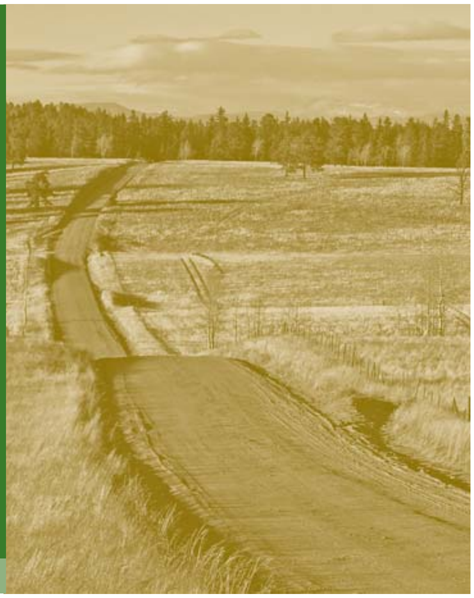
Alternatives to Perpetuity: A Conversation Every Foundation Should Have

PASSAGES
EXPLORING KEY ISSUES IN FAMILY GIVING
VOL 7.2



By Deanne Stone

What is the most compelling argument for continuing your family foundation, or donor-advised fund, in perpetuity? What is the most compelling argument for raising annual payouts and setting a closing date? Whether to operate indefinitely or limit the lifespan of a foundation is among the most fundamental questions that foundations can ask—and a conversation every family or board should have. The vast majority of family foundations are established to run in perpetuity, although more new founders are setting time limits for their foundations at inception. Occasionally existing foundations, too, set new time limits in response to changing societal or family circumstances. This *Passages* issue paper is aimed at new donors considering a limited lifespan for their foundation, existing foundations that have already set a closing date, or any family contemplating the question.

BACKGROUND: THE PERPETUITY VS. SUNSET DEBATE

The debate over perpetuity vs. time limits has raged for nearly as long as foundations have existed. Briefly, the argument centers on the question of whether foundations can have a bigger impact on social problems by spending their assets in a shortened or defined time frame to address current needs, or by spending moderately now to ensure funding for future needs.

Setting up family foundations to run in perpetuity is a legal right and a popular choice, but some question whether foundations best serve society through longevity as other perpetual institutions, like museums, libraries, and universities clearly do. Holding assets to build cash reserves, say some observers, is not a compelling reason for foundations to exist forever. Furthermore, inflation erodes the value of the dollar, making money spent in the future worth less than money spent today.

Proponents of perpetual foundations argue that investing for growth over the long term generates a steady and increasing flow of philanthropic capital to address social problems now and in the future. They argue that the knowledge and strategies they build over time allow them to become more effective as grantmakers, and allow them to address deep-seated social problems over long periods of time.

Those who favor spending more dollars today counter that no one can predict future

NATIONAL CENTER FOR FAMILY PHILANTHROPY

FIGURE 1: SUNSET, SPEND OUT, SPEND DOWN: WHAT'S THE DIFFERENCE?

These terms are often used interchangeably, but in this edition of *Passages* they have distinct meanings:

- **Sunset:** a closing date for the foundation, usually stated in a trust document or bylaws.
- **Spend out:** a deliberate plan to deplete the foundation's assets within a designated time period, resulting in the closing of the foundation.
- **Spend down:** a policy of regularly or periodically raising the payout for grants above the 5 percent minimum, recognizing that it may shorten the life of the foundation, or decrease the assets available for future grants.

needs, and new wealth is constantly being created. They point to billion-dollar foundations that didn't exist a decade ago, like the Bill and Melinda Gates Foundation and the Gordon and Betty Moore Foundation and the huge intergenerational transfer of wealth expected to fuel philanthropy over the next 50 years.

Making large payouts makes sense for foundations whose missions require them to move quickly when opportunities arise, for example, to save a parcel of wilderness from development or to inoculate threatened populations against a contagious disease. Other foundations have missions and strategies that lend themselves to sustained, long-term support, such as funding education, fighting historic problems like racism and sexism, and supporting programs for the mentally ill.

One approach is not inherently better than another, but rather a decision that all boards should make based on the foundation's mission and particular circumstances. A vibrant nonprofit sector needs both philanthropists willing to invest large sums for potentially quicker results today and philanthropists investing in social programs for the long term.

Closing a family foundation is a monumental decision. Just contemplating a closing can arouse strong emotions. Many family members feel guilty, as if they are betraying the founders or reneging on an obligation to continue the foundation over the generations. Few come to the decision to close easily. More commonly, they agonize over their options for months or even years before they are ready to act.

Spending out is not right for everyone—or even for most foundations—but it's an intellectual exercise that every foundation should consider. Most will come away from the discussion with an even stronger commitment to the work of the foundation. And a few may decide that, perhaps, the foundation could have an even greater social impact by spending more now.

FIGURE 2: ABOUT THE FOUNDATIONS

Foundation Name	Date Established	Date Decided to Spend Out	Decision Made By	Closing Date	Asset Size at Peak	Key Focus Areas	Website
Beldon Fund	1983	1998	Founder	2008	$100 million	Environmental advocacy	www.beldon.org
Aaron Diamond Foundation	1955	1983	Founder	1996	$150 million	AIDS research, minority education, culture	n/a
Eckerd Family Foundation	1968	1999	Founder	2014	$100 million	At-risk youth in juvenile justice and foster care systems	www.eckerdfamilyfoundation.org
Girl's Best Friend Foundation	1999	2003	Founder/ board	2008	$3.5 million	Empower young women & girls	www.girlsbestfriend.org
Steven and Michele Kirsch Foundation	1999	TBD	n/a	TBD	$90 million	Environment, nuclear disarmament, medical science	www.kirschfoundation.org
Olin Foundation	1953	1975	Founder	2005	$400 million	Conservative think tanks, university law & economics departments	www.jmof.org
The Whitaker Foundation	1975	1991	Board	2006	$450 million	Biomedical engineering	www.whitaker.org

MOTIVATIONS FOR SPENDING OUT

Because most foundations close without leaving a public record, it's very difficult to know what specific circumstances led them to spend out. In recent years, a number of large, influential foundations have announced their intentions to spend out by a specific date or to spend down by increasing annual payouts. The Atlantic Philanthropies in New York, for example, has assets of close to $4 billion, and six of the seven foundations interviewed for this *Passages* had assets at their peak of $85 million and higher. (See Figure 2).

Larger foundations are more inclined to publicize their plans because they cannot easily disappear without anyone noticing. The situation is different for small family foundations—those with less than $5 million. Without a record, it's possible only to make an educated guess at why they closed. Some may have decided that making a few large grants would be more effective than making many small grants over many years. Others may have run out of steam after the death of the founders. Successors may have lost or lacked interest in the mission or direction of the grantmaking, and others may have had no connection to the geographic area where the foundation funded.

Family conflicts were probably another factor. By the second and third generations, family members start moving in different directions—not only geographically, but often politically and philosophically, too. Disagreements over missions and program areas or personality clashes could also have been factors in their closing. Figures 3 and 4 provide additional motivations cited by founders and boards for limiting the lifespan of foundations and other philanthropic vehicles.

CONSIDERATIONS IN SPENDING OUT

Spending out requires careful planning and timing. Ideally, before making the decision to spend out, trustees could consult with colleagues in similar circumstances who have completed the process. Regrettably, up until now, only a few foundations, notably the Aaron Diamond Foundation and the Lucille P. Markey Charitable Trust, have documented their closing. The rest have quietly disappeared. Fortunately, that situation is changing. Today, more foundations recognize the importance of sharing their experiences with colleagues. That was the case with the seven foundations interviewed for this report. While they were at different stages of shutting down and varied greatly in size, they all faced the same basic challenges in working against a deadline: redefining goals, changing investment and grantmaking strategies, communicating with grantees and the public, preparing grantees to find replacement funds, anticipating staff needs, attending to legal requirements, and planning their legacies.

FIGURE 3: WHAT MOTIVATES DONORS TO LIMIT THE LIFESPAN OF THEIR PHILANTHROPIC VEHICLES AT INCEPTION

- Desire to control their own giving and see results in their lifetime
- Guarantee that their mission will be honored
- Commitment to alleviating current suffering
- A critical moment to effect change in key funding area
- Belief that founders have freedom to act more boldly than successors
- Desire to accomplish a specific mission in a defined period
- Fear of a bureaucratic management developing after their death
- Fear of burdening future generations not interested in grantmaking
- Lack of heirs or suitable heirs

Clarifying goals and sticking to them

Once a foundation decides to spend out, its first order of business is redefining—and clarifying— its mission. Setting clear goals is the critical first step, and it should not be rushed.

Jack Eckerd, founder of the Eckerd Drug Store chain, established The Eckerd Foundation in Florida in 1968. Some thirty years later, he invited his children to join the board. He wanted them to have the experience of giving away money together, and he deemed 15 years sufficient time to make a significant contribution. "If foundations have forever," he said, "they'll take forever to accomplish anything." Reconstituted as the Eckerd Family Foundation, the board agreed on a new mission and funding areas and hired a consultant to work with them. Eighteen months later, the board adopted a strategic plan. Now in its fifth year, the board is right on track. "Taking time to think through options and develop a strategic direction paper was key," says Joe Clark, the president and son-in-law of the founder. "Everything followed from that."

Nonetheless, when urgent situations arise, even foundations that are spending out may reconsider their direction. That was the case with the Aaron Diamond

Foundation. In 1983, Mr. Diamond, a New York City real estate developer, and his wife, Irene, decided to give the bulk of their fortune to the foundation. They intended to spend out the assets within 10 years of either's death on medical research, minority education, and cultural programs. Regrettably, Mr. Diamond died the following year, and their plans were delayed for two years. Alarmed by the AIDS epidemic and its severity in New York City and elsewhere, and aware that public and institutional support for research was lagging, Mrs. Diamond saw an opportunity to jump-start AIDS research. With an initial contribution of $10 million, the foundation launched the Aaron Diamond AIDS Research Center.

Aggressively funding research on a mysterious new disease was a big risk. Luckily, it paid off. The nearly $50 million dollars the Diamond Foundation poured into research led to the development, in particular, of protease inhibitors, saving thousands of lives. "Without the infusion of large sums of money," says Vincent McGee, former executive director of the foundation, "the research would have been delayed. We never would have seen the results that we did and as soon as we did."

"Without the infusion of large sums of money, the research would have been delayed. We never would have seen the results that we did and as soon as we did."

—*Vincent McGee*

FIGURE 4: WHAT MOTIVATES BOARDS TO LIMIT THE LIFESPAN OF EXISTING FOUNDATIONS

- Mission accomplished or no longer relevant
- Significant increase in assets created opportunity for bold investments
- A critical moment to effect change in key funding area
- Opportunity to increase grantees' impact on critical public issues
- Assets have shrunk or have grown too large to administer
- Successors lack interest or qualifications to run foundation
- Family members don't get along or have opposing interests
- Family members no longer live in geographical region
- Changing economic, political, or social climate

Aligning investments with spending plans

Once foundations set a timeframe for spending out, they must rethink their investment strategies to fit their new goals. Determining the size of payouts and a schedule for disbursing them is one task. Ensuring a sufficient income to cover expenses over the remaining lifetime of the foundation is another. Foundations that are spending out do not have the luxury of riding out fluctuations in the stock market. To achieve liquidity, they must gradually move investments from equities to bonds or money market funds that pay more predictable returns.

Timing the depletion of assets to coincide with the closing of the foundation can be tricky, as Bill Roberts learned. Roberts is the executive director of the Beldon Fund in New York. The Fund was started in 1983 by John Hunting, an environmental activist. In 1997, his family's business, Steelcase, Inc, a designer and manufacturer of office furniture, went public. Hunting liquidated his holdings and endowed the Beldon Fund with $100 million, stipulating that the entire corpus be depleted in 10 years. Then in his mid-60s, Hunting wanted to be engaged in the Fund's work while he was still healthy and to see the results of his efforts during his lifetime. "Those of us who fund environmental work know how high the stakes are," he wrote. "Time is growing short and we must throw all our forces into the fray now before it's too late."

Because the Fund planned to make its biggest payouts in the first four years, it needed a strategy for generating the biggest return on investments in the early years when the corpus was the largest. Later, they switched to a conservative investment strategy, using as their model a 401 (k) account for a 60-year old worker.

"Most financial advisors are geared to investing for perpetual foundations," says Roberts. "If, at the start, we had had examples of financial trajectories used by other foundations, we could have moved more quickly. As it turned out, it took us one year to hit on the right investment strategy."

Changing financial circumstances required several of the foundations interviewed for this study to alter their original investment strategies. The assets of two foundations increased substantially during the stock market boom of the late '90s while at the same time another foundation's assets plummeted. Two foundations received additional large injections of cash from the estates of deceased founders and another foundation operated with more uncertainty, raising cash by selling off real estate holdings at opportune moments.

The Whitaker Foundation in Washington, DC, was one that benefited from the stock market boom. It had originally worked out a conservative investment strategy for spending out. But while reallocating its investments in the late '90s, its assets ballooned by $100 million.

Uncas Whitaker, an engineer, founded AMP, Inc, later sold to Tyco and today the world's largest manufacturer of electrical and electronic connector systems. When he established The Whitaker Foundation in 1975, he suggested that the trust consider distributing the entire principal and income of the trust within 40 years of his death.

The Foundation was a pioneer in funding biomedical engineering. After years of slow growth, the field was finally poised to take off. Technological advances in the 1980s had created new opportunities, but few universities had departments of biomedical engineering. In 1991, the Whitaker Foundation board set aside time to rethink its grantmaking strategy.

At the time, the Whitaker Foundation was adhering to the legal minimum of a 5 percent payout. It determined that funding just one new biomedical engineering department would have cost several million dollars and would have consumed much of the foundation's entire annual grants budget at the time. Doubling the annual payout to 10 percent wouldn't have provided enough money to make a significant difference in the biomedical engineering field. If the field were to develop, the Whitaker board decided, several departments would have to be created simultaneously.

After a year of discussions and consultations with top researchers, the board concurred that the foundation could make a bigger impact on its chosen field by spending out than by continuing in perpetuity. It worked out a plan to distribute the foundation's entire assets—at the time $350 million, and later to grow to $450 million—in 14 years. To ensure a predictable stream of revenue as assets declined, the board gradually transferred assets from stocks and bonds to investing the entire corpus in Treasury STRIPS.

"Because of the surge in the value of our portfolio, we had more money to disburse than we had ever anticipated," says Frank Blanchard, director of communications. "This ultimately allowed us to fund building projects at universities, something we hadn't planned to do."

The vagaries of the stock market were less kind to the Steven and Michele Kirsch Foundation in Silicon Valley. Steven Kirsch, a high-tech entrepreneur, made his fortune creating and selling software companies. Kirsch approached philanthropy with the same boldness he brought to business. In 1999, he endowed the foundation with $50 million and the Board invested 90 percent of the assets in high-tech stocks. The assets soared to $90 million. Then, the dot-com crash hit, and the foundation's assets plunged to a current low of $9.2 million.

From the start, Kirsch was prepared to spend down the assets. He set the foundation's annual payout at 10–12 percent, believing it was necessary to make big investments to get big results. He never imagined when he started the foundation the foundation, however, that it might close before reaching its 10th anniversary. With its corpus reduced to a fraction of its original size, the foundation was forced to revamp its investment strategy and draw on principal every quarter to cover expenses. Nonetheless, Kirsch is undaunted. "He still believes that spending money now to get results is more important than having the foundation exist in perpetuity," says Kathleen Gwynn, the foundation's president.

Revising grantmaking strategies to fit new timeframe

Once a foundation decides to spend out, trustees may find themselves being liberated from many of the restraints they have worked under in perpetual foundations. Having a last chance to make their mark, they are free to think big and spend big.

While it is exciting to be able to award large grants to deserving grantees, grantmakers must also be mindful of potentially undesirable consequences that large

> "Those of us who fund environmental work know how high the stakes are. Time is growing short and we must throw all our forces into the fray now before it's too late."
>
> *—John Hunting*

gifts can have on organizations that aren't prepared to receive them. Before making large gifts, foundations may want to provide technical assistance to grantees to ensure that they have access to the best advice on investing and managing money and on expanding their staff and services. Moreover, receiving large gifts can also make it harder for grantees to get future grants. Other foundations may conclude that these organizations are well funded and that other organizations are more in need of immediate support.

The Girl's Best Friend Foundation in Chicago has always maintained close working relationships with its grantees. When it decided to spend out, it deliberated long and hard about how to leave grantees on the strongest footing. The foundation was founded in 1994 to empower girls and young women in the Chicago area. The founder, Cynthia McLachlan, and her children were philosophically opposed to locking up money indefinitely when so many urgent needs were unmet. Although they did not set an endpoint for the foundation from the start, they never intended to be bound by the minimum 5 percent payout. If making larger payouts resulted in the foundation's closing its doors sooner rather than later, that was a risk the donor was willing to take.

In 2000, however, a change in the donor's personal situation coincided with flagging board morale. Those two factors provided the impetus for the board to reassess where it was and where it was going. The outcome of the discussion was the unanimous decision to set a closing date for the foundation. It voted to spend out the entire corpus by 2008.

"The first six years of the foundation was a fertile period for board and staff," says Alice Cottingham, executive director. "But after the initial burst of energy, we began to drift. We felt increasingly uncertain about what direction we were taking. The decision to close resolved the ambiguity, and we rallied to the task of doing it thoughtfully and intelligently. Now that the plan is underway and our clarity and sense of purpose restored, everyone is more relaxed."

The board and staff mapped out a long-range grantmaking budget that raised annual payouts to $1 million a year. Keeping grantees' concerns in the forefront, the foundation switched to multiyear grants to free grantees from having to write annual grants proposals. They also announced the payout schedule far in advance to allow grantees time to make long-range plans: the budget for core grants would remain stable for three years, and, as in past years, grantees would receive a 10 percent add-on to use in evaluating their organizations and programs. Starting in 2007, however, core grants would be cut by 15 percent, followed by a 30 percent cut in 2008.

> "Once a foundation decides to spend out, trustees may find themselves being liberated from many of the restraints they have worked under in perpetual foundations."

The Beldon Fund set an ambitious agenda of seven program areas when it received an infusion of $100 million from its founder. Working against a deadline, it felt pressure to achieve big results. But after a few years the board realized that, despite its large budget, it didn't have the time to do justice to all the projects on its slate. Acting quickly to refocus its grantmaking, it trimmed the program areas to three, and identified key areas where environmental reforms were most likely to be adopted.

"In the past, our grantees had to piece together programs by scrambling for money and getting by on a shoestring," says Bill Roberts. "The purpose of awarding larger grants is to show the grantees and other funders what these organizations can do when they have sufficient resources. We want our work to continue after we're gone, and we think our grantees have the stuff to bring about changes. But they can't do it without the generous support of other funders."

John Olin, an inventor, industrialist, and staunch conservative, set up the Olin Foundation in 1953. To ensure that his wishes were honored, to distribute the assets and to close the foundation within a generation following his death. In the mid-1970s, Olin revised the focus of the foundation. Profoundly disturbed by the political climate in the country, he was determined to use his resources to change its direction. The foundation identified three program areas to further its mission and redirected its funding to conservative think tanks, law and economics departments at prestigious universities, and fellowships for young conservative scholars. Raising its annual payout to 20 percent, it poured $20 million a year into grantees' coffers. Moreover, to ensure that programs it created or that bore Olin's name remained strong, it gave multiyear grants with matching components to those grantees. It also awarded multiyear grants of up to $10 million to university grantees. Recognizing that some grantees would need more time to find replacement funds, the board arranged for those grantees to continue receiving grants after the foundation's closing and it created a trust with a small board to approve the disbursements.

The Olin Foundation is renowned for its success in achieving its goal of influencing public and economic policies. For 25 years, it held to a tight script and invested close to $400 million in grantee organizations. The Olin Foundation closes its doors this year with its mission accomplished. "Our strategy was to locate the best universities and think tanks to express thoughtful conservative views," says James Piereson, the executive director. "Now the political climate has changed, and we think we played an important role in that change."

Communicating with grantees and the public

As soon as foundations formulate their goals and timeframe for spending out, they must notify grantees and the public of their plans. With the competition for grants increasingly intense, grantseekers are understandably upset when they learn that a foundation is closing, especially when the foundation has a specific mission not widely supported by other foundations. The seven foundations interviewed for this report went out of their way to keep grantees apprised of changes and how the changes would affect them.

"There's no ambiguity about our plans," says Bill Roberts. "The Beldon Foundation posts them on its Web site and inserts reminders of its closing in all of its communications with grantees. But some grantees are still in denial. They know we're going away, but they don't want to think about it."

Besides announcing on its Web site that it was suspending new funding in some of its issue areas indefinitely, the staff of the Steven and Michele Kirsch Foundation staff spoke individually with each grantee about the foundation's intentions to honors its commitments and keep to its agreed upon timeframe.

The Girl's Best Friend Foundation sent a letter to all grantees outlining in detail the changes in the foundation's grantmaking, the rationale behind them, and how those changes would be carried out. The staff followed up by visiting every grantee to answer their questions and to discuss the foundation's five-year plan to increase sustainability support while moving toward budget cuts. During Fall 2004, the board and staff held a retreat to review the foundation's communications outreach and other non-grants support for grantees to ensure that the foundation was doing all it could to assist grantees.

"Our grantees were nervous when they got our letter informing them of funding cuts over the next four years," says Alice Cottingham. "They worried not only about losing funding, but about losing all the other resources the foundation offers them."

Joe Clark says that communicating with grantees about the Eckerd Foundation's intention to spend out elevated the conversation between grantor and grantees. "By asking them to give us their ideas for making something significant happen, we gave them permission to talk in a new way. Instead of trying to get funding for specific programs, grantees began thinking about the systemic, long-term changes they wanted to see happen. If it sounded feasible and the numbers added up, we funded it."

Preparing grantees to find replacement funding

Spending out is a double-edged sword for grantees. While they appreciate receiving larger grants, they are keenly aware that the foundation's generosity won't last. These are realistic concerns that the foundations in this report took very seriously.

The board and staff of Girl's Best Friend worked out an ambitious, multi-pronged approach to helping its grantees secure replacement funding. To strengthen the organizations and make them more attractive to funders, they have funded staff development training, offered free training in evaluation, and underwritten peer-to-peer problem-solving workshops. Foundation staff also see it as their responsibility to seek out opportunities within local philanthropy for grantees. They serve as referral sources, go betweens, references, and, when appropriate, advocates with other funders whose funding priorities overlap. Promoting grantees in Girl's Best Friend Foundation materials is essential to all its print and electronic communications.

To lesson the shock of losing funding, the Beldon Fund offers fundraising training to its major grantees. It may hire consultants to work with grantees or provide grants to organizations to hire consultants. "By starting five years before closing," says Bill Roberts, "we hope to give grantees enough time to sharpen their fundraising skills so they can sustain themselves by the time we close."

The Diamond Foundation tried to ease the pain of diminished payouts by lowering general support grants gradually and making matching grants to assist organizations seeking replacement funds. The staff was particularly concerned about the survivability of fragile grassroots organizations and, in the last few years before closing, they allotted time to helping those grantees find other means of support. They introduced grantees to other grantmakers and called colleagues to encourage them to pick up funding for the grantees.

"It was difficult to say goodbye to longtime grantees," says Vincent McGee, "especially at a time when so many foundations were cutting back on spending. I worried most about small groups that had fragile programs and where community people worked for little or no wages. We tried hard to see that they were taken care of, and I don't think that we let them down."

Calibrating changing staff needs

The staffing needs of foundations that are spending out follow a bell curve. The initial planning staff is small. As the foundation begins implementing its programs, it usually adds more staff. About midway through the designated lifespan, the workload peaks. Then, it gradually drops off as the number of new grants is reduced and multiyear grants increase, eliminating the need for staff review.

To plan for changing staffing needs, the Beldon Fund settled on a mix of full-time staff and consultants, what Bill Roberts calls his hybrid staff. "Using consultants fits our purposes," he says. "We have more flexibility, fewer administrative costs, and we don't have to lay anyone off."

How can foundations attract and hold on to good employees when their days of employment are numbered? None of the foundations reported difficulties in retaining staff. As Kathleen Gwynn of the Kirsch Foundation says, "Most people prefer to work for a limited time on an exciting job dealing with important issues rather than to have a secure job that's dull. Who wouldn't want to be a part of projects that can have far-reaching impact on our lives?"

Nonetheless, all the foundations intended to reward employee loyalty either with incentive packages to encourage them to stay until the end or severance packages when the foundations close. Typically, the details of those packages and bonuses are worked out as the closing date approaches.

Besides financial rewards, some foundations assist employees in finding other jobs. The Whitaker Foundation reimburses employees for educational expenses to increase their skills and marketability, and the Eckerd Foundation plans to offer consultations with financial planners. When the Diamond Foundation was approaching its closing date, it encouraged staff to seek other positions. It made calls on employees' behalf and wrote letters of recommendation. Some employees took part-time jobs and gradually transitioned to other full-time jobs; by closing time, all had found other positions.

Attending to legal requirements

Foundations that are spending out must consult with their lawyers to ensure compliance with federal and state regulations regarding notification of closing and retention of documents. Typically, foundations must notify the IRS and their state's attorney general, although rules vary by state. In addition, they must retain financial records and personnel records until specific "destruct" dates; the retention dates for tax records run from three to four years and up to six years for personnel records.

Before the Olin Foundation closes its doors at the end of this year, it must sort through voluminous files going back 30 years. James Piereson, the director, has asked the foundation's lawyer to give him a memorandum outlining what records have to be retained and for how long.

"We'll probably hold on to records of our grants, financial disbursements, and important internal memos from the past 20 years," says Piereson. "Our auditor will go through our financial records to help us determine what goes into storage. The files can be retained in sealed and labeled cartons. If anyone should wish to see documentation, they can contact our auditor."

Lawyers will also advise the board of the specific date of the dissolution of the trust or corporation and of any additional legal fees incurred during the closing process.

Looking to the future

For the first half of the lifespan of the foundation, board and staff are preoccupied by details of planning and implementing their programs. As they look toward the closing date, they must begin to think about their legacy. How do they want to be remembered by posterity? And where will they store their papers?

Computers and the Internet have helped to cut down on the volume of paper that foundations generate in the course of doing business. Nonetheless, when they close their doors, they must decide what to do with years of grants records, annual reports, memos and correspondence. Professional archivists and librarians can offer advice on organizing and storing documents.

The Olin Foundation has hired a writer to chronicle the foundation's history. James Piereson, the executive director, says that he has not made a final decision about what to do with the mounds of paper generated over its 52-year history. "We'll probably donate our papers to the Rockefeller Archives Center at its estate in Pocantico, New York," says Piereson. "We have so much correspondence that my preference is to throw most of it away."

The Diamond Foundation turned over the thousands of documents it had accumulated to the New York Public Library. Mrs. Diamond requested that the public have access to the papers, hoping that they might eventually help researchers shed light on the question of whether a foundation does better work when it has a deadline or when it runs in perpetuity.

Not all libraries are willing to take thousands of papers, and fees for maintaining archives may vary

> "Operating against a deadline forces you to consider more options and to entertain more alternatives."
>
> —*Joseph Clark*

considerably. The Beldon Fund is exploring the possibility of digitizing its records to reduce storage costs.

The Girl's Best Friend has had initial conversations with the Women's History Archives Project at a local university. One of its services is helping organizations sort through their documents to determine what is valuable and who would be interested in receiving them. It will also be contacting a local historical society as a potential archive for its records.

One year away from its closing date, the Whitaker Foundation is planning a legacy that will continue serving the field of biomedical engineering. For several years, the staff has been building a detailed database of all biomedical courses offered in the US, including the names of professors and the texts they assign. They will pass along the database and other web-based resources to be shared by other colleague organizations.

Even though the Eckerd Foundation is a decade away from closing, it has begun thinking about ways it can continue supporting promising organizations after it closes. One idea under consideration is awarding grants for endowments to build the long-term capacity of a select group of nonprofits.

Advantages and disadvantages of spending out

The six foundations in this survey that had a specific plan to close concurred that working within a limited timeframe kept them focused on the mission, energized, and on their toes. Bill Roberts of the Beldon Fund speaks for the foundations interviewed:

> *"Having a closing date absolutely focuses the mind. The board and staff feel a sense of urgency that's exhilarating, and the effect of being unshackled from the 5 percent payout is hugely positive. We're more flexible, more nimble, more opportunistic now than before we decided to spend out. If we try something and it doesn't work, we have to figure out quickly how to fix it. Not having the luxury of time has largely worked in our favor."*

Paradoxically, contemplating the endpoint of a foundation's life can free the imagination of board, staff, and grantees. Here is the pot of gold, now what can we turn it into? Achievements that might have been pipe dreams on a limited budget may become reality on a bigger budget. Dreaming aloud can elevate the discourse between grantors and grantees and widen the lens through which they view possibilities.

"Foundations that fund programs on an annual basis can become myopic and rigid in their thinking," says Joe Clark of the Eckerd Foundation. "Operating against a deadline forces you to consider more options and to entertain more alternatives. It keeps you alert and flexible in ways that are hard to maintain when you know the foundation will run forever."

Grants do not have to be big to pack a punch. Small, strategically targeted grants can yield big results, but there's no doubt that large sums spent well have the potential of producing major gains more quickly and affecting more lives. By dramatically increasing payouts—either by spending out the foundation or by spending down the endowment over a defined period of years—foundations may achieve results that would have been unimaginable had they kept to the minimum payout requirement.

The tremendous impact of well-placed dollars is illustrated by the achievements of the Whitaker Foundation. "Had we stayed with the 5 percent payout we'd still be helping a handful of researchers get started," says Frank Blanchard, "but we set our sights higher…We wanted to jump start biomedical engineering as a discipline. In 1992, there were 42 biomedical engineering departments. Today there are more than 100. We supported the creation of 29 departments and enhanced many others. We have supported more than 1,500 biomedical engineering researchers who have mentored more than 13,000 students. These researchers have also started more than 100 companies and created 200 new medical devices."

For all the benefits that can flow from foundations' making the decision to spend out, it's important to recognize the downside, too. The most obvious and important disadvantage is the loss of ongoing funding. Every time a foundation closes its doors, its grantees must redouble their efforts to find replacement funds. This can be especially hard on grantees working in specialized fields that only a small number of foundations fund.

Despite the Olin Foundation's success in reaching its goals and its long history as a reliable friend to conservative institutions, some conservatives have criticized the foundation for closing its doors. They fear that no foundation of equivalent size and commitment will fill the void left by the Olin Foundation. Although the Olin board tried to protect programs it considered most vulnerable by increasing annual support for three years, Piereson acknowledges that the greatest hardship will fall on young conservative scholars eligible for Olin Fellowships.

The Whitaker Foundation funds in an even more specialized field than Olin. Frank Blanchard admits that the grantees were troubled when the foundation announced its plan to close. "They were concerned about what would happen to them when we weren't around because no one else was supporting the field the way we were. But since then, other organizations have increased their support for biomedical engineering and things are definitely looking brighter. There's more funding available now and biomedical engineers are more optimistic, but they still wish we weren't closing."

The loss of a funding source is always alarming to grantees. But, as Alice Cottingham from the Girls Best Friend Foundation says, the loss is greater than the funds alone. "We are doing everything we can to ease grantees' anxieties, but we know that, ultimately, our closing is a hardship for them. These are groups with whom we've cultivated relationships. We've been their ally as well as their funder."

Gauging the appropriate lifespan of the foundation

Some founders and their successors arbitrarily select a time period in which to spend out. While it's not possible to predict exactly how long it will take to finish the job and do it well, experienced colleagues advise those just getting started to bear in mind that the designated lifespan is deceptive. Bill Roberts explains:

"Working with a dwindling corpus puts pressure on the board and staff to reach its goals before closing the foundation's doors. If your timeline is 10 years and you're spending down in a straight line, you have to reach the peak of your programmatic goals by year six or seven. From our experience, I would say that 10 years is too short. You have to figure that it takes three years to get your sea legs, five to hit your stride, and another two to phase out. It's hard to bring about change in the last three years. Those are the years for finishing up what you've already accomplished."

James Piereson concurs. "A decade sounds like a long time, but it isn't enough. We had almost 20 years of activity behind us before we set the final closing date, so we were in a good position to spend the last of our money on programs that we knew worked. If you decide today to go out of business and you haven't developed a mature grantmaking program, you won't be able to achieve your goals in 10 years."

FIGURE 5: ONE COLLEAGUE TO ANOTHER: ADVICE ON SPENDING OUT

- If possible, talk with experienced colleagues
- Hire a consultant to help you think through your options
- Consult legal and financial advisors knowledgeable about closing foundations
- Take your time in setting goals and planning strategies
- Define clear goals and stick with them
- Determine how long it will take to reach your goals, remembering that the last few years of the foundation are taken up with the closing-out phase and that change usually takes longer than expected.
- Communicate plans clearly to grantees, public, and staff
- Offer multi-pronged assistance to prepare core grantees to find replacement funds
- Remind grantees and grantseekers again and again of your closing plans
- Think carefully about how you want to be remembered

The Diamond Foundation achieved its most spectacular goals in ten years, but that may have been a fortuitous confluence of circumstances: a new and mysterious epidemic, little funding for research, and a philanthropist prepared to take a big risk. Depending on their goals, foundations may wish to plan for a longer stretch of years for spending out. If they meet their goals sooner, they can always announce a new closing date.

CONCLUSION: LESSONS FOR PERPETUAL FOUNDATIONS

The vast majority of family foundations will probably choose to be perpetual institutions. For most founders, the family connection is a prime motivation for setting up a foundation and for continuing over the generations; working together with family members gives special meaning to their philanthropy and pride in their contributions. Nonetheless, even foundations committed to perpetuity can benefit from periodically debating the merits of continuing or closing. Some foundations, for example, discuss sunsetting every five years. They report that these conversations reinvigorate the board, reminding them of why the foundation is important to the family and to their grantees.

One of the most exciting lessons that came from conducting interviews with foundations that were closing was the discovery that perpetual family foundations can have the best of both worlds. They, too, can have a greater impact on their funding areas and do it without spending out. There's no reason, for example, why perpetual foundations cannot create a series of long-range plans equivalent to the 10 to 15 year framework in which many foundations that are spending out work. Perpetual foundations don't have to commit sums great enough to force them to spend out. Rather, they can experiment with flexible payouts, spending more aggressively for a limited period to achieve greater results or trigger change at a critical moment and, later, cutting back. The legacy of foundations that have spent out—the Aaron Diamond Foundation, the John Olin Foundation, the Lucille Markey Charitable Trust—are persuasive examples of what well-aimed, aggressive grantmaking can accomplish.

What was striking about the foundations interviewed for this issue paper was their concern for the sustainability of their core grantees. Most offered technical assistance, including sponsoring professional development training workshops and consultations with fundraising experts. And to assist grantees in finding replacement funds, they introduced them to colleagues, made calls on their behalf, and advertised their work on their Web sites. The consideration these foundations gave to their grantees' well-being can be a model for all foundations.

Foundations that are closing made another discovery that has implications for perpetual foundations. The nature of conversations between grantors and grantees changed when they turned their attention from individual programs to focusing on the larger picture. When grantors opened the conversations to exploring possibilities of what grantees might achieve with larger grants, there was a new immediacy and honesty to the discussions. Instead of telling grantors what they thought they wanted to hear, grantees talked about what they really believed. Perhaps, one day, this "clear-air" policy will be an industry standard.

Paradoxically, the shortened lifespan forced these foundations to think long-term about their place in history—and to dream. What can we do in the time remaining to us to make the best use of our time and resources? How can we have the greatest impact on the issues that matter most to us? What will our contributions be? How do we want to be remembered? Those are questions that all family philanthropists should ask themselves and give serious thought to answering, regardless of whether they currently plan on spending out, spending down, or existing in perpetuity.

FIGURE 6: A CHECKLIST FOR FAMILIES AND TRUSTEES

Is spending out an appropriate option for your foundation or advised fund?

Responding thoughtfully to these questions may help your foundation or family advised fund decide whether to stay on course, rethink your direction, or consider spending out.

1. Have family members lost their passion for the foundation or fund's mission?
2. Do changes in the social or political climate demand aggressive funding now?
3. Would substantial increases in the size of grants and annual payout make a significant difference in what your grantees could accomplish?
4. Has your foundation or fund experienced a sharp increase or decrease in the size of assets that require you to rethink your grantmaking goals?
5. Would your board and family be more focused and energetic working within a timeframe?
6. Do family members regard serving on the board as a burden or obligation?
7. Do persistent disagreements over grants interfere with your board or fund advisors' ability to make good grantmaking decisions?
8. Have family members drifted so far apart geographically and philosophically that they no longer share the same goals?
9. Have family members created new foundations or funds that compete with or eclipse your foundation?
10. Is the next generation eager, willing, and prepared to assume leadership of the foundation?

This issue of *Passages* ends with an invitation to all foundations and other family philanthropy initiatives that are spending out to follow the examples of the foundations included here—as well as that of the Lucille P. Markey Charitable Trust—in chronicling their spending out process. These reports, along with evaluations of what went well and what they might have done differently, can be valuable guides for other foundations contemplating closing.

ADDITIONAL RESOURCES

- "A Conversation with Irene Diamond," Allan Clyde, ***Foundation News and Commentary,*** March/April 1998
- ***Closing a Foundation: The Lucille P. Markey Charitable Trust,*** John H. Dickason and Duncan Neuhauser, Council on Foundations, 2000
- "Forever is a Long Time," Jody Curtis, ***Foundation News and Commentary,*** March/April 1998
- "Grantmakers See Pros and Con to Giving it All Away," Neeraja Sankaran, ***The Scientist,*** July 7, 2004
- "High-Impact Spend Down," Miles Gibbons, Jr., ***Philanthropy***, March/April 2002
- "Some Foundations are Electing to Spend it All Now, Close Shop," David Bank, ***Wall Street Journal,*** Sept. 10, 2002
- "The Question of Perpetuity," Vince Stehle, Investment Issues for Family Funds, National Center for Family Philanthropy Journal Series, Vol. 2, 2000
- ***Should Foundations Live Forever? The Question of Perpetuity,*** Martin Morse Wooster, Capital Research Center, 1998
- "The Insider's Guide to Spend Down: Switching Off the Lights at the Olin Foundation," James Piereson, ***Philanthropy***, March/April 2002
- "Where's the Horizon? Giving While Living, Defining the Endpoint, or Endowing for Perpetuity," ***Linkages,*** Rockefeller Philanthropy Advisors, Fall 2004

By Deanne Stone. Deanne Stone is a freelance writer who specializes in writing about family foundations and family businesses. She is a contributing editor to the National Center for Family Philanthropy, and was co-author of the study *Generations of Giving: Leadership and Continuity in Family Foundations.* Deanne is the author of numerous articles and publications, including *Sustaining Tradition: The Andrus Family Philanthropy Program, Grantmaking with a Compass: The Challenges of Geography, Difficult Discussions at Difficult Times,* and *Families in Flux: Guidelines for Participation in Your Family's Philanthropy.*

Jason C. Born, Editor

The information in this paper should not be taken as qualified legal advice. Please consult your legal advisor for questions about specific legal issues discussed in this essay.

SPECIAL THANKS

The National Center gratefully acknowledges the support provided by its Friends of the Family partners. For more information about the Friends of the Family program, please contact the National Center at 202.293.3424. Special thanks also go to the reviewers: Elizabeth Bremner, Joe Clark, Mike Hanlon, Benita Klein, and Marci Sternheim.

SPONSORSHIP OPPORTUNITIES

Passages is supported in part by sponsor contributions. For information on sponsoring future editions of *Passages*, please contact Jason Born, editor, at jason@ncfp.org.

WE WELCOME YOUR COMMENTS.

The National Center for Family Philanthropy, a nonprofit 501(c)(3) organization, encourages families and individuals to create and sustain their philanthropic missions. In doing so, we are guided by a set of values and principles that reflect our own understanding of the importance, opportunity, and genius of family philanthropy. These values include:

1. We value the participation of individuals and families in private, organized philanthropy.
2. We value the donor's right and ability to direct charitable assets through the philanthropic vehicles and to programs of choice.
3. We value both the concern for privacy and the responsibility of a public trust that are inherent in private, organized philanthropy.
4. We value the pursuit of excellence in philanthropy.
5. We value the role that philanthropy and philanthropic citizenship plays in a civil society.
6. We value the participation of new voices in our field
7. We value collaboration and respect our colleagues in this work.

A full statement of these values and guiding principles is available on our website at www.ncfp.org.

Do you have an idea for a future edition of *Passages*? Contact: jason@ncfp.org.

1818 N STREET, NW, SUITE 300 WASHINGTON, DC 20036 TEL: 202.293.3424 FAX: 202.293.3395