MONEY-MAKING IN THE NINETIES

Endowment Development In Jewish Family Service Agencies

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Through endowment income, Jewish Family and Children's Services of San Francisco has become its own biggest funder. This article describes the main types of endowment gifts that have proven useful for family service agencies and outlines 12 tips — covering strategy, structure, implementation methods, and management/evaluation — for starting an endowment program.

Despite all the variations among Jewish family service (JFS) agencies across the country, there is one common concern that runs very deep and binds us all together: how to pay for the social services we provide.

As the director of such an agency, I know first hand that there is no greater challenge facing our institutions than to meet the increasing demand for funding of our programs. In response, our agency has developed a successful model for the creation of stable income through endowments.

As social service institutions across the country expand their money-making operations, at least three key questions must be addressed:

1. Why do endowment development?
2. What is endowment development?
3. How does one go about developing endowments?

WHY DO ENDOWMENT DEVELOPMENT?

To commemorate his 80th birthday, former board member Sam R. donated $15,000 to start an endowment fund named in memory of his wife, which generates a $1,000 annual campership for a needy child.

Louis O. started a revolving loan fund with a $150,000 bequest because he himself had been helped by the agency as an orphan. His fund is now worth $900,000 and over the years hundreds of loans have been made, repaid, and made again.

Whether they start small or large, endowment funds are meaningful to donors and, if well invested, can grow to become a solid base for agency operations. *Endowment Development* — the establishment of these types of funds that are invested to generate annual income for your agency — addresses the central problem facing most institutions: the lack of *adequate, stable,* and *diversified* funding. Self-generated annual income is most attractive to all of us.

Contemporary trends in philanthropy demonstrate that primary reliance on traditional sources of funding — federated funding or central campaigns — is no longer wise or sufficient. Many donors want to give differently than past generations. They want to give more directly, with more choice, more accountability, and often more direct personal involvement.

Our existence as viable and reliable social service agencies and, most importantly, our ability to care for the children, families, and elderly who depend on us will be threatened if we do not develop the ability to finance ourselves better. JFS agencies know intimately what the needs are. We are entrusted with the responsibility to look out for and to advocate for those vulnerable and dependent people in our community — such as children and the mentally ill — who are not organized and cannot speak for themselves. Therefore, we have a special responsibility not to disappoint our communities, and we must improve our stature as strong and effective community institutions.

Yet, the current funding environment is hostile and competitive. Severe government cutbacks have created a Darwinian social service dynamic, in which the strong will get stronger and the weak will die through increased competition for individual gifts, foundation, and corporate gifts and fees.

In 1984 Jewish Family and Children's Services (JFCS) in San Francisco faced mounting deficits, lengthening waiting lists, and an inability to start and adequately fund new programs. In response to this crisis, our Board of Directors decided that the agency had to become more self-sufficient and drew up a five-point plan for generating additional income:

1. increase fee income from those constituencies capable of paying
2. start income-generating projects
3. boost annual giving
4. expand grantsmanship
5. intensify endowment development

We started with a part-time development director and four major sources of funding. Today, 8 years later, our Development Department includes four full-time staff. We use ten different sources of income, each one providing no more than about 15% of our total operating budget. One of those new and expanding income streams has been our Endowment Fund. In fact, through endowment income, we have now become our own biggest funder.

As a means of generating stable income, endowments are not only necessary but are also deeply satisfying and appropriate. Only a permanent endowment gift can justify putting a permanent name on a building, a scholarship fund, or an ongoing program. Endowment giving represents faith in the endurance of our institutions and ourselves as a people. Endowment is a win/win situation: it is good for donors and their loved ones, and it is good for the agency.

Yet, a note of caution is needed. Fund raising tends to be trendy. Every decade executive directors, board members, and fund raisers discover a new funding panacea. Not too long ago it was direct mail, then "special events"; now it is endowment or planned giving.

Endowment development has its place as one part of a comprehensive, year-round development program. Established and mature not-for-profit agencies can better afford both the initial "investment" costs and the wait for the long-term return on the initial investment. If your organization is struggling to make ends meet now and has no annual giving of any kind, then planned giving should probably not be a priority at this time.

WHAT IS ENDOWMENT DEVELOPMENT?

When people talk about endowment development, the terms "planned" or "deferred" giving are often used. Simply put, a deferred gift is *planned now* and even may be given now, but its use must be postponed until some future date — usually after the death of beneficiaries. Several forms of endowments have been useful for JFS agencies.

Bequests

The *bequest*, the simplest form of planned gift, is a cash grant specified in the will of a donor. This is often the best kind of help for an agency and is the type of gift most often received.

Wills can be changed, of course, and including an agency in an estate plan is only a provisional and revocable promise of a future gift. Experience demonstrates, however, that most bequested gifts are in fact made as originally planned.

The agency can be included in the will as receiving a specified dollar amount or a specified percentage of the estate, or it can receive a *residuary* gift, often as a percentage of whatever money is left after other bequests. The former type of gift is usually less risky than a residuary gift.

There can also be a *contingent* bequest; for example, when a donor leaves money to his or her family with the contingency that, if family members die before the donor, the agency receives the money — rather than the government. This is a "long shot" bequest and must be considered very risky.

A bequest can be made by a *codicil* (samples are readily available from estate attorneys), a kind of amendment to a will. However, most people prefer to revise their wills and rewrite them completely when adding a bequest.

Life Income

After bequests, the *life income trust* is the most common form of planned giving. It is complex and therefore harder to promote than a simple bequest, but once understood it can be very attractive to the donor. In fact, if your agency does any endowment development at all, eventually you will need to offer this option because donors will ask for it. It is ideal for the organization with a pool of loyal annual givers.

In a life income trust, the donor gives a capital gift now (by setting up a trust), but the donor (or a relative) retains the use of the income until his or her death. A living (or *inter vivos*) charitable trust takes effect while the donor is alive, whereas a *testamentary* trust goes into effect after the donor dies, with named beneficiaries receiving the income for the life of the trust. Upon the death of the last beneficiary, the full value of the trust goes to your agency's endowment.

There are four major types of life income plans:

1. charitable remainder unitrust
2. charitable remainder annuity trust
3. pooled income fund
4. gift annuity

The first two types of trusts must pay a fixed percentage rate, established either annually (so it fluctuates) or as a fixed percentage, whereas a pooled income trust uses a mutual fund and pays whatever rate of return is earned that year. The State Street Bank of Boston is the primary source nationally for these pooled income mutual funds and is very helpful in providing information to agencies. The gift annuity simply obligates your agency to pay a fixed sum annually to the beneficiary during his or her lifetime.

Other Options

Naming the agency as a beneficiary of a *life insurance policy* can provide significant tax advantages to the donor, but this kind of provision has been difficult to "sell" to potential donors and we have had limited success with this method.

Donation of a personal residence with retained life interest can be a good choice for an elderly donor who can benefit from the tax advantages; however, because it is legally complex and sometimes unappealing to the donor, it is not ideal for most agencies.

HOW DOES ONE GO ABOUT DEVELOPING AN ENDOWMENT PROGRAM?

Our experience can be summarized in the following 12 tips, which fall into four areas: strategy, structure, implementation methods, and management/evaluation.

Strategy

1. Develop a Three- to Five-Year Plan.

Endowment development must be one part of a comprehensive agency plan that outlines the future direction and funding options for the agency. A board decision is required that explicitly states how endowment development is part of your longrange financing plan. In San Francisco, we use a 3-year time period because we find that, after that, events are just too uncertain to predict. The operating principle behind the plan is very simple: if you expect volunteers and staff to carry out a plan, they must be involved in making the plan.

Structure

2. Involve Your Board as "Askers."

Asking for money is often the most difficult task for board members, and it may be the hardest thing for an executive or staff member to ask them to do. Therefore, be sure that the fund-raising expectation is built in at an early stage in their involvement. If you have a job description for your board members, make sure it spells out the expectation that they will, at some point, be asked to ask others for money.

Remember that the best gifts are those solicited personally by one volunteer from another, on behalf of a cause in which they both believe.

3. Provide Appropriate Board-Level Support Structure.

Building a "power board" and involving community leadership are key elements of any successful endowment development program.

A Board Endowment Committee should be created that includes community members, as well as board members. It is best constructed as a subcommittee of an overall Development Steering Committee that also oversees annual giving, special events, and all other resource development functions. Its work should be guided by a clear vision of where development efforts are going, and all resource development efforts should be coordinated.

4. Provide Strong Staff Support.

Staffing must be adequate, not only in terms of time but also in terms of expertise and professional training. Volunteers and donors must have confidence in your agency staff if you expect them to support you. Fund raising is a professional discipline. If it is to be done right, it cannot just be an "add on" to someone's already full-time responsibilities.

Implementation

5. Identify and Cultivate Your Prospective Endowment Donors.

In most communities, the best advice is to seek out smaller donors and to leave the bigger gifts to the federation and to general arts and cultural institutions. Focus first on bequests, and put second priority on the life income trust approach.

As a JFS agency, we should look carefully at our "market" — to whom do we appeal. We have enormous strength because of our very personal relationship to the individuals and families in our community. Our supporters are many ordinary people who care about the future and who have an extraordinary commitment to helping others in need.

Most prospective bequestors and planned givers are found at the top part of the annual giving donor pyramid. These donors become bequestors and planned giving donors because of years of good education, cultivation, and personal involvement with your organization.

Your planned giving donors may not only be your past and present board members and loyal supporters — they may also be satisfied customers. JFS agencies have a distinct advantage in this area, because over the years, if we have done our job right, we develop a large pool of such individuals, grateful former beneficiaries of service.

A recent example at our agency of a satisfied client is Sophie B., who had never given an annual campaign gift and had no organizational affiliation. She owned only a home and a small savings account when she died. At the end of her life, our agency was there to help her, and her gratitude took the form of a bequest of one-half of her estate (ultimately valued at approximately $150,000), for our endowment.

6. Have a Realistic Plan.

Do not set up a free-standing Endowment Committee, make up a glitzy brochure, send it out, and then wait for phone calls. In the recent endowment campaign of a local San Francisco agency, 2,000 such brochures were sent out, generating only one call.

Instead, follow these key steps:

- Make a list of hot and warm prospects — friends whom you know like your agency and have been involved in one way or another with it.
- Invite these friends to educational luncheons to discuss what is new at your agency and your endowment plans. Ask them what it would take to get them to support your endowment program.
- Establish gift societies for donors who have made a future provision for your agency in their estate plan. We call ours a *Heritage Circle*. Based on other agency experiences, for every 50 donors who make such commitments, $1,000,000 will ultimately be donated through bequests and other estate plans.
- Develop other vehicles for endowment giving in addition to bequests. Offer opportunities for "named endowments." This gives people a chance to try out your endowment program for a minimum donation of perhaps $2,500. Offer other "tried and true" options, such as naming rooms or endowing chairs in a field of service, such as geriatrics or child therapy.
- Every year, provide donors or their families with annual reports describing how their gift was used and how much their fund has grown.
- Do frequent promotions — at least three times per year is good. Keep finding opportunities to remind your donors of endowment options. It is easy for people to make or revise their will, but you may need to hint more than once before they actually do it.
- Always make sure that you instruct donors to have their giving plan reviewed by their own attorney, and make sure that key documents are reviewed by your own agency counsel as well.

7. *Remember the Magic Words: "Please" and "Thank You."*

Thank donors often. Donor recognition and promotion are critical at every opportunity. Recognize your donors in your newsletter, on the agency walls, and in the program of your special event. We try very hard to acknowledge receipt of a gift within 72 hours, with very few exceptions or mistakes. You should try to find at least four times during the year to acknowledge and thank your donors in some way.

8. *Manage the Money Well.*

Simply put, donors need to have confidence in our ability to manage the money they entrust to us. In our agency, two investment managers are hired to each manage half of our investments. Reports are made to the Board Finance Committee quarterly and to donors and the full Board of Directors annually.

9. *Report for a Sense of Accomplishment.*

Report not just to the donors but to the community at large. Do not just say how much was raised, but tell vividly and compellingly how the money was used. Report major endowment gifts at your board meetings. Provide a regular monthly endowment report to the board that summarizes all aspects of the endowment development effort: inquiries received, contacts made, pending bequests, realized bequests, etc.

Management/Evaluation

10. *Provide and Demand Executive and Presidential Leadership.*

Asking for money is hard. People need to be inspired. If members of the board and executive management are not willing to participate personally, perhaps endowment development is a idea whose time has not yet come for your institution. Remember that no gift is too large or too small.

11. *Be Flexible But Be Prepared — Have an Endowment Policy Statement.*

The first time someone offers you a sum

of money in exchange for his or her name on a plaque, you may be tempted to bend over backward to give the donor whatever he or she wants. Yet, you must first determine whether the amount being offered is truly adequate and fair for the "naming" — both that it be adequate to pay in perpetuity to maintain the donated item in a condition you can be proud of and in establishing a precedent for the future about the size of gifts in proportion to the recognition.

The only way to be able to respond appropriately to a gift is to establish, in advance, some guidelines for what kind of gifts receive what kind of recognition. Once written guidelines are approved by your board, you can then respond to the donor, offering realistic alternatives if the proffered gift is too small or flexibly adapting the policy to the donor's needs when indicated.

A note of caution, however: You cannot always adapt to what the donor wants. Sometimes, you have to just say no.

12. Know Your Own Strength.

As JFS agencies, we do not know our own strength. In fact, our greatest weakness is that we do not have confidence in our own strength to raise the funds we need to remain vigorous, responsive, and useful to the people who depend on us when they are in need.

Our case is very strong, and we are in an excellent position to raise endowments. As the problem-solving center of our communities, our agencies operationalize the values of compassion and social justice, which are at the heart of our civic and religious experience. We serve as the conscience of our community, a conscience that is sometimes best measured by how well we take care of our poor, our vulnerable, our old.

JFS agencies, as part of our community's social service system, and in cooperation with the federation, the United Way, and other agencies, can attract a particular segment of supporters and can offer donors what they can receive in few other places: direct involvement, direct giving, and a sense of accomplishment.

Our greatest obstacle is our own lack of collective will to raise the funds that are needed — and available.