

# Endowments and Foundations



## Trends in Healthcare Philanthropy and the Use of Separate Foundations

In the June 5, 2011 edition of *The New York Times*, a full-page ad framed in violet announced NYU Langone Medical Center's philanthropic milestone: in less than four years, the Medical Center had raised an unprecedented \$1 billion. This significant accomplishment helps to demonstrate how important philanthropy is to healthcare organizations as the industry goes through significant change.

Then, just two months later, on August 8, 2011, *The Wall Street Journal* published an article on a Moody's assessment of the overall industry titled "Hospitals Put on Sick List." The article discussed how not-for-profit hospital revenue is growing at its slowest rate in two decades, leading to an uptick in mergers.

With this in mind, philanthropic dollars will be even more crucial for hospitals as they seek to maximize their revenue base in these challenging times. As overall program revenues continue to shrink and the industry faces regulatory changes that are expected to occur over the next few years, healthcare organizations must seek to diversify their fundraising strategies and employ the best structures for reaching new donors.

William C. McGinly, President and CEO of the Association for Healthcare Philanthropy, commented: "Many of the larger healthcare systems have a long history of successful fundraising programs. The small and medium sized hospitals are starting to take steps to build out and diversify their fundraising strategies, which is crucial for their success."

**Wilmington Trust, N.A.**  
New York-based Endowments  
and Foundations Team  
33rd Floor, 520 Madison Avenue  
New York, NY 10022

**Walter J. Dillingham Jr., CFA**  
Managing Director,  
Business Development Officer  
212.415.0528  
wdillingham@wilmingtontrust.com

**Leigh H. Weiss**  
Managing Director,  
Investment Advisor  
212.415.0571  
lweiss@wilmingtontrust.com

**John M. Lawson**  
Managing Director,  
Investment Advisor  
212.415.0569  
jlawson@wilmingtontrust.com

## Trends in Healthcare Philanthropy

Before determining which strategies and structures work best for a given organization, it helps to have a good understanding of the current giving trends for the industry.

In June 2011, Giving USA Foundation<sup>1</sup> released its *Annual Report for Philanthropy for the Year 2010*, which highlights current trends in giving. According to the Report, overall giving was up 2.1% (inflation adjusted) to \$290 billion compared to the prior year.

For 2010, the Report mentions that health-related organizations received an estimated 8% of charitable dollars, or \$22.8 billion; in recent prior years this was approximately 6%. This represented a 1.3% increase from 2009 (a decline of 0.3% adjusted for inflation). The Report notes that these totals benefited from multimillion dollar gifts that supported research and treatments for certain diseases, as well as support of healthcare systems. Over the two year period (cumulative 2008-2010, inflation adjusted), donations related to health increased 4.1%, which was the second largest increase after International Affairs at 17%.

Also in June 2011, the Association for Healthcare Philanthropy (AHP) provided its Annual Giving Report for 2010. The Report showed that hospitals and healthcare systems raised more than \$8.3 billion in 2010, which is an 8% increase from the prior year. This level translated into an additional \$620 million in fundraising dollars. Figure 1

provides a view of a decade in annual giving for healthcare, which shows the recent years trending back up.

With fundraising on the rise for healthcare organizations, it is important to identify the source of this funding in order to market to the appropriate demographic. As detailed in Figure 2, hospitals utilize a number of

Figure 2:

### Funds Raised by Type of Fundraising Activity in Fiscal Year 2010

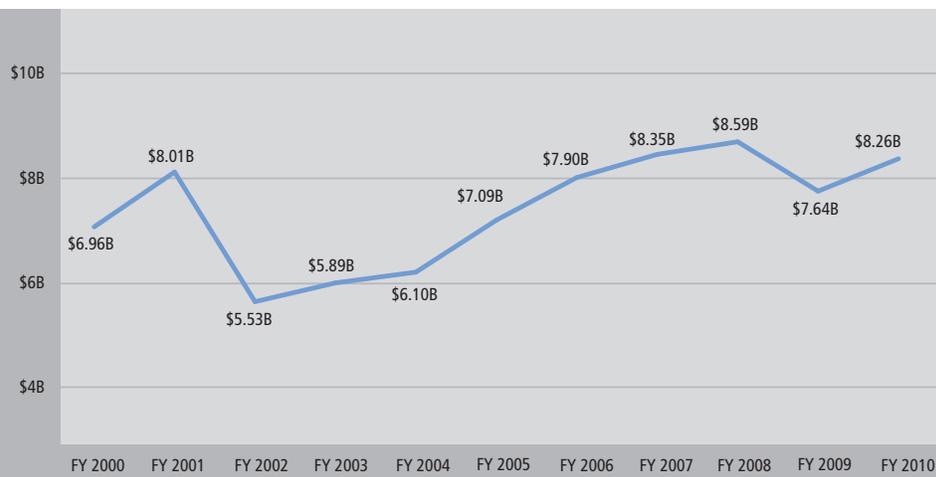
Annual Fund	20.0%	Individual
Major Gifts	17.1%	Individual
Capital Campaign	15.4%	Corporate/Foundations
Special Events	14.8%	Individual
Grants	10.7%	Corporate/Foundations
Planned Giving	9.5%	Individual
Endowment Interest	4.9%	Institutional
Memorial Gifts	3.8%	Individual
Other	3.8%	
<b>Total</b>	<b>100%</b>	

Source: Association for Healthcare Philanthropy

Figure 1:

AHP Report on Giving, U.S., FY 2000-FY 2010 Annual Trends

Approximate Total Funds Raised (Median value for all institutions)



fundraising strategies, with individual giving being a very important source of their fundraising.<sup>2</sup>

These statistics make it clear that healthcare organizations need to focus on building and cultivating relationships with individual donors, while maintaining a diversified fundraising approach. And, it is equally important to know who comprises the organization's strongest donor base.

According to The 2010 Study on High Net Worth Philanthropy<sup>3</sup> conducted by the Center on Philanthropy at Indiana University, high-net-worth families comprise approximately two thirds of individual donations (50% of all giving) annually. The study defines high-net-worth families as those with net worth of over \$1 million or annual income of at least \$200,000. For 2009, 70% of these families gave to healthcare organizations, compared to only 23% of families in the general population. Thus, the high-net-worth family may be the most valuable demographic for healthcare organizations to seek as potential and continuing donors.

### The Use of Foundation Structures as a Fundraising Strategy

One strategy that healthcare organizations have employed is to establish a separate fundraising foundation to lead their development efforts. Many other types of not-for-profits also use foundations, such as public colleges and membership organizations, just to name a few. There are a variety of reasons why a foundation structure can be beneficial to the healthcare organization:

**Increasing Trustee Opportunities:** a separate foundation creates additional board leadership and volunteer opportunities for trustees, who in turn can be substantial donors. Some foundations have been increasing their trustee membership.

### Steps to consider in forming a stand-alone foundation:

- Step 1: Review the costs/benefits of starting a separate stand-alone foundation. Do a competitive analysis to see which hospitals use them.
- Step 2: Work with a team of legal, development, and investment advisory experts that can help you map out a game plan on how to formally start a foundation.
- Step 3: Review any governance requirements, such as the need to follow New York Prudent Management of Institutional Funds Act (NYPMIFA) guidelines.
- Step 4: Partner with an investment advisory firm that has experience working with healthcare endowments and foundations that can assist with the investment policy statement and provide a full service, valued added approach.

**Maintaining Focus/Control:** this is a way to keep the fundraising, operations, and administration in a separate area away from the core operations of the hospital. It enables the trustees to be focused on fundraising rather than the operations of the healthcare organization. In turn, it also allows the management and trustees of the hospital itself to focus on the complexities of running the day-to-day operations of the hospital and not the fundraising.

**Marketing:** this allows the hospital to have a more focused marketing and branding strategy. Many hospital foundations have separate websites to highlight their upcoming special events as well as to communicate about different ways to give.

**Investing Endowment Funds:** some hospitals utilize this structure to manage their foundation funds separately as a long-term endowment, versus commingling all assets at the hospital.

**Limiting Liability:** the funds that are in a separate foundation may be protected from any hospital-related litigation. In addition, any trustees of the foundation may be viewed as separate from the hospital with respect to their liability exposure.

**Separating Finances:** this is a way to keep hospital finances separate from any fundraising efforts. For example, if the foundation is having a capital campaign, any significant inflows would impact the financials of the parent if they were not separate. Thus keeping the funds separate gives a better picture of the parent financials, and would not have implications for grants or government reimbursement rates.

**Borrowing:** it provides another separate pool of funds which can be used as collateral for loans.

**Providing Separate, Not Public Vehicles:** separate 501(c)(3) organizations are often set up since donors prefer to give to a foundation versus an entity that is controlled by the local government.

**Fulfilling a bequest:** some hospitals have been set up where a separate foundation has been required. For example, one hospital foundation evolved from a bequest which stipulated that the monies needed to be in a separate endowment structure from the actual hospital.

**Fundraising vehicle for foreign hospitals:** Not-for-profit organizations based in other countries often use U.S. based foundations to help them fundraise to U.S. based-donors. The funds are then funneled back to the parent organization.

We came across two situations where a not-for-profit organization actually closed its foundation. One organization closed its foundation to reduce costs, while the other closed its foundation due to board conflicts and overlap.

### Research on the Use of Healthcare Foundations <sup>4</sup>

In order to get a better understanding of how healthcare organizations are using foundations to support their fundraising efforts, we conducted independent research of 57 healthcare organizations/foundations located in New York, New Jersey, and Pennsylvania. Research was conducted through interviews, tax return and recent Form 990 reviews, and website visits. We included total contributions, including government grants, and adjusted for transfers from their foundations.

The average donation size compared to total revenues was about 3.3% (2.9%, when adjusted for the large grant for one hospital). This measure is much lower than for other types of nonprofits. The size of the foundations ranged from \$1.2 million to \$340 million, and the total annual donations ranged from \$124,000 to \$310 million.

We found that 40, or 70%, of the healthcare organizations we reviewed had foundations. It was interesting to note that four of the largest hospitals in the metro New York area did not have separate foundations, including NYU Medical Center, Memorial Sloan Kettering, New York Presbyterian, and Montefiore Medical Center, which may indicate their already established tradition and history of giving.

Of these 40 organizations, 32, or 80%, manage their foundations as long-term endowment funds and thus tend

#### Key Findings of Research:

Over 70% of the hospitals had separate foundations

A majority of these foundations were managed as long-term endowment structures

Average hospital philanthropy is a small percentage of the budget at 2.9% (as % of overall hospital revenue)

Wide range of board trustee size – with an average of 21 foundation trustees

### Summary of Foundation Research Data

Survey size:	57 organizations
How many had separate 501(c)(3) foundations:	40 or 70%
# Foundations using long-term investment strategies:	32 or 80%
# Foundations with flow-through foundations:	8 or 20%
Range of giving rates (contributions /total revs):	0.11% to 24%
Average giving rate:	3.3%
Average giving rate (adjusted for a large grant):	2.9%
Range of total donations:	\$124k to \$310MM
Range of long term foundation size (\$MM)	\$1.2MM to \$340MM
Largest three foundations (\$MM):	\$340; \$211; \$133
Range of # of foundation trustees:	5 to 87
Average # of foundation trustees:	21

to follow long-term balanced investment strategies. This may be due, at least in part, to the fact that some of these funds may be restricted monies. Eight organizations use their foundations as flow-throughs, where they keep the funds in cash and transfer them to the parent organization as needed. Some foundations maybe be invested too conservatively and may want to consider more robust investment plans if appropriate.

We also researched the number of foundation trustees for these foundations, which showed the range to be 5 to 87. Hackensack University Medical Center (NJ) had the greatest number of trustees at 87, which maximizes their board representation, but at the same time, probably requires the implementation of an executive committee. The average number of foundation trustees was 21. Larger organizations tended to have more trustees. Meanwhile,

small organizations are considering expanding their boards as a way to be proactive with their fundraising.

Susan Raymond, of Changing Our World, completed an earlier study of healthcare foundations that looked at 159 hospitals with affiliated foundations. Susan's research showed that the use of hospital foundations began as more of a western U.S. phenomenon that has since moved east. Many of the western foundations had been formed over 25 years ago, and some had larger asset bases. California and Texas were home to some of the larger ones. They also tended to be associated with larger, metropolitan hospitals.

### Investment Considerations for Hospital Foundations

While hospital foundations provide an effective fundraising tool, as with any long-term pool of assets, making sure the appropriate objectives, spending and liquidity requirements, and risk tolerance are defined and considered is of great importance. Creation or revision of an up-to-date investment policy statement codifies this work. Further steps related to asset allocation and the specific investment choices that comprise portfolio construction round out an effective and comprehensive investment program.

Each state has a legal and regulatory framework for its resident nonprofits that have investment implications. An example is New York's Prudent Management of Institutional Funds Act (NYPMIFA), which has the specific requirement that all nonprofits adopt a written investment policy. These topics will be covered in greater detail in a future article.

### Conclusion

Our research took a closer look at separate 501(c)(3) stand-alone healthcare foundations and reviewed how their parents utilize these structures as both a fundraising and long-term investment portfolio vehicle.

## Trends in Healthcare Philanthropy and the Use of Separate Foundations

Organization	Type of Foundation	Foundation Name
Diocese of Brooklyn	Religious	Alive in Hope Foundation
Buffalo Philharmonic Orchestra Society	Arts and Culture	Buffalo Philharmonic Orchestra Foundation
Farmingdale State College	Education	Farmingdale College Foundation
LIM College	Education	LIM Fashion Education Foundation
AHRC New York City	Social Services	AHRC NYC Foundation
Queens Public Library	Education	Queens Library Foundation
American Medical Association	Membership organization	American Medical Association Foundation
Phoenix House	Social Services	Phoenix House Foundation
Society for Human Resource Management	Membership organization	SHRM Foundation

Further analysis shows that other types of not-for-profit organizations have benefitted from using a stand-alone foundation strategy. Some examples are shown in the table above.

The healthcare arena will continue to be impacted by both economic and regulatory forces. Philanthropic dollars will be even more important in the future, and separate foundations will be a key strategy for enhancing and managing a successful fundraising plan.

As Susan Holt, a healthcare fundraising consultant from Vision Philanthropy Group, Inc. said, “hospital philanthropy may only represent a small percentage of a hospital’s overall budget but that additional funding helps a hospital move from good to great.” Healthcare foundations plus well-thought-out strategic plans will become even more important in the future.

1: GIVING USA 2011 Report; The Center on Philanthropy at Indiana University.

2: Association for Healthcare Philanthropy.

3: The 2010 Study of High Net Worth Philanthropy; The Center on Philanthropy at Indiana University.

4: Guidestar and various Form 990 and websites.

This publication is not designed or intended to provide financial, tax, legal, accounting, or other professional advice since such advice always requires consideration of individual circumstances. If professional advice is needed, the services of a professional advisor should be sought. This publication is for information purposes only and is not intended as an offer, recommendation, or solicitation for the sale of any financial product or service or as a determination that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on their objectives, financial situations, and particular needs.

## Foundation Profile | Ellis Medicine

Ellis Medicine in Schenectady, New York is an example of how a healthcare organization has effectively utilized a separate hospital foundation to maximize both its fundraising plans and endowment management strategies. The Foundation for Ellis Medicine, which was founded in 1982, strives to ensure quality healthcare in its community by raising, investing, and distributing funds that support the lifesaving work performed at Ellis. It currently maintains a \$12.4 million endowment, which it manages for long-term balanced growth.

The Foundation has a strong website page which includes a summary on ways to give and a calendar of upcoming events, along with comprehensive information on planned giving options. They include newsletters on their site, which focus on fundraising testimonials. They also expanded their number of trustees to 25.

Ellis has raised \$12.1 million over the past five years. During the difficult 2008 and 2009 years, they were able to maintain their peak fundraising dollars at \$3.4 million for each year, which shows their commitment towards fundraising.

---

## Organization Profile

**Healthcare organization:** Ellis Medicine, Schenectady, NY

**Foundation:** The Foundation for Ellis Medicine  
 [separate 501(c)(3) organization]

**Founded:** 1982

**Staff:** Five professionals

**Board:** 25 board members, recently added five new members

**Donor targets:** Individuals, corporations, foundations

**Ways to give:** Annual appeal, special events, memorials, capital campaign, planned giving

**Legacy society:** Yes, "The 1885 Society"

**Foundation funds raised in 2009:**  
 \$3.4MM / 6.3% of total revenues

**Foundation fundraising trend:**

2009:	\$3.4MM
2008:	\$3.4MM
2007:	\$1.1MM
2006:	\$1.5MM
2005:	\$2.7MM

**Website:** "Make a Gift" and "The Foundation" tags; separate foundation page

**Planned giving details:** Stock, bequests, charitable gift annuity, pooled income fund, life insurance, real estate, endowments, retirement plans

**Online giving:** Yes

**Social Media:** Use emails, exploring other uses

**Newsletter:** Yes, highlighted benefits of charitable gift annuity

**Capital Campaign:** mentions capital projects

**Public Relations:** Their successful capital campaign was highlighted in the Chronicle of Philanthropy along with their relationship with their fundraising advisor, Community Counselling Service Co. (CCS)

**Endowment assets:** \$12,400,000

**Strategy:** Long-term investment strategy

**Policy Statement:** Must follow NYPMIFA requirements