

# Administrative Fees at Pennsylvania Community Foundations



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## SUMMARY

In 2023 the Community Foundation Research and Training Institute (CFRTI) undertook a study of administrative fees charged by Pennsylvania community foundations. Community foundations across the state were asked to self-report the fees they charged on the funds they administer. Of the 39 community foundations in Pennsylvania, 31 (80%) responded to this survey.

Our research found:

- 30 of the 31 respondents charge administrative fees on the funds they manage.
- The average fee charged is lowest for agency endowments (1.14% on average) and highest for scholarship funds (1.60%).
- Fees charged by Pennsylvania community foundations are generally higher than the national average for all community foundations.
- About 70% of Pennsylvania community foundations reduce the administrative fee rate as the size of the fund increases.
- Around 25% of Pennsylvania community foundations charge a uniform fee regardless of the type of fund. The most common uniform fee charged was 1%.

We appreciate the ability to work with Pennsylvania community foundations on this project. Any errors are, of course, the responsibility of the Community Foundation Research and Training Institute.

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## OVERVIEW OF FEES

Community foundations are nonprofit organizations which build charitable endowments for the benefit of their service areas. Like any organization, they need to generate sufficient revenue to finance their annual operating budgets.

Community foundations typically earn revenue for their operating budgets from administrative fees, payouts from an administrative endowment, interest earnings, fundraisers and donor gifts, grants from private foundations, and grants from their discretionary endowments. Of these revenue sources, the most important by far is the administrative fees charged on the charitable funds that they manage.

Administrative fees are vitally important for the sustainability of community foundations. Not only do these fees cover the costs of financial management, fund development, and oversight of the awarding of grants and scholarships, but many community foundations also devote a considerable amount of time to community leadership activities such as educational programs for nonprofits, promoting important community projects and leading discussions of critical issues.<sup>1</sup>

Boards of directors take a number of factors into account when setting fees, including the costs of operating a fund, fees charged by competitor organizations, and the amount of revenue needed for a balanced budget.<sup>2</sup>

Community foundations generally charge between .5% and 2.0% of the balance of the endowment funds they administer. (In most cases two other fees – investment management and custodial fees -- are also charged to the charitable fund.) Fees are typically highest for those funds which are most costly to administer (such as scholarships) and lowest for funds less costly to administer (such as a designated fund). In addition, most community foundations reduce the marginal administrative fee as the size of the fund grows larger.

Donors who wish to create a donor advised fund have several options for organizations to manage that fund rather than a community foundation. In the last

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<sup>1</sup> Based in part on the important role of community foundations in local leadership and philanthropic efforts, some community foundations have begun to refer to these fees as “community impact fees” or “support fees” rather than “administrative fees”.

<sup>2</sup> For a good summary of the factors that community foundations take into account when setting their fees, see *Administrative Fees: What You Need to Know*, Council on Foundations, March 2008

several decades, alternatives to community foundations – such as commercial donor advised funds and national donor-serving foundations – have become a more important part of the philanthropic landscape. Data on the administrative fees charged by those organizations are also included in this report.

Community foundations are critically important organizations for the areas that they serve. Their long-term viability is dependent on the ability to develop sustainable operating budgets. It is our hope that this study will provide important information to community foundations as they strive to fulfill their commitment to their communities while still operating using sound business practices.

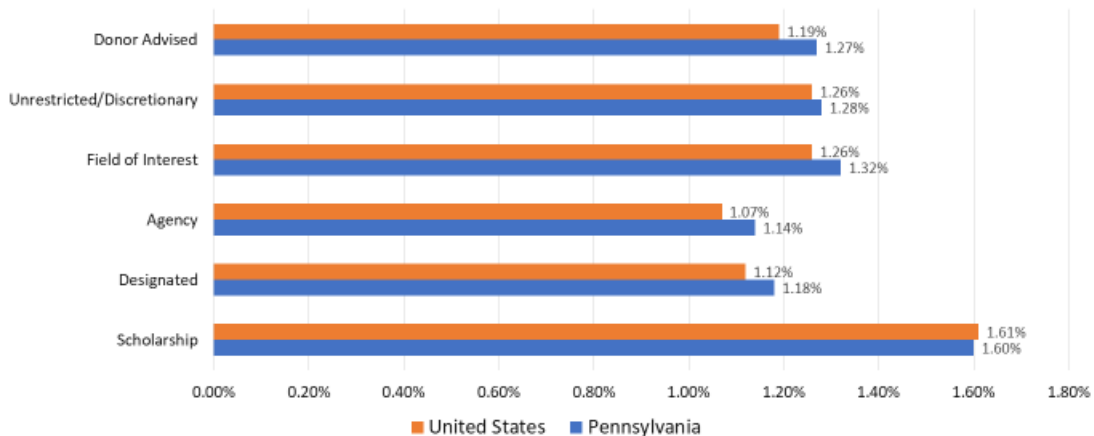
## FEES CHARGED BY FUND TYPE

As shown in the chart below, the average administrative fee charged by Pennsylvania community foundations varies based on the type of fund. The lowest fees are charged on agency endowments; scholarship funds were charged the highest fees.

With the exception of scholarship funds, the average fees charged by Pennsylvania community foundations is generally higher than the national average<sup>3</sup>.

### Average Fees on Different Funds

*Pennsylvania Community Foundations vs. US Average*



There are several items to note about this chart:

- The average values shown are the simple arithmetic average of all responding community foundations. The values are not weighted by the size of the community foundation.
- Many community foundations reduce their fees as the size of a fund grows larger. This chart takes only the highest administrative fee for the smallest funds. This fee reduction for larger funds--or “scaling”--is discussed later in this report.

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<sup>3</sup> All national data for community foundations comes from information gathered by the Community Foundation Research and Training Institute.

- Approximately 25% of Pennsylvania community foundations (8 out of 31) charge different levels of administrative fees for scholarship funds based on the level of services provided. The fees noted for scholarships are adjusted to try to reflect those differences.
- For some Pennsylvania community foundations (approximately 3% of respondents) the administrative fees charged includes the investment management fee. This data has not been adjusted to reflect that policy.
- One community foundation does not charge administrative fees, and their data has been excluded from this report.<sup>4</sup>

Each of these fund types will be examined in further detail in the remainder of this report.

In presenting the data, we split Pennsylvania community foundations into three groups: Larger community foundations with assets above \$100 million (8 respondents), community foundations with assets between \$50 million and \$100 million (8 respondents) and community foundations with assets below \$50 million (14 respondents).

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<sup>4</sup> The community foundation that does not charge administrative fees indicated that they generate sufficient operating revenue from fundraising events.

# FEES FOR ENDOWMENT FUNDS

## DONOR ADVISED FUNDS

A donor advised fund is a fund in which the donor or someone named by the donor can periodically recommend recipients of charitable grants.

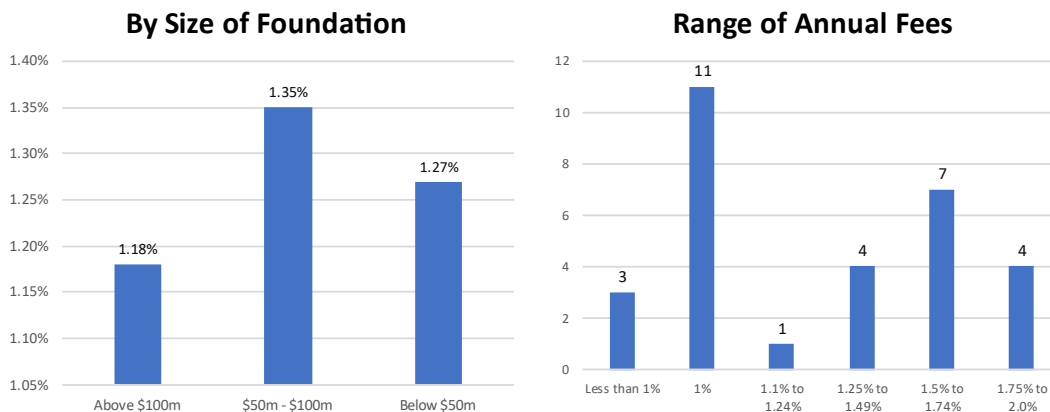
Donor advised funds are the only funds managed by a community foundation which are legally defined under Federal law. As described by the Pension Protection Act of 2006,

*A donor advised fund is a separately identified fund or account that is maintained and operated by (a community foundation). The donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.*

While the average fee at Pennsylvania community foundations for a donor advised fund is 1.27%, the fee is smaller for large foundations (1.18% average) versus smaller foundations. The most common fee charged is 1.00%.

## Donor Advised Funds

Pennsylvania Average= 1.27%





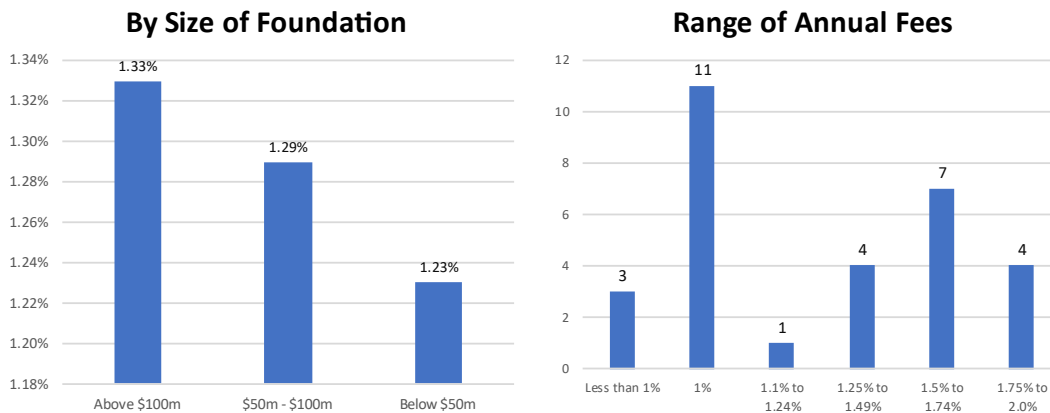
## UNRESTRICTED/DISCRETIONARY FUNDS

Sometimes referred to as Unrestricted Funds or Community Funds, these are endowed funds for which the community foundation has full discretion as to recipients of charitable grants. There are no advisors, and the community foundation may award a grant for any qualified charitable purpose.

Unlike fees for other types of funds, the average fund fees are highest for the largest foundations. The Pennsylvania average is 1.28%. Smaller community foundations charge lower fees in this category (1.23% average) than the larger community foundations (1.33% average).

### Unrestricted/Discretionary Funds

*Pennsylvania Average= 1.28%*



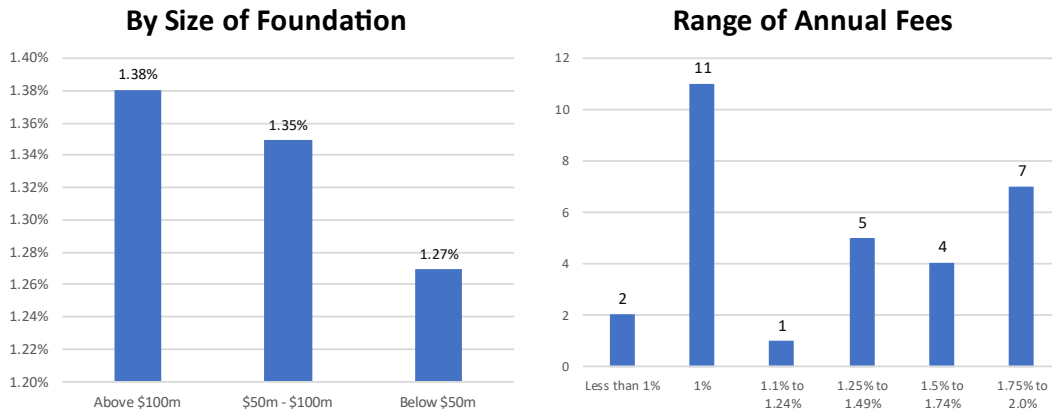
## FIELD OF INTEREST FUNDS

A Field of Interest fund is like a Discretionary Fund, as the community foundation may select the recipients of grants from the fund. These funds are limited by the donor, however, to a defined sphere of interest such as the arts, education, the environment, disadvantaged youth, or health.

The average fee for these types of funds in Pennsylvania is 1.32%. As with unrestricted endowments, larger Pennsylvania foundations charge a higher average rate than smaller ones. The most common fee charged on these types of funds, as with other funds, is 1%.

### Field of Interest Funds

*Pennsylvania Average= 1.32%*



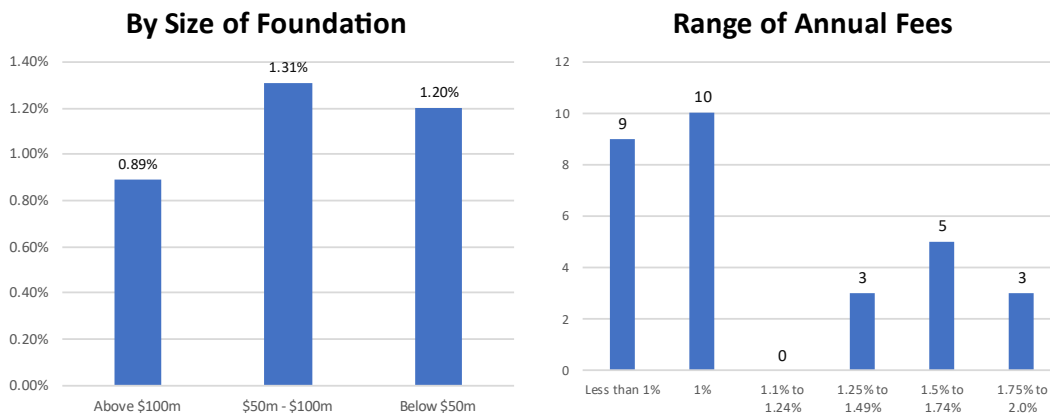
## AGENCY ENDOWMENT FUNDS

Sometimes referred to as a Charitable Organization Endowment Fund, this is an endowment fund created by a nonprofit organization. Distributions each year can only be made to that nonprofit organization.

Fees for these funds were the lowest of any fund category. The Pennsylvania average is 1.14%. While the most common fee charges in this category is 1%, nearly a third of Pennsylvania community foundations charge agency endowments a fee of less than 1%.

### Agency Endowment Funds

*Pennsylvania Average= 1.14%*



## DESIGNATED ENDOWMENT FUNDS

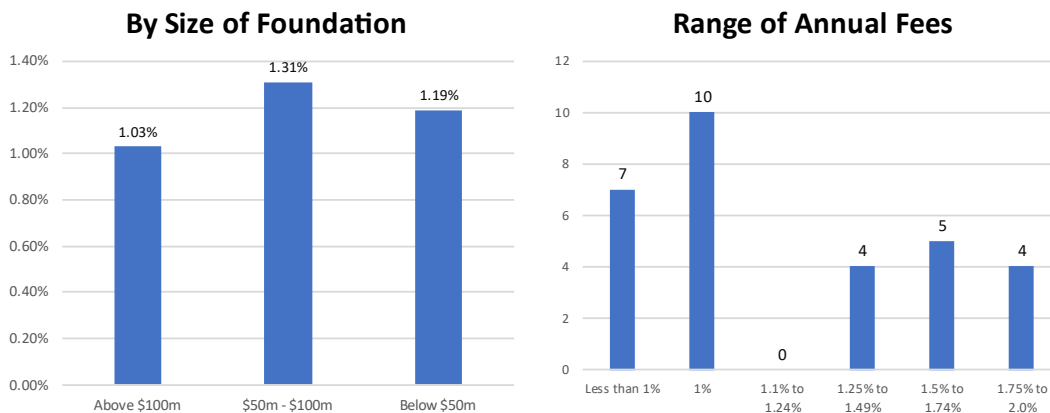
A donor-designated fund (sometimes referred to simply a “designated fund”) allows a donor to create permanent income for an organization or several organizations designated by the donor.

These funds are very similar to agency endowment funds, in that they typically send a single check each year to a designated charity. In practice, however, while an agency endowment fund is usually started by a charity, a designated fund is usually set up by an individual donor.

Fees for designated funds, on average, are slightly higher than fees for agency endowment funds. The Pennsylvania average for these funds is 1.18%, and the average fee is smaller for larger community foundations.

### Designated Funds

*Pennsylvania Average= 1.18%*



## SCHOLARSHIP FUNDS

A scholarship fund is designed to provide financial assistance to individuals awarded on an objective and nondiscriminatory basis to a student to pay for their direct educational costs, which include tuition, fees, course-related books, and other related educational expenses.

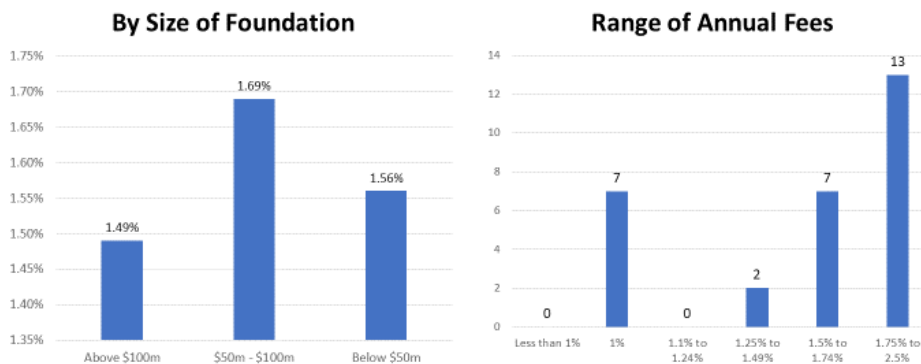
Scholarship fund fees are the highest of any fund offered by community foundations, with a Pennsylvania average of 1.60%.

The lowest rates are for the smallest and the largest community foundations, with the highest rate for foundations with assets between \$50 million and \$100 million.

Around 20% of Pennsylvania community foundations charge a different fee depending on the amount of work required for the scholarship fund. For example, a higher fee would be charged if the community foundation received and evaluated scholarship applications. We attempted to adjust the average fees to try to reflect this differing fee structure.

### Scholarship Funds

*Pennsylvania Average = 1.60%*



## FEES FOR NONPERMANENT FUNDS

A nonpermanent fund is a fund in which the entire balance of the fund – principal and earnings – can be disbursed. The funds might be disbursed within a short period of time (say, a year or two) or a much longer period (decades) but, eventually, the entire balance of the fund will be expended.

The most common type of nonpermanent fund is a fund created for a particular event or project. These are sometimes referred to as “community project” or “fiscal sponsorships” funds. Another common type of nonpermanent fund is a fund created in the aftermath of a local disaster or tragedy. Floods, wildfires and mass shootings are all examples of events which can lead to the creation of a nonpermanent fund within a community foundation.

In our research – both nationwide and for Pennsylvania -- we found a wide variety of methods of charging administrative fees on nonpermanent funds – sometimes, even a wide range of fee options within a community foundation. The most common methods of charging fees on nonpermanent funds include:

- The same fee as an endowed fund – a percentage of the fund’s assets
- A percentage of the gifts going into the fund (ranging from 2% to 10%)
- A percentage of the grants or scholarships disbursed from the fund
- A fee based on each transaction (gifts, grants or scholarships processed)
- A negotiated fee based on the estimated cost of administering the fund
- The fund might be invested in a money market account, with the community foundation retaining the interest earned. (This method is far less effective in a low-interest-rate environment and was more popular when money market fund interest rates hovered around 5%.)

One common feature of nearly all fund schedules for nonpermanent funds is a minimum administrative fee. Regardless of the formula for calculating the fee, the community foundation might charge, say, \$250 per year or \$500 per year as a minimum annual fee.

Because of the variety of administrative fees charged for nonpermanent funds, we are unable to prepare summary charts.

## VARYING RATES BY TYPE OF FUND

Historically, community foundations charged the same administrative fee regardless of the type of fund<sup>5</sup>. But as community foundations began to customize the funds they offered, a mismatch arose between the fees charged and the cost of administering a fund.

Some funds are relatively low-cost to administer, such as a designated fund that might simply send a single grant per year to the designated charities. But other funds are more expensive to process. A scholarship fund, for example, might require recruiting a review committee, soliciting, receiving and evaluating applications, and tracking a student during their college career.

A study done in 2007<sup>6</sup> questioned the wisdom of charging common fees regardless of the type of fund. After the publication of that study, many community foundations adjusted their fees to charge a higher rate on a high-cost fund, and lower rates when the costs of administration were less.

Approximately 75% of Pennsylvania community foundations charge a different fee depending on the type of fund. For community foundations that charge a uniform fee, the most common fee charged is 1%.

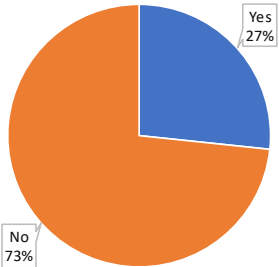
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<sup>5</sup> This was likely a holdover from bank trust departments, which traditionally charged uniform fees.

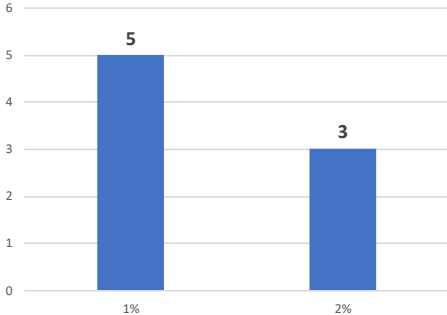
<sup>6</sup> *Growing Smarter: Achieving Sustainability in Emerging Community Foundations*, Nico, Eva, Rebecca Graves, Tracy Foster and Fay Hanleybrown, FSG Social Impact Advisors, September 2007.

# Do You Charge the Same Fees For All Of Your Funds?

Do You Charge the Same Fees For All Of Your Funds?



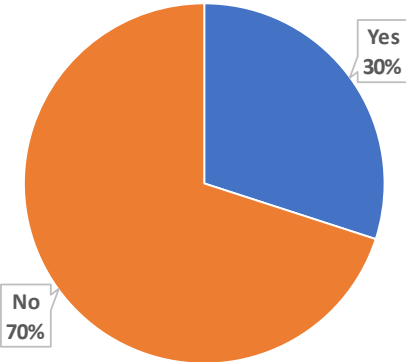
If Single Administrative Fee, What Is The Rate?



## SCALING THE FEE RATE

It is common practice for community foundations to reduce the marginal fee on a fund as the fund size grows larger. In our survey, 70% of Pennsylvania community foundations lowered the administrative fee as a fund size increased.

# Do You Scale Back you Fee for Larger Funds?





There is significant variation in the levels at which administrative fees are scaled back, and the rate at which the administrative fee declines.

Shown below is a table showing administrative fees for endowed donor advised funds at ten sample community foundations.

## Scaling of Administrative Fees on Endowed Donor Advised Funds

*Examples from Ten Community Foundations*

	\$0	\$250,000	\$500,000	\$1,000,000	\$1,500,000	\$2,000,000	\$3,000,000	\$5,000,000	\$10,000,000	\$15,000,000	Over
	\$250,000	\$500,000	\$1,000,000	\$1,500,000	\$2,000,000	\$3,000,000	\$5,000,000	\$10,000,000	\$15,000,000	\$25,000,000	\$25,000,000
San Francisco	1.00%	1.00%	1.00%	1.00%	1.00%	0.75%	0.75%	0.50%	0.50%	0.50%	0.25%
New Orleans	1.00%	1.00%	1.00%	0.75%	0.75%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
Buffalo	1.00%	1.00%	1.00%	0.85%	0.85%	0.85%	0.70%	0.30%	0.15%	0.15%	0.15%
Baltimore	1.00%	1.00%	1.00%	0.50%	0.50%	0.50%	0.50%	0.15%	0.15%	0.15%	0.15%
Central Indiana	1.00%	1.00%	1.00%	0.50%	0.50%	0.50%	0.50%	0.30%	0.30%	0.30%	0.30%
Dayton	0.90%	0.90%	0.90%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Louisville	1.50%	1.50%	1.50%	1.50%	0.50%	0.50%	0.20%	0.20%	0.20%	0.20%	0.20%
Dallas	1.25%	1.15%	0.85%	0.70%	0.70%	0.70%	0.70%	0.55%	0.55%	0.55%	0.55%
Maine	1.10%	1.10%	1.10%	0.90%	0.90%	0.90%	0.25%	0.25%	0.20%	0.20%	0.10%
St. Louis	1.00%	1.00%	0.75%	0.50%	0.50%	0.25%	0.25%	0.25%	0.25%	0.20%	0.20%

## FEES AT OTHER INSTITUTIONS

### COMMERCIAL DONOR ADVISED FUNDS

For many years after their creation<sup>7</sup>, donor advised funds were offered only by community foundations. Beginning around 1990, for-profit investment firms created charitable entities which allowed them to offer donor advised funds to their clients. Those charitable entities administered by for-profit investment firms are often referred to as “commercial donor advised funds”.<sup>8</sup>

Administrative fees charged at commercial donor advised fund providers are as follows:

Administrative Fees on Donor Advised Funds				
<i>Commercial Donor Advised Fund Providers</i>				
	Fidelity	Schwab	Vanguard	Goldman Sachs
0 - \$500,000	.60%	.60%	.60%	.60%
\$500,000 - \$1,000,000	.30%	.30%	.30%	.30%
\$1,000,000 - \$2,500,000	.20%	.20%	.12%	.20%
\$2,500,000 - \$5,000,000	.15%	.15	.12%	.10%
\$5 million - \$10 million	Negotiable	.13%	.10%	.10%
\$10 million - \$15 million	Negotiable	.12%	.10%	.05%
\$15 million - \$30 million	Negotiable	.10%	.08%	.05%
Above \$30 million	Negotiable	.10%	.05%	.05%

<sup>7</sup> The first donor advised fund was offered by the New York Community Trust in 1931.

<sup>8</sup> For a good discussion of the effect of commercial donor advised fund providers on the community foundation field, see *Community Foundation Business Model Fund Disruption in the 21st Century*, Kevin K. Murphy, Council on Foundations, 2016

**It is important to note for this administrative fee schedule that commercial donor advised fund also receive investment management fees on the donor advised funds they manage. Thus, the total revenue received by these providers is the sum of administrative fees plus investment management fees.**

Depending on the underlying investments, the investment management fee that these providers receive can be significant. At Fidelity, for example, the investment management fees charged range from .015% for investments in index funds to a high of 0.99% for investments in a balanced portfolio.

## NATIONAL ORGANIZATIONS

According to National Standards, the definition of a community foundation includes organizations that typically provide services to an area the size of a state or smaller.<sup>9</sup> There are some organizations, however, that have a national focus (but are not operated by investment management firms, as with a commercial donor advised fund provider.)

Administrative fees for these organizations begin at rates ranging from .70% to 1.00%. Administrative fee rates drop as the size of the fund grows larger.

Administrative Fee on Donor Advised Funds					
<i>National Organizations</i>					
Size of Account	National Philanthropic Trust	American Endowment Foundation	Renaissance Charitable Trust	National Christian Charitable Foundation	Donors Trust
0 - \$250,000	.85%	.70%	.70%	1.00%	.75%
\$250,000 - \$500,000	.70%	.70%	.70%	1.00%	.75%
\$500,000 - \$1 million	.60%	.35%	.35%	1.00%	.75%
\$1 million - \$2 million	.45%	.25%	.25%	.85%	.65%
\$2 million - \$2.5 million	.45%	.20%	.25%	.75%	.65%
\$2,5 million - \$3 million	.45%	.20%	.20%	.75%	.60%
\$3 million - \$5 million	.25%	.15%	.20%	.50%	.60%
\$5 million - \$10 million	.15%	.15%	.20%	Negotiable	.40%
Above \$10 million	.10%	.15%	.20%	Negotiable	.40%

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<sup>9</sup> A community foundation is an institution “benefitting the residents of a defined geographic area, typically no larger than a state.”

## SUMMARY

More than eight hundred community foundations across the United States collectively manage thousands of charitable funds. While the primary focus of all community foundations is charitable activities for the benefit of the communities they serve, each community foundation also incurs administrative expenses which must be funded from various sources.

This study has attempted to summarize the various administrative fee policies adopted by Pennsylvania community foundations. We hope this information is of benefit to the field as they chart their future strategic goals.

We would welcome any thoughts, comments, or questions you may have regarding this study. Please direct your comments to:

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### *About the Author*

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From 1995 to 2018, David served as the Executive Director of the Community Foundation of Greater Fort Wayne. He subsequently served as the Interim Executive Director of the LaGrange County Community Foundation (LaGrange, Indiana) and the Community Foundation of the Fox River Valley (Aurora, Illinois).

David earned his bachelors degree in Economics from Williams College, and Masters in Public Affairs from Princeton University.

David is the past president of the Fort Wayne Rotary Club, and has been recognized as a Paul Harris Fellow.