

Understanding and Benchmarking Foundation Payout

By **Loren Renz**, Research Consultant



Contributing Staff

Marc Almanzor _____ Research Associate
Kathye Geisler _____ Publishing Database Administrator
Christine Innamorato _____ Production Manager
David Jacobs _____ Director, Foundation Information Management
Steven Lawrence _____ Director of Research
Lawrence T. McGill _____ Vice President for Research
Reina Mukai _____ Senior Research Associate
Sarah Reibstein _____ Research Assistant
Betty Saronson _____ Graphic Designer/Production Coordinator
Vanessa Schnaidt _____ Director of Communications

About the Report

The original research upon which this report is based was conducted by the Foundation Center. Data from the report may not be cited or reproduced without attribution to *Understanding and Benchmarking Foundation Payout*. For a complete listing of current research reports produced by the Center, visit foundationcenter.org.

About the Foundation Center

Established in 1956, the Foundation Center is the leading source of information about philanthropy worldwide. Through data, analysis, and training, it connects people who want to change the world to the resources they need to succeed. The Center maintains the most comprehensive database on U.S. and, increasingly, global grantmakers and their grants—a robust, accessible knowledge bank for the sector. It also operates research, education, and training programs designed to advance knowledge of philanthropy at every level. Thousands of people visit the Center’s web site each day and are served in its five regional library/learning centers and its network of more than 470 funding information centers located in public libraries, community foundations, and educational institutions nationwide and around the world. For more information, please visit foundationcenter.org or call (212) 620-4230.

Acknowledgments

This research was made possible through support from the Charles Stewart Mott Foundation.

Contents

Tables and Figures	iv
Executive Summary	v
Introduction	vi

1. Understanding Payout 1

What is Payout?	1
Which Foundations Must Meet the 5 Percent Payout Requirement?	1
Which Distributions Count toward Payout?	1
What Are Net Assets and How Are They Calculated?	1
What Is the Payout Rate and How Is It Measured?	2
How Does the IRS Calculate the Payout Rate?	2
What Is the Legal Timeframe for Meeting the Payout Requirement?	3
How Commonly Do Foundations Use the Additional Year to Meet Payout Requirements?	3
Can Distributions above the 5 Percent Level Be Applied to Other Years?	3
What Are the Consequences of Failing to Meet the Payout Requirement?	4
Conclusion	4

2. Benchmarking Foundation Payout: 2007–2009 Trends 5

How Much Did Foundations in the Study Pay Out in 2007–2009?	5
How Did Changes in the Economy between 2007 and 2009 Affect Payout?	5
Sampling Information	5
How Did Payout Rates between 2007 and 2009 Compare with Earlier Years?	6
How Much Variation in Payout Rates Occurs among Endowed Foundations?	7
Did Any Foundations Fall Below the 5 Percent Payout Minimum?	9
Is Foundation Asset Size a Predictor of Payout Levels?	9
How Much Variation Is There in the Payout Rates of Larger versus Smaller Foundations?	11
Family Foundations' Lifespan Decisions and Payout Practices	11
Do Any Other Characteristics Predict Payout Levels?	12
Family Involvement	12
Program-Related Investments	13
Health Conversion Status	13

Tables and Figures

2. Benchmarking Foundation Payout: 2007–2009 Trends

Table 1. Financial Measures for the Largest Independent Foundations, 2007–2009	6
Figure 1. Aggregate Finances for the Largest Endowed Independent Foundations, 2007, 2008, and 2009	6
Figure 2. Change in Aggregate Finances for the Largest Endowed Independent Foundations, 2007, 2008, and 2009	7
Figure 3. Payout as a Percentage of Net Assets, 2007, 2008, and 2009: Endowed Independent Foundations	7
Table 2. Distribution of Payout as a Percentage of Net Assets, 2007–2009: Endowed Independent Foundations	8
Figure 4. Distribution of Payout as a Percentage of Net Assets, 2007–2009: Endowed Independent Foundations	8
Table 3. Payout as a Percentage of Net Assets by Foundation Asset Size, 2007–2009: Endowed Independent Foundations	9
Figure 5. Distribution of Payout as a Percentage of Net Assets by Asset Size, 2007–2009: Endowed Independent Foundations	10
Table 4. Payout as a Percentage of Net Assets, 2007–2009: Family versus Non-Family (Endowed Independent Foundations)	10
Figure A. Distribution of Payout as a Percentage of Net Assets, 2007–2009: Limited Lifespan versus Perpetuity (Endowed Family Foundations)	11
Figure 6. Distribution of Payout as a Percentage of Net Assets, 2007–2009: Family versus Non-Family (Endowed Independent Foundations)	12
Table 5. Payout as a Percentage of Net Assets, 2007–2009: Program-Related Investments (Endowed Independent Foundations)	13
Figure 7. Distribution of Payout as a Percentage of Net Assets, 2007–2009: Health Conversion Status (Endowed Independent Foundations)	14

Executive Summary

The vast majority of U.S. grantmaking foundations are required by law to distribute 5 percent of their investment assets annually for charitable purposes. While this requirement is commonly known, it is often not well understood.

To provide a more informed perspective on how foundation payout works, *Understanding and Benchmarking Foundation Payout* defines and demystifies the concept of payout while addressing common misperceptions. The report addresses specific questions such as: What constitutes payout? How is the payout rate calculated? Why do foundation payout rates differ? It also delivers first-ever trend information detailing the payout practices of the largest U.S. foundations.

Intended for policymakers, advocates, journalists, researchers, and the general public, this brief serves as a key resource for understanding payout and as an unbiased source of facts on actual practice.

Among key findings from the new report:

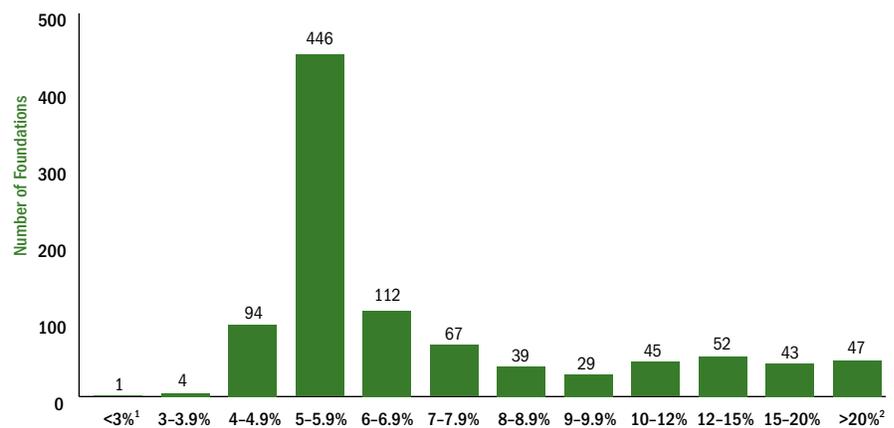
- Most large endowed independent foundations paid out at or above the 5 percent required payout level during the period 2007 to 2009
- Nearly one-in-five endowed foundations had payout rates at or above 10 percent
- Few operating characteristics beyond endowment size were associated with consistently higher or lower payout rate practices, and variation was modest

- In general, as endowment size increased, payout rates tended to decrease

While the payout requirement is commonly known, it is often not well understood.

- Nearly one-in-10 endowed foundations had payout rates of less than 5 percent, generally due to carryover of *undistributed income* or rapid growth in their assets
- The decision to have a limited lifespan coincided with much higher payout levels for family foundations

Distribution of Payout as a Percentage of Net Assets, 2007–2009: Endowed Independent Foundations



Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 of the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which average assets were at least five times greater than average giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

¹The lowest average payout-to-net asset ratio of large endowed foundations in the dataset was 1.7 percent.

²The highest average payout-to-net asset ratio of large endowed foundations in the dataset was 368.3 percent. The foundation had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.



Introduction

Among foundation policy issues, payout—the federal requirement that foundations distribute 5 percent of their investment assets annually for charitable purposes—is one of the most hotly debated by watchdog groups, legislators, and the media. Foundations have been urged to raise annual payout levels by those who advocate faster distribution of their resources to meet today’s pressing social needs. Against calls for higher payout levels are arguments made by most investment advisors on the need to maintain the status quo to assure the preservation and growth of foundation funding capacity for the long term.¹ The long-running debate on payout, and the public’s understanding of the issues, is clouded by some common misperceptions—e.g., about what counts toward payout and how foundations meet their requirements—that persist even among the constituencies that follow this issue closely. Such misperceptions may lead to misinformation on foundation practices. A lack of sufficiently detailed financial data to document actual practices has also hampered these debates. Neither government oversight nor foundation self-regulation can be effective without such information.

To provide a more informed perspective on foundation payout, this brief seeks to: first, define and demystify payout while addressing common

misperceptions of the issue; and, second, present the latest trend information detailing the payout practices of the largest U.S. foundations. Intended for policymakers, advocates, journalists, researchers, and the general public, this two-part brief serves as a key resource for understanding payout and as an unbiased source of facts on actual practice. Using a question/answer format, it addresses basic questions on what constitutes payout and how the rate is calculated as well as data-driven questions about foundation practice, such as how much variation occurs in payout levels and whether asset size and other characteristics have a noticeable effect on these levels.

This brief serves as a key resource for understanding payout and as an unbiased source of facts on actual practice.

This brief is not meant to sway readers in the debates on whether the payout rate should be higher or lower or whether assets should be preserved or spent down more quickly. Rather, it should inform and advance the discourse by providing all interested parties with a clear understanding of the payout fundamentals and an unbiased and accurate view of the variation in practice among the nation’s largest foundations for meeting the payout requirement.

1

Understanding Payout

What Is Payout?

Private foundations distribute billions of dollars to the charitable sector each year, mainly in the form of grants to other tax-exempt organizations. Because their activities are primarily charitable, most income received by these foundations is exempt from federal taxes. In return for their tax-exempt status, private foundations are required by federal tax law² to distribute a certain minimum amount each year for grants and other charitable qualifying distributions (see “Which Distributions Count toward Payout?”). The required *distributable amount*³ is equal to 5 percent of a foundation’s net investment assets (see definition below), with certain credits and adjustments. In general, *payout* refers to the *total amount* that a foundation reports as qualifying distributions plus other allowable amounts—whether higher or lower than the minimum amount—whereas the *payout requirement* refers to the federally mandated 5 percent minimum distribution. The difference between actual payout versus the minimum payout requirement is a common source of confusion in payout discussions.

Which Foundations Must Meet the 5 Percent Payout Requirement?

Private non-operating foundations, which constitute the vast majority of U.S. grantmaking foundations and include most family and company-sponsored foundations, must meet the minimum 5 percent requirement. Private operating foundations, which directly operate charitable programs (rather than making grants) as their primary activity, have a different

distribution requirement.⁴ Community foundations, which are classified as public charities, are not subject to any payout requirement.

Which Distributions Count toward Payout?

Perhaps the most typical misperception about the payout amount is that it equals giving (grants paid). This misperception is compounded by the fact that data on giving are easily available and therefore often used by foundation observers to track payout. In fact, any amount that a foundation distributes for charitable purposes counts toward the 5 percent. *Qualifying distributions* include not only a foundation’s grants but also its direct charitable activities (such as providing

The difference between actual payout versus the minimum payout requirement is a common source of confusion in payout discussions.

technical assistance to grantees, operating a museum or conference center, or conducting policy research), program-related loans and investments (PRIs), and set-asides.⁵ In addition, *reasonable and necessary* administrative costs (e.g., staff salaries, office expenses, travel, etc.) related to a foundation’s charitable activities qualify.⁶ Investment-related expenditures do not qualify.⁷

What Are Net Assets and How Are They Calculated?

Another problem in payout discussions concerns the misuse of asset data based on market value, which are readily available, whereas actual payout

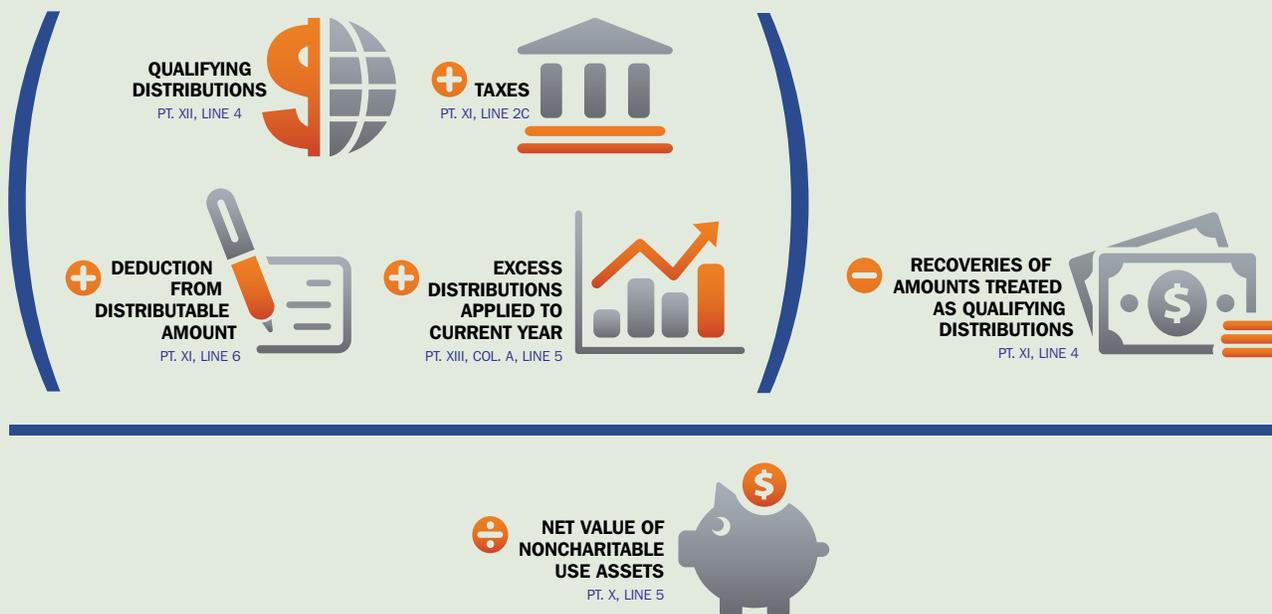
How Does the IRS Calculate the Payout Rate?



=

The IRS uses a complex formula involving various sections and line items of Form 990-PF to calculate the payout rate.¹ The calculation divides the amount of (adjusted) qualifying distributions by the value of net assets. The numerator is adjusted (mainly increased) to account for reductions made in the “distributable amount” calculations, most notably a reduction for taxes paid on investment income.

¹See *Domestic Private Foundations and Charitable Trusts: Tax Years 2005 and 2006*, p. 281.



calculations made by the IRS and foundations themselves are based on the value of *net noncharitable use assets*, commonly known as net investment assets or simply net assets.⁸ These include the foundation’s investment assets (cash, stocks, bonds, and other investments) but not program-related investments or other charitable use assets that are used in carrying out the foundation’s mission. For example, if the foundation owns the building that houses its offices, the value of the building is excluded from the net asset calculation to the extent that the building is used directly for charitable activities and related administrative functions.

To determine the net value of its investment assets, a foundation must calculate the average of the monthly market value of publicly traded securities held during the year. The 12-month average allows for fluctuations that occur in investment markets.⁹

What Is the Payout Rate and How Is It Measured?

Yet another source of confusion involves the difference between the 5 percent minimum payout requirement, detailed above, and a foundation’s actual *payout rate*. This ratio captures the relationship

between an organization’s charitable distributions and its net investment assets and provides insight into the degree to which private foundations may exceed the minimum distribution requirements. Payout as a percentage of net noncharitable use assets is equal to the sum of total qualifying distributions, total taxes paid, and excess distributions carryover—modified by certain adjustments—divided by the net value of noncharitable use assets. (See “How does the IRS Calculate the Payout Rate?” for the detailed formula used by the IRS; see also the definition of excess distributions carryover below.)

What Is the Legal Timeframe for Meeting the Payout Requirement?

Many foundation critics presume that the payout requirement must be met in the current year. In fact, the law allows private foundations to make the required distributions by the *end of the year following the year on which the 5 percent calculation is based*. For example, a foundation with \$1 million in net assets in fiscal year 2012 must make at least \$50,000 of qualifying distributions by the end of 2013. Since asset values may increase or fall substantially from one year to the next and since foundations are unable to precisely calculate the net value of their assets for the current year until after that year ends, the law provides foundations with some latitude to meet their distribution obligations while also providing a transparent means for tracking this practice. Specifically, foundations whose total qualifying distributions do not meet the required *distributable amount* for the current year must report any unmet portion of that amount as *undistributed income* on the current year Form 990-PF and also on the next year's Form.¹⁰

How Commonly Do Foundations Use the Additional Year to Meet Payout Requirements?

According to the latest Internal Revenue Service study, approximately 35 percent of all private foundations and charitable trusts used the additional year to meet some part of the distribution requirement.¹¹ Not surprisingly, foundations with large endowments (whose investment assets are perhaps less predictable than those of their smaller counterparts) were the most likely to take advantage of the grace period. Since large foundations account for the lion's share of payout and tend to attract greater public scrutiny, it is important to understand

how use of the extension affects payout measurements. Payout rate calculations for individual foundations (and for foundations overall) are necessarily based on foundations' net assets and total distributions *in the current year*, as reported in that year's Form 990-PF. As a result, foundations that report some amount of undistributed income at the end of the current year will appear to be paying out less than the

Only by examining several years of tax returns may conclusions be drawn regarding a particular foundation's payout practices.

required 5 percent of their net assets, even though by law they may satisfy the unmet portion of the distribution requirement in the following year. Only by examining several years of tax returns may conclusions be drawn regarding a particular foundation's payout practices. Studies of foundation payout based on a single year of data tend to be misleading.

Can Distributions above the 5 Percent Level Be Applied to Other Years?

If in any tax year a foundation exceeds its minimum payout requirement (i.e., its adjusted qualifying distributions exceed its distributable amount), the excess may be *carried over* for up to five years to meet future payout requirements. (However, excess distributions may not be carried backward to make up for shortfalls in prior years.) The carryover amount is calculated every year as part of the process of completing the Form 990-PF. As documented in the IRS payout rate formula (page 2), excess distributions applied to the current year are added to qualifying distributions that count toward payout, along with taxes and a few other credits.¹²

What Are the Consequences of Failing to Meet the Payout Requirement?

If a foundation does not distribute the required amount by the deadline, it must pay an excise tax on any undistributed portion¹³; the initial penalty is equal to 30 percent of the shortfall. It must also distribute the full amount due or be subject to a penalty equal to 200 percent of the shortfall.

Conclusion

Measuring payout involves a complex formula of financial information reported by private foundations in IRS Form 990-PF, and these data are not easily available for research. Even among knowledgeable foundation observers, misperceptions persist about which distributions count toward payout, how these qualifying distributions are adjusted to reflect certain credits, especially carryover, and how foundation assets are valued for the purpose of calculating the payout rate. Also, in payout discussions, confusion may arise over differences between the 5 percent payout requirement and a foundation's actual payout amount and payout rate. Finally, often ignored in these discussions is the legal timeframe for meeting the payout requirement—up to one year from the close of the current year—and how the use of this extension by some foundations, especially the largest ones, distorts payout measurements based on a single reporting year.

While there is no magic way to simplify payout's many financial elements, its complex calculation formula, and the rules that govern compliance, they can be defined and demystified. When such fundamentals are combined with the extensive financial data needed to document actual payout practices, the results should improve public understanding of this issue, inform policy debates, and dispel misinformation on foundation practices. To that end, the second part of this report details the latest payout trends of large independent foundations.

Endnotes

1. A 2000 study, *Spending Policies and Investment Planning for Foundations*, assessed the impact of foundation spending policies on the value of their portfolios. The report, prepared by DeMarche Associates for the Council on Foundations, concluded that foundations could not maintain payout rates of 6 percent or higher without undermining the purchasing power of their portfolios. A 2004 study prepared by Cambridge Associates for the Council of Michigan Foundations, *Sustainable Payout for Foundations*, reached a similar conclusion.
2. The Tax Reform Act of 1969 established rules specific to private foundations, including requirements for minimum annual distributions. Foundations that do not meet the minimum requirement (set at 5 percent since 1976) must pay an excise tax on any undistributed portion. Most of the other private foundation rules detail excise taxes on investment income and on a variety of *prohibited activities* that are considered to be contrary to the public interest.
3. In Form 990-PF, the distributable amount (adjusted) is reported in Part XI, line 7.
4. For details see the IRS Manual.
5. With the approval of the IRS, amounts set aside for specific charitable purposes in a future year can be counted as qualifying distributions in the current year under certain limited circumstances.
6. In Form 990-PF, total charitable (program-related) administrative expenses are reported in Part I, line 24d.
7. In Form 990-PF, total qualifying distributions are reported in Part XII, line 4.
8. In Form 990-PF, net noncharitable use assets are reported in Part X, line 5.
9. In general, due to averaging, if the value of investment assets has been rising during the year then the net value of assets will be less than the year-end market value. Conversely, if the value of investment assets has been declining, the net value of assets may exceed the year-end market value.
10. In Form 990-PF, undistributed income for the current year is reported in Part XIII, line 6f; for the prior year, it is reported in Part XIII, line 2a.
11. See "Domestic and Private Foundations and Charitable Trusts: Tax Years 2005 and 2006," *Statistics of Income Bulletin*, Fall 2009, pages 273–275. In Tax Year 2006, just 30 percent of small foundations (assets less than \$1 million) carried undistributed income to Tax Year 2007, compared to 43 percent of medium-size foundations (assets between \$1 million and \$50 million) and 44 percent of large foundations (assets of \$50 million or more). In both Tax Years 2005 and 2006, 69 percent of the aggregate current-year distributable amount that was reported by private non-operating foundations was satisfied based on current-year distributions.
12. On Form 990-PF, Excess Distributions Carryover applied to the current year is reported in Part XIII, col. A, line 5.
13. Penalty excise taxes are reported and paid using IRS Form 4270.

2

Benchmarking Foundation Payout: 2007–2009 Trends

The first half of this brief focused on what counts toward payout, how the payout rate is calculated, and compliance issues governing the 5 percent payout requirement. This section examines actual payout practices between 2007 and 2009 for a sample of nearly 1,200 of the nation's largest independent and family foundations (see "Sampling Information"). Since these organizations account for the bulk of foundation resources and spending, they are of paramount interest to policymakers, watchdog organizations, and foundation leaders concerned with self regulation and establishing industry standards.

The study uses a multi-year approach to compare payout trends over time and determine *typical* patterns of payout as a percentage of net assets based on a three-year average. Focusing only on endowed foundations, which represent the vast majority of sampled foundations, it explores how extreme changes in the economy and stock market may affect large foundations' payout rates and how much variation in rates occurs across these foundations. Finally, the study examines whether differences in foundation asset size and other operating characteristics have a predictable effect on payout levels.

This study complements the Foundation Center's 2012 report *Benchmarking Foundation Administrative Expenses: Update on How Operating Characteristics Affect Spending*.¹ Both reports draw on data from the Center's foundation finances database to answer questions about the financial practices of large independent foundations.

How Much Did Foundations in the Study Pay Out in 2007–2009?

As Table 1 shows, between 2007 and 2009, the 1,170 independent foundations² in the study reported, on average per year, \$22.3 billion in payout (including \$19 billion in total giving) and nearly \$297 billion in net assets. These large foundations had a median payout-to-net assets ratio of 6.2 percent, on average. However, along with 979 endowed foundations, this includes 191 pass-through—or non-endowed—foundations that nevertheless rank among the nation's biggest givers.

Whereas endowed foundations finance their spending primarily from income on their investments, pass-through foundations maintain relatively few

assets³ and instead fund their charitable distributions mainly from gifts from their donors. Since pass-through foundations by definition pay out at very high rates relative to their assets, they are excluded from the following analysis.

How Did Changes in the Economy between 2007 and 2009 Affect Payout?

The period 2007 to 2009 was an anomalous time for foundation finances. After growing steadily from 2003 to 2007, foundation endowments suffered their biggest losses on record in the wake of the 2008 to 2009 global economic crisis. Between 2007 and 2009, year-end asset values of the 979 endowed foundations in this study dropped from

Sampling Information

The study sample includes 1,170 independent foundations that ranked consistently among the approximately top 1,900 independent and family foundations by giving in 2007, 2008, and 2009 and for which IRS Form 990-PF was available publicly for all years.¹ These foundations each gave at least \$2 million in each study year. Endowed foundations in the study held assets of at least \$11 million, on average. While the sample represented just 2 percent of all independent foundations in 2007, they accounted for 70 percent of all independent foundation assets in that year and 67 percent of all independent foundation giving.

Every effort was made to compile a complete set of the top 1,000 independent foundations in each year and to include them in the three-year panel. However, some of the largest foundations did not consistently meet the \$2 million threshold, while others did not have Form 990-PF publicly available for one or more of the study years. Despite these limitations, the study sample includes a high percentage of the very largest foundations: approximately 95 percent of the top 100 independent foundations in 2007, 2008, and 2009 and 90 percent of the top 1,000 foundations are included.

¹The Foundation Finances 2007 to 2009 dataset had 1,171 foundations. One foundation was dropped from this study as it was not required by the tax code to meet the payout requirement. Although it is based in the U.S. and must file Form 990-PF, this foundation qualifies as a "foreign organization" since the bulk of its investments are held outside the U.S. Special rules apply to such foundations.

almost \$352 billion to roughly \$284 billion, a decline of 19 percent (Figure 1 and Figure 2). During this two-year period, the asset values of these foundations plunged 24 percent in 2008 before starting to regain ground in 2009. Over the same period, the value of their net investment assets (or net assets), which are based on a rolling value over twelve months and exclude assets used for charitable purposes, fell 22 percent. After starting to decline between 2007 and 2008, net asset values suffered much steeper losses the following year.

Since many foundations base their charitable distribution levels on the value of their assets in the preceding year (or over a few years), foundation payout trends—like giving trends—tend to lag behind asset trends by at least one year. Thus despite stock market turmoil, the combined payout amount of studied foundations rose slightly in 2008, from \$19.8 billion to \$20.3 billion, before falling to \$19.7 billion the next year. Though the 2009 payout level followed the downward direction of 2008 asset levels, the decrease was small—3 percent—suggesting that many endowed foundations held the line on their charitable distribution levels that year. In fact, between 2007 and 2009, when asset values plummeted, the combined payout (and giving) of these large foundations was remarkably stable.

How Did Payout Rates between 2007 and 2009 Compare With Earlier Years?

As defined earlier, the payout *rate* measures the relationship between a foundation’s total charitable distributions and its net assets. Between 2007 and 2009, the 979 endowed foundations in this study had a median payout rate⁴ of 5.8 percent, on average. As net asset values declined for two consecutive years, the median ratio steadily increased—from 5.4 percent in 2007 to 5.8 percent in 2008 to 6.4 percent in 2009 (Figure 3).

TABLE 1: Financial Measures for the Largest Independent Foundations, 2007–2009

Financial Measures (average for 2007–2009)	Endowed (N=979)	Pass-through (N=191)	All (N=1,170)
Total Assets (Market Value)	\$299.8 billion	\$4.4 billion	\$304.2 billion
Net Assets	\$292.3 billion	\$4.3 billion	\$296.6 billion
Total Giving	\$16.7 billion	\$2.3 billion	\$19.0 billion
Qualifying Distributions	\$19.0 billion	\$2.4 billion	\$21.4 billion
Payout	\$19.9 billion	\$2.4 billion	\$22.3 billion
Number of Foundations Reporting:			
Total Assets (Market Value)	979	191	1,170
Net Assets	979	188	1,167
Total Giving	979	191	1,170
Payout	979	191	1,170

Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 1,170 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years. The data are based on a three-year average for 2007 to 2009. Qualifying foundations made grants of at least \$2 million, on average; endowed foundations held assets of at least \$11 million, on average.

FIGURE 1: Aggregate Finances for the Largest Endowed Independent Foundations, 2007, 2008, and 2009

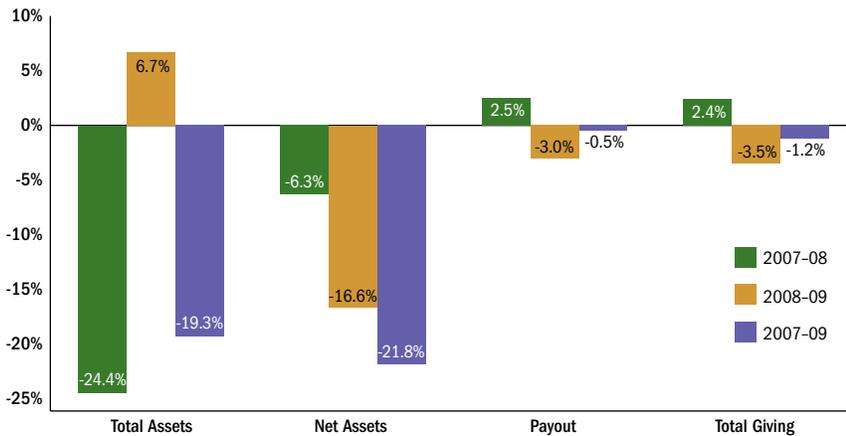


Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundation by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average. The data are not adjusted for inflation.

¹Total assets represents year-end market value.

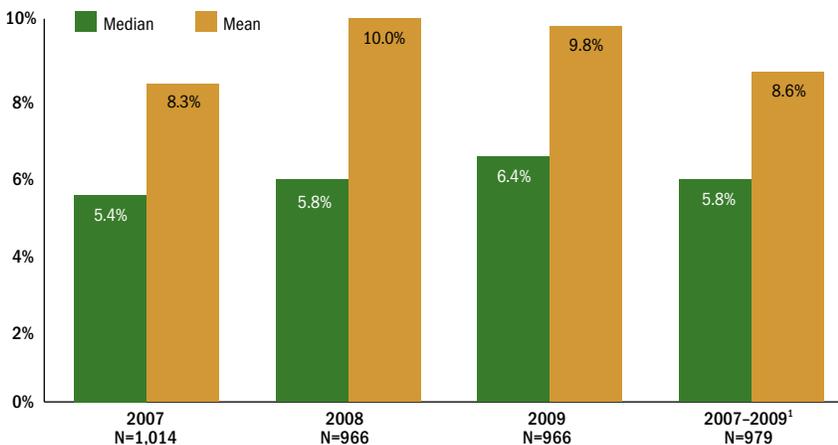
²Net assets represents average monthly value of investment assets.

FIGURE 2: Change in Aggregate Finances for the Largest Endowed Independent Foundations, 2007, 2008, and 2009



Source: The Foundation Center, 2012: The Foundation Finances Database (2007-2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average. The data are not adjusted for inflation.

FIGURE 3: Payout as a Percentage of Net Assets, 2007, 2008, and 2009: Endowed Independent Foundations



Source: The Foundation Center, 2012: The Foundation Finances Database (2007-2009). Sample includes 979 of the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which average assets were at least five times greater than average giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million and held assets of at least \$11 million, on average.

¹Based on average-year data, 979 foundations qualified as "endowed." Between 2007 and 2008, after asset values plummeted, the number of endowed foundations decreased from 1,014 to 966. It remained at 966 in 2009.

Throughout these years, the mean (or average) payout rate consistently exceeded the median by at least 3 percentage points. For the three-year average, the mean ratio was 8.6 percent compared with the 5.8 percent median ratio. The difference between the mean and the median ratios indicates that, in spite of the severe economic turmoil, foundations in the study maintained a wide range of distribution strategies, and many were paying out well above the minimum.

When compared with findings from an earlier (unpublished) study of 2004 to 2006 foundation payout,⁵ the 2007 to 2009 mean and median payout rates were slightly higher. Specifically, large endowed independent foundations in the original study had a 5.5 percent median rate and a 7.7 percent mean rate, on average. Also, different from trends in 2007, 2008, and 2009, when payout rates were rising, year-to-year median and mean rates between 2004 and 2006 were very steady. The greater variability in payout trends from 2007 to 2009 suggests that economic upheavals have a strong effect on year-to-year payout rates. A balanced view of foundation payout practice can be attained only by averaging these rates over multiple years and comparing rates across periods with varying financial conditions.

How Much Variation in Payout Rates Occurs among Endowed Foundations?

While the 5.8 percent median payout rate for 2007 to 2009 suggests that the typical foundation in this study stayed slightly above the 5 percent distribution requirement, an illustration of the *range* of these foundations' average ratios shows considerable variation (Table 2 and Figure 4). The largest proportion of foundations by far (46 percent) paid out between 5 percent and 5.9 percent, followed by more than 11 percent that paid out between 6 percent and 6.9 percent. Yet one out

of three foundations studied (322) had payout to net asset ratios on average at 7 percent or above. Of these, 187 foundations (19 percent) had ratios above 10 percent. Among those at the top of the payout ratio ranges were 47 foundations (nearly 5 percent) with payout-to-net asset ratios ranging from 20 percent to more than 100 percent.

The documentation of such high payout rates raises questions about the boundaries between endowed versus pass-through foundations. The Foundation Center defines endowed foundations as those whose *year-end market value of assets* are at least five times greater than their *total giving*. These variables differ from the ones used to calculate the payout-to-net assets ratio (see page 2). For example, giving is only one of several expenditure items that make up total *qualifying distributions*, which is used in the payout formula. Similarly, *net assets*, which derives from a 12-month average of investment asset values, often differs substantially from the year-end value of total assets. Also, because net assets exclude such holdings as a foundation's headquarters building, art holdings, or program-related investments, their value may fall far below the total assets value. For these definitional reasons, a small number of foundations that qualify as *endowed* may nevertheless have average payout rates in excess of 20 percent.

A review of foundations with payout rates over 20 percent, on average, confirmed that these foundations tended to have very low net asset values compared to year-end market values⁶ and high payout rates in most study years. For example, 81 percent of these foundations had rates above 20 percent in at least two years while 26 percent had high rates in all three years. Also, foundations with the very highest average rates had consistently higher payout rates for all three study years.⁷ These findings suggest that the prevalence of unusually high payout rates among a relatively small cadre of

TABLE 2: Distribution of Payout as a Percentage of Net Assets, 2007–2009: Endowed Independent Foundations

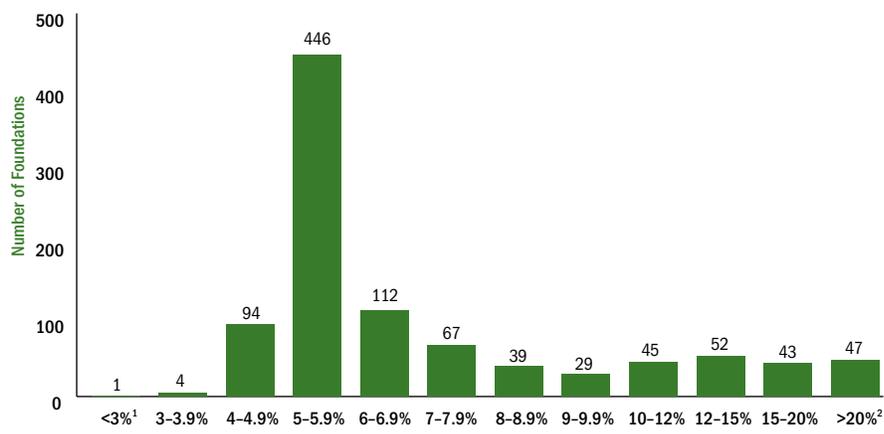
Payout/Asset Ratio	Number of Foundations	%
Less than 3% ¹	1	0.1
3–3.9%	4	0.4
4–4.9%	94	9.6
5–5.9%	446	45.6
6–6.9%	112	11.4
7–7.9%	67	6.8
8–8.9%	39	4.0
9–9.9%	29	3.0
10–12%	45	4.6
12–15%	52	5.3
15–20%	43	4.4
20% or More ²	47	4.8
All	979	100.0

Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 of the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which average assets were at least five times greater than average giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

¹The lowest average payout-to-net asset ratio of large endowed foundations in the dataset was 1.7 percent.

²The highest average payout-to-net asset ratio of large endowed foundations in the dataset was 368.3 percent. The foundation had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.

FIGURE 4: Distribution of Payout as a Percentage of Net Assets, 2007–2009: Endowed Independent Foundations



Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 of the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which average assets were at least five times greater than average giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

¹The lowest average payout-to-net asset ratio of large endowed foundations in the dataset was 1.7 percent.

²The highest average payout-to-net asset ratio of large endowed foundations in the dataset was 368.3 percent. The foundation had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.

large foundations was not necessarily associated with sudden changes in the economy. Rather, these foundations seem to have made decisions about their distribution levels unrelated to their net assets. Since the vast majority of these foundations were formed relatively recently and an equally large share received new gifts of assets in 2007 to 2009,⁸ they may have been less concerned than their more established peers with preserving endowment.

Did Any Foundations Fall below the 5 Percent Payout Minimum?

At the opposite end of the spectrum, nearly 10 percent of endowed foundations (94) had payout-to-net asset ratios between 4 percent and 4.9 percent, on average, while a handful had ratios lower than 4 percent. One obvious question is how foundations may pay out less than 5 percent of their net assets since that level is the minimum required by the tax law. As explained earlier (page 3), the answer lies in the legal timeframe for meeting the distribution requirement: *by the end of the year following the year on which the 5 percent calculation is based*. Since asset values may rise or fall sharply from one year to the next, and since foundations are unable to calculate the net value of their assets until after the current year ends, the law allows them an extra year to meet their obligations.

Between 2007 and 2009, when the value of most foundations' endowments dropped sharply, a smaller number of studied foundations failed to meet the requirement in the current year: 258 (26 percent) in 2007, 147 (15 percent) in 2008, and 64 (7 percent) in 2009. When payout levels were averaged over three years, one in ten foundations fell short of the 5 percent minimum level. Of these foundations a large majority had a regular practice of meeting distribution requirements in the additional year.⁹ A smaller number of them had met 2007 and 2008 requirements in the current year but fell below the 5 percent level, on average, as a result of having substantial undistributed income in 2009. Among the foundations in the latter category was the one with the lowest average payout ratio (1.7 percent). After paying out at high rates in 2007 and 2008, the foundation in question received a multi-billion dollar gift from its donor's estate in 2009. To accommodate this change in scale, the foundation deferred payment of the bulk of its 2009 distribution requirements to 2010. Such a practice is common when foundations experience explosive growth in their endowments, especially if the gift is received late in the year.

More attention will be paid to variation in payout practices in the following report sections, which consider the effects of asset size and a number of other operating characteristics on payout-to-net asset ratios.

Is Foundation Asset Size a Predictor of Payout Levels?

As noted in the introduction, one goal of this trends study was to assess whether differences in foundation operating characteristics may have a consistent measurable effect on payout levels. Among the very few variables examined that were associated with higher (or lower) payout-to-net asset ratios, endowment size had the most predictable effect. As Table 3 illustrates, the smallest foundations in the study, with assets of \$10 million to \$50 million, had by far the highest median payout ratio (11.0 percent). The median for this size group was nearly twice the rate of any other group. By comparison, the median for foundations in the larger asset categories were more similar, all falling within the 5 to 6 percent range. Yet ratios decreased slightly as asset size increased, from 5.6 percent for those with \$50 million to \$200 million in assets to 5.4 percent for those with assets of at least \$200 million. The mean ratio also decreased steadily for these size

TABLE 3: Payout as a Percentage of Net Assets by Foundation Asset Size, 2007–2009: Endowed Independent Foundations

Asset Group ¹	Number of Foundations			Payout/Net Assets (%)		
	No.	%	Median	Mean	Min	Max
\$10 million to \$50 million	215	22.0	11.0	15.5	4.8	368.3 ²
\$50 million to \$100 million	333	34.0	5.6	6.7	3.8	36.6
\$100 million to \$200 million	227	23.2	5.6	6.7	4.0	18.6
\$200 million to \$500 million	109	11.1	5.4	6.5	3.7	23.3
\$500 million or more	95	9.7	5.4	6.2	1.7	21.6
All	979	100.0	5.8	8.6	1.7	368.3²

Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

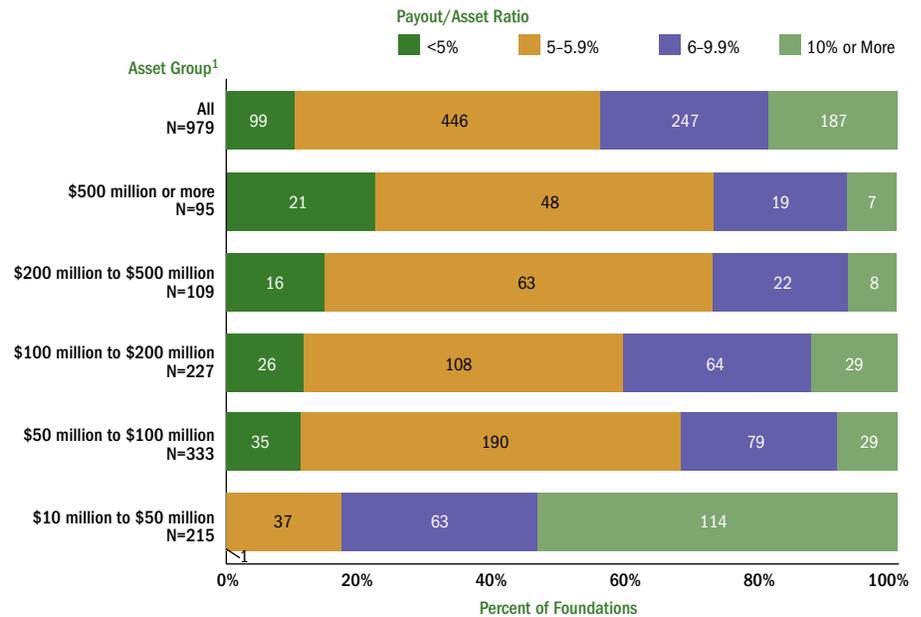
¹ Based on market value of year-end assets averaged over three years.

² The highest average payout-to-net asset ratio of large endowed foundations in the dataset was 368.3 percent. The foundation had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.

groups, from 6.7 percent for mid-size foundations to 6.2 percent for foundations with assets in excess of \$500 million. Not only did the very largest foundations have the lowest ratios, they also reported the smallest difference between the median and mean ratios (less than 1 percentage point). It seems that the wealthiest foundations are also the most alike in terms of payout practices.

Patterns by asset size were mainly consistent across years. Foundations with less than \$50 million in assets had the highest median payout ratios each year, ranging from 11.3 percent in 2007 to 9.1 percent in 2009. In contrast, foundations with assets greater than \$500 million had the lowest median ratios, ranging from 5.2 percent in 2007 to 5.9 percent in 2009. Foundations in the mid-size asset categories had median ratios that were slightly higher than those of the very largest foundations in two out of three years. Of course, between 2007 and 2009

FIGURE 5: Distribution of Payout as a Percentage of Net Assets by Asset Size, 2007–2009: Endowed Independent Foundations



Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 of the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which average assets were at least five times greater than average giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

¹ Based on market value of year-end assets averaged over three years.

TABLE 4: Payout as a Percentage of Net Assets, 2007–2009: Family versus Non-Family (Endowed Independent Foundations)

Grantmaker Characteristic and Asset Group ¹	Number of Foundations		Payout/Net Assets (%)			
	No.	%	Median	Mean	Min	Max
Family						
\$10 million to \$50 million	149	25.4	11.0	15.2	5.0	368.3 ²
\$50 million to \$100 million	194	33.0	5.6	6.9	4.1	36.6
\$100 million to \$200 million	132	22.5	5.7	7.1	4.0	18.6
\$200 million to \$500 million	70	11.9	5.5	6.8	3.7	23.3
\$500 million or more	42	7.2	5.5	6.8	3.9	21.6
All	587	100.0	6.0	9.1	3.7	368.3²
Non-Family						
\$10 million to \$50 million	66	16.8	11.3	16.1	4.8	112.7
\$50 million to \$100 million	139	35.5	5.5	6.4	3.8	30.1
\$100 million to \$200 million	95	24.2	5.5	6.1	4.4	15.4
\$200 million to \$500 million	39	9.9	5.4	5.9	4.1	14.3
\$500 million or more	53	13.5	5.3	5.7	1.7	13.4
All	392	100.0	5.6	7.8	1.7	112.7

Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

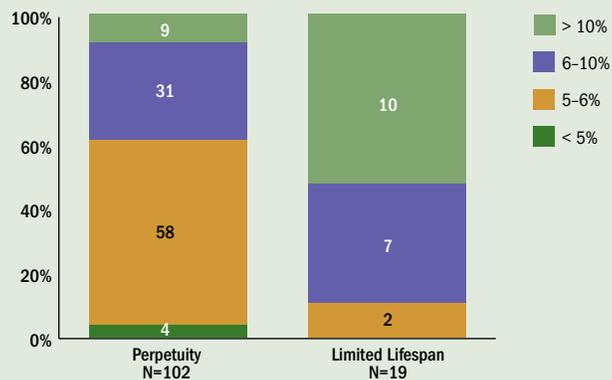
¹ Based on market value of year-end assets averaged over three years.

² The highest average payout-to-net asset ratio of large endowed foundations in the dataset was 368.3 percent. The foundation had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.

Family Foundations' Lifespan Decisions and Payout Practices

Knowledge about the lifespan intentions of independent foundations is very limited. However, based on responses to a Foundation Center family foundation survey, 171 endowed foundations were coded as limited life (19), perpetual (102), or undecided (50).¹ For sampled foundations, the decision to spend down was strongly associated with higher payout levels. Limited life foundations had a 10.9 percent median ratio, compared with a 5.6 percent ratio for foundations that planned to exist in perpetuity. The difference between the mean ratios of these two groups was also pronounced (11.7 percent vs. 6.8 percent). These findings suggest that limited life foundations, for which asset preservation is not a principal goal, exercise greater latitude in deciding on spending levels than foundations that plan to exist in perpetuity.

FIGURE A: Distribution of Payout as a Percentage of Net Assets, 2007–2009: Limited Lifespan versus Perpetuity (Endowed Family Foundations)



Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 171 of the 587 large endowed family foundations in the database that were matched with survey responses from a 2009 survey on foundation lifespan intentions. (See *Perpetuity or Limited Lifespan: How Do Family Foundations Decide?* at foundationcenter.org/gainknowledge/research/specialtrends.) Among the 171 respondents, 102 indicated they planned to exist in perpetuity, 19 planned to have a limited lifespan, and 50 were unsure.

A comparison of the range of payout-to-net asset ratios of limited life versus perpetual foundations highlights the differences in their practices (Figure A). Just 11 percent of limited life foundations had payout levels less than 6 percent, on average, compared with 61 percent of perpetual foundations. At the other end of the range, 53 percent of limited life foundations had payout levels greater than 10 percent compared with just 9 percent of perpetual foundations. While we might assume that foundations with high payout were spending down in preparation for closing their operations in the near future, survey data revealed that half of the limited life foundations with payout levels greater than 10 percent did not plan to spend down for at least 10 to 20 years. *How soon a foundation plans to cease operations does not seem to be the sole factor determining payout levels.* The desire to have a greater impact now in addressing particular social problems may lead foundations to make funding decisions unrelated to their timeframes for spending down.²

¹The 171 family foundations for which lifespan intentions were known represented 29 percent of the endowed family foundations in this study. Of the 19 limited life foundations in the sample, ten had 2007 to 2009 assets greater than \$100 million, on average. For information about the survey findings, see *Perpetuity or Limited Lifespan: How Do Family Foundations Decide?* (foundationcenter.org/gainknowledge)

²According to the *Perpetuity or Limited Lifespan* report, the leading *program-related* factor that drove the decision to limit a foundation's lifespan was the desire to have a greater impact (pp. 8–9). The most frequently cited operational change for these foundations was increasing the payout level (pp. 11–12).

most foundations suffered big losses to their endowments. As a result the numbers of foundations in the largest asset size categories decreased, whereas the numbers in the smallest groups increased. The shifting of foundations across asset groups makes it harder to interpret changes in payout rates by asset size for this period. Still, the rates increased each year for foundations of every size except the smallest ones, which consistently had the highest median rates.

How Much Variation Is There in the Payout Rates of Larger versus Smaller Foundations?

An alternate view of the effect of foundation size on payout practices is offered in Figure 5, which shows the *distribution* of payout ratios for foundations by asset size category. These patterns differed strikingly. The percentage of foundations with 2007–2009 payout levels of less than 6 percent, on average, was biggest for foundations with assets of at least \$200 million, and these foundations were also the most likely to meet the payout requirement in the additional year (i.e., have ratios, on average, of less than 5 percent). While more than one-fourth of these very large foundations paid out at above 6 percent, on average, they were the least likely to pay out at more than 10 percent. Mid-size foundations were less likely to have the lowest payout ratios and a little more likely to have the highest ratios. The smallest foundations in the study had the most distinct payout patterns. More than four out of five had payout ratios greater than 6 percent, and more than half had ratios above 10 percent.

As explained earlier, some foundations that qualified as endowed nevertheless had low net assets relative to their distribution levels and most of these foundations were in the smallest asset range. For example, 63 percent of the foundations whose 2007 to 2009 payout ratios were 20 percent or more held assets of less than \$50 million. Small

foundations also represented 60 percent of the foundations that had average payout levels ranging from 15 percent to 20 percent.

The atypical payout profile of many of the smallest endowed foundations, including family foundations (see below), can be attributed to the fact that they were still building their endowments. For example, 62 percent of the foundations with assets less than \$50 million received gifts from their donors between 2007 and 2009, and these gifts combined represented 18 percent of the total value of their net assets.¹⁰ Also, foundations with the very highest payout ratios were most likely to report new gifts. Thirty of the 38 small foundations (or 79 percent) that had average payout ratios greater than 20 percent received gifts from their donors. Presumably, these foundations drew at least in part on gifts received to fund their charitable distributions. As the endowments of these foundations become more fully vested, their payout-to-net asset ratios can be expected to fall within more typical ranges.

Do Any Other Characteristics Predict Payout Levels?

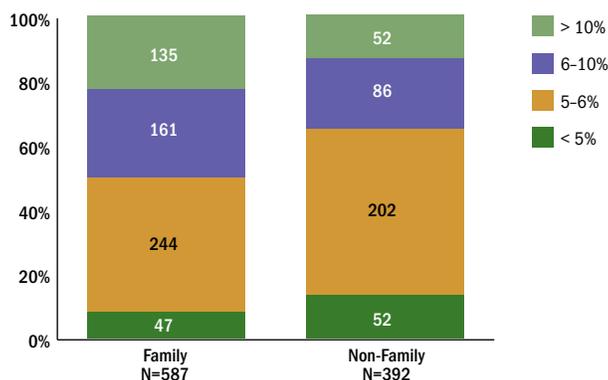
Very few foundation operating characteristics had a predictable effect on payout practices. Only three additional characteristics were identified that applied broadly to endowed foundations in this study: family involvement, use of program-related investments, and health conversion status. In general, family involvement and program-related investment activity tended to coincide with higher payout rates, while health conversion status tended to coincide with lower rates. Each factor is considered below. One additional factor—a foundation’s intentions regarding its lifespan—is considered only for family foundations (see “Family Foundations’ Lifespan Decisions and Payout Practices,” p.11). In general, deciding to spend down was a strong predictor of higher payout rates.

FAMILY INVOLVEMENT

The majority of the endowed foundations in this study (587, or 60 percent) are governed principally by donors and their families. For the other 392 foundations, the donor or donor’s family has no role or a lesser role in decision-making. Between 2007 and 2009, family foundations reported slightly higher median payout ratios, on average, than non-family foundations (6.0 percent vs. 5.6 percent) (Table 4).¹¹ Family foundations of nearly all asset sizes had slightly higher ratios than did non-family foundations of equal size. These patterns were consistent each year. Family foundations overall also had consistently higher mean payout rates, on average, than non-family foundations (9.1 percent vs. 7.8 percent), and the rates were higher for all sizes of family foundations. Finally, comparing year-to-year changes, the mean and median payout rates of both types of foundations increased steadily from 2007 to 2009 but the rates rose a little faster for family versus non-family foundations.

Figure 6 highlights the differences in payout practices of family versus non-family foundations by comparing their distribution patterns across four payout ranges. Just one-half of family foundations had ratios lower than 6 percent compared with nearly two-thirds of non-family foundations. In contrast, the proportion of foundations paying out at rates greater than 10 percent was nearly double for family foundations compared to non-family foundations (23 percent vs. 13 percent). Also, more than two-thirds of the foundations with the highest ratios—above 20 percent—were family foundations. These results confirm this study’s earlier stated findings regarding the atypical payout profiles of many smaller foundations that were still building their endowments. Most of these foundations had been created in the last 20 years and were still governed principally by family members.¹²

FIGURE 6: Distribution of Payout as a Percentage of Net Assets, 2007–2009: Family versus Non-Family (Endowed Independent Foundations)



Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

PROGRAM-RELATED INVESTMENTS

The use of program-related investments (PRIs) is associated with higher payout rates. Expenditures for PRIs are *included* as part of a foundation's qualifying distributions that count toward the payout requirement. The assets that a foundation loans or invests for charitable purposes are *excluded* from net assets, which is the basis for calculating payout. Overall, 6 percent of the endowed foundations in this study (54) drew on their endowments to make PRIs, and most of them were in the largest asset categories.

Between 2007 and 2009, foundations with PRIs had a median payout rate of 6.3 percent, on average, compared with a 5.7 percent rate for foundations that did not make PRIs (Table 5). This pattern held true each year. The differences in payout levels were most striking for the largest foundations. It was noted earlier that the median payout rate of endowed foundations overall decreased as asset size increased.

Among PRI makers however, 2007 to 2009 median payout rates were consistently high—5.8 percent or more—in the three top asset categories, which include the vast majority of these foundations. Furthermore, in the top asset category, the foundations with PRIs had a median rate of 6.4 percent, on average, compared with 5.3 percent for foundations without PRIs.

HEALTH CONVERSION STATUS

Just 3 percent (30) of the endowed foundations in this study were formed from the sale of hospitals and health organizations to for-profit entities; collectively they are known as health conversion or new health foundations. Not only are these foundations very different in the way they are funded and governed, but they tend to be larger than the typical endowed family or other independent foundation. When compared by asset size, health conversion foundations had median

payout rates, on average, that were similar to those of non-conversion foundations. Strikingly different, however, were their mean payout rates, which were substantially lower. Whereas for non-conversion foundations of every asset size the mean payout ratio was consistently several percentage points higher than the median, health conversion foundations of equal size had mean and median ratios that were nearly identical. Such proximity in these key measures suggests that health conversion foundations across the board are much more uniform in their payout strategies.

This assumption is borne out in Figure 7, which compares the distribution of payout-to-net asset ratios of health conversion versus non-health conversion foundations. Sixty-seven percent of health conversion foundations had payout ratios between 5 percent and 5.9 percent compared with 45 percent of non-health conversion foundations. Also,

TABLE 5: Payout as a Percentage of Net Assets, 2007–2009: Program-Related Investments (Endowed Independent Foundations)

Grantmaker Characteristic and Asset Group ¹	Number of Foundations			Payout/Net Assets (%)		
	No.	%	Median	Mean	Min	Max
Program-Related Investments						
\$10 million to \$50 million	4	7.4	21.5	34.3	12.0	82.2
\$50 million to \$100 million	7	13.0	5.6	9.6	5.4	23.3
\$100 million to \$200 million	16	29.6	6.8	7.6	5.3	14.1
\$200 million to \$500 million	10	18.5	5.8	6.8	5.2	14.6
\$500 million or more	17	31.5	6.4	7.9	5.1	21.6
All	54	100.0	6.3	9.8	5.1	82.2
No Program-Related Investments						
\$10 million to \$50 million	211	22.8	10.9	15.1	4.8	368.3 ²
\$50 million to \$100 million	326	35.2	5.6	6.6	3.8	36.6
\$100 million to \$200 million	211	22.8	5.5	6.6	4.0	18.6
\$200 million to \$500 million	99	10.7	5.4	6.4	3.7	23.3
\$500 million or more	78	8.4	5.3	5.8	1.7	13.4
All	925	100.0	5.7	8.5	1.7	368.3²

Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.

¹ Based on market value of year-end assets averaged over three years.

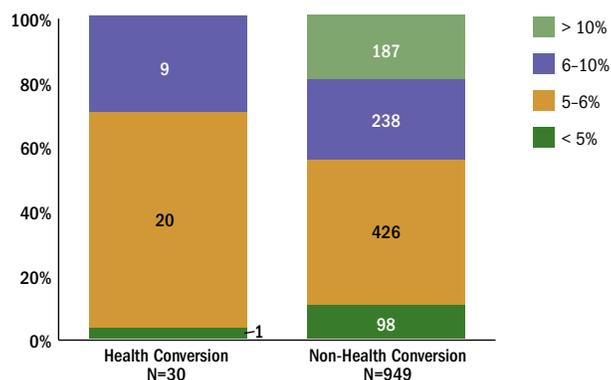
² The highest average payout-to-net asset ratio of large endowed foundations in the dataset was 368.3 percent. The foundation had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.

97 percent of health conversion foundations had payout ratios between 5 percent and 10 percent, compared with about 70 percent of non-health conversion foundations. While health conversion foundations were solidly in the middle payout ranges, family and other non-health conversion foundations were more broadly distributed, especially in the highest range. These patterns suggest that the governing boards of health conversion foundations have less discretion regarding payout practices than those of family and other independent foundations. It makes sense that their boards seek to preserve the assets of these foundations, since health conversion foundations rely mainly on the profits derived from a one-time sale of health care assets and because they were presumably formed to exist in perpetuity.

Endnotes

1. See *Benchmarking Foundation Administrative Expenses: How Operating Characteristics Affect Spending* (New York: The Foundation Center, 2012); chapter 1, Financial Trends, 2004 to 2006, page 2. It bears noting that different from the study of foundation expenses, this study of payout focuses mainly on the dataset's 979 *endowed* foundations. As a result, differences will be seen in financial data and trends.
2. The Foundation Finances 2007–2009 dataset had 1,171 foundations. One foundation was dropped from this study as it was not required by the tax code to meet the payout requirement. Although it is based in the U.S. and must file Form 990-PF, this foundation qualifies as a “foreign organization” since the bulk of its investments are held outside the U.S. Special rules apply to such foundations.
3. In the Foundation Center’s Foundation Finances database, foundations are designated “pass-through” if their annual grant expenditures equal 25 percent or more of the year-end market value of their assets.
4. The median is the ratio reported by the foundation ranked at the mid-point.
5. The Foundation Center prepared its first thorough assessment of payout trends and patterns using data from its 2004 to 2006 Foundation Finances dataset. This initial unpublished study examined 1,025 large independent foundations, including 896 endowed foundations. Foundations included in the study sample gave at least \$2.2 million in 2004, 2005, and 2006; they held assets of at least \$13 million, on average.
6. The foundation with the highest payout-to-net assets ratio had payout of \$17.2 million, on average, and net assets of \$4.7 million. The foundation owns buildings and land that are used for charitable purposes and holds an interest in a charitable lead trust. These assets are excluded from net assets.
7. All five foundations that had payout rates, on average, above 50 percent paid out at least 20 percent of their net assets each year.
8. Of the 47 foundations that had payout greater than 20 percent, on average, 37 (79 percent) were formed since 1980 (including 32 since 1989) and 38 (81 percent) received new gifts from their donors or their donors’ families between 2007 and 2009.
9. Of the 99 foundations that had payout rates lower than 5 percent, on average, 75 (76 percent) applied part of their current-year *qualifying distributions to meet payout requirements of the prior year*. On Form 990-PF, qualifying distributions applied to the prior year is reported in Part XIII, line 4a, col c.
10. In all other asset categories, 42 to 52 percent of the foundations received new gifts. Just as important, these combined gifts represented a much smaller share of total net assets (5 to 7 percent).
11. These findings for 2007 to 2009 are similar to findings from the Foundation Center’s study of 2004 to 2006 payout trends of 896 large endowed foundations. Family foundations had slightly higher median and mean payout rates, on average, than non-family foundations (5.6 percent vs. 5.3 percent and 8.2 percent vs. 7.0 percent, respectively). Also, according to a Council on Foundation’s 2003 survey of approximately 300 private foundations, family foundations had slightly higher median and mean payout rates than non-family foundations (5.5 percent vs. 5.4 percent; and 8.7 percent vs. 7.3 percent, respectively). See *Foundation Management Series*, 12th Edition, “Administrative Expenses in Private Foundations”: Council on Foundations (2006).
12. Of the 47 foundations with payout ratios of 20 percent or more, on average, 16 were created since 2000, 15 were created in the 1990s, eight were created in the 1980s, and nine were formed prior to 1980. Between 2007 and 2009, 30 of these foundations (64 percent) were governed either wholly or principally by family members.

FIGURE 7: Distribution of Payout as a Percentage of Net Assets, 2007–2009: Health Conversion Status (Endowed Independent Foundations)



Source: The Foundation Center, 2012: The Foundation Finances Database (2007–2009). Sample includes 979 foundations that ranked among the approximately 1,900 largest foundations by giving in 2007, 2008, and 2009 for which data were available for all years and for which assets were at least five times greater than giving. The data are based on a three-year average for 2007 to 2009. Qualifying foundations gave at least \$2 million each year; they held assets of at least \$11 million, on average.