

BALANCING PURPOSE, PAYOUT, AND PERMANENCE: DISCUSSION GUIDE

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INTRODUCTION

“How much should we spend?” is a fundamental question facing founders and boards of endowed private foundations. Answering it becomes more complex and emotional when your foundation faces an economic downturn, natural disaster, or other unexpected crisis or opportunity that increases demand for funding. In the *Balancing Purpose, Payout, and Permanence Strategy Guide*, you learn that:

1. Your foundation has a range of equally valid options for answering the question of spending. Most endowed foundations spend more than 5% annually, with some spending much higher during crises.
2. You can weigh a variety of factors in your decision-making and still meet modern prudent investing standards and [UPMIFA](#). It is important to ground the decision in *both* the foundation’s enduring values and purpose *and* in changing community and economic conditions.
3. While making decisions, it helps to revisit your foundation’s founding documents, principles of effective investment governance, and your organizational leadership’s assumptions about foundation stewardship.

This Discussion Guide distills ideas from the Strategy Guide to help you facilitate decisions about foundation payout. The decisions are best made when your foundation is not facing a crisis and if time allows may take more than one meeting to learn about options and achieve consensus. That said, you will find specific ideas if you are faced with a crisis. Depending on power, race, family, or other dynamics in your board and staff, a trusted facilitator could be useful in leading some of the discussions.

The [National Center for Family Philanthropy](#) and [Council on Foundations](#) are encouraging your private foundation to reflect more deeply on its spending rates in good and bad times. We hope you will test your assumptions and find new ways to connect purpose, permanence, and payout. We will champion whatever choices you make at the end of your discussions and celebrate your role in the diversity of perspectives in philanthropy.

1. WHO SHOULD BE INVOLVED?

Your foundation's full board of directors (or trustees) and its managers have three primary *fiduciary responsibilities*—duty of care, duty of loyalty, and duty of obedience. Those duties apply to the foundation's assets, to its mission or purposes, *and* to the causes and communities it cares about. Sound governance means decisions about spending should not be limited to an investment committee or the advice of an investment firm. Private foundations are increasingly involving other perspectives as they make strategic decisions, including those about investing and spending. Consider working through these questions to determine who should be involved in these discussions:

- What groups of people currently inform board conversations about how our spending supports our purpose?
- Do they all feel their perspectives are being heard and respected, even if the foundation ultimately doesn't follow their advice?
- How might we adapt our decision-making practices and policies so that we are continuously learning from new perspectives?
- Would any of the following perspectives be useful in discussions about spending or in diversifying our investment committee's thinking?
 - Future board members or extended family members who could learn from the process.
 - Grant committees or program staff who could provide scenarios of potential impact based on different spending levels.
 - Independent experts in the causes or communities we care about.
 - Current and former grantees and/or people most affected by the conditions the foundation seeks to improve.
 - Experts in navigating how racial and other inequities may be embedded in our investment and spending policies.

2. WHAT FACTORS ARE IMPORTANT IN OUR DECISION-MAKING?

As an investment steward, you can use a variety of factors to determine your spending goals and rate. UPMIFA and other modern fiduciary guidance allow all the factors to be used. Your foundation can create its own formula for balancing the factors using [Activity 1](#) on page 7.

If your investment firm has the skills and tools to do so (not all do), ask them to conduct an *investment beliefs* exercise and help you reach consensus on those beliefs. Ask if the firm also offers support in embedding the foundation's values and purpose into its investment and spending policies.

Tip: For this discussion, see Strategy Guide Figure 1 (page A), examples of the 'balancing test' on pages 14-16, and Appendix 1 for examples of investment beliefs and how they influence investment and spending policies.

3. WHAT GUIDES OUR DECISION-MAKING?

Your portfolio exists to serve your purpose—whether that’s having a long-term vehicle for family philanthropy, a theory of change to solve a tough problem, or a commitment to strengthening a group of favored grantees. The following practical and philosophical questions can re-center your decision-making within your purpose(s) and values.

- Do any *written* documents designate the gift(s) that created the foundation as a legally restricted endowment or otherwise impose spending restrictions? Do we know for certain what specific restrictions the founders left and/or did they leave us more flexibility than we think?
- Why do we exist as an institution? What is the purpose that we seek to fulfill? What values do we hold most dear as we do our work? *
- How does seriously engaging in philanthropy change us, especially as parents and siblings and spouses, but also as neighbors in the communities we serve? **
- What assumptions do we have about how much private foundations spend and how quickly their endowed funds should grow?
- If the donor is still living, have they thought through the impact of the march of time on the foundation? Is it realistic to be truly perpetual—for 4th generations and more to be excited about it? Could changing economic conditions or cultural influences challenge perpetuity and a consistently growing endowment?

Tips: See Strategy Guide Section II to test assumptions about private foundation spending rates and mandates for endowment. See “The New Norm” and “Entering the Creative Zone” in Section III for examples of perpetual foundations that choose more flexibility around endowment growth.

4. WHAT’S GOING ON AROUND US?

When examining your spending rate, board and staff members should have a shared understanding of the current conditions and trends in the causes and communities the foundation supports. Which of the following activities could help you create that shared understanding?

- Inviting experts to discuss trends in data or capacity of partners.
- Inviting experts to explain the ramifications of changes in public policies.
- Inviting other donors or foundations to discuss how they approach similar issues and the criteria they use for making decisions.
- Inviting front-line workers and people most affected by a challenge to discuss what they think works best in making progress.
- Discussing how the landscape of other funders (foundations, individual donors, government, businesses) is evolving. Who is stepping back and stepping up? Who jumps in early and who waits until later? What are the consistent gaps?
- Asking if your investment advisor has done scenario planning for how changes in investing and tax policies might affect your portfolio, your ability to spend, and the communities or causes you prioritize.

* Questions from Anne Wallestad, President & CEO, BoardSource

** Questions from Ashley Blanchard, Senior Associate, and Kelin Gersick, Co-Founder and Senior Partner of Lansberg, Gersick & Associates

If you are facing a crisis, consider discussing:

- What is the likely impact of this crisis on our current nonprofit partners? What will the impact on our philanthropic goals be if we allow those nonprofits to falter or lose ground or momentum in their work? How concerned are we about our ability to find strong nonprofit partners through which we can advance our goals once the crisis passes? *
- When do we decide our foundation and the community are ‘back to normal?’ What do we mean by normal and is there broad agreement between board members? Is our definition the same as our grantees’ and communities’ views? ***

Tip: You may wish to invite your investment team to the conversations so they gain a deeper appreciation of the issues and how the foundation might want to address them.

5. WHAT’S OUR PREFERRED APPROACH TO GRANTMAKING?

US laws guiding private foundations allow for a wide range of approaches to any challenge, and most challenges require a range of approaches to make real progress. Whatever the challenge, you will inevitably face calls for increased spending. When answering those calls, funders interviewed in the Strategy Guide stressed staying true to your values, mission, and preferred approach to grantmaking. Your preferred approach to grantmaking might be based on your role in the ecosystem of funders (e.g., lead the pack or follow others), your philosophy (e.g., meet immediate needs vs. support long-term solutions), or other factors.

If your foundation has a preferred approach to grantmaking, then consider:

- Comparing your answers in questions 2, 3, and/or 4 above to your current approach. Those questions combine internal and external factors that strengthen your role as an investment steward. In turn, they may affect your thinking about spending and grantmaking.
- Asking the essential question about legacy in [Activity 2](#).

Is your foundation unsure about its preferred approach? Then consider using both [Activity 2](#) and [3](#) and/or using one of the many free guides available online that help you refine your philanthropic strategy.

* Questions from Anne Wallestad, President & CEO, BoardSource

*** Question from Jeff Williams, Director, Community Data and Research Lab, Johnson Center at Grand Valley State University

6. WHAT ARE OUR OPTIONS FOR SPENDING?

Foundations in the Strategy Guide spent anywhere from the minimum of 5% annually to 6-8% annually to 10-20% in times of need, all while maintaining their intention to be perpetual and meeting fiduciary duties, prudent investing standards, and donor intent.

If you are not faced with an urgent need for changing your spending rate, consider the short scenario planning discussion in [Activity 4](#), use the scenarios in Figure 4 in the Strategy Guide, or use the scenario planning guides in the resources on page 20 of the Strategy Guide. This gives you the opportunity to plan before the next crisis and clarify your ideal responses. The results should be shared with your investment committee and investment advisor and should be filed with your spending policy to guide future decision-making.

If you are faced with urgent calls for increased spending to meet a short-term crisis or goal, discuss which of these common answers best fit your foundation:

- *Cut back* to focus primarily on capital preservation
- *Stay the course* with fairly level spending
- *Be a first responder* to meet immediate needs
- *Keep the powder dry* to respond later and not crowd out individual or government funding
- *Go deep and long* with increased spending over multiple years to ensure sustained impact
- *Get creative* in leveraging resources

Also consider discussing:

- What do we want our legacy to be when we look back on the crisis? *
- What will make us feel like we did enough or did right by our institutional legacy, our philanthropic priorities, our nonprofit partners, and our community? *

Tip: See [Strategy Guide Section III for the Spectrum of Choices graphic](#) and [Section II for data on spending rates](#).

7. MAKING THE DECISION

Before changing your spending rate and/or spending policy, your board will want to ensure buy-in for the parameters of the decision-making process. Essential questions include:

1. Are others allowed to be present and/or weigh in during the discussion?
2. Do we agree to the factors we will use and how we're weighing them? (You may need to revisit Activities 1 and 2 to update or finalize your answers).
3. Do we agree to the meeting ground rules or code of conduct?
4. Do we agree to the type of majority or consensus we will be using?
5. Do we agree to abide by our fiduciary duties and comprehensive role as investment stewards? This includes agreeing to support the decision made, regardless of personal viewpoint or affiliation with a grantee or investment advisor.
6. If we face a crisis, who will have the power to act on our alternate scenarios for spending based on what information and input?
7. Will we hold our investment advisors and other advisors accountable for acting on our decision, regardless of their personal viewpoints?

Tip: See [Bridgespan's Decision-Making Best Practices Checklist](#) and [NCFP's Family Meetings Content Collection](#) for resources to strengthen your decision-making.

8. ARE OUR INVESTMENTS AND ADVISORS ALIGNED WITH OUR DECISIONS?

Sound investment governance means your money is in service to your mission and purpose. For some foundations, this may mean revisiting if your advisors (tax, investment, legal, philanthropic) are still the best fit for your goals. Based on the suggestions of people interviewed for the Strategy Guide, consider asking yourself the questions below about each of your advisors.

Tip: See Section I and Appendix 1 in the Strategy Guide for additional insights, resources on these issues, and finding expertise to help you evaluate advisors and fiduciary performance.

	Yes	No	Unsure
Does the advisor listen to and respect all voices and perspectives on the board and staff?			
Am I or are others experiencing biases based on gender, race, age, expertise, or power?			
Is the advisor truly conflict-free? Does she or he also serve family members or a related business or trust?			
Is the advisor truly conflict-free? Is their compensation based on selling certain products to foundations or based on certain decisions about spending and perpetuity?			
Has the advisor taken the time to familiarize their team with our foundation's values, purpose, mission, goals, and communities or causes?			
Does the advisor use current data on the diversity of foundation spending policies and approaches to perpetuity (perhaps by reading the Strategy Guide)? Or are they offering plans based on generic views of endowments and foundations?			
<i>Investment only:</i> To strengthen our governance, are they able to lead conversations about <i>investment values</i> and <i>investment beliefs</i> and embed those in our spending policy and investment policy statement? Are they using 'fiduciary duty' as an excuse for not doing this work?			
<i>Investment only:</i> To strengthen investment performance, are they able and willing to provide <i>performance attribution analyses</i> proving their and their managers' active decisions contribute to alpha?			
<i>Investment and tax:</i> Do they know how to handle special or restricted assets in our portfolio that limit how we can invest or create liquidity (a rare but important issue)?			

ACTIVITIES FOR DISCUSSING SPENDING POLICY STRATEGY WITH YOUR BOARD

ACTIVITY 1: WEIGHTING FACTORS IN SPENDING

Use this activity to rank six factors in developing a spending rate and to determine where there is agreement or disagreement between decision-makers. It may take more than one meeting to discuss the factors and reach consensus.

ACTIVITY 2: THINKING ABOUT LEGACY

Use this activity to discuss the tension between your foundation's legacy as current community impact and legacy as philanthropic capital saved for future impact. The activity can typically be finished in one meeting.

ACTIVITY 3: CONSIDERING YOUR PREFERRED APPROACH

Use this activity to understand individuals' preferences among five approaches to philanthropy and develop a preferred approach for the foundation. It will likely take more than one meeting to discuss the implications of each approach and to reach a consensus.

ACTIVITY 4: SPENDING SCENARIOS

Use this activity to prioritize your foundation's spending goals when faced with four economic scenarios. It may take more than one meeting to reach consensus and you could augment the scenarios with data from your investment advisor.

ACTIVITY 1: WEIGHTING FACTORS IN SPENDING

1. Share the question and answers below with board members and other decision-makers you would like to involve.
2. Ask them to individually assign percentages (including zero) without discussion or judgment to the factors below. They may add their own.
3. Chart their answers on a flipchart, again without discussion or judgment.
4. Then facilitate a discussion about trends and differences in the answers, allowing all voices to be heard and respected. Help people explain why they made the choices they did. Document questions that may need to be answered later.
5. Consider any consensus on answers or direction as an *interim solution*. Then go through the rest of this Discussion Guide as other questions may change people's initial answers.

“How much weight should we give to each of these factors as we develop a spending rate?”
(assign percentages, including zero, as you see fit)

- _____ Written guidance from the founders (if we have this)
- _____ Values, principles, vision, and/or mission
- _____ Current and projected opportunities or challenges facing the cause or community we care about
- _____ Current and projected economic conditions and their impact on our finances
- _____ Long-term preservation of the value of our investment portfolio (a form of intergenerational equity)
- _____ Ensuring future generations don't suffer from today's problems (a form of intergenerational equity)
- _____ Other _____

ACTIVITY 2: THINKING ABOUT LEGACY

1. Draw or share the graphic below on a flipchart, whiteboard, or Google Doc. Also give the graphic to everyone as a handout.
2. Assure board members and others participating in the discussion that there is *no right answer*. All perpetual or long-term foundations struggle with the tension between these two answers.
3. Ask them, without discussion or judgment, to individually place a dot along the continuum (including at either end) on where they think the foundation should balance between the answers.
4. If the group works well together, have them go to the flipchart and place their initials where their dot was. If there are tensions or visible power differences, collect the individual answers from the group and write their dots (without initials) on the flipchart.
5. Facilitate a discussion about commonalities and differences in the answers, allowing all voices to be heard and respected. Help people explain why they made the choices they did. Document questions that may need to be answered later.
6. Consider any consensus on answers or direction as an interim solution. Then go through the rest of this Discussion Guide as other questions may change people's initial answers.

What is our most important legacy? What are we really saving money for?



ACTIVITY 3: CONSIDERING YOUR PREFERRED APPROACH

The graphic below outlines five approaches to philanthropy. They are not mutually exclusive, but each leads to a different way of defining and living out your foundation’s purpose and values. Each person has an inherent preference for one of the styles. Your foundation’s decision-making will benefit from understanding those preferences and how they might shape the foundation’s work. Versions of this exercise are often part of a retreat facilitated by a trusted advisor.

1. Draw or share the graphic below on a flipchart, whiteboard, or Google Doc. Also give the graphic to everyone as a handout. Assure them there are no right answers to the questions.
2. Ask each decision-maker, on their own, to rank on their handout how closely the five traditions most describe their personal style of giving (1 = most close, 5 = least close, OK to have a tie). Assure that it is OK if their personal style is different from the foundation’s.
3. Ask them, on their own, to place an “N” beside the tradition they think best describes the foundation now and a “5” beside the tradition they hope best describes it in five years.
4. If the group works well together, have them go to the flipchart and place their initials beside their top personal choice and write the “N” and “5” where they had placed them. If there are tensions or power differences, collect the individual answers from the group and write their answers (without initials) on the flipchart.
5. Facilitate a discussion about where there is alignment in the answers, allowing all voices to be heard and respected. Help people explain why they made the choices they did. Test if there is initial consensus on a top approach if the foundation is a) responding to a crisis, and b) if that approach should be the same or different as your long-term grantmaking.
6. Achieving consensus on how these apply to the foundation’s grantmaking often takes more than one meeting. Many foundations use different preferred approaches for different communities or program areas.

Tradition: Philanthropy as...	Guiding Principle(s)	Strategic Bias
Relief	Compassion, protection, benevolence	Alleviate human suffering (or animal or environmental)
Improvement	Progress, opportunity, responsibility	Maximize human potential
Social Reform	Justice OR Freedom	Solve social problems; change policy, practice, systems
Civic Engagement	Participation, empowerment	Build community; give voice and authority to those most affected
Innovation Capital	Creativity, flexibility, challenge norms	Support risk, discovery, experimentation

Graphic by Tony Macklin, CAP®, adapted from the classic *Four Traditions of Philanthropy* by Elizabeth Lynn and Susan Wisely.

ACTIVITY 4: SPENDING SCENARIOS

In this brief scenario planning exercise, it will help if the participants have read Section III of the Strategy Guide and have discussed the spectrum of answers shown in Figure 5.

1. Give each decision-maker the scenarios and answers below. Also write the answers up on a flipchart, whiteboard, or Google Doc.
2. Tell them that in scenario planning, they're not rating which scenario they think is most likely. They are just trying to prepare the foundation for all of them.
3. Ask them individually, without discussion or judgment, to put the letter of each scenario beside the answer they think is most appropriate for that scenario. Their answers should be based on previous discussions about purpose, conditions and trends, and the foundation's preferred approach(es).
4. *Optional: The group could flesh out the scenarios with additional ideas to make them more relevant. But it is best to not have more than four scenarios and to not become bogged down in details. The scenarios are meant to be directional in nature, not predictions.*

Considering future scenarios

We've been discussing our purpose and legacy and the conditions and trends in the causes and communities we serve. Given what we've discussed, what should our spending rate be under each of these four scenarios? Put the scenario letter by your top pick; it is possible that you will have the same answer for multiple scenarios.

- A. Rosier forecast – our portfolio is growing and our communities are improving (knowing there will always be disparities in opportunity).
- B. Mixed conditions – our portfolio is doing well but our communities or causes are not.
- C. Temporary shock – the economy is going through a 1-3-month downturn, and/or we're facing a temporary crisis (recovering from a hurricane or collapse of key nonprofit).
- D. Long-term challenge – the economy is in a recession and that recession or other longer-term problems are severely hurting our cause or community.

Potential answers for each scenario:

- _____ The minimum of 5%
- _____ 5.1-6% regularly
- _____ Spend 5-6% and set aside the rest of the investment gains in an account for use in bad times
- _____ 6%-8% for a year or two
- _____ 6%-8% on an ongoing basis
- _____ Higher than 8%
- _____ Leverage other funding (e.g. line of credit, bond, additional gifts)
- _____ Other _____

CREDITS

About the Council on Foundations

The Council on Foundations exists to help philanthropy be a strong and trusted partner in advancing the common good. Building on our 70-year history, we are charting a course for the field where funders display high integrity, earn and maintain the public's trust and serve as excellent stewards of philanthropic resources. We imagine a world where philanthropy is a trusted partner in advancing the greater good. For additional information about joining the Council, please email membership@cof.org or visit cof.org/membership.

About the National Center for Family Philanthropy

Established in 1997, the National Center for Family Philanthropy (NCFP) is a catalyst for the greater good; it provides donors and their families with comprehensive resources, expertise, compassionate support, and community. We are rooted in the belief that family participation enriches philanthropy and that philanthropy strengthens families. We empower donors and their families to define and pursue their purpose, establish thoughtful policies and practices, and build community to make a positive impact through their giving. NCFP is a national network of donors and their families, community foundations, and philanthropy serving organizations. For additional information about joining NCFP's network of funders and partners, please email ncfp@ncfp.org or visit ncfp.org/join.

About the Author

Tony Macklin, a Chartered Advisor in Philanthropy®, consults with donor families, grantmakers, and their advisors about purpose, use of resources, action planning, and learning. As executive director of the Roy A. Hunt Foundation, he facilitated changes in visioning, impact investing, grantmaking, trustee education, and back-office management. In twelve years at the Central Indiana Community Foundation, he led grantmaking initiatives, advised wealthy donors, attracted \$39 million, and launched a social enterprise. Tony also serves as senior program consultant for NCFP, senior consultant with Ekstrom Alley Clontz & Associates, senior advisor to the Impact Finance Center, and peer reviewer for *The Foundation Review*.