

Philanthropy Thrives During the Great Pandemic



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November 2020

Arguably, the biggest ongoing challenge facing charitable foundations is how to balance spending now versus saving for the future. This challenge was no more evident than in the early part of 2020. With both Main Street and Wall Street reeling from a global pandemic, charitable institutions faced two competing options. Should they accelerate or even increase their current spending levels to address the devastating health and economic consequences of COVID? Or, given the material decline in endowment values resulting from the March sell-off in both equity and credit markets, should they take a more ‘wait and see’ approach in deciding whether to spend in excess of what was originally budgeted for 2020.

The actual levels of charitable spending in 2020 won’t be known until final reporting and analysis occur next year. Nevertheless, based on what has been reported to date and what we are hearing from our own philanthropic clients, it appears that many foundations, including the very largest funders in the U.S., are digging deeper into their pockets in 2020 to help in addressing the increased needs of people, places, and programs in light of COVID. Also, some foundations have pledged to being more flexible in their philanthropic response to COVID, allowing grantees greater latitude in deciding how best to put foundation contributions to work.

In June, the Ford Foundation announced that it was taking the unprecedented step of issuing social impact bonds to raise \$1 billion in funds for combatting the effects of COVID. Bond proceeds will enable the Ford Foundation to pay out 10% of its endowment value in 2020 and 2021, double the level of grantmaking required by law.¹ Other leading private, corporate, and community foundations are following Ford’s example by bolstering planned philanthropic support for this year and next.

Exponent Philanthropy, a member organization of funders, surveyed its members and found that just under 50% of foundations planned to increase spending this year in response to COVID-19. Of this group, about four in ten planned to give a certain dollar amount more while one in five will increase their overall payout rate. About 40% of survey respondents plan to fund nonprofits outside of their typical portfolio because of COVID.² The Center for Effective Philanthropy reported that nonprofits who rely on foundation funding are experiencing greater stability in funding than those relying on other revenue sources, with 70% of nonprofits surveyed expecting to receive the same or greater financial support from foundations in 2020.³

Donor Advised Funds (DAFs) have become a charitable venue of choice for a growing number of individuals and families. Fidelity Charitable reported an increase of over 30% in grantmaking volume and 18% in grantmaking dollars from their DAF accounts for the January 1 – April 30 period versus the same time last year. Giving was especially strong to the human resources sector, including to organizations helping address food and shelter insecurity.⁴

¹ James B. Stewart and Nicholas Kulish. “Leading Foundations Pledge to Give More, Hoping to Upend Philanthropy.” *The New York Times*. June 2020. <https://www.nytimes.com/2020/06/10/business/ford-foundation-bonds-coronavirus.html>

² Brendan McCormick. “How Lean Funders Are Responding to COVID-19.” Exponent Philanthropy. May 2020. <https://www.exponentphilanthropy.org/blog/how-lean-funders-are-responding-to-covid-19/>

³ “Funder Support During the COVID-19 Pandemic.” The Center for Effective Philanthropy. June 2020. http://cep.org/wp-content/uploads/2020/06/CEP_Covid-Report_06072020_FINAL.pdf

⁴ “Fidelity Charitable donors recommend over \$236 million in grants to nonprofits for COVID-19 relief; just part of the \$2.5 billion granted so far this year.” *Fidelity Charitable*. May 2020. <https://www.fidelitycharitable.org/about-us/news/fidelity-charitable-donors-recommend-over-200-million-in-grants-to-nonprofits-for-covid-19-relief.html#:~:text=The%20%24>

A survey of Pathstone foundation clients provides further evidence of higher spending by charitable institutions this year. Comparing activity three-quarters of the way through 2020 to the same nine-month period in 2019 shows an increase in spending of 18% year over year and the payout ratio amidst this sample increasing from 4.2% to 4.6% of assets.

According to Giving USA, foundation giving reached a new height at \$75.7 billion in 2019 and is likely to set another record in 2020.⁵ Charity, in general, has surpassed levels seen during the GFC in 2008. While encouraging trends amidst a global public health crisis, even more resources are needed across the giving spectrum to address the economic fall-out from COVID, particularly among poorer communities who have been disproportionately impacted by the pandemic.

At Pathstone, we understand that philanthropy is one of the most important decisions our clients have to make, and we look to support them in their charitable activities to help them meet their objectives. Further, our Select Institutions practice brings 20+ years of dedicated experience in serving private foundations and public charities, including not just endowment management but also holistic support in setting spending policies, aligning their endowments with their philanthropic values, and generally helping them successfully carry out the mission of their organizations.⁶

⁵“Giving USA 2020: Charitable giving showed solid growth, climbing to \$449.64 billion in 2019, one of the highest years for giving on record” *Giving USA*. June 16, 2020. <https://givingusa.org/giving-usa-2020-charitable-giving-showed-solid-growth-climbing-to-449-64-billion-in-2019-one-of-the-highest-years-for-giving-on-record/>

⁶ Including legacy organizations, Federal Street Advisors and Convergent Wealth Advisors.

About the Author

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Dan Gross joined Pathstone in 2005, bringing 29 years of financial services experience to the firm. He is a Managing Director, responsible for both individual and tax-exempt clients, and is a voting member of the firm's Investment Committee. Dan spent 15 years at Scudder Investments, where he was a Managing Director. At Scudder, he oversaw the firm's global product group and directed the AARP Investment Program, a \$13 billion fund complex. Dan has held senior roles with other leading investment management organizations including The Vanguard Group and TIAA-CREF.

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