meet its mission in a manner that is exciting, immediate, and meaningful, and they honor the donor in a visible and innovative way.

The most common objection I hear to these funds is, “What do you do after the money runs out?” Well, if the fund has done its job of creating excitement and impact, there will probably be other funders stepping up to do something similar from that point on. “Shapiro Tuesdays” will turn into “O’Reilly Wednesdays.” But even if the worst comes true and there’s no new money – well, then the organization is no worse off that it was in the years before the fund was established. And in the meantime, that Aspirational Impact Fund made an awful lot of good things possible.