fig. 1

Founders Choose Different Routes to Funding

- Arthur and Abigail A. started a business together which was so successful that they took it public. The stock did well. In their mid-50s, they decided to establish a family foundation. They signed the papers of incorporation and the same day contributed $25 million of their stock in the publicly held company to fund the foundation. As trustees of the foundation, they kept grantmaking to the 5 percent minimum payout for 5 years to build assets in the portfolio. Now that the assets have reached $50 million, they have increased the annual payout.

- Beatrice B. is an entrepreneur whose income varies widely from year to year. She formed a family foundation with her husband and children as trustees. She contributes to the foundation as little as $10,000 a year and as much as $500,000. As the foundation's assets grow, the trustees adjust grantmaking to meet the 5 percent minimum payout rule. Given the rate of return on the foundation's portfolio, the foundation's assets continue to increase in value.

- Lawrence L. worked hard as a lawyer and accumulated a tidy net worth. After talking with his wife and children, he formed a family foundation with zero assets and he, his wife, and their children were trustees. Until his death, he contributed $50,000 a year from current income, which the foundation gave out as grants and used to cover operating costs. In his will, he provided for his surviving wife and his children and grandchildren, and he made bequests to a few close friends, favorite charities, and his law school. The residue of his estate, about $10 million, went to fund the foundation.

- Patricia P. received substantial assets when her highly successful husband died. She established a charitable trust to support certain named charities, one of which was a family foundation that she created. The foundation has no assets; it receives $2 million a year from the charitable trust, which it passes through as grants to nonprofit organizations and also uses for operating expenses.

- Seth S. took over a struggling family business and built it into a successful international company. He and his wife formed a family foundation and the same day gifted $10 million in closely held company stock to the foundation. The company immediately bought the stock back from the foundation (complying with the rules regarding purchases of stock from a family foundation), generating $10 million in cash for the foundation.

- Wendy W., who lives alone, inherited $5 million on the death of her aunt, as did each of her four sisters and brothers. Wendy convinced her siblings to join her in forming a family foundation, with each contributing $1 million to fund the foundation. Wendy lived comfortably on her earned income, and continued to contribute 10 percent of her inheritance each year to the foundation in order to build its assets. The other siblings also made occasional contributions.