

An Evaluation of Community Foundation Investment Returns & Payout Rates

▶ *A Study Commissioned by the Council of Michigan Foundations, 2021*

Citation

Williams, J., Veach, C., & Kienker, B. (2021). An evaluation of community foundation investment returns & payout rates. *Council of Michigan Foundations*.

<https://michiganfoundations.org/resources/payout-study>

Table of Contents

What Does the Data Tell Us?.....	iii
Executive Summary.....	v
Introduction.....	01
Part 1: Historical Investment Returns.....	03
Part 2: Community Foundation Payouts.....	05
Part 3: Comparing Community and Private Foundations.....	09
Conclusions.....	11
About the Project Partners.....	12



What Does the Data Tell Us?

Philanthropy stands at the center of a fundamental struggle: how to use increasing wealth to address inequities in society.

Research shows disparities in income and wealth have become greater over the past 30 years, and there are few signs this trend will cease any time soon. The COVID-19 pandemic and the national reckoning for racial justice have only further illuminated the inequities rooted in our systems and policies.

How philanthropy activates its resources against these challenges varies from foundation to foundation depending on their mission and their structure, and goals established by donors and founders. And, we know the role of philanthropy is critical not only through the current pandemic recovery efforts but also in future crises we may experience. Still, there are calls for foundations to do more by moving “parked wealth” into communities now, when the need seems greatest.

Philanthropy is indeed a core stakeholder as we strive across sectors to create reimagined, equitable systems and thriving communities where every individual has the opportunity for success and well-being.

As a leadership organization that puts equity at the center of our work, the Council of Michigan Foundations (CMF) is committed to providing access to quality data insights as a tool for the sector — grounded in the context of local and regional philanthropy — and committed to creating space for reflective conversation on what the data tells us.



CMF commissioned studies completed by Cambridge Associates in 2000, 2004, 2013, and 2016 to explore the relationship in Michigan between the 5% payout rate and distribution rates of private foundations. This one-of-a-kind, regularly updated study used a representative sampling method to give an estimate of investment returns and payout rates.

Our most recent update in 2020 was designed to take a deeper and broader look at foundation investments and payouts. *An Evaluation of Private Foundation Model Portfolios, Investment Returns, & Payout Rates*, conducted by the research team at the Dorothy A. Johnson Center for Philanthropy and Plante Moran Financial Advisors, used IRS Form 990-PF filings from more than 50,000 private foundations throughout the United States from 2013-2018 to calculate actual investment returns and payout rates. That report found that in 2018, 69% of the nation’s private foundations paid out 5% or more of their corpus — and more than one in three paid out 9% or more. **Those findings led us to ask: What does the data tell us about community foundations? Specifically, how do community foundation investment returns and payout rates compare to their private foundation peers?**

To answer this question and challenge our assumptions, CMF once again partnered with the research team at the Johnson Center and Plante Moran Financial Advisors to deepen and expand our understanding about community foundations by utilizing the actual IRS Form 990. This new study captures what we believe is the most comprehensive snapshot of payout data available on community foundations to date — and allows comparisons to data for the same years for private foundations.

The third installment of the series will specifically focus on Donor Advised Funds (DAFs). We invite you to stay tuned for that study's release in early summer 2021.

In the meantime, we encourage you to review the findings of this research, examine whether the data aligns with your own organization's policies and practices, and consider how the results can help you set your own long-term goals, and address immediate needs. We also invite you to share any questions with our research teams.

Our hope is that these insights are helpful for the full philanthropy ecosystem — foundations, nonprofit partners, policymakers, and all those who are working together to catalyze positive and systemic change for the good of all.

Sincerely,



Kyle Caldwell

A handwritten signature in black ink, appearing to be 'KC'.

*President & CEO
Council of Michigan
Foundations*



Dr. Teresa Behrens

A handwritten signature in black ink, appearing to be 'Teresa Behrens'.

*Executive Director
Dorothy A. Johnson
Center for Philanthropy*

Executive Summary

The Council of Michigan Foundations (CMF) commissioned four prior studies between 2000 and 2016 to evaluate the required private foundation payout rate as well as hypothetical model portfolios and actual investment returns. In December 2020, the Dorothy A. Johnson Center for Philanthropy (Johnson Center), in collaboration with Plante Moran Financial Advisors (PMFA), updated and expanded this research¹ by using a comprehensive database of IRS Form 990-PF (private foundation) returns, adding international investments to the model portfolios, presenting actual payout rates of all private foundations in the data set, and showing projections of how changes to the payout rate may affect future foundation assets.

This project turns its focus to community foundations to complete a similar analysis — the first of its kind in the CMF foundation study series history. Like its private foundation counterpart, this community foundation study uses the Johnson Center’s comprehensive database of IRS Form 990 filings. Actual returns are then used to calculate community foundation investment returns and payout rates.

KEY FINDINGS:

- ▶ The annualized median real investment return for community foundations from 2014-2018 was 1.6% in Michigan — nearly identical to their national peers at 1.7%.
 - ▶ Michigan and national community foundation investment returns were higher than private foundation returns for the same period (1.0% in Michigan and 1.1% nationally).
 - ▶ There is evidence that community foundation investment portfolios were slightly more volatile than private foundation portfolios — community foundation gains were higher, and losses were larger, than the returns of private foundations in the same years.
 - ▶ Neither community foundation nor private foundation investment returns approached the model portfolio real returns during the same period.
- ## Michigan community foundation payout rates were nearly identical to their private foundation peers in Michigan and the nation.
- ▶ Community foundation median payout rates in Michigan averaged 5.6% from 2013-2018, while national community foundation rates were higher at 7.6%.
 - ▶ Michigan community foundation payout rates were nearly identical to their private foundation peers in Michigan and the nation (5.6%-5.9%) — but nationally, community foundation payout rates were meaningfully higher (7.6%) than national private foundations (5.6%), most likely due to the larger presence of Donor Advised Funds (DAFs) at national community foundations.

¹Williams, J., Veach, C., & Kienker, B. (2020). *An evaluation of private foundation model portfolios, investment returns, & payout rates*. Council of Michigan Foundations. <https://michiganfoundations.org/resources/payout-study>

▶ MORE THAN

1,000 IRS Form 990 returns were included in the analysis.

▶ 2018 MICHIGAN COMMUNITY FOUNDATION PAYOUT RATES



62%
paid out
5% or more



46%
paid out
6% or more



17%
paid out
9% or more

Introduction

As part of its commitment to ensuring the health and integrity of the charitable sector, CMF supports research relevant to the Michigan community of philanthropy as well as the field at large. As part of those efforts, CMF commissioned research to evaluate the required private foundation payout rate as well as hypothetical model portfolios and actual investment returns. Cambridge Associates completed prior studies in 2000, 2004, 2013, and 2016 using data from a sample of 48 Michigan foundations over a nearly 30-year period. In December 2020, CMF published an update, using more than 50,000 private foundation IRS Form 990-PF returns from across the United States in place of the sample of 48 Michigan private foundation returns.

The project team, composed of the Dorothy A. Johnson Center for Philanthropy (Johnson Center) at Grand Valley State University, in collaboration with Plante Moran Financial Advisors (PMFA), is pleased to update and expand this private foundation research in a phase 2 report focused on community foundations that utilizes similar methodologies:

- ▶ **Rather than relying on a sample of foundations, this report uses the Johnson Center’s comprehensive database of community foundations that file electronic returns — which represent 89% of the nation’s 847 community foundations and 80% of the \$104 billion in assets for 2017.**
- ▶ **Identifying a private foundation is easy — by definition, it is any foundation that is required to file an IRS Form 990-PF. Identifying a community foundation is more difficult, as some definitions include community-based nonprofits that issue grants (such as United Way organizations) while others define community foundations more narrowly. The Project Team calculated the investment returns and payout rates using three different lists of community foundations to test for variation — and found very little variation in the answers between each list.**
- ▶ **The project team calculated actual investment returns and payout rates using multiple methods — from “simple” formulas that accurately reflect community foundation operations, to “complex” formulas that used IRS Form 990 data to mimic the same calculations from the IRS Form 990-PF data referenced in the private foundation study — and found little meaningful variation between the different methods.**

This report and the associated Technical Appendix:²

- › Include information for Michigan’s community foundations, as well as comparative information for all community foundations in the nation.
- › Present the actual community foundation inflation-adjusted (that is, real) investment returns, using data from the most recent fully released filings for the tax years of 2013-2018.
- › Examines how many community foundations pay out more than 5% of their corpus as well as how often payouts exceed multiple ranges (e.g., 7%, 10%, 20%).

²For more information about historical performance of two model investment portfolios — as well as scenarios that examine the effects on foundation endowments if payout rates are mandated above the 5% payout rate — please see the report series available online at <https://michiganfoundations.org/resources/payout-study>

Special Note

This report uses the Community Foundation Research and Training Institute's (CFRTI) 2018 national list of 847 organizations³ which meet the definition of a community foundation from the National Standards for U.S. Community Foundations:

A tax-exempt, nonprofit, autonomous, nonsectarian philanthropic institution supported by the public with the long-term goals of

- › *Building permanent, component funds established by many separate donors to carry out their charitable interests*
- › *Supporting the broad-based charitable interests and benefitting the residents of a defined geographic area, typically no larger than a state*
- › *Serving in leadership roles on important community issues (p. 1^B)*

There are multiple other lists of community foundations. The Project Team selected two alternative lists from CF Insights and the Indiana University Lilly Family School of Philanthropy and repeated the entire study for both lists to see if there were differences in median investment returns and/or payout rates based on the different definitions of what constitutes a community foundation. We found very slight differences in the median statistics based on which definition was used — but no differences large enough to be considered material or affect the findings of the report. Therefore, for simplicity this report uses the CFRTI list and presents the statistics for all three lists in the Technical Appendix for comparative purposes.

³Source: *Community Foundation Census 2018*. Community Foundation Research and Training Institute. See the last page of the report for the definition of a community foundation. <https://static1.squarespace.com/static/58c5af6729687fbc123160a6/t/5f74b87050b24a77b4dcb165/1601484917355/CF+Census+2018+PDF.pdf>

Part 1: Community Foundation Investment Returns

CALCULATED REAL INVESTMENT RETURNS OF COMMUNITY FOUNDATIONS

Foundation returns calculated from the IRS Form 990 filings show that community foundations fell below both model portfolio returns⁴ on an annual basis from 2014-2018. Filings from 2019 are not publicly available because the IRS is still processing these returns. (See Tables 1 and 2 for selected data; see the matching national data in the Technical Appendix.)

YEAR	MEDIAN RETURN, MICHIGAN IRS FORM 990 DATA	GLOBAL EQUITY, 35% FIXED INCOME MODEL PORTFOLIO	GLOBAL EQUITY, 25% FIXED INCOME MODEL PORTFOLIO
2014	3.1%	6.1%	5.9%
2015	-2.4%	-1.2%	-1.6%
2016	5.5%	5.5%	6.1%
2017	10.0%	13.5%	15.5%
2018	-7.0%	-6.8%	-7.8%
5-year annualized return	1.6%	3.2%	3.3%

Table 1: Median Real Returns, IRS Form 990 Data vs. Model Portfolios, by Year. The 5-year annualized return for Michigan community foundations is the geometric average of the median annual returns presented in the table, and does not represent the 5-year return of any specific foundation.

Important note: For simplicity, all returns referenced in this report refer to inflation-adjusted, real returns unless otherwise specified. In addition, all time periods longer than one year reflect annualized returns.

⁴For more information about historical performance of two model investment portfolios, please see the December 2020 private foundation report available online at <https://michiganfoundations.org/resources/payout-study>

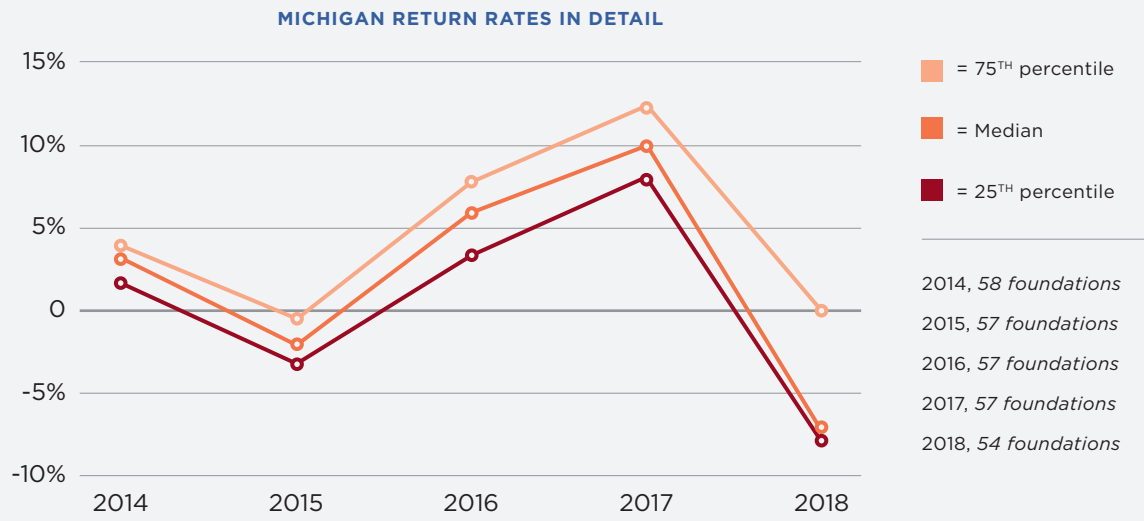


Table 2: Real Annual Investment Returns, All Michigan Community Foundations

There is no material difference between investment returns of Michigan’s community foundations and their national peers over this same time period: the 5-year annualized return for Michigan’s community foundations was 1.6% compared to 1.7% for national community foundations.

Part 2: Community Foundation Payouts

ACTUAL PAYOUT RATES OF COMMUNITY FOUNDATIONS

Unlike private foundations, community foundations do not have a mandated payout rate for purposes of compliance with federal law or tax regulations. However, community foundations are often compared to – or expected to – follow the mandated 5% payout rate required of private foundations, even if only as an accepted best practice.

The absence of a mandate means that community foundation payout rates should be – in theory – more flexible and varied than observed with private foundations. On one hand, community foundation payouts could be below 5% (no mandate). On the other hand, community foundation payout rates could be higher than 5% due to the presence of DAFs housed at community foundations. For example, the annual grantmaking of the community foundation’s board plus the recommended gifts from DAFs at the community foundation could be well above 5%. Or, community foundation payout rates could average out closer to the 5% private foundation mandate, simply because community foundations can have hundreds of funds with different payout rates and time horizons – all the variations are likely to center around a commonly understood 5% “best practice” average.

So what did the research team observe in the data?

Important note: For simplicity, this report will use the term “payouts” to refer to the community foundation’s annual grantmaking, and the word “corpus” to refer to the community foundation’s average value of investments (traded, other, and program) as listed on the IRS Form 990. For a more detailed explanation of what is included in each calculation, please see the Technical Appendix.

Median Payout Rates

Half of Michigan’s community foundations paid out 5.6% or more of the corpus during 2018 alone, as well as 5.4% or more each year during the 2013-2018 study period (averaging 5.6% per year). These statistics are lower than when we look at community foundations across the nation, where the median payout rate ranged from 7.4% to 7.9% during the same period. In essence, Michigan’s median payout rate is close to the national 25th percentile payout rate, and Michigan’s 75th percentile payout is close to the national median payout rate. (See Table 3 for Michigan data, and Table 4 for the national data.) This difference between Michigan and national community foundations is unlike what the research team observed when we studied Michigan and national private foundations. In that study, Michigan’s private foundation payout rates fell within tenths of a percentage of their national peers. Since we had access to the full IRS Form 990 returns, we were able to review other variables to discover the likely reason.

Nationally, the median ratio between funds held in DAFs at a community foundation and the total community foundation corpus is 25%. Said another way, one in four grant dollars at national community foundations are directed by donors — not the community foundation’s board or grants committee. In Michigan, however, only one in ten dollars is directed by donors (11%). That factor — where national community foundations hold more than twice the assets in DAFs as a share of the endowment compared to Michigan community foundations — appears in every year of the data from 2013 to 2018, as well

as across every range of assets (except for the smallest range of assets), age band of foundations, and employee size of foundation. The difference also appears regardless of which payout calculation the research team applied — so it is not a factor of calculation method.

The difference in median payout rate between Michigan and national community foundations is driven by assets held in DAFs. Indeed, when we match community foundations by percent of DAFs in the corpus, Michigan’s payout rate moves toward the national median.

ANNUAL PAYOUT RATES, MICHIGAN COMMUNITY FOUNDATIONS

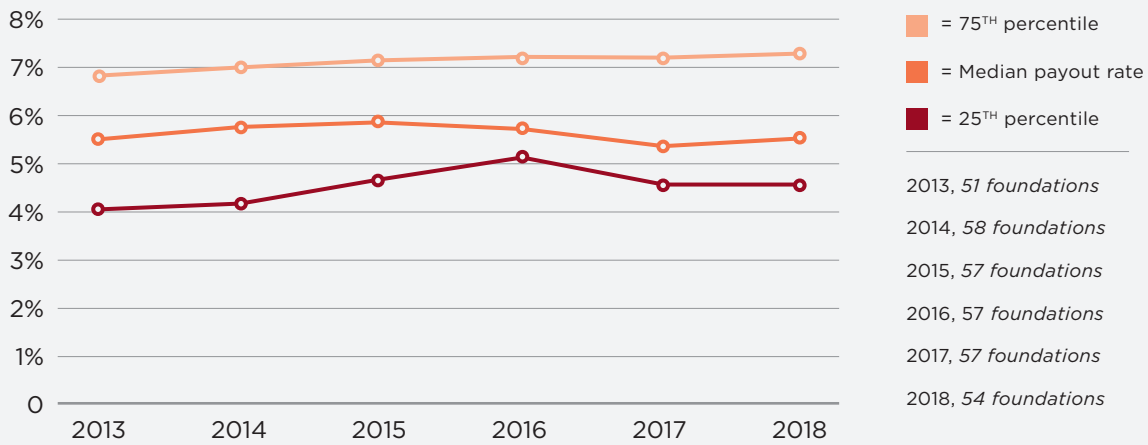


Table 3: Annual Median Payout Rate, Michigan Community Foundations

ANNUAL PAYOUT RATES, NATIONAL COMMUNITY FOUNDATIONS

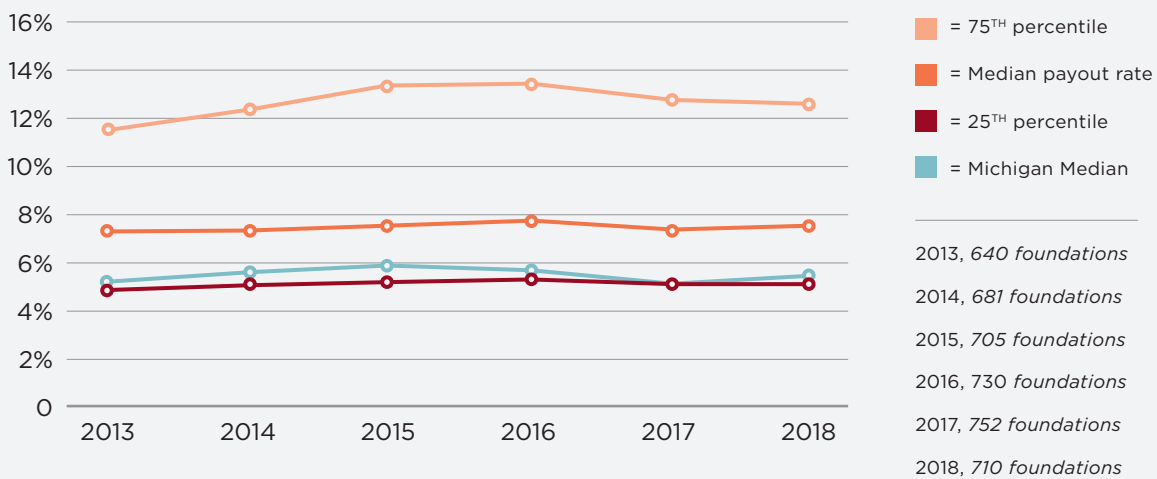


Table 4: Annual Median Payout Rate, National Community Foundations (Michigan median included for comparison)

Distribution of Payout Rates

There was also a difference in the distribution of payout rates between Michigan and national community foundations. Michigan’s distribution has two clear spikes nestled on either side of the 5% common benchmark (4%-4.7%, and 6%-8%), whereas the national data is much more heavily distributed in ranges well above the 5% benchmark from 6%-8%, 9%-12%, and 13%-20%. Nearly twice as many national community foundations paid 9% or more of their corpus compared to Michigan community foundations. (See Table 5 for Michigan data and Table 6 for the national data.) Again, the difference in DAFs as a percentage of the community foundation endowment is the driving force for the difference.

ANNUAL PAYOUT RATE, MICHIGAN COMMUNITY FOUNDATIONS, 2018

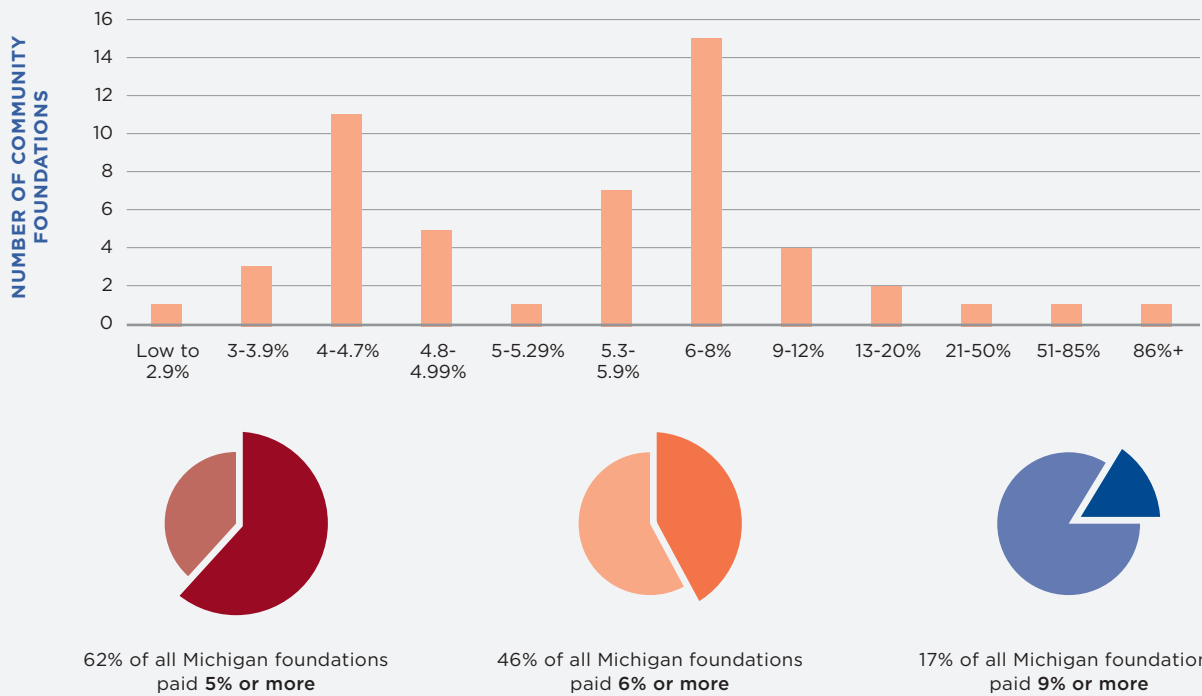
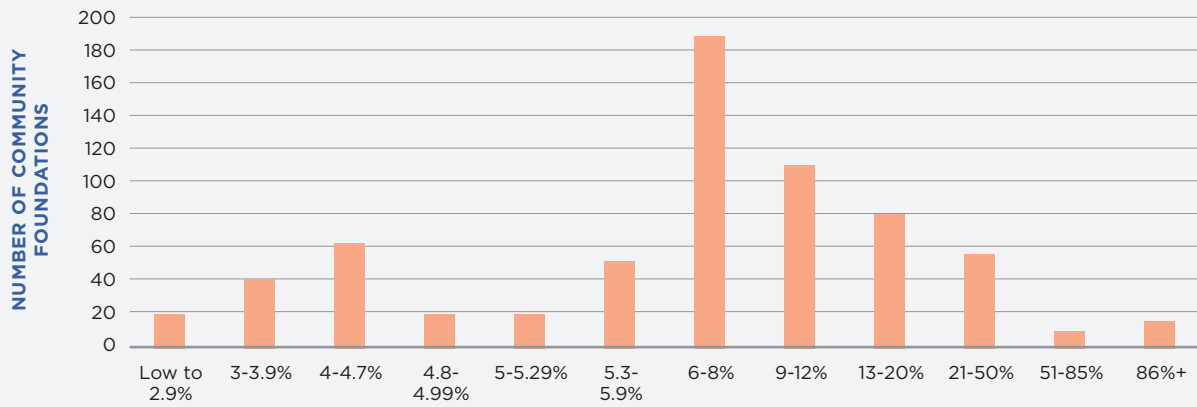


Table 5: Number of Michigan Community Foundations by Annual Payout Rate, 2018

ANNUAL PAYOUT RATE, NATIONAL COMMUNITY FOUNDATIONS, 2018



79% of all national foundations paid 5% or more



69% of all national foundations paid 6% or more



41% of all national foundations paid 9% or more

Table 6: Number of National Community Foundations by Annual Payout Rate, 2018

Part 3: Comparing Community and Private Foundations

Investment Returns

There was a small but material difference in the investment performance of Michigan's community and private foundations. On the whole, community foundations appeared to have slightly more aggressive investment portfolios than their private foundation counterparts. When compared to private foundations, community foundation investment returns were higher in strong market years and lower in down market years. Community foundations regularly solicit charitable contributions from the community they serve, whereas private foundations typically are created with a single, large funding event and accept charitable contributions only from the private foundation's sponsors. This recurring cash inflow may allow community foundations to take more risks with their investment portfolio than a private foundation that operates solely (or at least heavily) on its investment earnings.

Similarly, community foundations in the United States showed higher investment returns than private foundations in the United States. (See Table 7 for the Michigan comparison, and see the Technical Appendix for the national data.)

YEAR	MEDIAN RETURN, MICHIGAN COMMUNITY FOUNDATIONS	MEDIAN RETURN, MICHIGAN PRIVATE FOUNDATIONS
2014	3.1%	1.8%
2015	-2.4%	-1.3%
2016	5.5%	3.3%
2017	10.0%	7.1%
2018	-7.0%	-5.5%
5-year annualized return	1.6%	1.0%

Table 7: Median Real Returns, IRS Form 990 vs. Form 990-PF Data by Year. The 5-year annualized return for Michigan foundations is the geometric average of the median annual returns presented in the table, and does not represent the 5-year return of any specific foundation.

Payout Rate

There was little meaningful difference in comparing payout rates of Michigan’s community and private foundations — but at a national level, there was a material difference in payout rates between community and private foundations. As noted earlier, this is likely because of the presence of DAFs within national community foundations. Grants recommended by DAF donors are added to the community foundation’s own direct grantmaking — and nationally, the median community foundation had one in four dollars housed within a DAF.

Comparing foundations across the nation, the median community foundation payout rate was nearly 2 percentage points higher than the median private foundation payout rate. Again, this payout rate differential is confirmed regardless of which of the three definitions of community foundations are used for the statistics. (See Table 8 for payout rate comparisons between private and community foundations in Michigan and nationally.)

YEAR	MEDIAN PAYOUT RATE, MICHIGAN COMMUNITY FOUNDATIONS	MEDIAN PAYOUT RATE, MICHIGAN PRIVATE FOUNDATIONS	MEDIAN PAYOUT RATE, NATIONAL COMMUNITY FOUNDATIONS	MEDIAN PAYOUT RATE, NATIONAL PRIVATE FOUNDATIONS
2013	5.4%	5.8%	7.4%	5.8%
2014	5.8%	5.9%	7.4%	5.7%
2015	5.9%	6.0%	7.8%	5.9%
2016	5.7%	6.2%	7.9%	5.9%
2017	5.4%	5.9%	7.6%	5.6%
2018	5.6%	5.9%	7.7%	5.5%

Table 8: Annual Median Payout Rate, Michigan Community and Private Foundations

Conclusions

INVESTMENT RETURNS

- ▶ The four prior studies from Cambridge Associates, the updated Johnson Center/PMFA private foundation study in 2020, and this community foundation study all conclude that anticipating real annual investment returns in excess of 5% is not sustainable.
- ▶ Those top line conclusions hold whether looking at actual investment returns of private foundations or community foundations, either in Michigan or across the United States.
- ▶ Broadly speaking, community foundation investment returns were higher than private foundation returns for the same period, both in Michigan as well as nationally. It is possible that the recurring charitable contributions received by community foundations may allow them to be more aggressive in their investment allocations when compared to their private foundation peers, as community foundations do not rely solely on investment earnings for operations.

PAYOUTS

- ▶ As the 2020 private foundation study showed, this study also shows that more than half of community foundations — both in Michigan (62%) and nationally (79%) — paid out more than 5% of their corpus each year.
- ▶ Half of all community foundations — both in Michigan and nationally — paid out more than 6% in 2018 alone.

COMPARING PRIVATE AND COMMUNITY FOUNDATIONS

- ▶ There is evidence that median national community foundation investment returns exceeded returns of national private foundations — but the outperformance was small, and not enough to exceed either model portfolio benchmark.
- ▶ National community foundations clearly paid out more of their corpus each year than national private foundations. Community foundation payouts averaged 7.6% per year from 2013-2018, while private foundation payouts averaged 5.6% per year.
- ▶ While median national community foundation payouts were higher, very similar shares of both national private foundations (35%) and national community foundations (41%) paid out 9% or more of their corpus in 2018, suggesting very similar behavior among the largest foundations, regardless of foundation type.

About the Project Partners



The Council of Michigan Foundations (CMF) leads, strengthens and supports Michigan's community of philanthropy by emboldening and equipping CMF members in the relentless pursuit of equitable systems, fortifying the field through public policy action, fostering the growth of current and future philanthropy leaders and advancing exemplary philanthropic practices and field expertise.

www.michiganfoundations.org



JOHNSON CENTER
GRAND VALLEY STATE UNIVERSITY

Established in 1992 with support from the W.K. Kellogg Foundation and Grand Valley State University (GVSU), the Dorothy A. Johnson Center for Philanthropy is an academic center within GVSU's College of Community and Public Service. We envision a world shaped by smart, adaptive, and effective philanthropy that helps to create strong, inclusive communities. Our mission is to be a global leader in helping to understand, strengthen, and advance philanthropy.

johnsoncenter.org

plante moran
FINANCIAL ADVISORS

Plante Moran Financial Advisors, LLC (PMFA) is an independent registered investment advisor providing investment advisory and wealth management services to individuals and families, as well as institutional investors. PMFA's institutional team is dedicated to helping not-for-profit organizations achieve investment program success, fulfill their fiduciary responsibilities, and advance their missions. Plante Moran Financial Advisors is a wholly owned affiliate of Plante & Moran, PLLC (Plante Moran).

www.plantemoran.com

FOR MORE INFORMATION

Visit the Technical Appendix located on the CMF website at <https://www.michiganfoundations.org/resources/payout-study>, or contact:

Brittany Kienker, Ph.D.

Council of Michigan Foundations
bkienker@michiganfoundations.org

Jeff Williams, M.A., M.B.A.

Dorothy A. Johnson Center for Philanthropy
jeff.williams@gvsu.edu

