

# The State of Foundation Giving, 2005

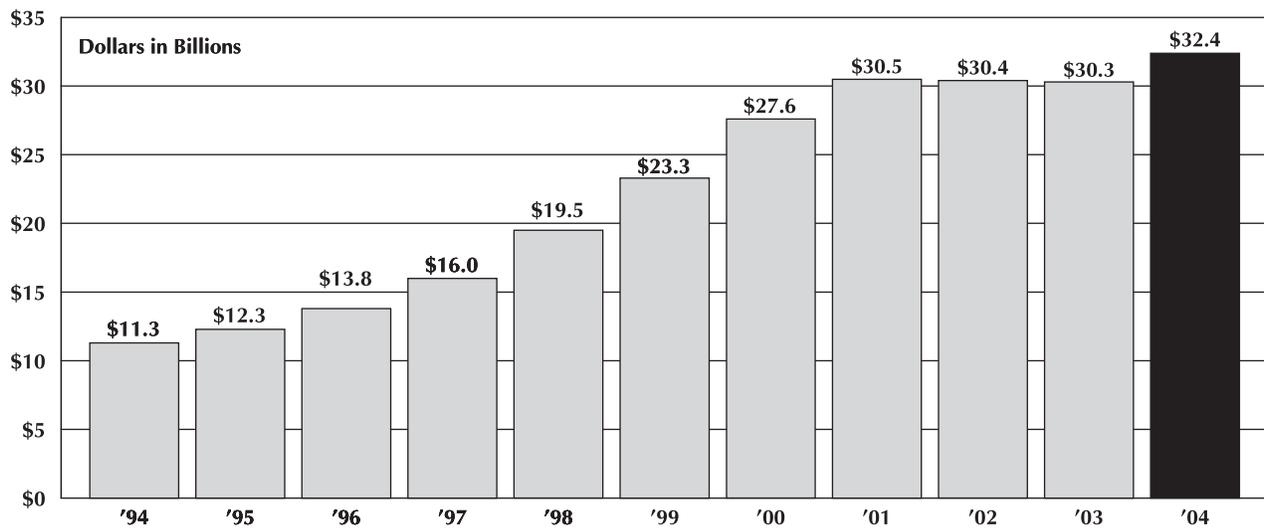
- Foundation giving rose 7 percent to an estimated \$32.4 billion in 2004
- 2004 assets increased a more modest 4 to 6 percent
- Growth in 2005 giving likely to be modest

At the end of 2003, it appeared that foundations were poised to return to a period of steady, substantial increases in giving. The stock market posted a double-digit gain, following three consecutive years of declines, and foundation assets began to recover. The year-end optimism proved short-lived, however, and the market fluctuated widely in 2004. Despite some positive economic indicators, each worrisome development—an expanding deficit, rising oil prices, a deteriorating war situation, the general uncertainty in the run-up to the presidential election—sent the market down.

In this climate of uncertainty, overall private giving by individuals, foundations, and corporations grew a modest 5 percent to an estimated \$248.52 billion in 2004.<sup>1</sup> For the more than 66,000 U.S. grantmaking foundations, estimated giving increased 6.9 percent to a record \$32.4 billion (Figure 1). While this gain in foundation giving fell below the 9.5 percent rise in foundation assets in 2003, giving was just over 6 percent higher than in 2001—the previous peak year for foundation giving.

The increase in foundation giving in 2004 resulted primarily from the stock market recovery that began in 2003 and a higher level of new gifts into foundations. An additional factor contributing to the overall growth of foundation assets and giving was a modest increase in newly established foundations. These factors helped to reverse two years of asset losses, although total foundation assets remained below the

**FIGURE 1. Change in Foundation Giving, 1994 to 2004**



Source: The Foundation Center, *Foundation Yearbook*, 2005. Figure estimated for 2004. All figures based on current dollars.

record levels reached in 2000. In fact, assets of most of the largest U.S. foundations had yet to return to their previous peak levels.

Independent foundations, including most family and “new health foundations” (formed from health care conversions), increased their giving by an estimated 6.8 percent in 2004. This followed a nearly 5 percent reduction in giving between 2001 and 2003.<sup>2</sup> Overall, independent foundations gave a record \$24.1 billion, which surpassed the previous record of \$23.7 billion reported in 2001. (For more detailed comparisons of estimated giving by foundation type, see Chapter 4.)

Corporate foundation giving grew by an estimated 4 percent in 2004, following a 0.2 percent uptick in giving in 2003. Actual giving increased from under \$3.5 billion to a record \$3.6 billion. Increases in the value of existing corporate foundation assets and a higher level of new gifts into foundations contributed to this growth.

Community foundations increased their giving by an estimated 8.6 percent in 2004, surpassing both independent and corporate foundations. By comparison, community foundation giving grew just 1.4 percent in the prior two-year period. Actual grant dollars totaled an estimated \$2.7 billion, up from \$2.5 billion in 2003.

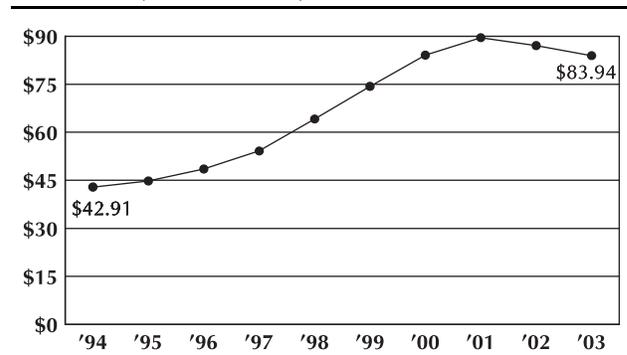
Foundation giving rose by 30 percent between 1999 and 2003, despite two interim years of slight overall decreases. Even adjusted for inflation, giving by foundations grew 17.7 percent during this five-year period. Inflation-adjusted foundation giving per capita grew by almost 13 percent, from \$74.35 in 1999 to \$83.94 in 2003 (Figure 2). Foundation giving as a percent of Gross Domestic Product (GDP) also increased over the same period, from 0.25 percent to 0.28 percent (Figure 3).<sup>3</sup> Nonetheless, inflation-adjusted 2003 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, although the shakier market performance in 2004 will contribute only modestly to the rebound in foundation giving.<sup>4</sup>

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 during the early years of 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.)

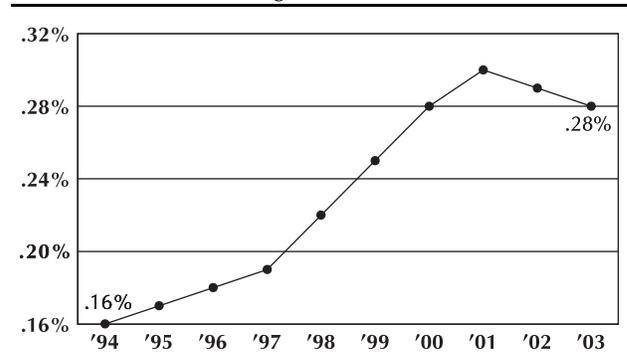
The federal payout requirement for private, non-operating foundations also helps to stabilize foundation giving in both good and bad times. By law, independent and corporate foundations must pay out each

**FIGURE 2. Foundation Giving Per Capita, 1994 to 2003 (Constant Dollars)**



Source: The Foundation Center, *Foundation Yearbook*, 2005. Dollars in billions. Constant 1994 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: 2004–2005* (124th Edition), Washington, DC, 2004.

**FIGURE 3. Foundation Giving as a Share of GDP, 1994 to 2003**

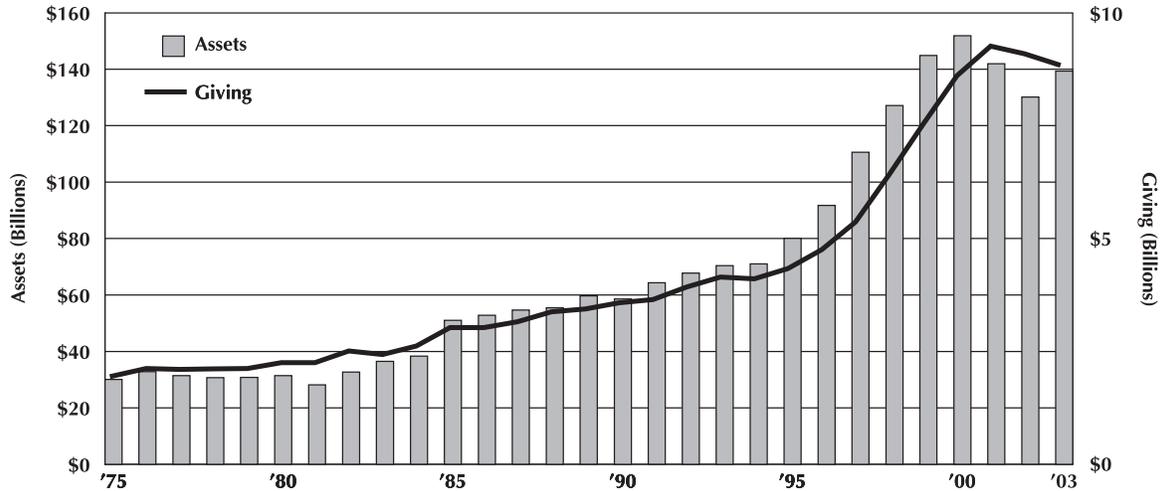


Source: The Foundation Center, *Foundation Yearbook*, 2005. Figures on U.S. Gross Domestic Product (GDP) are from the U.S. Bureau of Economic Analysis. See U.S. Census Bureau, *Statistical Abstract of the United States: 2004–2005* (124th Edition), Washington, DC, 2004.

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 2004 was 6 percent of the prior year's assets—the second highest ratio recorded since the Foundation Center began separate tracking of independent foundations in 1987. Smaller independent

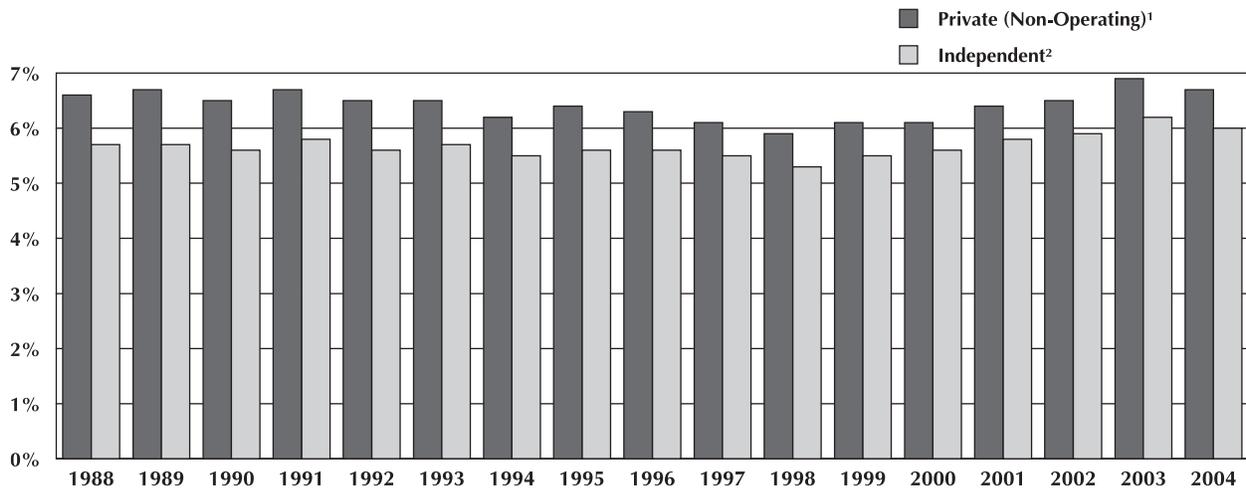
foundations generally exceed this rate because many of them maintain minimal endowments and instead serve as “pass-throughs” for charitable giving by their donors. For larger, endowed independent foundations, the relatively high levels of payout seen during the economic downturn and continuing into the start of the recovery may reflect a desire to maintain stable giving levels despite variations in asset values.

**FIGURE 4. Change in Foundation Assets and Giving, 1975 to 2003 (Constant Dollars)**



Source: The Foundation Center, *Foundation Yearbook*, 2005. 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 2005.

**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*, 2005. Giving figures for 2004 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.

For corporate foundations, payout was 23.3 percent in 2004, nearly unchanged from 2003. Unlike larger independent foundations, corporate foundations generally do not maintain substantial endowments and instead fund grant 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.

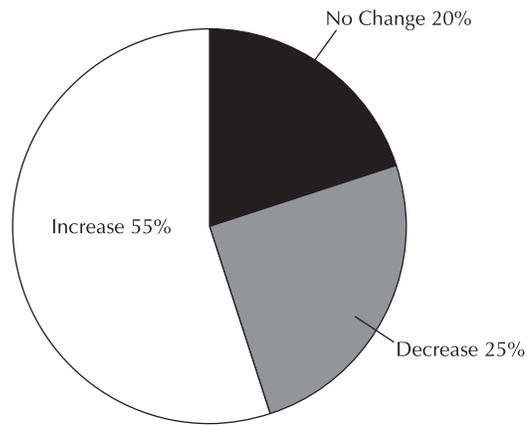
In contrast to independent and corporate foundations, community foundations, as public charities, have no payout requirement. Nonetheless, their giving typically amounts to between 7 and 8 percent of the value of their prior year’s assets.

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

To assess the outlook for foundation giving in 2005, the Foundation Center’s annual “Foundation Giving Forecast Survey” asked respondents to indicate expected changes in their giving in the current year. Responding to the relatively improved economic climate, over half of foundations (55 percent) indicated that their giving would increase in 2005, while one-fifth (20 percent) expected no change in their level of giving (Figure 7).<sup>5</sup> Among foundations expecting an increase, the largest share (29.9 percent) predicted

increases in the range of 1 to 5 percent. An additional 20.7 percent expected to increase giving between 5 and 10 percent. However, one-quarter of respondents (25 percent) expected to decrease their giving in 2005, surpassing the 18 percent of respondents to the 2004 survey that expected to decrease their giving. These findings suggest that foundation giving will likely continue to increase in 2005 but more modestly than in 2004. (See *Foundation Growth and Giving Estimates: 2004 Preview* for a more detailed analysis of the 2005 survey findings.)

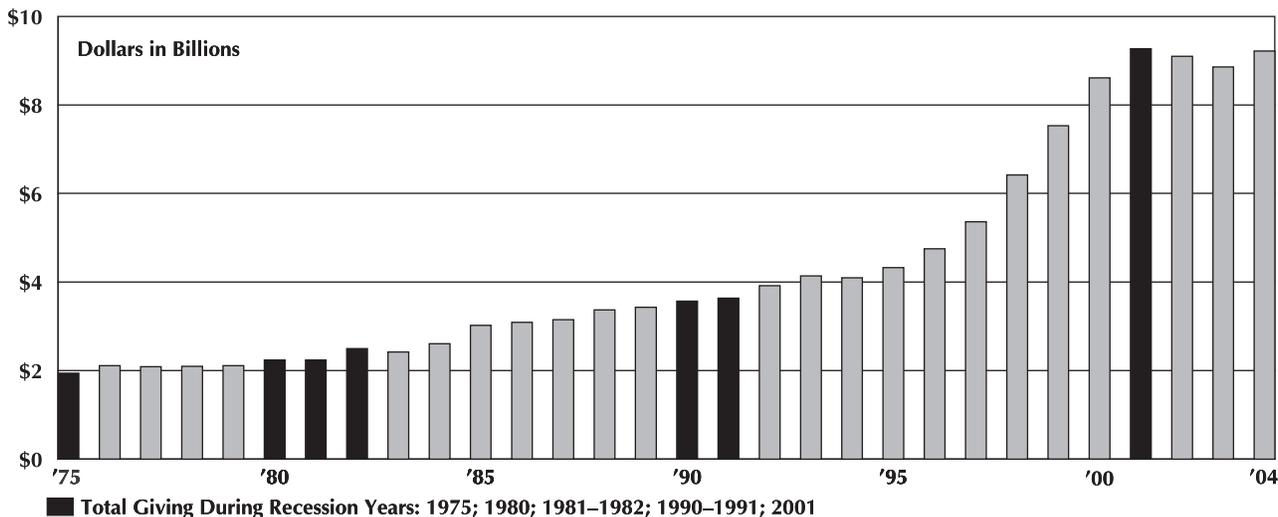
**FIGURE 7. Anticipated Changes in 2005 Foundation Giving**



No. of Respondents = 891

Source: The Foundation Center, *Foundation Yearbook*, 2005. Figures based on the Foundation Center’s 2004 “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 2004 (Constant Dollars)**



Source: The Foundation Center, *Foundation Yearbook*, 2005. Figure estimated for 2004. 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 2005.

Helping to boost foundation 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 2000 and 2003 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 slowed in the sluggish economic climate of the early 2000s. Nonetheless, 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.

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.) By comparison, the Congressional Joint Committee on Taxation proposed several regulatory changes affecting foundations in 2005, including one

that would limit the tax incentives for gifts to foundations of real property, closely held business interests, restricted stock, and oil and gas interests. While the likely impact of this proposal on giving remains unstudied, it could have the effect of reducing new gifts into foundations.

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 immediately following the 1986 personal income tax reductions, decreases in taxes for wealthy individuals lower the incentive for charitable giving.

Foundations appear to have returned to a path of steady, albeit modest, annual growth in giving. The number of grantmaking foundations also continues to grow, although at a markedly slower pace when compared to the latter years of the late 1990s and the first years of the new century. Nonetheless, barring a dramatic return to the relative political stability and widespread economic prosperity of the prior decade, it seems unlikely that foundations will again realize consistent double-digit gains in their giving in the foreseeable future.

June 2005

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## Endnotes

1. See Giving USA Foundation, *Giving USA 2005: The Annual Report on Philanthropy for the Year 2004*, ed. by M. Brown, Indianapolis, IN: Giving USA Foundation, 2005. Giving by independent, corporate, community, and operating foundations totaled 13 percent of all private giving in 2004.
2. Percentages based on the Foundation Center's 2005 "Foundation Giving Forecast Survey." A total of 945 surveyed foundations provided estimates of changes in their 2004 giving. For more information on the survey sampling base, see L. Renz and S. Lawrence, *Foundation Growth and Giving Estimates: 2004 Preview*, New York: Foundation Center, 2005.
3. Between 1999 and 2003, private charitable giving from all sources—including individuals, corporations, and foundations—decreased slightly as a
4. Based on the Foundation Center's 2005 "Foundation Giving Forecast Survey," foundation assets grew by an estimated 4 to 6 percent between 2003 and 2004. A total of 912 surveyed foundations provided estimates of changes in their 2004 assets.
5. In general, the largest U.S. foundations are more likely to have endowments that include major equities holdings. As a result, they are more likely to have lost asset value in the bear market of the early 2000s and to have gained value in the stock market recovery that began in 2003.

