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Bracing for Lean Times Ahead

By [STEPHANIE STROM](#)

SO what's the fallout for philanthropy?

Given the financial tremors that have obliterated wealth and driven the economy deep into the doldrums, will charitable giving, which reached record levels in the United States over the past decade, show sharp declines? Will foundations, faced with shrunken endowments, scale back their grant-making? Will individual charities, squeezed by reductions in both private and public money, be forced to cut programs?

In short: was philanthropy, like the housing and financial markets, riding a bubble that has finally burst? So far, few fund-raising experts or nonprofit leaders are predicting an implosion in giving, a long fall from the more than \$300 billion that was donated last year in the United States. But nonetheless they acknowledge that their world has changed and are preparing for leaner times. It's more a matter of when, not if.

"I just don't see how we can have these conversations out of one side of our mouths about people's cratering 401(k) plans and sinking home values and then say there isn't going to be some sort of big negative kick to the giving stream, as well," said Lucy Bernholz, president of Blueprint Research and Design, a nonprofit consulting company in San Francisco.

Some experts, like Robert F. Sharpe Jr., president of the Sharpe Group, a fund-raising firm in Memphis, point to historical data showing that swings in giving are not nearly as severe as broader economic ups and downs, and that during some of the worst times philanthropy remained strong. "Just about any way you look at it, the Depression was one of the best periods for charitable fund-raising," Mr. Sharpe said.

Patrick M. Rooney, interim executive director of the Center on Philanthropy at [Indiana University](#), said the most reliable indicator of individual giving was Standard & Poor's 500 stock index, with a 100-point jump translating into an additional \$1.5 billion of philanthropy from people who report donations on tax forms. "It works just the same way on the downside," he said.

Using that rule of thumb and the price of the index on Nov. 6, such individual giving would drop this year by about \$8.7 billion from an estimated \$187 billion, according to Mr. Rooney. That's far less than financial markets have fallen.

Mr. Rooney warned, however, that the timing of the market collapse could exacerbate the impact on giving. "If there's a precipitous drop in January or February, no one pays much attention, but many households started thinking about their year-end charitable giving just as they got their third-quarter statements — and they could bet their fourth-quarter statements were going to be worse," he said.

The effects of the downturn are already being seen among big and small donors, some experts say. Recent

surveys in Indianapolis and Memphis by the Center on Philanthropy show that households with an annual income of less than \$50,000 are likely to stop giving as a result of the downturn.

But Ms. Bernholz said it was difficult to gauge how individual donors, who collectively account for 88 percent of philanthropy in the United States, would behave in the current financial climate. “[Bill Gates](#) or the Google guys, single-handedly they could throw out an enormous gift or so and keep things afloat,” Ms. Bernholz said. “That’s a bit of an exaggeration, but we have so many new, big donors these days, and we don’t know how that will affect things.”

Many big donors have seen their wealth decline sharply. [Maurice R. Greenberg](#), for example, the former chief executive of A.I.G. who has given \$700 million to various institutions, has lost about \$2.8 billion and seen the value of the assets in two foundations he controls decline by billions.

“Obviously, that’s going to curtail significantly the giving that we have been doing in the past,” Mr. Greenberg said. “You can’t give what you have lost.”

He said he and his family planned to live up to commitments they had made, although they might extend the time they had to complete gifts and he still planned to make charitable gifts. “We will either shorten the list or just cut back on the amounts given to each of the beneficiaries,” he said. Many smaller donors work through donor-advised funds, which are giving accounts established through brokerages like Vanguard and Fidelity. Once money is committed to those accounts, it must be used for philanthropy. So at [Charles Schwab](#), for instance, the more than \$1 billion that flowed into its charitable fund last year will at some point flow to charity, regardless of what happens in the markets and economy.

Kimberly Wright-Violich, president of the Schwab Charitable Fund, said that contributions by individuals to their donor-advised funds “hit a brick wall in September.” She said such contributions fell by 43 percent from July through October. But she said she expected some stabilization to occur by the end of the year.

Dennis Marlo, a former banker who lives near Philadelphia, established a donor-advised fund when he retired and has used it to give roughly \$50,000 annually to colleges, hospitals, the [United Way](#) and other organizations.

Mr. Marlo plans to maintain that giving level, but as a member of several nonprofit boards he has seen other donors struggle. “I have heard from other donors that they are still willing to give, but that the market conditions are significantly limiting their ability to give the amount they expected to give just a few months ago,” he said.

While individual giving is hard to forecast, giving by institutional foundations should remain level or rise over the next year. That’s because foundations typically achieve the legally mandated 5 percent annual payout rate using a three- or five-year rolling average. Thus, next year’s budget in many cases will reflect at least two years, 2006 and 2007, of solid growth in assets.

That said, many foundations have experienced declines in their assets that at the very least will affect their giving in 2010 and have already resulted in decisions to postpone new programs.

“Our normal grant budget will continue unless some other shoe drops,” said [Vartan Gregorian](#), president and chief executive of the Carnegie Corporation, which has seen its assets drop about 15 percent in its last fiscal year. “We will meet our existing and planned commitments, but anything else will depend on what happens in the markets.”

Mr. Gregorian said he had asked program directors to create budgets that anticipated cutbacks of 10 and 20 percent, in case the foundation’s assets continued to erode. The Skillman Foundation, which works to improve the lives of children living in southwest Detroit, could see its assets drop to about \$450 million or \$460 million by the end of this year, from \$580 million at the beginning, said Carol Goss, the foundation’s president and chief executive.

Using those estimates, Skillman’s budget for grants in 2009 would be roughly \$19 million, compared with \$27.5 million this year. That would leave the foundation with about \$9 million for new grants after meeting existing commitments. “We will cut back our costs administratively, and we won’t make as many new grants as anticipated,” Ms. Goss said.

Detroit and other major American cities have come to rely as well on corporate philanthropy, which has been highly dependent on corporate performance in the past. The financial services industry is the second-largest source of corporate donations after pharmaceutical companies, which largely make their contributions in kind.

Charles Moore, the executive director of the Committee Encouraging Corporate Philanthropy, said he expected financial services companies to continue their philanthropy, though perhaps at reduced levels in the near term. “An interesting example is Lehman Brothers — the bank has certainly lost its former standing,” he said. “However, the funds in the company foundation remain and, therefore, the Lehman Brothers Foundation will continue to fulfill its community commitments at this time.”

Frederick W. Smith, the founder and chief executive of Federal Express, said the company would work to maintain its giving programs even though business was off somewhat this fall. “I don’t think philanthropy in the corporate world will go away,” he said. “We and a lot of other companies are convinced that the public expects big corporations to be good citizens, and so it has become part of smart business.”

Charities that receive individual and corporate gifts say that hard times are already beginning.

Roxanne Spillett, chief executive of Boys and Girls Clubs of America, said that each of the local clubs she had talked to — there are 4,300 around the country — was reporting higher demand for services. Additionally, clubs are grappling with rising insurance premiums and higher energy costs, she said. “If you asked me a month ago, I might have said Newark is crashing, but clubs in another city, say, Chicago, are doing pretty well,” she said. “Now, uniformly, club leaderships say they are bracing for a very tough end to ’08 and a tough ’09 and even beyond.”

Ms. Spillett said the national organization was increasing the number of “asks” it makes to donors, increasing its stewardship calls to top givers and increasing face-to-face meetings with contributors. It is putting together a white paper to advise clubs on potential cuts and stepped up fund-raising.

The national organization relies on corporate donations, and Ms. Spillett said she had seen some reluctance among those donors to make multiyear commitments, and some may be reducing their gifts.

Jennifer L. Howse, president and chief executive of the March of Dimes, said the group's investments began declining late last year, which caused it to realign its portfolio. "We beefed up our defensive positions and diversified more, and so far our investments are running at about half the losses you're seeing in the S. & P.," Dr. Howse said.

The organization has instituted a hiring freeze, reduced grants for new research and trimmed 5 percent of costs out of its operations across the board.

It makes almost half of its revenue through the March for Babies walk-a-thon, and funds generated by that event were flat compared to last year. The rest come from small contributions — Dr. Howse said a \$10,000 gift is large for the March of Dimes.

"The impact is probably going to be more serious next year than it is this year," she said. "But I'm going to ask our volunteers to aim for a 3 percent increase in funds raised because we have confidence that the American people will continue to support our life-saving mission."

James Freed contributed reporting.

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