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Distribution Requirements for Foundations

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INTRODUCTION

The Tax Reform Act of 1969 requires private foundations to make minimum annual charitable distributions equal to the greater of their actual income or a stated percentage ("applicable percentage") of their investment assets.[1/] The applicable percentage for each taxable year is found by multiplying 6 percent by the ratio between money rates and investment yields for the previous taxable year and money rates and investment yields in 1969. The "applicable percentage" is determined annually by the Secretary of the Treasury.

The purpose of this paper is to examine these minimum distribution requirements for foundations. The first section presents a brief historical review of the current law and proposals to change it. The second section deals with technical problems in the distribution requirements which lead to inequities across foundations and inefficiencies in the distribution of their funds. Proposals to eliminate these problems are presented in section III. The fourth section discusses the role of public policy in requiring minimum distributions and analyzes the effect of such requirements on the growth (and perpetuity) of the foundation sector. Section V examines the impact of these requirements upon the broader charitable sector. Finally, a brief conclusion is contained in section VI.

I. HISTORICAL REVIEW

A. Determination of the Distribution Rate. A 1965 Treasury Report[2/] noted that Federal tax laws encourage and, in substantial measure, finance private charity. Yet, the report found that a number of foundations were deferring current grants for charitable purposes and instead accumulating income. This was seen as objectionable, both because worthy causes were not receiving needed funds, and because certain foundations were indefinitely perpetuating their existence. Recognizing that income could be accumulated directly through dividend or interest retentions or indirectly through appreciation in the value of assets, the report recommended that each private nonoperating foundation be required to make minimum distributions. These minimum distributions were to equal the greater of actual income or an applicable percentage multiplied by the net assets of the foundation. The Treasury Secretary was to be given authority to adjust the applicable percentage depending upon market conditions.

The April 22, 1969 Tax Reform Proposals of the Administration suggested a 5 percent minimum distribution requirement but made no mention of annual or periodic adjustment. While the House of Representatives accepted this 5 percent rate, the Senate did not, and a fair amount of debate ensued. Senator Percy successfully advanced an amendment on the floor to raise the minimum distribution requirement to 6 percent, adjusted on an annual basis. Since a previous unsuccessful effort had been made to impose a "limited life" on foundations, support for the

6 percent rate came not only from those who felt that such a rate reflected the real rate of return on assets held by a typical foundation, but also from those who did not wish foundations to enjoy an indefinite life. The Treasury Department supported the 6 percent rate before the Conference Committee, and the Percy amendment was maintained in the final act.

The 1969 Act provided for annual adjustments in the distribution rate by requiring that:

> "the applicable percentage for any taxable year beginning after 1970 shall be determined and published by the Secretary of Treasury or his delegate and shall bear a relationship to 6 percent which the Secretary or his delegate determines to be comparable to the relationship which the money rates and investment yields for the calendar year immediately preceding the beginning of the taxable year bear to money rates and investment yields for the calendar year 1969."3/

Table 1 presents the distribution requirements that were applied to foundations for the years 1970 through 1976. Transitional rules applied to foundations established before enactment of the 1969 law. Therefore, no "applicable percentage" was applied to these foundations before 1972, and they were not required to distribute 6.0 percent of net worth until 1975.

B. Attempts to Change the 1969 Act. The 1969 distribution requirements, together with the steep stock market declines of 1973 and 1974, caused many foundation trustees to become alarmed over the decline in their foundation's net worth.

In response, several attempts have been made to reduce the distribution requirements. In 1971 a bill was introduced in the House

Table 1

Distribution Rates for Foundations[1/]
(in percent)

Year	Foundations Organized	
	Before May 26, 1969	After May 27, 1969
1970	6.0	2/
1971	6.0	2/
1972	5.5	4.125
1973	5.25	4.375
1974	6.0	5.5
1975	6.0	6.0
1976	6.75	6.75

1/ Foundations must distribute this percentage of net worth, or actual income, whichever is higher.

2/ Not applicable

to allow foundations to compute their minimum distribution using the acquisition date value of their assets rather than current fair market value. This type of proposal would nullify the intent of the 1969 law, which takes into account all returns of the foundation's portfolio, whether realized or not.

Other attempts to modify the 1969 law involved simple proposals to lower the basic 6 percent rate to 5 percent, 4 percent, or less. Arguments against forced "invasion of corpus" were heard, along with the contention that the basic 6 percent rate was unrealistic when compared to current market conditions and rates of return.[4/] In 1975, the Commission on Private Philanthropy and Public Needs (Filer Commission) claimed that the current distribution rate was higher, by a significant degree, than yield that could be anticipated from a balanced investment portfolio.[5/] The Commission recommended that a flat distribution rate of 5 percent be fixed by Congress. At the same time, the Treasury endorsed a similar recommendation. However, dissenters on the Commission noted that "the slow dispersal of a foundation is not necessarily a bad thing if new ones are being continually created."

C. Rates of Return vs. the Distribution Rate. Much of the public debate regarding distribution requirements centered on the empirical question of the actual rate of return received by foundations on their portfolios. This paper does not directly deal with that question, but assumes that the actual rate can be appropriately measured. It is important that the empirical question of rates of return be separated from the policy question of the appropriate rate of distribution for foundations. The answer to the empirical question provides information by

which the policy question can be addressed, but the empirical question does not determine the answer to the policy question. In the remainder of this paper, alternative policies toward foundations (for example, "limited life", "no growth", or "growth and perpetuation") will be expressed in terms of the relationship between the long-term distribution rate and the long-term rate of return received by the foundations. A more restrictive policy (limited life) is thus one in which the distribution rate exceeds the rate of return, while a more liberal policy (growth and perpetuation) is one in which the rate of return exceeds the distribution rate. The next two sections of this paper treat the difference between the two rates as given by a predetermined national policy toward foundations.

II. EQUITY AND EFFICIENCY OF CURRENT DISTRIBUTION REQUIREMENTS

No matter how large or how small the required rate of distribution over the long run, a policy of required distributions for foundations should meet certain tests of efficiency and equity. First, any law should meet a standard of horizontal equity; that is, particular foundations should not be forced to make greater distributions because of a conservative investment policy in any particular year. Second, the distribution rate itself should not vary rapidly with short-term fluctuations in interest rates nor with changes in nominal yields due to inflation. Rapid variations would make it harder for foundations to prepare their financial plans, and could lead to wasteful distributions. Finally, required distributions should not fluctuate greatly from year to year. Unfortunately, the distribution requirements of the 1969 law fail to meet all of these tests.

A. Horizontal Inequity in Distribution Requirements. A foundation's minimum required distribution is not merely a stated percentage of its investment assets, but rather the greater of either that number or its actual income. "Actual income" is based upon an accounting concept of realization which ignores unrealized capital gains and losses. Therefore, actual income can exceed economic income whenever the foundation's assets are declining in market value. Thus, an "actual income" rule can require foundations to distribute on average more than an "applicable percentage" of their net worth. On average, the foundations most affected by the "actual income" rule are probably those that invest

primarily in bonds and similar fixed-income securities rather than common stocks. Since bonds in general average lower rates of return over time than the combined dividend and appreciation yield of common shares, those foundations with a lower rate of return are in effect required to distribute a larger portion of their net worth over time. Conservative investment policies are thereby penalized. If the purpose of including actual income in the distribution rule is to raise the average distribution rate, this objective could be more equitably accomplished by increasing the "applicable percentage".

In this context, it should be noted that the 1969 formula for calculating the "applicable percentage" does not reflect changes in the rate of inflation. With an increase in the rate of inflation, nominal yields can easily rise at the same time that real yields remain constant. If the distribution rate is supposed to adjust to the real rate of return on assets, then inflation should be explicity taken into account in any formula for determining that distribution rate.

B. Instability of Distributions. Under the 1969 Act, required distributions depend both on the annually adjusted "applicable percentage" and on the market value of investment assets. Both elements are subject to fluctuation which in turn can cause an unstable pattern of distributions by foundations.

Since "money rates and investment yields" were not specifically defined in the law, the Treasury Department decided to measure these rates by the yield on 5-year Treasury securities, even though most foundations invest in other kinds of assets. Why then did the Treasury

Department use 5-year Treasury securities? The Treasury Department was constrained by the requirement that the distribution rate be adjusted to reflect market returns for the calendar year immediately preceding each taxable year. Prices of assets such as stocks vary a great deal from one year to the next. If Treasury were to calculate yearly investment yields by including price changes as well as dividend yields, then distribution rates of -33 percent, -20 percent, or +50 percent would be common. Therefore, the unsatisfactory, yet simple resolution was to use an asset which has less price fluctuation and an interest rate that is comparatively stable.

Because the "applicable percentage" is applied to the aggregate fair market value[6/] of all assets (less acquisition indebtedness) of the foundation, the percentage change in the size of the required distribution will be equal to the percentage change in the aggregate fair market value of assets, even when the distribution rate remains constant.[7/]

A sizable fluctuation in required distributions can create two problems. First, it may lead to suboptimal planning on the part of the foundations. Many projects need substantial lead time to develop. Sudden increases in the value of a foundation's portfolio may require distributions for which the planning is inadequate.[8/]

Secondly, because foundations are heavily invested in the stock and bond markets, and because a change in stock or bond prices generally acts as a leading indicator of a similar directional change in national production,[9/] the distribution requirements are pro-cyclical in nature.

That is, a decline (increase) in stock prices will lower (raise) the amount of distributions that foundations must make, and this reduction (increase) in distributions will likely accompany a downswing (upturn) in the economy. However, the need for foundation support may be greatest (least) when the economy is in a recession (boom). Required distributions are thus pro-cyclical in terms of national income and perhaps counter-cyclical in terms of needs.

III. RECOMMENDATIONS FOR REVISED DISTRIBUTION REQUIREMENTS

In the previous section it was concluded that distribution requirements could meet certain tests of equity and efficiency only if: (1) foundations were not forced to distribute a greater portion of their assets because of conservative investment practices, (2) required distribution rates are adjusted only to reflect changes in the long-term expected real rate of return on assets, and (3) required distributions do not fluctuate too much from year to year.10/

A. Elimination of the Actual Income Alternative. How might the current law for minimum distributions by foundations be revised so as to meet these standards of equity and efficiency? First, the "actual income" part of the minimum distribution rule should be eliminated. It makes no sense to base the "applicable rate" upon a concept of economic income which recognizes unrealized capital gains and losses, and then to have an alternative distribution rule based only on realized income. Besides, the actual income rule in general may require greater distributions from those foundations which have a lower real rate of return. All distribution requirements should be consistently based upon a concept of total income and not nominal realized income.

B. Replacement of "Money Rates and Investment Yields". The second revision is to eliminate the requirement that the distribution rate reflect "money rates and investment yields" for the preceding calendar year. The mandatory distribution should be related to the long-term real rate of return on foundation investments; that rate can be approximated by the geometric mean of the total real rate of return for an "average" foundation portfolio held over an extended time span. There

exists a fair amount of information by which such a calculation can be made. For instance, both the dividend and price change components of all stocks listed on the New York Stock Exchange for a period of about five decades is currently available. The distribution rate could be recalculated every few years. The beginning year for calculating the geometric mean rate of return could either be fixed or adjustable, for example, the rate could be calculated by the geometric mean of annual returns from 1926 to present or from 40 years ago to present.

Presumably, the same rate of return should apply to all foundations regardless of the actual composition of their assets. For obvious reasons of equity and efficiency, the distribution requirement should not be relaxed for foundations with failing portfolios and tightened for foundations with successful portfolios.

Since a measure of a long-run rate of return based upon a historic series will vary much less than will annual "money rates and investment yields," adoption of this revision would eliminate much of the annual variation in the distribution rate itself. More importantly, this revision would assure that changes in the distribution rate only reflect changes in the long-run real rate of return rather than short-run nominal yields.

C. Replacement of the Base to which the Distribution Rate is Applied. Even with adoption of this second revision, there would remain sizable fluctuations in required distributions from year to year because of fluctuations in the base to which the distribution rate is applied. To increase stability of distributions, minimum distributions should not equal the

distribution rate times the monthly average of the value of foundation portfolio in the previous year (the current law). Rather, the base should be a weighted average of the value of the foundation's net worth over several years. Two minor problems arise when the base is calculated in this manner. First, inflation understates the value of the portfolio in a past year if that value is not converted (inflated) to present value. Secondly, net worth derived from new contributions might be treated separately from net worth due to past contributions. These problems are dealt with later. At this point, we shall assume that there is no inflation or deflation and that no new contributions are received by the foundation.

D. Minimum Distribution Formula. Minimum distribution requirements can be calculated using a simple formula which reflects these various considerations. Let:

D_t = minimum distribution in year t

A_t = net asset value at beginning of year t

α = required distribution rate

β = an arbitrary number, equal to or less than one, which indicates the proportion of the weighted asset base (against which α is applied) accounted for by the value of assets in the current year.

Suppose that in the first year the minimum distribution formula is:

$$D_t = \alpha A_t \tag{1}$$

To reduce fluctuations in required distributions, in the second year the base is a weighted composite of assets in the first and second years:

$$D_{t+1} = \alpha\beta A_{t+1} + \alpha(1-\beta)A_t \tag{2}$$

However, equation (2) may be rewritten as:

$$D_{t+1} = \alpha\beta A_{t+1} + (1-\beta)D_t \qquad (3)$$

Equation (3) may be generalized for any year as:

$$D_{t+n} = \alpha\beta A_{t+n} + (1-\beta)D_{t+n-1} \qquad \underline{11}/ \qquad (4)$$

Expressing $(1-\beta)D_{t+n-1}$ in terms of the required distribution rate and net asset value, it can be seen that:

$$D_{t+n} = \alpha\beta A_{t+n} + \alpha(1-\beta)\beta A_{t+n-1} + (1-\beta)^2 D_{t+n-2} \qquad (5)$$

In turn, if $(1-\beta)^2 D_{t+n-2}$ is expressed in terms of the required distribution rate and net asset value, it becomes apparent that required distributions in a given year can be viewed as equal to the distribution rate (α) times a weighted average (β, $(1-\beta)\beta$, $(1-\beta)^2\beta$,...) of the net asset values of the foundation in the current and previous years (A_{t+n}, A_{t+n-1}, A_{t+n-2},...). However, for administrative purposes, equation (3) is easier to work with. It simply says that the minimum distribution this year is a weighted average of the distribution rate times net assets at the beginning of the year and the minimum distribution required last year.

The size of β in equation (3) can be chosen to give greater or lesser weight to current asset values. A high β gives greater weight to recent asset values and accentuates the fluctuation in required distributions; a small β spreads the weight more evenly over past years and dampens the fluctuation in required distributions.

(1) Inflation Adjustment. To account for inflation, equation (3) can still be used, except that D_t should be converted to reflect the level of prices in time period t + 1. Thus if the rate of inflation in

period t is i_t, then:

$$D_{t+1} = \alpha\beta A_{t+1} + (1-\beta)(1+i_t)D_t \qquad (6)$$

Such an inflation adjustment effectively converts each A_{t+Z} term in equation (4) into the term $A_{t+Z}\left[\prod_{t+Z}^{t+n-1}(1+i_m)\right]$ by period n, so that the minimum distribution is still the distribution rate times a weighted average of the net assets of the foundation in previous years, only now net assets in past years are converted into current dollars. Presumably the values of i_t could be specified annually by the Treasury.

(2) Adjustment for New Contributions. New contributions to a foundation's endowment probably should be treated like any other growth in asset values. Depending on the size of β, new contributions would then be reflected more or less rapidly in higher distributions. This approach has the benefit of allowing the foundations time to plan for expenditures from new contributions.

Alternatively, a requirement could be imposed that current year distributions out of new contributions (C_{t+1}) equal αC_{t+1} rather than $\alpha\beta C_{t+1}$ as implied when new contributions are treated as part of A_{t+1} in equation (3). Such a requirement would cause distributions to increase immediately in response to new contributions.

E. Summary. The revised distribution rules proposed in this section would succeed where the current formula fails. The minimum distribution would adjust to the long-term rate of return on assets, and minimum distributions would become more stable over economic cycles. Efficiency in

distributions would be enhanced and equity across foundations would be promoted.

Briefly, the recommendations are:

(1) Eliminate the requirement that distributions must equal actual income whenever actual income is greater than the distribution rate multiplied by the net assets of the foundation;

(2) Adjust the distribution rate periodically to reflect the long-term real rate of return on a typical foundation portfolio rather than the nominal rate of return on Treasury notes;

(3) Determine each foundation's minimum required distribution by a weighted average of the previous year's distribution and the current net assets of the foundation multiplied by the distribution rate.

IV. A QUESTION OF PERPETUITY

Any distribution requirement, no matter how small, affects the ability of an organization to grow. The greater the amount of income that is disbursed, the lesser the accumulation of funds in a foundation's portfolio. Some commentators have extracted from this simple relationship an argument that the current distribution rate will "bring about a slow but certain death sentence"[12/] to foundations. However, the relationship between growth and a required distribution has not been systematically analyzed. The effect of the distribution rate on a foundation not receiving new contributions will be discussed first. Then the relationship between the distribution rate, the rate of return on assets, and the rate of contribution will be analyzed in order to examine the effect of this relationship on the growth and survival of the foundation sector.

A. Growth of Individual Foundations. What impact will the distribution rate have upon an established foundation receiving no new contributions and distributing the minimum amount required by law? The answer depends on the difference between the prescribed distribution rate and the rate of return on assets. The relationship between this difference and the net worth of the foundation is illustrated in Table 2. When the distribution rate is marginally greater than the real rate of return on assets, the net worth of a foundation receiving no new contributions will be gradually reduced. In Table 2, the half-life of a foundation indicates the amount of time it will take for the real net worth of the foundation

to halve given the difference between the distribution rate and the real rate of return on assets.

One of the principal arguments given for reducing the current distribution rate was that 5 percent represented the real rate of return achievable by a foundation portfolio, and that current distribution requirements were therefore about 1 percent higher than this rate of return. Table 2 reveals that, if these numbers are correct, the real net worth of an "average" foundation receiving no new contributions will halve in about 70 years.

Table 2

Half-life of Foundations Receiving No Contributions

Distribution Rate minus Rate of Return on Assets	Half-life (Years)
.00	Infinity
.01	69
.02	35
.03	23

Assuming these numbers are correct,[13/] can it be concluded that the distribution rate should be lowered to 5 percent? The answer depends upon the objective of public policy toward foundations. If the objective is to gradually liquidate existing foundations which receive no new contributions, then a distribution rate in excess of the net rate of return on assets is entirely appropriate. On the other hand, if

the objective is to preserve or enhance the real assets of existing foundations, then the distribution rate should not exceed the net rate of return.

B. Growth of the Foundation Sector. The growth of the foundation sector depends not only upon the relationship between the rate of return on assets and the required distribution rate, but also upon the rate at which the sector acquires new contributions.

To examine the relationship between the real rate of return on assets, the foundation distribution rate, the rate of growth of contributions, and the size of the foundation sector over time, make the simple assumption that all of the relevant rates are constant over time. That is, let:

r = real rate of return on foundation sector net worth;

α = foundation distribution rate;

w = rate of growth of national wealth

Also let

A_t = net worth of the foundation sector in time period t;

C_t = contributions made to the foundation sector in time period t;

θ_t = ratio between C_t and A_t;

W_t = national wealth in time period t;

The asset value of the foundation sector will decline if:

$$A_2 < A_1 \tag{7}$$

By definition:

$$A_2 = A_1(1+r-\alpha+\theta_1) \tag{8}$$

Hence, inequality (7) may be rewritten:

$$r + \theta_1 < \alpha \tag{9}$$

In other words, the net worth of the foundation sector will decline in any year in which the rate of return on assets plus the ratio of new contributions to assets is less than the distribution rate.

The absolute size of the foundation sector may not be so important as its size relative to national wealth. By definition:

$$\frac{A_{t+1}}{W_{t+1}} = \frac{A_t(1+r-\alpha+\theta_t)}{W_t(1+w)} \tag{10}$$

Thus, assets of the foundation sector are growing relative to national wealth whenever:

$$r + \theta_t > \alpha + w \tag{11}$$

Much debate has centered around the question of whether the distribution rate set by the Secretary of the Treasury has been greater than or approximately equal to the real rate of return on assets. More important for the foundation sector as a whole, however, is its size relative to the national economy. As inequality (11) indicates, if the rate of return plus the rate of contributions exceed the distribution rate plus the rate of growth in national wealth, then the net worth of the foundation sector will grow relative to national wealth. Otherwise, the sector will decline in relative terms. The case where the distribution rate just equals the rate of return is merely a particular case which falls between these two extremes, with no particular significance for the relative size of the foundation sector.[14/]

It should be pointed out that an absolute or relative decline in asset value for an individual foundation or even for the foundation sector does not necessarily mean a decline in asset value for the charitable sector. Many of the distributions of foundations are made as gifts of buildings, works of art, and other assets to public charities. Hence, it is primarily the control of assets (either by donors or through trustees) that is limited by the requirement of a minimum distribution by foundations. The share of national wealth controlled by the foundation sector may be limited, but the net worth of the charitable sector does not face a similar restriction.

V. CONCLUSION

This paper has examined the history, status and effects of distribution requirements imposed on foundations. We conclude that distribution requirements should meet certain tests of equity and efficiency. In particular, foundations should not be penalized for conservative investment policies and required distributions should not fluctuate substantially from year to year. To accomplish these goals: 1) foundations should not be required to distribute actual income when it is greater than the distribution rate times net worth; 2) a consistent relationship should be maintained between the distribution rate and the long-term real rate of return on an average foundation portfolio; 3) required annual distributions should be a weighted average of the previous year's distributions and the distribution rate times current net worth.

The effect of the distribution rate on growth and perpetuity differs for individual foundations receiving no new contributions, the foundation sector, and the charitable sector. The size of some individual foundations may decline if the distribution rate is greater than the rate of return on assets, but the size of the foundation sector depends largely upon the amount of new contributions received by all its members. The net worth of the charitable sector need not decline whenever there are distributions from foundations, since those distributions may be to other institutions within the charitable sector.

FOOTNOTES

1/ Internal Revenue Code Section 4942 imposes a penalty tax for failure to meet the distributional requirement.

2/ "U.S. Treasury Department Report on Private Foundations", Washington: U.S. Government Printing Office, 1965.

3/ Internal Revenue Service Code Section 4942 (e)(3)

4/ These views were offered at hearings on the "Impact of Current Economic Crisis on Foundations" before the Subcommittee on Foundations of the Committee on Finance of the United States Senate in November, 1974.

5/ Commission on Private Philanthropy and Public Needs, (Filer Commission), Giving in America, 1975, pp. 175-176.

6/ Aggregate fair market value is based on a monthly average of fair market values of securities when market quotations on those securities are readily available.

7/ If the distribution rate were based upon the annual "real" return to all assets, the fluctuation in required distributions would be greater, since the value of all assets and the distribution rate (calculated in part by change in value of assets) normally rise and fall together.

8/ Stability of distribution requirements is of course supported by many foundation trustees. For instance, Dr. Jonn Knowles, President, The Rockfeller Foundation, has commented that "the pay-out requirement should be sufficiently stable so that foundations can plan for the management of their portfolios and the development of programs without the disruption of short-run changes." Hearings before the Subcommittee on Foundations of the Committee on Finance, U.S. Senate, November 24, 1974 (Washington, D.C.: Government Printing Office, 1974) p. 60.

9/ For instance, a 500 common stock price index demonstrates a mediam "lead" time of 5 1/2 months over peaks and troughs in GNP. See Victor Zarnowitz and Charlotte Boschan, "Cyclical Indicators: An Evaluation and New Leading Indexes", Business Conditions Digest, (May, 1975) p. XV.

10/ Interestingly, revisions (2) and (3) above coincide with the spending requirements devised by Litvack, Malkiel, and Quandt for endowment income. Concerned with insuring the perpetuity of an endowment, these economists argue that the ideal spending rule adopted by an institution would "protect the real value of the corpus endowment fund" (the long-term rate of spending would not be greater than the real rate of return on assets) and would make spendable endowment income...relatively

stable from year to year." See James M. Litvack, Burton G. Malkiel and Richard E. Quandt, "A Plan for the Definition of Endowment Income," American Economic Review, LVIV (May, 1974): 433.

11/ Equation (4) can also be written as

$$D_{t+n} = D_{t+n-1} + \beta [\alpha A_{t+1} - D_t].$$

If β is less than one, the change in distribution requirements from year to year will be lessened (since under current law that change equals $(\alpha A_{t+1} - D_t)$, while under the proposed law the change would be reduced to a proportion (β) of the original amount). Hence fluctuations are automatically reduced.

12/ Mr. Robert Smith, Pew Memorial Trust, Statement before the Subcommittee on Foundations. November 25, 1974, p. 117

13/ Whether 5 percent is the mean rate of return on assets of foundations is another question. The argument to lower the estimate of the long run rate of return after a period in which equity prices have declined can only be valid if one is also willing to raise that estimate when those prices rise.

14/ Indeed, I have shown elsewhere that for a wide range of distribution rates both above and below the rate of return on assets, the relative size of the foundation sector over the long run will stabilize at some multiple of current contributions. See Eugene Steuerle, "Pay-Out Requirements for Foundations", forthcoming in a compendium of research sponsored by the Commission on Private Philanthropy and Public Needs.

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