

# THE STATE OF FOUNDATION GIVING, 2006

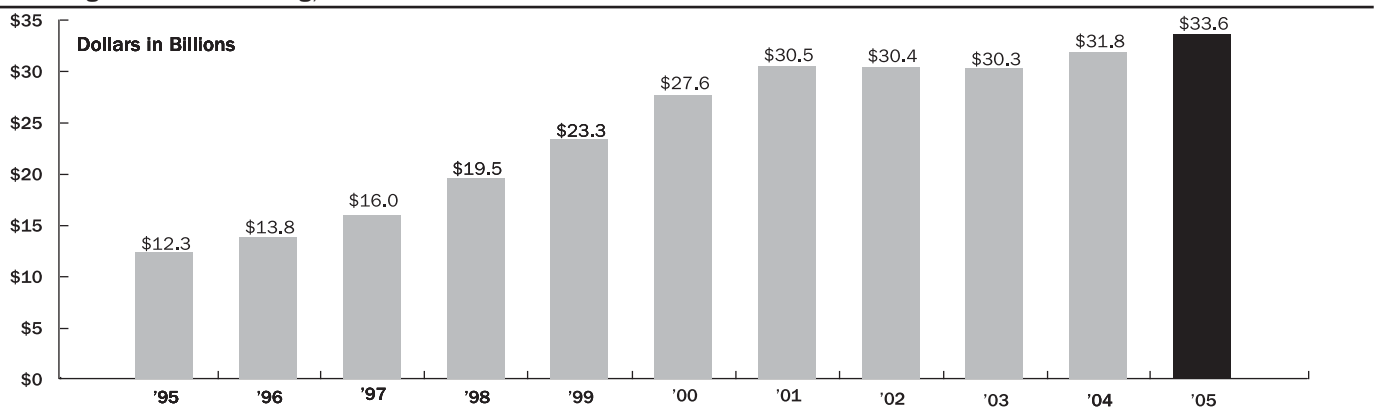
Excerpted from *Foundation Yearbook*, 2006 edition.

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The nation's grantmaking foundations can be perceived in a multitude of ways. At the extremes, some may characterize foundations as consisting primarily of the best-known multi-million or billion-dollar institutions. Others may view them as principally consisting of "mom and pop funders" or "checkbook philanthropies," with giving decisions made around the kitchen table.

In reality, U.S. private and community foundations consist of a vast array of institutional types, and the level of their giving is determined by a variety of factors. In a year when many large, endowed foundations may see their assets rise only modestly due to mixed investment performance, some smaller foundations may experience an exponential increase resulting from the sale of a family business, a bequest, or simply the decision of founders to move large shares of their wealth into the foundations. Conversely, large or small foundations heavily invested in a single stock may suffer a severe drop in their assets in a single year. Or donors may decide to make radically large gifts or to spend out their assets.

**FIGURE 1. Change in Foundation Giving, 1995 to 2005**



Source: The Foundation Center, *Foundation Yearbook*, 2006. Figure estimated for 2005. All figures based on current dollars.

Beyond these already complex factors, the unpredictable economic and political environment that has existed since the turn of the new century is also influencing foundation giving. Uneven stock market performance, record oil prices, an ongoing war in Iraq, and unprecedented disasters in the United States and abroad are but the major external factors that have impacted on overall levels of foundation resources and giving in the most recent year. The next several years appear to promise only more of the same.

In this uncertain environment, overall private giving by individuals, foundations, and corporations grew 6.2 percent between 2004 and 2005 to an estimated \$260.3 billion.<sup>1</sup> For the close to 68,000 U.S. grantmaking foundations, estimated giving increased 5.5 percent to a new milestone of \$33.6 billion (Figure 1).<sup>2</sup> This gain marked the second consecutive year of modest growth in foundation giving, following two years of marginal decreases in support. Nonetheless, after taking inflation into account, the level of 2005 giving totaled slightly less than giving in 2001—the peak year for inflation-adjusted foundation giving.

The increase in foundation giving in 2005 resulted primarily from the 7.1 percent growth in foundation assets in 2004. Factors helping foundation assets to surpass the \$500 billion mark for the first time included a modest rise in the stock market, new gifts into foundations, and—to a lesser extent than in the recent past—the establishment of new foundations. Other principal factors contributing to the growth in 2005 foundation giving included the outpouring of foundation support in response to the South Asian tsunami and Gulf Coast hurricanes Katrina and Rita.

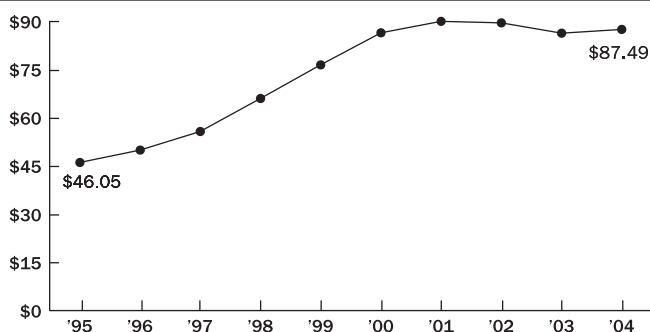
Independent foundations, including most family and “new health foundations” (formed from health care conversions), increased their giving by an estimated 4.4 percent in 2005 to a record \$24.3 billion. This surpassed the previous record of \$23.7 billion reported in 2001. After adjusting for inflation, however, total giving by independent foundations totaled less than the 2001 amount. (For more detailed comparisons of estimated giving by foundation type, see Chapter 4.

Corporate foundation giving grew by an estimated 5.8 percent in 2005, following a 1 percent decrease in 2004. Actual giving increased from roughly \$3.4 billion to a record \$3.6 billion. Growth in the value of existing corporate foundation assets, a higher level of new gifts into foundations, and exceptional giving in response to the South Asian tsunami and Gulf Coast hurricanes all contributed to this growth.

Community foundations increased their giving by an estimated 10.9 percent in 2005, far surpassing both independent and corporate foundations. This followed more than 15 percent growth in giving between 2003 and 2004. Actual grant dollars totaled a record \$3.2 billion in 2005, up from \$2.9 billion in 2004. Community foundations benefited from having a broad pool of individual donors, who responded more quickly than the endowed grantmakers to the economic recovery. The increased funding of some donors in this diverse pool also helped to balance out those that reduced giving. In addition, donor-advised funds may currently represent a more attractive option to donors, as steadily weakening market returns may make maintaining a separate endowed institution a less attractive option.

Foundation giving rose by just over 15 percent between 2000 and 2004, despite two interim years of slight overall decreases. Adjusted for inflation, giving by foundations grew 5.3 percent during this five-year period. However, inflation-adjusted foundation giving per capita grew by only 1.2 percent, from \$86.44 in 2000 to \$87.49 in 2004 (Figure 2).

**FIGURE 2. Foundation Giving Per Capita, 1995 to 2004 (Constant Dollars)**



Source: The Foundation Center, *Foundation Yearbook*, 2006. Constant 1995 dollars based on annual average Consumer Price Index, all urban consumers. Figures on U.S. population are based on resident population figures. See U.S. Census Bureau, *Statistical Abstract of the United States: 2006* (125th Edition), Washington, DC, 2005.

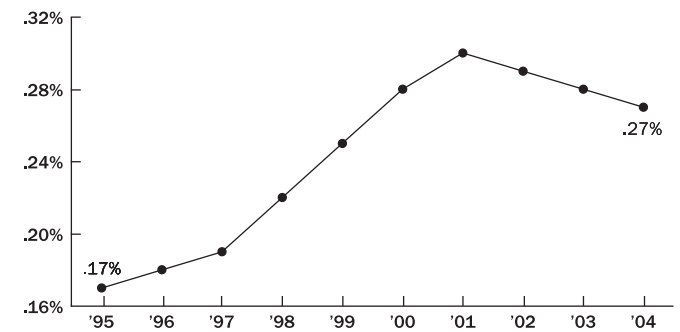
Foundation giving as a percent of Gross Domestic Product (GDP) decreased marginally over the same period, from 0.28 percent to 0.27 percent (Figure 3).<sup>3</sup> Moreover, inflation-adjusted 2004 figures for overall foundation giving and for giving per capita and as a share of gross domestic product remained below the peak levels recorded in 2001.

In the latter half of the 1990s, the soaring stock market and robust economy and the amount of new gifts and bequests from donors to their existing foundations were the key drivers for the increased value of foundation assets. The rapid rise in personal wealth during this period also led many individuals to create foundations. Between 2000 and 2002, however, the stock market decline and a sluggish economy caused a 10.5 percent drop in the value of foundation assets overall. (Many of the largest foundations experienced a much larger decrease in their assets.) The return of positive stock market performance in 2003 helped to reverse this trend. However, the 9.5 percent rise in foundation assets in 2003 was followed by slower 7.1 percent growth in 2004 and an estimated 2 to 4 percent increase in 2005.<sup>4</sup>

This slowing rate of growth in assets, combined with the unprecedented two-year decrease in the value of their assets between 2000 and 2002, appears to have made foundations more cautious about increasing their levels of giving. In both 2004 and 2005, the rate of growth in foundations' giving has lagged a couple of points behind the rate of growth in their prior years' assets.

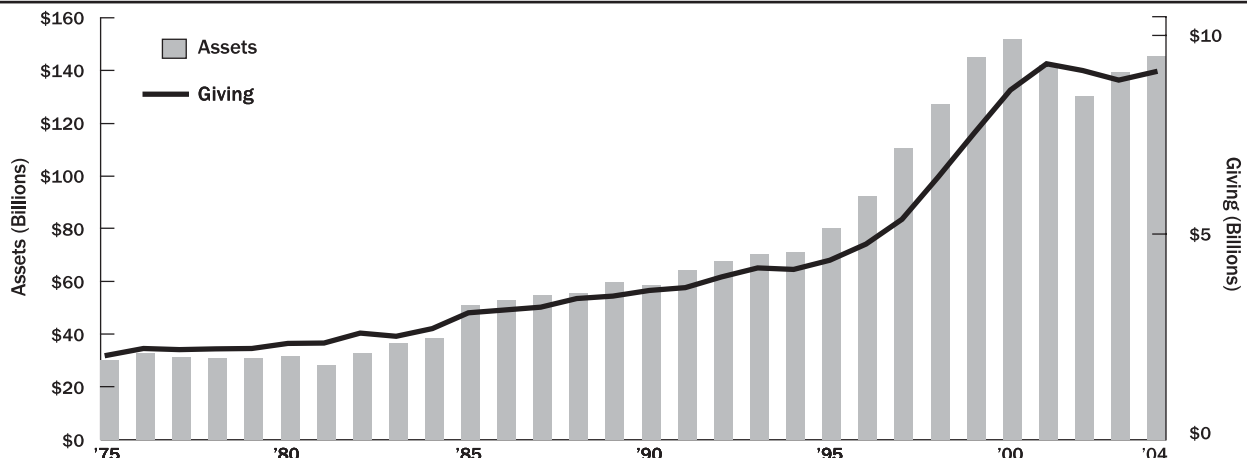
An additional factor slowing the recovery in foundation giving is the practice of many permanently endowed foundations—including most of the nation's largest ones—of following long-term payout strategies. These strategies helped to mitigate reductions in foundation giving through 2003 but are also contributing to slower rises in giving following the economic recovery. For example, Figure 4 illustrates the lag between the decline in inflation-adjusted foundation assets in 2001 and the subsequent decrease in real-dollar giving, which did not occur until 2002. Conversely, despite the return to growth in foundation assets in 2003, giving continued to decrease. (In contrast, individuals' personal giving usually mirrors fairly directly real or anticipated changes in their net worth.) Foundation giving finally returned to an upward trend in 2004.

**FIGURE 3. Foundation Giving as a Share of GDP, 1995 to 2004**



Source: The Foundation Center, *Foundation Yearbook*, 2006. Figures on U.S. Gross Domestic Product (GDP) are from the U.S. Census Bureau, *Statistical Abstract of the United States: 2006* (125th Edition), Washington, DC, 2005.

**FIGURE 4. Change in Foundation Assets and Giving, 1975 to 2004 (Constant Dollars)**



Source: The Foundation Center, *Foundation Yearbook*, 2006. Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers, as reported by The U.S. Department of Labor, Bureau of Labor Statistics, as of February 2006.

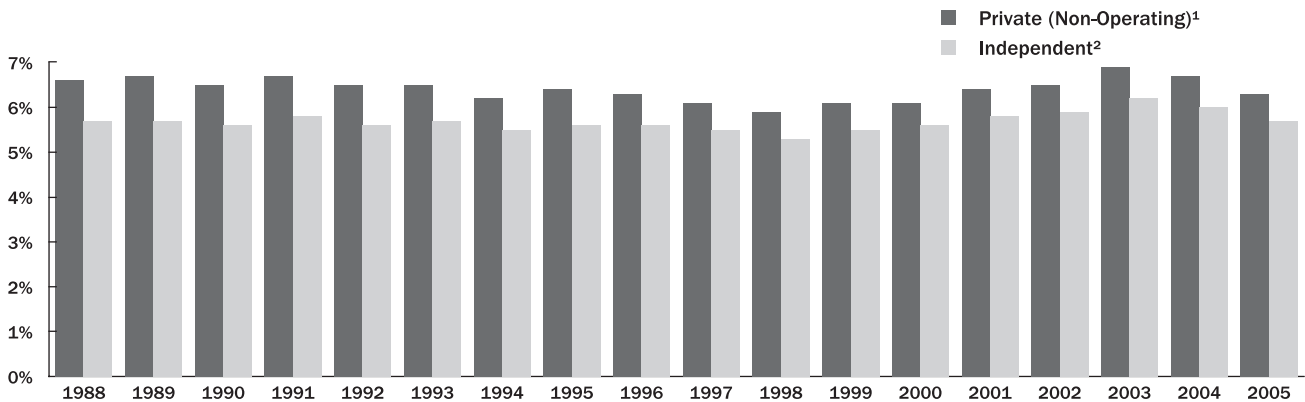
The federal payout requirement for private, non-operating foundations also helps to stabilize foundation giving in both good and bad times. By law, independent and corporate foundations must pay out each year in charitable distributions at least 5 percent of the value of their assets in the preceding year. (They may carry forward payout in excess of 5 percent over several years.) Figure 5 shows that estimated independent foundation giving in 2005 was 5.7 percent of the prior year's assets—down from the peak of 6.2 percent recorded in 2003. Smaller independent foundations generally exceed this rate because many of them maintain minimal endowments and instead serve as “pass-throughs” for charitable giving by their donors. For larger, endowed independent foundations, the relatively high levels of payout seen during the economic downturn and continuing into the start of the recovery may have reflected a desire to maintain stable giving levels despite variations in asset values. With a return to modest growth in their assets, the payout level has decreased slightly.

For corporate foundations, payout was 21.8 percent in 2005, down minimally from 22.2 percent in 2004. Unlike larger independent foundations, corporate foundations generally do not maintain substantial endowments and instead fund grants budgets through annual gifts from their corporate donors—hence, the ratio of giving to the prior year's assets is higher. Many corporations make additional gifts into their foundations in periods of stronger earnings and draw down these assets during periods of weaker earnings.

In contrast to independent and corporate foundations, community foundations, as public charities, have no payout requirement. Nonetheless, their giving typically amounts to roughly between 7 and 8 percent of the value of their prior year's assets.

Figure 6 illustrates the changes in foundation giving in inflation-adjusted dollars since 1975 (the first year for which comprehensive information is available). In the recessions of 1980, 1981-82, 1990-91, and 2001, foundation giving in real dollars did not decline and, in fact, increased slightly. However,

**FIGURE 5. Private (Non-Operating) and Independent Foundation Giving as a Share of Prior Year's Assets, 1988 to 2004**



Source: The Foundation Center, *Foundation Yearbook*, 2006. Giving figures for 2005 based on estimates.

<sup>1</sup>Figures exclude private foundations that have been defined by the IRS as “Operating” foundations. These foundations are not subject to the same payout requirement as other private foundations. Community foundations are excluded as they are grantmaking public charities, not private foundations.

<sup>2</sup>Figures exclude private foundations identified by the Foundation Center as serving as vehicles for corporate philanthropy, many of which operate as “pass-through” foundations.

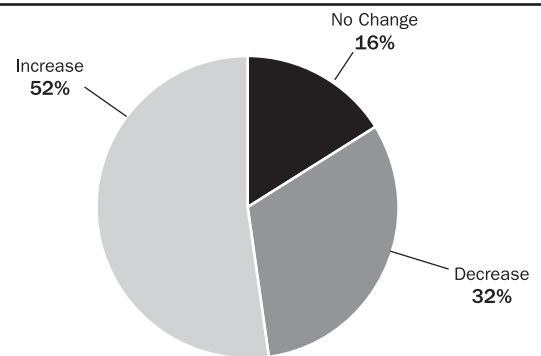
Note: Private (non-operating) foundations are required to pay out each year at least 5 percent of the value of their investments in the preceding year. (They may carry forward payout in excess of 5 percent over several years.) “Qualifying Distributions” is the amount used in calculating the required 5 percent payout and includes total giving, as well as reasonable administrative expenses, set-asides, PRIs, operating program expenses, and the amount paid to acquire assets used directly for charitable purposes. Actual payout can only be calculated for individual foundations. The ratio of total giving to prior year asset values illustrated above therefore serves as only a rough proxy for payout.

giving decreased for two consecutive years following the end of the latest recession.

To assess the outlook for foundation giving in 2006, the Foundation Center's annual "Foundation Giving Forecast Survey" asked respondents to indicate expected changes in their giving in the current year. Roughly half of foundations (52 percent) indicated that their giving would increase in 2006 (Figure 7). Among foundations expecting an increase, the largest share (31 percent) predicted increases in the range of 1 to 5 percent. An additional 19.5 percent expected to increase giving between 5 and 10 percent. Yet, reflecting the uncertain economic climate, 32 percent of respondents expected to reduce their giving in 2006. By comparison, prior surveys found that 25 percent of respondents had expected to reduce giving in 2005 and only 18 percent had anticipated reduced giving in 2004. These more numerous decliners will undoubtedly have a stronger downward pull on the overall level of giving in 2006 than in the two prior years. (See *Foundation Growth and Giving Estimates: Current Outlook* for a more detailed analysis of the 2006 survey findings.)

The instability in the current economic environment suggests a slowing of growth in foundation giving. Nonetheless, one factor that will continue to boost giving in both the short and long term will be the new and sometimes very large foundations established in the past several years and the transfer of exceptionally large gifts and bequests from donors to their existing foundations. While information on foundation creation between 2001 and 2004 remains incomplete (newly established foundations have up to three years to begin grantmaking), the number of larger foundations established during the 1990s has far exceeded the number established in the 1980s, the decade with the highest birth rate up until then. New formation has slowed in the sluggish economic climate of the early 2000s. Yet the number of larger foundations established since the turn of the century has already exceeded the number of active larger foundations formed during any decade prior to the 1980s. As many of these new foundations receive additional assets over the next ten to twenty years, they will contribute substantial resources to the nation's nonprofit community.

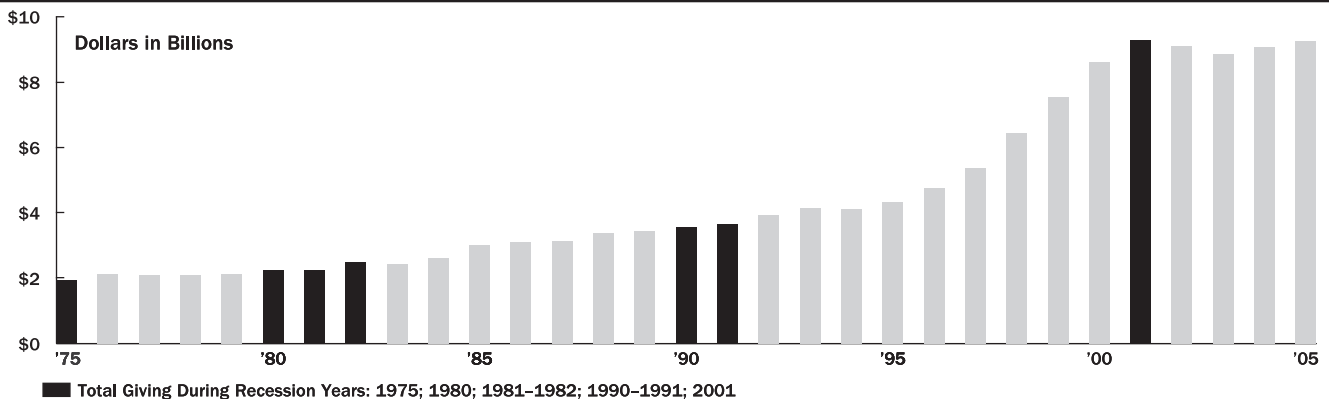
**FIGURE 7. Anticipated Changes in 2006 Foundation Giving**



No. of Respondents = 808

Source: The Foundation Center, *Foundation Yearbook*, 2006. Figures based on the Foundation Center's 2006 "Foundation Giving Forecast Survey." For more information on the survey sampling base, see "Methodology" in Appendix A.

**FIGURE 6. Total Giving by Foundations, 1975 to 2005 (Constant Dollars)**



Source: The Foundation Center, *Foundation Yearbook*, 2006. Figure estimated for 2005. Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers, as reported by U.S. Department of Labor, Bureau of Labor Statistics, as of February 2006.

Another factor helping to boost the recent growth of foundations was the addition of a permanent provision to the federal tax code in 1998 permitting living donors to deduct the current market value of gifts of appreciated property to private foundations. (Temporary provisions had been in effect throughout much of the 1990s.) Alternatively, reductions in personal income and estate tax rates could slow the establishment of new foundations and reduce the growth of existing foundations through gifts or bequests. As evidenced by the decline in the rate of foundation formation in the period following the 1986 personal income tax reductions, decreases in taxes for wealthy individuals lower the incentive for charitable giving.

In the current, unpredictable economic and political environment, foundation giving seems about as likely to return to double-digit growth in the immediate future as the price of gas is to fall below \$2 per gallon. Modest growth in giving appears to be the “best-case scenario.” Certainly, new and newly large foundations will continue to bring additional resources to the field, and large-scale disasters could help to boost giving in particular years. The stock market may also return to a period of consistent growth, which would be a critical factor in increasing overall foundation support. Given these and other factors, there is no reason to believe that giving by U.S. foundations will decline in the next few years. However, how quickly and by how much foundation giving may grow remains an open question.