

ALL SIGNS POINT TO ENDOWMENT

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Current societal and fund-raising trends point to a great potential for endowment development that has yet to be realized. Using the university model of endowments, unrestricted endowment funds could be used in the federation allocations process to fund research, new programs, and capital equipment. This coherent planning process would ensure that the use of endowment funds would have long-lasting community impact.

Endowment development is the most exciting function in Jewish federations today. It has great potential for raising new funds, effecting change within the Jewish community, and thereby enhancing the quality of Jewish life. Yet, endowment development was not always embraced as it is currently, and in many communities, the real potential of endowment development has yet to be recognized.

Until recently, development was considered of secondary importance in federation fund raising to the annual campaign. In contrast to the campaign, endowment departments were often staffed by part-time employees, usually former executive directors or lay leaders. Endowment boards or committees were primarily made up of past federation presidents and others whom the federation wanted to keep involved. All of these people were considered "well connected" and therefore able to obtain endowment gifts. And although endowment funds were raised, it was more often within the framework of assuring monies for future "rainy days." There was no coherent policy stating how endowment development and fund allocation fit into the federation as a whole.

Yet, trends in the overall Jewish community and in federation fund raising in

particular dictate that endowment development take a prominent place on the federation agenda. It has become essential not only to future success in Jewish fund raising but also to the continued strength of our Jewish communal institutions. This article describes the signs that point to the importance of endowment development and the characteristics required in endowment staff and proposes a model for endowment fund raising and allocation.

THE SIGNS

Increasing Rate of Inter-marriage

The oft-quoted statistics from the 1990 National Jewish Population Survey (NJPS) on the rate of intermarriage have frightening implications for the future of fund raising and therefore for continued support of our Jewish institutions. In recent years just over half of Born Jews who married, at any age, whether for the first time or not, chose a spouse who was born a Gentile and has remained so, while less than 5% of these marriages include a non-Jewish partner who became a Jew by Choice, i.e., converted (Kosmin et al., 1991).

The likelihood of contributing to Jewish philanthropies declines with each generation in the United States so that the fourth-generation Jewish household is much more likely to favor non-Jewish causes (Ritterband & Silberstein, 1988). When the fourth-generation household is intermarried, it is even less likely to be engaged in

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the Jewish community. "Intermarriage, even with conversion, results in diminishing loyalties. Friendships broaden to include non-Jewish circles — relatives are not all Jewish, children have mixed experiences — the base and rationale for community engagement is changing" (Fruehauf, 1988).

It is not surprising then that *contributions to Jewish charities made by intermarried households are half of those made by Jewish households*. According to the NJPS, this is true for each type of Jewish giving: the categories are "contributed to Jewish charity in 1989" and "contributed to federation/UJA campaign in 1989" (Kosmin et al., 1991). It is striking to note that although 62% of Jewish households gave to Jewish charity in 1989 and 45% contributed to the federation/UJA campaign in that year, only 28% of intermarried households gave to Jewish charity and only 12% to the campaign (Kosmin et al., 1991).

Changes in Patterns of Accumulation of Wealth

According to Barry Kosmin, director of the National Jewish Data Bank, "the ideal type for a federation campaign is a person with a high income, aged 55-64, who is a second-generation American" (Kosmin, 1988). Many of these people are entrepreneurs who have established businesses and accumulated wealth. Their children, however, often do not follow in their parents' footsteps. With increasing frequency, they enter professions or become managers in large, non-family-owned companies.

However, although the new generation of professional Jews has not amassed the wealth of earlier generations, it appears to be well off, according to any normative measure of wealth. Yet, these "Baby Boomers" do not perceive themselves as such.

They have a psychological sense of relative deprivation as they measure themselves against even more successful relatives and

neighbors. They are faced...by escalating real housing costs and escalating college tuition for their children. Some of their costs are self-imposed by their lifestyle, such as when they subscribe to the ethos of you are what you drive or to the high entertaining costs of Jewish *simchas*.... Nevertheless, in a society where yesterday's luxuries are today's necessities, the amount of discretionary income available often cannot keep pace with even the increasing cash flow of two-earner Jewish households. *Whatever the claims of economists or moralists, many of these people feel financially strapped. This situation is crucial to any understanding of Jewish fund-raising potential* (Kosmin, 1988, italics added).

Major Contributors Are Aging

The data cited at the 1988 Conference on Jewish Philanthropy in Contemporary America indicate that contributions to Jewish charity are related to the donors' "recognition and association with their heritage; their commitment to perpetuate the Jewish community and Jewish life; their concern for Israel and keeping the Jewish community strong; and their sense of social responsibility (Fruehauf, 1988). Moreover, "with each generation in the United States, the probability of favoring Jewish philanthropy goes down about ten percentage points.... Younger generations are different from older generations in their attitudes toward Jewish life and in their sense of responsibility and obligation to Jewish causes (Ritterband & Silberstein, 1988).

Ritterband and Silberstein (1988) reported in their paper, "Generation, Age, and Income Variability," that in New York half of those giving in the \$10,000+ bracket were over 60 years of age. They conclude that "age is twice as significant a factor accounting for Jewish giving as it is for secular giving among Jews"; "the most likely to give are second-generation Jews and the least likely are fourth-generation" (Ritterband & Silberstein, 1988).

Moreover, the NJPS reports that the Jews who are the most charitable to Jewish causes are those who are born Jews and identify as Jews or what are referred to as "Jews by Religion"; this is also the category that is described as having a relatively old age structure. This group reports an 88% "attachment" to Israel compared to approximately half of that for other groups. It also reports the lowest percentage of volunteerism for secular organizations and the highest percentage for Jewish organizations (Kosmin et al., 1991, pp. 8, 29, 35).

Jews Are Increasingly Donating to Non-Jewish Causes

Jews are increasingly likely to donate to non-Jewish philanthropies because of (1) their increasingly attenuated relationship to the Jewish community; (2) the fact that so many are employed at workplaces that solicit for general community causes through payroll deduction; and (3) because "in our open society individuals can demonstrate concern and interest in a great variety of charitable and volunteer activities with a high degree of reward and satisfaction" (Fruehauf, 1988). Acculturated Jews, younger Jews, and Jews with more money are showing clear signs of shifting their philanthropic dollar away from the Jewish community (Ritterband & Silberstein, 1988).

Baby Boomers Are Becoming Inheritors

In coming years, increasing numbers of Baby Boomers will be acquiring financial resources from the transfer of assets from their second-and third-generation parents and grandparents. These Baby Boomers, who might feel financially strapped, may have a change in psychology as they become recipients not only of bequests but also of lifetime gifts from parents who are downsizing their estates through transfers of cash (and appreciated property) as allowed by the tax laws.

In addition, large amounts of money are being transferred to a surviving spouse through the marital deduction. Approximately \$33 billion was transferred from male to female spouses through the marital deduction in 1986 alone. This figure suggests that a tremendous amount of money will be given to the next generation in the coming years, and it can be assumed that a sizeable proportion of this sum is "Jewish" (Johnson & Rosenfeld, 1991).

Donor Designation

The newest fashion in fund raising is donor designation. No longer does the donor give to one federated campaign wherein allocations to individual agencies are determined by volunteer committees; rather, the donor specifies the recipient nonprofit agency(ies) of his or her charitable dollars. Donor designation was developed by the United Way in response to alternative fund-raising drives seeking access to workplace, payroll deduction campaigns. With donor designation, United Way leaders argued, individuals could indicate any charity as recipient of their contributions, and therefore there was no reason to allow alternative fund-raising drives into the workplace.

As donor designation is assuming increasing importance in Jewish federation campaigns, Jewish communal leaders are divided in their assessment of its impact. In a joint address to the 1991 General Assembly, Morton Mandel, a past president of the Council of Jewish Federations, and Steven Nasatir, executive vice president of the Jewish Federation of Metropolitan Chicago, argued that donor designation would undermine the concept of community that has been developed so skillfully and "it would probably begin to unwind the systems we care so much about" (Stehle, 1991).

In contrast, Norbert Fruehauf (1988), director of campaign planning services for the Council on Jewish Federations, argues that federations, in order to compete successfully with non-Jewish charities and

to maintain and improve their annual campaigns, must create new approaches to fund raising, one of which should be "targeted giving." Although acknowledging that such giving may be problematic for federation fund raising, he concludes that "if handled carefully and correctly, it might provide new and innovative opportunities for increased involvement by major contributors and produce increased revenue" (Fruehauf, 1988).

ALL OF THE SIGNS POINT TO ENDOWMENT

All of the signs described above point to the tremendous opportunity for endowment development. Older donors, especially those who have been involved as volunteers in Jewish organizations, understand that (1) support for Jewish communal institutions and Israel may be increasingly difficult to obtain as individuals feel less connected to Jewish life and that (2) support for programs and institutions that educate Jewish youth and keep them tied to the Jewish community are essential to securing and maintaining future generations of Jews. The challenge is to design a philanthropic program that meets the individual needs of these older persons, whether these be purely altruistic, entail financial planning, or involve a little of both.

Wealthy elderly who have given major campaign gifts and are involved in the daily work of the Jewish federation are excellent candidates for such specific endowment programs as donor-advised funds and supporting foundations, which can be used as philanthropic mechanisms for keeping children involved in the Jewish community. These vehicles serve a valuable function for the donor who is concerned that wealth that is passed on to children and grandchildren might be donated outside of the Jewish community. Thus, more emphasis should be placed on educating potential donors about these vehicles for teaching children about community.

Major donors can ensure the involvement of ongoing generations of family in Jewish giving by establishing supporting foundations, which although they are independent nonprofit organizations, are managed under the auspices of the federation. Most federations allow only two generations — usually the donors and their children — to make suggestions for distributions from the donor-advised fund or philanthropic fund. Upon the death of the final generation, the principal in the fund is commonly placed in the federation's permanent endowment. Unlike the philanthropic fund, the supporting foundation exists in perpetuity.

In addition to wealthy elderly donors, other older people have the potential to make endowment gifts. Individuals who are connected to the Jewish community but who may not have sufficient assets to catapult them into the ranks of the major donor or who may feel that they cannot afford to give up income may often be approached for a deferred gift for which they do not have to surrender their current assets. These individuals are candidates for bequests, pooled income fund gifts, or charitable remainder trusts.

Individuals who are attached to the Jewish community, are childless, and who might need to "downsize" their estates to avoid taxes upon their deaths are superb candidates for endowment gifts. They may "adopt" the endowment fund and transfer assets to it on an annual basis to decrease the size of their taxable estates.

Although donor designation may have a negative impact on the annual campaign, it is perfectly suited to endowment development. Undoubtedly, the establishment of restricted funds for certain purposes has an appeal to donors and can be helpful to a community (Feinstein, 1989).

There are two caveats to marketing restricted endowment funds. The first is to ensure that the principal that is donated is sufficient to produce enough return to be of use. In other words, a restricted fund for

\$10,000 or even \$25,000 often does not provide sufficient income to accomplish any meaningful objective in an inflationary environment. It is also important that restricted funds not be "too restricted" or conceptualized in such a narrow way that income that is produced is used rarely or not at all.

Today, Baby Boomers are being left two-part legacies: financial assets and a connection to Jewish life that is often embraced more closely by the deceased parent than the child. As such, they are prime targets for endowment marketing. Although Baby Boomers may be only tangentially attached to the Jewish community, they may be sympathetic to establishing an endowment fund in memory of a parent. Often, the reason for their disenfranchisement can be used creatively and positively for the development of a restricted fund that will "fix" that which "didn't work" for them, i.e., for Jewish education in general, teacher training, curriculum enhancement, benefits for synagogue and day school teachers, leadership development, and the like. Or, the children may consider creating a restricted fund to support an interest of their deceased parents.

ENDOWMENT STAFF

Although all of the signs indicate that the potential for endowment development is tremendous, realization of success in that effort is dependent to a great degree on the quality of endowment staff. Commitment and creativity are key characteristics of endowment staff.

The endowment professional must be enthusiastic, must understand the fabric of the Jewish community and be committed to an ideal or vision of Jewish life, and must understand the concepts of market segmentation and the need for individualized approaches. He or she need not possess a legal or finance degree for a good endowment program should have direct access to professional help, whether it be legal,

insurance, accounting, or financial planning in general. An endowment professional cannot and should not be the financial advisor to the donor. Rather, graduates of Jewish communal service educational programs should be considered for endowment positions.

The quality, commitment, and creativity of the staff are primary components of a successful endowment effort. Debra Ashton, newly appointed Director of Planned Giving at Boston University and author of many articles and books in that area, emphasizes the importance of the professional relationship in obtaining the contribution.

While getting the gifts may very well be the focus of your efforts, many fund raisers dwell incorrectly on the gift vehicles — pooled income funds, gift annuities, etc. — as the means to that end. This is wrong. People don't give to pooled income funds. They don't even give to institutions! They give to people! (Ashton, 1988).

FUNDING POLICIES

Not only are the criteria and job descriptions of endowment staff unclear in many federations but also federation leaders are often uncertain about how to use realized endowment funds, particularly unrestricted and broadly restricted or field of interest funds, e.g. for Jewish education.

Federations often "flip flop" on the use of their endowment funds. On the one hand, endowment funds are used to provide grants to agencies for new programs, projects, research, or capital equipment. Grants are usually given in response to proposals submitted by federation agencies and other community organizations, and the process is modeled after the way in which community foundations operate.

On the other hand, when the United Jewish Appeal launches a special campaign, such as Operation Exodus, the endowment fund is often the first source of monies that

is tapped. And in flat campaign years, the endowment fund is looked to for supplemental income for the federation allocations process.

Endowment funds cannot be used to make grants to community agencies one year and then serve as a supplemental source of income for the federation campaign the next. They must either be considered (and therefore operate as) an independent community foundation, albeit one that *primarily* serves the Jewish community, or as a source, among others, of funds for use by the federation.

In the former case, the endowment fund would be separately incorporated as an independent nonprofit organization with its own board, staff, and office space. It would have its own bylaws, and it would address all requests for funds using a similar process: decision making by a distribution committee with approval by a board. If the Jewish federation has a "bad" year or mounts a special campaign, requests from the federation for help would be weighed against other grant applications, although the federation, as the central allocating body, might receive some special consideration.

UNIVERSITY MODEL OF ENDOWMENTS

However, if the endowment fund remains a component part of the federation, then income from the fund should be used as are endowments in institutions of higher learning. Unrestricted income would be used in the Jewish federation allocations process, and the federation would know in each fiscal year how much endowment income to expect. Monies from restricted endowments would be used to support programs or agencies for which the funds were established (Rabbi Laurence H. Rubinstein, personal communication, 1991).

This model would not incorporate a general grants-making function within an endowment department, but would include

research, new program development, and procurement of capital equipment as part of the planning and allocations functions. A certain amount of endowment income could be annually set aside for research, new programs and capital equipment, and the recipients of the monies would be determined by the planning and allocations committee.

There are several advantages to this model. First, all organizations, whether nonprofit or for profit, must invest in new ideas. This use of endowment funds provides a planning and allocations committee with monies for implementing agencies' proposals for new projects.

Second, a set-aside amount for research and new programs would give a planning and allocations committee money with which to actually effect some change in the community, something that cannot occur too easily with flat campaigns. It will give planning committee members a sense that they are doing something — having some impact on the community — as opposed to maintaining the status quo. Moreover, if the allocations committee makes grants for new projects and is responsible for monitoring and evaluating them, it must then struggle with community priorities to ensure that successful new projects do not wither and die, but rather are maintained and sustained. In other words, committee members will truly have to become engaged with the community and its future direction.

Third, the allocation of research and new program money by the committee that is responsible for planning will maintain a coherent process, in contrast to a separate endowment grants committee that often works in a vacuum and does not have a comprehensive knowledge of agency needs nor a framework for Jewish communal social change. Moreover, a planning committee would have a stake in ensuring that successful new projects were monitored and supported over time, whereas a grants committee more or less walks away from the process once the grant is made. The

goal of this model, clearly, is to ensure that the grants function has some long-lasting community impact as opposed to providing a quick injection of funds to community agencies.

Finally, taking the grants-making function from the endowment staff and giving it to the federation planners would allow the endowment staff to concentrate on developing endowments. Using the university model, these endowments could not only be unrestricted in nature but they also could be created for specific purposes (e.g. scholarships, services to the aged, support for specific agencies), just as universities develop support for special programs or component schools. Endowed positions could be developed just like university chairs. So the planning director, for example, could become the "George Katz Social Planning Director," with support for the function funded by a specified, named endowment.

CONCLUSION

Current societal and fund-raising trends point to a great potential for endowment development. It is an exciting, creative, and virtually limitless arena for raising funds, although its full potential has yet to be recognized in many communities. The staff must be selected carefully, looking for well-trained professionals who need not be experts on the tax laws. Moreover, the staff and community must be clear about the purposes of endowment development — to enrich the Jewish community as a whole and to ensure that subsequent generations not only choose to belong but have institutions and quality programs in which they can participate.

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