

# Endowed *vs.* Non-Endowed Funds

## Planning for Tomorrow

Both endowed and non-endowed funds are recommended for donors who are preparing for the future and managing their assets in a way that provides stability for today and tomorrow's needs.

## Comparison of Endowed vs. Non-Endowed Funds

The primary distinction between the two funds is that the principal of an endowed fund is preserved forever, with a portion of the earnings available for spending. In contrast, any or all of a non-endowed fund can be accessed. At ACF, both endowed and non-endowed funds are invested in the long-term pool and enjoy the same rate of return.

**Endowed Funds** – A permanent savings account that grows through strategic investing and financial contributions from donors. Endowed funds are used to provide stability and long-term growth.

Endowed assets are intended to support an organization's mission in perpetuity. ACF's goal is to earn approximately 7% net of investment fees on an annual basis.\* ACF sets an annual spending goal each year generally between 4% and 5%, which is available for distribution. ACF assesses an administrative fee of .45% to .75%, based on the size of the fund, to cover administrative costs. The remaining earnings are reinvested into the principal for inflation proofing.

It is not required to use the spending distribution; the donor has the choice to add the distribution back into the principal, making grants that support their vision, or retaining all or a portion of the amount for distribution in future years.

An endowment provides legal protection for the principal. Should your situation change, ACF protects donor intent.

The spending amount for each endowed fund for the subsequent year will be calculated based on the average fund balances on September 30th. The averaging period is four years. Please be aware that it may take up to 2 ½ years before you can access the earnings. Donors can choose to contribute a portion to the spendable (or distribution amount) when first setting up the endowment if they wish to have a higher amount in the spendable for the first few years.

Specifics:

- A minimum initial endowed gift to establish an endowment fund: \$25,000

... *Continued*

- Fees: Typically .75%/year (fees are reduced for fund balances in excess of \$1 million)
- Easy setup and oversight with password protected access to fund balances, fund activity, donor information, and grant information
- Only the spendable portion of the endowment is accessible (usually 4-5% annually). The spendable amount is determined by the ACF Board which generally follows the national average. For 2018, the spendable rate is 4.4%.
- Requesting funds is easy
  - ✓ Authorized representative verifies the spendable amount and submits a request
  - ✓ Requests below \$50,000 are issued in 2-3 weeks
  - ✓ Requests above \$50,000 require ACF Board approval, providing greater protection

**Non-Endowed Funds** – A long-term savings account that grows through strategic investing and financial contributions from donors. Funds are invested for growth in the same manner as an endowed fund. With a non-endowed fund, the donor has full access to any or all of the fund balance in the account to support their philanthropic goals.

A non-endowed fund focuses on long-term grant making and has a lifespan in excess of three years. Any of the fund, up to the entire balance of the fund, is available for your use. Some donors choose to create a non-endowed fund if they anticipate they will need to use the funds for operations or a particular project sometime in the future, or if they want the flexibility and returns that a non-endowed fund provides.

Specifics:

- A minimum initial non-endowed gift to establish fund: \$10,000
- Fees: 1.25%/year (Annual minimum fee: \$250)
- Easy setup and oversight, with password protected access to fund balances and activities
- Any amount of the fund balance may be requested by an authorized representative for grant making
- A donor may add internal controls if they would like the non-endowed fund to be treated like an endowment, e.g., requiring additional signatures from authorized representatives or family members.
- Requesting funds is easy
  - ✓ Authorized representative verifies funds and submits a request
  - ✓ Requests below \$50,000 issued in 2-3 weeks

...Continued

It is important to note that you can establish a non-endowed fund to begin with and later convert it to an endowed fund at the request of your board. An endowed fund, however, cannot be converted to a non-endowed fund, since the assets are permanently protected.

### **Benefits of investing your fund at ACF**

For the purpose of investments, funds are pooled with the donations of individuals, nonprofits, foundations, corporations and other organizations for maximum efficiency, investment returns and results. The Alaska Community Foundation manages more than \$86 million in over 400 funds, requiring sophisticated institutional investing and professional expertise not typically available to most individuals.

### **Other benefits of holding a fund at ACF**

We provide the back-end work of investing and reporting to the IRS so you can focus on your philanthropy. Other benefits include an easy and secure online donation system for your donors and fund management. ACF handles the gift acceptance and IRS acknowledgment letters for gifts to your fund.

ACF also provides complex gift acceptance protocols and assistance to help your donors give non-cash gifts, such as appreciated stock, mutual funds or real estate. We offer confidential philanthropic advising for donors interested in making legacy gifts to your organization.

Additional gifts can be made to endowed or non-endowed funds at any time. ACF accepts many types of assets, and ACF can help your organization grow your fund by providing useful tools for donor cultivation and fundraising.

### **Prudent investment policies and expertise**

ACF works with professional investment managers who are focused on prudently growing your fund for the long-term. ACF's investment funds are overseen by a qualified investment committee, comprised of investment managers, CPAs and nonprofit managers with investment expertise. We contract with an investment firm that works with approximately 50 community foundations around the country and is knowledgeable about prudently growing community foundation funds for the long-term.

ACF's average annual investment goal is 7% for both endowed and non-endowed funds, and both types of funds are invested in the same manner.

*\*Please note there is no guaranteed rate of returns because the funds are invested in the markets, which experience fluctuations.*

## **LEARN MORE TODAY**

Learn more about The Alaska Community Foundation by visiting us online at [www.alaskacf.org](http://www.alaskacf.org) or in person at 3201 C Street, Suite 110, Anchorage, AK 99503. Please contact ACF Staff by calling 907.334.6700 or emailing [info@alaskacf.org](mailto:info@alaskacf.org).



Confirmed in Compliance with the National Standards for U.S. Foundations

