Strategies for Increasing Endowment Giving at Colleges and Universities

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INTRODUCTION

The primary source of endowment funds at American colleges and universities has been gifts from donors. Endowment funds in higher education totaled more than $340 billion in fiscal 2006. This is a result of gifts and other additions to endowment funds together with their subsequent capital appreciation. Although endowment growth is often related to successful investment management, our 2005 paper[1] showed that for the average institution, about one-half of the endowment growth came from new gifts over a ten-year period (1994-2003) and the appreciation on those gifts.

We also found that the importance of gifts to endowment growth varied among categories of schools. Almost all the large public universities and many smaller private college endowments were growing their endowments, on average, faster from gifts than from retained investment returns, after spending. By contrast, the very largest private endowment funds were growing their assets more rapidly from retained investment returns because of particularly strong results in recent years.

Despite the importance of investment results to the growth of the largest endowment funds, they all continued a strong commitment to endowment giving. Those institutions with the largest annual giving totals are also those institutions with the largest endowment funds.

Because of large increases in endowment assets, the growth of both endowment giving and total giving has lagged the growth of endowment funds. As a result, many of the institutions with large endowments are adding a smaller percentage to endowment assets from gifts than they were in the late 1990s. At the same time, however, some universities have been developing innovative ways to encourage endowment giving from alumni and friends. Among the most successful are the creative use of matching funds and challenge funds to encourage donors to increase their giving and to make large gifts to endowment funds. We have found that such innovations are often successful and are likely to be more widely adopted. We also suggest ways to further increase the incentives for faculty to ask for endowment gifts and for donors to make such gifts.

[1] *Rogers and Strehle, "Sources of Endowment Growth and Colleges and Universities", Commonfund Institute, April 2005.*

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Understanding Gifts and the Sources of Endowment Growth

The three major components of endowment growth are the investment returns, positive or negative; the gifts as a positive and the spending as a negative. These are usually defined in percentages. All three components are high priorities at those institutions seeking to maximize their endowment growth.

When we examine the growth of specific endowment funds over time, we are able to measure the importance of each component in creating such growth. The greatest emphasis in recent years has been on the total investment return and the favorable results achieved by several very large endowment funds. Although investment returns are very important, the positive effects of moderate endowment spending and strong endowment giving cannot be overlooked. Almost all those with favorable growth in endowment assets over time achieved relative success in all three sources of endowment growth. Most importantly, by effective financial management, they also avoided large special draw-downs of endowment income and funds. They also added to endowment from maturing life income plans and other funding sources.

In recent years, many colleges and universities have provided information about all the key inputs to their growth of endowment assets. As a result, financial officers should be able to compare their past sources of endowment growth with their peers using the information sources available to them. Using the percentages for each source each year, we did such a calculation for a sample of large endowment funds. For about two-thirds of the funds, we were able to calculate from the three components their growth in endowment assets to an error of less than one percent a year. For those institutions without meaningful endowment flows except investment returns, spending and endowment gifts, the difference between the calculated and actual endowment assets was much less than one percent a year. Our study also identified those with favorable additions to endowment from various non-gift sources. It also identified those few institutions that made special withdrawals of size from quasi-endowment funds to meet the shortfall between revenues and expenses.

Importance of Gifts to Continued Endowment Growth

All the evidence in recent decades shows that those colleges and universities with large endowments still needed a strong inflow of gifts to meet their institutional goals. A few that seemed adequately endowed several decades ago no longer rank among the largest endowment funds. Below-average investment returns relative to their peers, together with higher-than-average spending rates and below average fundraising results, have a severe impact over time. While it would seem unlikely that an institution would rank either well or poorly on all three determinants of endowment growth, the data show that good relative performance on all three measures is necessary to rank among the fastest-growing endowment funds.

Looking at the growth of endowment funds over 30 academic fiscal years (1976 to 2006), a difference of just 2.5% a year in compounded growth (compare 11.5% to 9%) means a two-to-one difference by 2006. This is 26 times vs. 13 times the size in 1976. A combination of investment returns, spending rates and endowment giving as a percentage of endowment assets can lead to such differences. For the largest 25 endowments in 1976, the difference in the increase to 2006 between the fastest- and slowest-growing funds was dramatic. The fastest-growing was 32.7 times bigger as compared to just 4.1 times for the slowest. The median increase for the largest 25 endowments listed in 1976 over the next thirty years was 18.1 times

(10.1% a year). Since both authors held important financial positions at leading institutions during this period, we can assure our readers that these differences in results, the sources of such differences and the eventual large growth in endowments were not widely predicted. In fact, the 1970s was a period of disappointing investment results and securities markets caused in part by high inflation and slow economic growth. It was not until about 1982 that these adverse trends were reversed.

Comparing Growth at Public and Private Institutions

If you looked at endowment growth by category of institution, one interesting conclusion from the data through 2006 is that the public universities are the fastest growing category, while the traditional liberal arts colleges are among the slowest growing categories. For the publics, rising alumni populations and increasing fundraising efforts have resulted in more rapid growth than the high alumni participation rates from a relatively stable alumni base at the liberal arts colleges. These colleges generally had successful fundraising programs 30 years ago and had already reached relative maturity in their fundraising efforts.

The large private universities have achieved good endowment growth if their investment returns have been strong and they were able to add gifts at 2% or more of their endowment assets each year. With a few exceptions, spending rates are relatively similar as almost all try to keep their spending rates at or below 5%. However, a lower spending rate of just 4.5% vs. 5% can increase the size of the endowment by about 15% over 30 years. According to the Commonfund Benchmarks Study®, public institutions have had slightly lower spending rates, on average, than private institutions.

The 50 largest endowments in 2006 listed by the National Association of College and University Business Officers (NACUBO) include 16 public institutions, including the University of Toronto. Several large public universities, and their foundations, have had strong endowment growth over the past 30 years including the Universities of Michigan (58 times), Wisconsin (42 times) and Virginia (27 times). Because of increased giving, several other publics had even more remarkable growth from very low levels of endowment assets 30 years ago. Only 6 of the 50 largest endowment funds are represented by private liberal arts colleges (members of the Annapolis Group) as compared with 14 thirty years ago. With a few exceptions such as Grinnell College in Iowa, most liberal arts colleges with high academic rankings had slower endowment growth over the past thirty years than many of the large public and private research universities.

Comparing Past and Recent Studies of Endowment Growth

A major study of the importance of gifts to endowment growth was "The Growth of College Endowments 1960-90" by Daniel Wingerd published in 1993 by Commonfund in cooperation with the Association of Governing Boards (AGB) and NACUBO. Lyn Hutton, now Chief Investment Officer for Commonfund, was an important participant in the study's development and conclusions. It found "that endowment growth roughly equaled net investment return, while spending and gifts were equivalent positive and negative factors, each canceling out the other. In terms of the degree of each factor's weight upon the endowment's growth, perhaps it is best to think of endowment growth in four equal parts: two parts investment return, one part gifts, and one part spending." The spending is, of course, a reduction from growth. In the years studied, gifts as a percentage of average endowment assets were similar (4.2% a year) to the spending rate (4.4% a year).

The growth of endowment giving has not matched the growth of endowment assets at the large private institutions over time, and particularly since the late 1990s. As a result, 2%, rather than 4.2%, is a better estimate of annual endowment giving at the largest 105 private college and university endowments in recent years. By contrast, the data from the Commonfund Benchmarks Study show the large publics, including their foundations, are still achieving annual endowment giving at close to 4% of assets.

There have been several important changes in the years since the 1993 study. While large and smaller endowments had approximately equal investment returns in 1960-90, the large endowments have had generally more favorable returns since then and particularly since 1995. The public institutions had investment returns that lagged, on average, those of the private institutions while their gift inflows, as a percentage of endowment assets, were generally much higher. The higher investment returns for the private institutions is confirmed by the publicly available aggregate data from both the Commonfund Benchmarks Study and from the NACUBO Endowment Study for the five years from 2002-2006. The difference in investment returns over the five years was less than 1% per year.

In the securities markets, this five-year period includes the strong years of 2004-2006 preceded by low or negative returns in 2002 and 2003. The higher returns over the period for the largest endowment funds were generally caused by larger commitments to foreign securities and to alternative investments such as private equity, hedge funds and real assets.

In building endowment assets, however, the inflow of gifts to the publics more than offset their lower average investment returns. For the five years from fiscal yearend 2001 to 2006, we found from the NACUBO Endowment Study that the 51 public institutions with an endowment of at least $200 million in 2001 had a median total endowment growth of 39%. By contrast, the 105 private institutions of such size had median total endowment growth of 25% for the same five year period. Data we obtained from the 2007 Commonfund Benchmarks Study (ending fiscal year 2006) show that the public institutions, on average, added more dollars in gifts to endowment funds in each of the six endowment size categories. For all three categories covering endowment funds from $51 million in size to one billion dollars, the publics were raising more than twice the dollar amount of gifts relative to the private institutions.

When we refer to large endowment funds, it is usually our data on the 105 private institutions and 51 public institutions that is used for reference. These 156 institutions had total endowment assets of $272 billion in 2006, some eighty percent of the $340 billion in endowment assets reported for 765 institutions by NACUBO.

Slow Growth of Endowment Giving Relative to Asset Growth

In recent years, the total gifts to endowment have not kept pace with the growth of endowment funds at college and universities. According to the Council for Aid to Education's Voluntary Support of Education (VSE) survey data, the total giving to endowment funds was $4.288 billion in 1998 and $6.965 billion in 2006, an increase of 62% over eight years. By contrast, NACUBO's reported endowment values increased by over 98% from the beginning of fiscal 1998 to the beginning of fiscal 2006. As a result, giving is a smaller percentage of the annual growth of endowment funds than it was eight years ago, the first year that VSE began recording this data on a consistent basis. On an aggregate basis, total giving increased by 51% over the eight years, including giving to endowment and to all other purposes. The use of separate data bases does not create important distortions in reported data as virtually all of the endowment funds of size report to both NACUBO and VSE.

As compared with endowment funds over one billion dollars in size, the smaller endowments have had significantly lower average investment returns since 1998. As a result, they also had smaller endowment growth and gifts could better keep pace with this moderate growth.

Fundraising for Endowment Gifts

Fundraising is an important activity at almost every charitable organization. At small and mid-sized charities it is current gifts that are usually the most important priority. Annual giving is usually a key component of revenues and obtaining such gifts is vital to maintaining operations.

As an educational institution grows in size and stability, some donors are willing to make longer-term commitments to its programs and may establish named endowment funds. Large one-time gifts either from living donors or from bequests are often allocated to endowment rather than to the support of current operations. Our data for 2002-2006 show that the private institutions with the largest endowments report 33% of their giving is to endowment with the remainder for current operations or other capital purposes. By contrast, the public institutions with the largest endowments report that only 23% of giving is directed to endowment. Some publics do not have a strong tradition of endowment giving, although this seems likely to change as their giving programs expand and mature.

Endowment giving is often considered just one of several important objectives in a fundraising capital campaign. Most capital campaigns try to accomplish several objectives including raising the level of annual support while also increasing the funds for facilities and endowment. Unless it is focused on current gifts or facilities, we expect a successful campaign to increase endowment giving. We have also observed that some donors are unable to give large amounts during the campaign, but will plan for future large gifts when their financial situation improves. Bequests received can sometimes be traced to estate plans that were made during past capital campaigns. While we encourage academic leaders to focus on the full range of incentives for endowment giving, such giving usually takes place as part of a fundraising effort with multiple objectives.

Trustees and senior academic officers may assume that endowment giving is primarily a result of gifts from living alumni and friends. While such gifts may represent more than one-half of endowment giving, bequests and life income plans are also a very important part of most endowment giving programs. Our data show that bequests for all purposes total about one-half of the endowment giving at the largest private universities. Since bequests can be allocated for many purposes, not all bequests are allocated to endowment funds either by donor designation or by the trustees as quasi-endowment. This latter designation is often used to add large unrestricted bequests to endowment funds. For those institutions capable of a long-term perspective, almost all bequests of size will be added to endowment funds unless designated for other purposes.

Institutions may also receive important endowment gifts from corporations and foundations. Corporations have provided endowment gifts to establish named endowed faculty chairs, named student aid funds or for other purposes. Retiring corporate executives are occasionally honored with named faculty chairs at academic institutions where they have close ties. Corporations and foundations have also provided endowment funding to supplement their current giving for specific academic programs.

There are frequent additions to endowment funds from sources such as maturing life income plans. These can be of large size and are allocated based upon the purpose defined when the gift to the life income plan was first received. Other examples include gifts for current operations received in earlier years that are re-designated for investment with the endowment funds. Annual operating surpluses are also a source of funds for long-term investment. If investment income is not all expended, some may be reinvested into the same endowment fund. These various transactions usually result in the creation of quasi-endowment unless they were defined as permanent endowment by the donor.

Traditional Incentives for Donor Giving to Endowment

There are often important incentives at colleges and universities to encourage endowment giving. We define these as either passive, unchanged over the years for all donors, or active and focused on specific programs and donors. Such traditional incentives include the ability of donors to spread their gift commitment over several years to fully fund a pledge to a named endowment fund. These passive incentives include the use of endowment gift pricing that may not reflect the full cost of providing the faculty or student support recognized by the gift. For example, the full cost of funding a senior professor at a research university may be far larger than the endowment income initially allocated to the chair from a new gift to an endowed fund.

For endowments with high investment returns over the years, the pricing of new endowed faculty chairs may be only a fraction of the current market value of those endowed chairs funded in earlier decades. For those institutions using unit value accounting, this means that the number of endowment units being purchased by new endowment gifts are less than the units in the endowment fund for such purposes. As a result, new endowed chairs will not receive the same amount of endowment income as earlier chairs. Institutions should know whether their pricing of newly endowed faculty chairs is higher or lower than the market value now of chairs given in earlier years.

In doing a comparison of the prices of endowed chairs at public and private institutions, we found that the public universities were pricing their chairs, on average, at about two-thirds of the price of a chair at a sample of private institutions. With many public institutions also able to provide matching funds, the actual gift required to create a named endowed chair may be only about one-half the price at the typical private college or university.

Traditional incentives for endowment giving are often passive in nature. An active incentive provides strong and timely encouragement for a prospective donor to make a large endowment gift. A common active incentive is created at the time of a large capital campaign or a major alumni reunion. Donor recognition is likely to be more important than at other times. For donors who are also campaign or alumni class leaders, such giving provides an opportunity for important volunteer leadership.

When institutions examine those passive and active incentives to encourage endowment giving, they need to be sensitive to possible disincentives to endowment giving that also exist. Academic leaders who direct their fundraisers to bring in only expendable funds are certainly creating a disincentive to asking donors for endowed faculty and student support. Of equal importance, they have provided a disincentive for fundraisers to seek bequest intentions, life income plans and other gifts with long term benefits. Since bequests received by higher education are about one-fourth of all gifts from individuals, such disincentives can have an important negative effect on both giving and long-term endowment growth. In addition, specific gifts to endowment are usually several times larger than those typically given for current operations. Giving to life income plans is important, although the present value of such giving is less than one-third the annual giving received in bequests.

As institutions re-examine their fundraising programs, they will find some donors are seeking gift-crediting now for funds that will not be received for many years, including bequests. As donor giving is increasingly publicized, the pressures on institutions to give "soft-crediting" during campaigns are likely to grow. Such gift crediting policies particularly affect revocable estate plans and other gift intentions that are uncertain as to time and value. Our experience is that documented bequest intentions of those in their retirement years are unlikely to be changed except when there is a substantial change in the donor's obligation to their family. By contrast, however, such soft crediting provided to others should not serve as a disincentive for those donors who are making pledges and gifts of large size payable now.

Matching Funds and Active Incentives for Endowment Giving

Colleges and universities have been using matching funds and challenge grants to encourage larger gifts to endowment for decades. What is new in recent years is the widespread adoption of such matching funds by state-supported public universities. Several private universities have also developed focused matching programs to encourage endowment giving. In addition, we have identified a few public universities that have been able to set up privately-funded matching funds for specific purposes. There are also a few examples of state-funded matching fund programs that permit private institutions within their state to qualify.

The availability of matching funds from state appropriations is a major factor in the fundraising success of many public universities. About one-half of the states offer such matching gift funds, including eleven of the most populous fifteen. We also note the use of matching funds at several private universities, including Stanford which has ranked second in endowment giving in recent years. First-ranked Harvard has also offered matching funds for endowment gifts at a few of its schools. A small number of private colleges have also used matching funds to attract endowment gifts for specific purposes.

A few large states, such as California and Michigan, did not offer matching funds programs. They already had a strong tradition of endowment giving to their public universities. As a result, it is difficult to make comparisons among the states. Such factors as successful capital campaigns and recent large gifts or bequests also affect results. Fortunately there are comparisons over time at specific state universities that illustrate very large increases in endowment giving as a result of matching funds.

The Indiana University Foundation reports that a matching funds campaign was used in the late 1990s to dramatically increase its endowed faculty positions. It said the five-year program moved it from last to first among Big Ten schools in the number of such endowed faculty positions. It continues to successfully use matching funds to encourage endowment giving. Total gifts to endowment were $256 million over the past five years, 21% of all the gifts it received.

At public universities in Kentucky, a Research Challenge Trust Fund was developed in 1997. By 2006, it had created 82 endowed chairs and awarded 54, created 182 endowed professorships and awarded 107, and created 265 fellowships, scholarships, and endowments for research support and the library. The Universities of Kentucky and Louisville reported that combined endowment gifts totaled more than $165 million in the past five years.

The largest comprehensive study of the impact of 24 state matching funds was published in 2002 by the AGB. During the three years from 1999 to 2001, state matching funds totaled $87 million and the related private endowment gifts totaled $276 million. It also reported large increases in endowment giving at specific states with active programs.

Matching funds to encourage endowment giving take two general forms. The first are matching funds to encourage specific individual gifts and the second are described as challenge funds. These funds encourage, or challenge, total giving from others to reach a specific funding goal before the pledge of the match is fulfilled. Both usually have a primary objective of increasing the number of donors that make gifts of large size. The matches also can encourage donors to increase the size of their past gifts, regardless of size, to meet specific funding goals. Matches are usually focused on alumni and friends, although corporate and foundation gifts also usually qualify for matches.

We sometimes think of matches as dollar-for-dollar, although they often provide smaller amounts, such as matches of one-for-two or one-for three. Matching programs can also have minimums or maximums, or both. The matching of individual gifts often results in the matching funds being added to the same named endowment fund that is created by the naming donor's gift. Challenge grants may not increase individual endowment funds, but can provide further leverage as the last few donors can trigger the full challenge grant.

State appropriations for the matching of endowment gifts to public universities are usually less restrictive as to the purpose of the gifts when compared with the matching programs at private universities. Challenge funds limited to specific academic priorities are more prevalent at private institutions than at the publics. At the private institutions, the matches are usually focused on specific purposes such as academic departments or funding for student financial aid. Private schools have the difficult task of finding a donor or donors capable of creating a meaningful matching fund. As a result, the use of a challenge grant format may help leverage the impact of the matching fund over a larger pool of qualifying gifts.

Matching funds usually mean a matching of the principal of an endowment gift, but matches can also relate to the endowment income being created by the gift of the naming donor. At least three public universities provide matching income at a fixed annual dollar amount over time. This annual match is based on a ratio of the endowment income available in the first year after the endowment gift. At one university, the matching of income is on a one-for-two basis with the annual dollars in the match being fixed annually into the future. It is not a match of principal gift amounts and the matching of income is expected to be funded from future annual budgets.

Realizing the importance of bequest intentions and estate plans, there are examples of matching funds programs that provide delayed funding of the match to the time when the bequest is received. There are other examples of commitments to match endowment gifts in the future that are part of multi-year pledge payments.

For public universities with modest fundraising histories, matching funds provide a powerful incentive to raise the awareness of endowment as important to long-term institutional success. For such universities, "jump-starting" of endowment giving through the use of matching funds has produced some dramatic results. By contrast, those with a successful fundraising history can use the availability of matching funds as a reason for asking, or re-asking, alumni and friends for large endowment gifts.

There is an opportunity for a private college or university to use matching funds to significantly increase a modest endowment giving program, as has been done successfully by several public universities. By finding a potential donor or donors to create such a matching funds program, private colleges and universities can begin transforming their fundraising program toward larger gifts and endowment giving.

Endowment fundraising is not about the reallocation of donor designations from gifts for annual purposes to gifts for permanent endowment. It is about developing personal relationships with the institution in a way that encourages large gifts of importance to its long-term success. These conversations are encouraged by the availability of matching funds. Matches encourage giving by "reducing the price" of a naming opportunity, but may be even more important in creating a feeling of "now is the time" to make their largest lifetime gift.

The attitudes of family members are often crucial to the giving decision. Fundraisers may not be aware of the importance that either family enthusiasm or questioning can have on the giving decision. The availability of matching funds helps make the gift commitment easier to understand. In addition, recent large gifts by other alumni and friends can encourage the family to be part of this institutional effort.

Raising Gifts for Faculty Support and Student Financial Aid

Endowment giving for faculty support, faculty-led research programs and student financial aid provide opportunities for public relations and donor stewardship. These can be part of a long-term program to encourage repeat gifts and to encourage other donors. Faculty are usually honored to be selected as holders of endowed chairs and to have their research programs separately endowed.

The creation of a named endowment fund for faculty support often requires a gift of a million dollars or more. The opportunities for named endowment funds of smaller size are often found in student financial aid. Named endowed scholarship funds can often be created with a gift of about $100,000, or perhaps less at some institutions. This will result in a student, or students, receiving a scholarship grant each year from a named endowment fund. As compared with faculty endowment support, endowed student aid funds are often smaller in size and repeat gifts from donors are often an important part of the overall funding. Such funds can also be given for graduate student fellowships with the minimum amounts often being larger relative to undergraduate scholarships. In either case, good opportunities exist for donor stewardship.

Many institutions provide annual reports to donors of student aid funds. Some are providing frequent opportunities for donors to meet the students receiving support from their named endowment funds. Correspondence between donors and these students is also quite common. Such activities are often designed to encourage additional giving by prior donors, their classmates and their friends.

Publicity and stewardship relating to their donors are key components of successful endowment giving programs. The announcement to the campus and the public about important gifts may encourage other donors to consider such giving. Celebratory events around such events can include the donor, family and friends, and the faculty leaders of programs that benefit from the endowment income.

The Need to Simplify the Calculation of Endowment Income

Large gifts to endowment funds are often solicited directly by college and university presidents or their most senior associates. As a result, the specific terms of these gifts can be fitted to the needs of the donors and to the academic programs being supported. Additional support from institutional funds or external sources may be part of the overall funding program. As a result, the endowment income resulting from the gift may be only one of the sources of funding. Because of these multiple sources of support, the specific endowment income available in the early years following the gift may be of limited interest to the donor.

By contrast, those endowment gifts being solicited by academic deans, department heads and major gifts officers are usually defined by specific financial policies. They may not have the freedom of a president or board of trustees to fit the policies to the size of the gift. There may be little or no flexibility in how much of the endowment income generated by the gift is actually available to the academic program being supported. Some of the endowment income may be "taxed" by the university even before it reaches the designated activity. The "5% endowment income spending rate" described by the fundraisers is likely to be less, or even much less, if the market value of endowment pool units has been rising faster than the recent dollar per unit increases in endowment income. The Commonfund Benchmarks Study shows in recent years that the average distribution rate in dollars, set once a year, is more likely to be about 4.5% based upon the most recent fiscal yearend unit market value. In a favorable securities market, it may occasionally be much lower than 4%. This assumes that the donor's gift buys into the endowment fund at the most recent monthly unit value, the most common accounting method. Until the dollars of endowment income eventually respond to the higher market levels, the programs supported by such income may receive a lower percentage of the endowment gift than expected by academic leaders or donors.

Deans, department heads and their fundraisers can describe the importance and needs of their academic programs. They may have difficulty, however, projecting available endowment income in the early years following a large gift. There is a need to simplify the description of available endowment income provided to those prospective donors seeking assurances. One unfortunate solution is for academic leaders to avoid this confusion and seek current expendable funding for their programs, even from donors capable of much larger gifts in the form of endowment. If so, then the endowment income spending policy will have acted as a disincentive to endowment giving.

The legal and financial staffs should provide positive support to the endowment fundraising efforts rather than create unnecessary hurdles. Close cooperation between these staffs and the major gifts fundraisers is found at several large universities. Legal documents that deal with every contingency have a place in large and complex commercial transactions, but endowment gifts rarely have such characteristics.

Each institution should be able to develop a common fundraising policy and endowment spending policy that will simplify this process for both fundraisers and donors. Simplification may include some assurance that a minimum level of income from endowment and supplemental funding is available in the early years following the gift. It is noted that some donors and some academic and student aid programs supported by the income from their endowment gifts have no need for simplification. For those that are in need of simplification, however, mutually agreeable solutions should be available. While such simplification may have costs, these should be modest relative to the unfavorable alternative of not receiving the endowment gift if historic policies prevail.

The Future of Endowment Giving and the Use of Incentives to Encourage Such Gifts

Colleges and universities need to rely on endowment income for an increasing proportion of their revenues. Fortunately the securities markets have been favorable in recent years and endowment funds are growing faster than most measures of inflation and academic expenses. Despite good markets, the longer term uncertainty of government funding for higher education means the high priority must continue to be on growing the endowment from all sources.

Fundraising for endowment is included as one of the key components of a development program. Despite their emphasis on overall fundraising, institutional leaders need to look closely at the motivations for endowment giving. Presidents, other senior officers and the trustees need to be aware of the factors that are encouraging endowment giving at their institutions. In addition, they need to look for possible improvements they can make and observe how other institutions are meeting this challenge. They also need to look for ways to create a more positive environment for endowment fundraising by their faculty, trustees and alumni leaders.

We have identified such important incentives as matching funds, donor recognition and stewardship. For donors of endowment funds, there may be a need to assure a reasonable level of endowment income in the early years following the gift. There is no simple formula for success. Institutions should look at all the possible incentives and select those that will be most effective for their fundraising program. Comprehensive fundraising campaigns and a campus-wide commitment to active fundraising are often keys to success. Such an environment should enhance the opportunities for raising endowment funds and maximize the effectiveness of the active incentives for giving.

Biographies

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