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Endowments are a long-term proposition. Similarly, planned gifts often have a long-term aspect to them in that the wealth being transferred by donors in all likelihood took many years to amass. Frequently as well, donors want their gifts to have an enduring impact.

All in all, even though planned gifts and endowments are ultimately distinct, planned gifts are generally well-suited for bolstering endowments, and many planned gifts do in fact wind up playing that role. Furthermore, a planned giving program can provide a “home” for endowment activities. It is not uncommon for development officers responsible for planned giving also to be charged with directing, or at least assisting, endowment efforts.

An endowment is forever (usually)

An endowment, as generally understood, is a permanent fund. Its principal is never exhausted. A more accurate understanding, however, is that an endowment is not wholly expendable on a current basis. This leaves room for the possibility that the principal of an endowment may ultimately be spent over some period of time shy of eternity.

Key in determining whether an endowment will indeed be permanent is whether this is what the donor specified. It doesn’t happen often, but occasionally a donor will direct a charity to maintain an endowment on other than a permanent basis. Either way, in accepting the donor’s gift, the charity signifies its agreement to honor the donor’s wishes.

Of course, this is the same principle that applies with respect to any donor restriction, whether that restriction pertains to the purpose to be served by a gift or, as in the case of an endowment restriction, to how the gift will be managed. That being said, in certain circumstances state law will permit a charity to vary the extent to which it must comply with an endowment restriction.

What looks like an endowment but isn’t?

An endowment – whether permanent or not – established pursuant to a donor restriction is often referred to as a “true” endowment. True endowments are to be contrasted with quasi-endowments, which, according to a dictionary definition, *seem* like endowments but ultimately are not.

A quasi-endowment is created when a charity treats a gift that is not subject to an endowment restriction as though the gift were thus restricted. This is accomplished by action of the charity’s governing board. Accordingly, a quasi-endowment is sometimes referred to as a “board-designated endowment” or as a fund “functioning as an endowment.”

Because a charity’s governing board creates a quasi-endowment, that body is also free at any time to change its mind and spend some or even all of the principal. While in practice many charities with quasi-endowments leave the associated principal untouched over the course of many decades, that principal remains available to be managed in some other fashion. A quasi-endowment is therefore essentially just a reserve fund, albeit typically a very long-term reserve fund.

Endowment building is not a spectator sport

On the one hand, endowments are not suitable for all organizations. Some have a mission that is inconsistent with any approach other than putting all gifts to current use. Others are not (yet) capable of meeting the various legal, accounting, investment, and other operational responsibilities that come with maintaining an endowment. Still others may deem themselves to be worthy of receiving endowment gifts, only to find that their donors disagree.

On the other hand, if a charity either

- already has an endowment program or
- has at least determined that endowments would be appropriate from its point of view, as well as in the eyes of its donors, and has sound policies and procedures in place,

the charity should be proactive in seeking endowment contributions, consistent with being able to attract sufficient financial support for current operations. Moreover, planned giving arrangements will naturally figure prominently in this endeavor.

Sometimes a donor will force a charity's hand. Consider the situation of an organization that presently has no endowments. If the donor's gift comes with an endowment restriction, the charity will need either to commit to managing the proposed fund properly or decline the gift.

Even if a charity does not have any true endowments, it can still create and augment a quasi-endowment, especially by drawing on planned gifts. Many organizations, including those with true endowments, have a policy of assigning to a quasi-endowment all unrestricted bequests and other matured planned gifts. Additional options are:

- A percentage of each such gift,
- All dollars over (or under) a certain threshold amount, or
- Some combination of the first two bullet points.

Going yet a step further, a charity could make known to donors ahead of time that if they leave a bequest to the charity, all or some specific portion of the gift will be added to an endowment. Under the law of most states, such an indication, coupled with a donor taking it to heart when arranging his or her gift, would actually be enough to make the gift one for a true endowment.

Finally, a charity might steer its donors to an endowment benefiting the organization that is nevertheless housed somewhere else. Possibilities include a fund at a community foundation or even a separate entity established for the express purpose of securing contributions to advance the work of the charity in question (e.g., a foundation set up by a hospital to support the hospital).

Endowments as the last word in "legacy giving"

Inherent in deferred planned gifts generally but particularly in bequests is the desire on the part of the donor to make one last gift in support of a cause or activity he or she found important and compelling during life, coupled with a desire to ensure the charity's purpose is continued once the donor is no longer living. Also, a deferred gift of any kind – bequest, beneficiary designation of retirement assets, proceeds from an insurance policy – gives the donor a final opportunity to establish a legacy, to leave "…footprints in the sands of time."

These same sentiments of being remembered and having long-term influence also engender gifts for endowment. The desire to leave a personal imprint, either for oneself or for a loved one, is met best by the creation of an individual, named endowment. While a charity should give careful thought to the minimum size, the funding period, the purpose to be served, and similar requirements a gift must meet in order for a name to be forever attached to an endowment, the experience of charities that do afford donors this option is that it can be a strong source of motivation for making endowment gifts.

Whether named or not, an endowment allows a donor to extend beyond life whatever level of annual support he or she was providing a charity prior to death. Of course, if a donor is capable of establishing an endowment that will generate distributions larger than the donations the donor had been making annually, the charity should not limit the donor to settling on an endowment that would merely sustain past giving. In some cases, however, encouraging a donor to consider arranging an endowment gift sufficient to replicate lifetime giving each year in the future will equate to asking the donor for a “stretch” gift, one that, upon reflection, he or she may nevertheless deem worthy of completing.

Endowments foster institutional stability

It almost goes without saying, but a charity that can draw upon one or more endowments – or even quasi-endowments – to meet a portion of its financial needs year in and year out will enjoy more diversified, reliable funding. In addition, donors are often impressed by the foresight and discipline reflected in an organization’s endowment efforts. So long as the organization is conscientious about making an ongoing case for all sorts of support and can demonstrate its vitality in fulfilling an appealing mission, strong planned giving and endowment programs will complement a strong annual campaign and strong grant funding. In short, there is plenty for both donors and charities to like about endowments.

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