Sustaining Spending in a Normalizing Return Environment: Observations from Across Private Foundations

Executive Summary

- Private foundations are sustaining payout levels well above the 5% minimum, supported by recent strong market performance.
- However, forward-looking return expectations are moderating, while multi-year grant commitments remain elevated.
- This is forcing foundations to reassess the strategic questions around short-term grantmaking and long-term sustainability of the foundation assets.
- TIFF analysis highlights long-term purchasing power erosion, not short-term liquidity, is the major risk for foundations.
- Foundations should periodically reassess and scenario test portfolio return expectations and grantmaking plans and flexibility to ensure sustained long-term mission capacity.

The Current Environment: Capacity Has Expanded, But So Have Commitments

Recent data from the *2025 Report on Private Philanthropy* indicates that private foundations paid out approximately 7.1% of assets in 2024, well above the statutory 5% minimum requirement.[1] At the same time, many foundations continue to emphasize multi-year, targeted grant commitments that extend support and obligations several years forward.

This environment has been shaped by several years of strong public market returns. Asset growth has supported elevated grantmaking and, in many cases, longer-dated commitments. Boards appropriately leaned into mission impact.

However, forward-looking capital market assumptions are more measured than the realized returns of the recent past. For boards and investment committees, the key question is not whether foundations can afford elevated spending today, but whether it is sustainable across a full market cycle.

Structural Trade-Off: Real Return vs. Spending

At its core, sustainability is a function of basic arithmetic. For a foundation to preserve its purchasing power over time, the portfolio's long-term return must cover both the spending rate and inflation. However, if spending plus inflation exceeds the portfolio's long-term return, purchasing power will erode over time.

This erosion can be difficult to detect in certain environments, particularly during steady or rising markets. In these conditions, the impact may appear modest. Portfolios may continue to grow in nominal terms, while their real value (e.g., adjusted for inflation), and therefore future grantmaking power, slowly declines.

The dynamic becomes more consequential when market declines coincide with elevated spending and fixed multi-year commitments.

The most challenging scenario occurs during a material drawdown, when several forces compound at once:

- Asset values decline.
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Liquidity Isn't the Risk—Erosion Is

Modeling representative private foundation portfolios under base case and stress scenarios shows a consistent pattern. Even when obligations remain fully fundable, maintaining elevated spending through a significant market decline materially accelerates long-term real erosion.[2]

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Key Considerations for Boards and Investment

Committees

As foundations navigate a normalizing return environment, several considerations may warrant renewed attention to ensure that mission ambition and portfolio capacity remain aligned across a full cycle:

- **Alignment between spending and forward-looking return assumptions**
  Is the current payout level supported by long-term real return expectations rather than recent experience?
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  What portion of spending is structurally committed versus discretionary, and how clearly is that flexibility defined?
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Conclusion

Private foundations have benefited from a period of strong market support. As conditions normalize, elevated payout levels may remain appropriate, but their durability depends on deliberate alignment with long-term real return capacity.

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