

UNDERSTANDING ENDOWMENTS: THE GIFT THAT KEEPS ON GIVING

Kate Lazier, Director and Lead of Estate Planning and Philanthropy, CIBC
April 2023



When planning a major charitable gift, it is useful to understand your options. This article provides an overview of some of these options to help you fulfill your charitable goals.

What is an endowment?

An endowment is a gift that the charity must invest and only spend a portion of the gift on its charitable activities each year. The goal of an endowment is to provide funds to support the charity's programs for several years.

For example, a university may have an endowment to support its engineering program. The terms of the endowment may specify that the university can spend 5% of the funds each year on the program. The goal of the endowment is that a similar amount will be spent each year. If this endowment fund has a balance of \$10,000,000, then the university can spend \$500,000 a year on the program.

Should I make an endowment gift?

Maybe, it really depends on your goals. If you want your gift to be used over time, then you may want to make an endowment.

An endowment can help provide income security and stability to the charity.

However, if you want your donation to have an immediate impact, then you do not want to create an endowment. For example, you may want to fund a building or current research. In those cases, the gift should not be an endowment.

Should my gift be made in perpetuity?

In perpetuity means forever. While forever may sound good, it is a very long time. Forever is not the best time period for charitable gifts. Inflation can erode the value of your gift. The purchasing power of \$500,000 in the example above will be less in 20 years and even less in 100 years. At some point tracking this endowment will be an administrative burden on the charity relative to the endowment's yearly income.

Societal needs change. Consider if the amount of the gift and its purpose will still be relevant in 10 years or 100 years. This can help you determine the right time period for the use of your gift.

Should I restrict the use of my gift to a particular purpose?

Some donors want their gift to be used for a particular activity or project. In this case, you should discuss the restriction with the charity. The charity needs to be willing and able to carry out any restrictions. Also consider making the wording of any restrictions broad enough to allow the charity to adapt to the changing needs of society.

Other donors choose not to restrict the use of their gift because it allows the charity to have more ability to prioritize the use of its funds. This trust based philanthropy approach is a growing trend in charitable gifting. For example MacKenzie Scott has been applauded in the media for donating billions to charities without any restrictions.

Do I need a gift agreement?

It depends on your goals. If you want to provide a charity with the flexibility to determine the best use of your gift and you do not have recognition or reporting requirements from the charity, then you likely do not need a gift agreement.

Alternatively, if you want your gift to be used for a specific program, gift recognition, or additional reporting, then a gift agreement is useful. The gift agreement can create a legal obligation for the charity to use the gift according to its terms. It also provides a useful record for the employees administering the gift many years after the gift is made.

A gift agreement may include:

- The timing and amount of the gift.
- Restrictions on the use of the gift for a particular activity.
- Restrictions on how much of the funds can be used each year.
- Reporting the charity will provide.
- Recognition the charity will provide.
- An alternative use clause.

Alternative use clause

A good gift agreement should provide an alternative use of the funds, if the intended use of the gift becomes impossible or impractical. This is particularly helpful for the charity to avoid the need to apply to the court to determine how the endowment should be used if the original purpose is no longer viable.

Get good advice and talk to the charity

Get knowledgeable legal and tax advice when planning and making a charitable gift and work with the intended charity. The charity needs to be willing and able to carry out any restrictions, reporting or recognition specified in the gift agreement or your will. Including the charity in your planning is important in fulfilling your charitable ambitions.

