Linkages

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Where's The Horizon? Giving While Living, Defining the Endpoint, or Endowing for Perpetuity

How long should a giving program or foundation last? Is it best for donors to distribute their all philanthropic resources in their lifetime? Or should a giving program or foundation be established with a defined goal and endpoint – whether it's 10, 20 or 30 years? Or is it most effective to endow a foundation that will have permanent giving capacity? Each option has strong proponents, along with clear advantages and distinct drawbacks, and this issue of *Linkages* examines these three different philosophies.

While this is not a new debate, the discussion has intensified recently as the endowed foundation model faces questions from a variety of fronts. For many donors, a sense of urgency impels them to use all their resources now. Many highly engaged donors think in terms of making big investments to achieve scale and garner significant social returns. For them, giving is most effective – and most likely to pull others in to leverage funds – when there's a defined goal to be achieved by a certain date. Others have become increasingly concerned about the principle of donor intent, and what they perceive as the inevitable drift from a founder's focus to the priorities of subsequent stewards. Proponents of increased foundation payout, including some in Congress, doubt that maintaining a foundation in perpetuity is a worthwhile criterion for spending policy.

Balanced against these concerns is the perspective that foundations create unity and continuity for philanthropic families. In addition, supporters note, endowed foundations create the "capital market" for nonprofits – an ongoing source of potential funding. Those who argue this perspective ask us to imagine how businesses that need capital would react if, for example, JP Morgan Chase, Citibank, Wachovia, and Bank of America all announced they were getting out of commercial lending in the next 20 years, with the assumption that other banks would be created to fill the void.

Discussion on this topic is having an impact on giving plans. According to the Foundation Center's 2004 Foundation Giving Forecast Survey, about 70% of respondents intend their foundations to give in perpetuity. However, some recently established foundations say that they plan to spend down their endowments; over 10% of those founded in the last 10 years do not expect to exist in perpetuity, a higher percentage than among older foundations. Many newer foundations are being created with money earned during the stock market boom of the 1990's, and their creators approach philanthropy with an aggressive results-oriented approach.

Creating Impact in Your Lifetime

At a panel session developed by Rockefeller Philanthropy Advisors earlier this year for the Council on Foundations Family Foundations Conference, panelist Gerry Lenfest of the Lenfest Foundation discussed the fixed endpoint in the life of his foundation, and the benefits of this approach. "There is a great amount of satisfaction…in having impact in your lifetime, where you can give money away for good purposes and see it happen. And a lot of the entrepreneurial lessons learned in business can be applied in giving. Be innovative and make sure there is impact." Another panelist, Mario Morino of the Morino Foundation and a senior partner at General Atlantic Partners, felt strongly that the problems facing the world are best addressed by committing as much funding as possible while the issues are current and relevant. The world's problems change over time, and a foundation endowed in perpetuity may not be flexible enough to work on new and unpredictable issues as they arise, due to outdated missions. Panelist Gerry Lenfest noted, "what you consider important today may not be in the future." At the 2002 World Economic Forum, Bill Gates of Microsoft Corp. and the Bill and Melinda Gates Foundation said, "I don't want to wait until I'm in my 60's to address things, particularly things that are epidemic like AIDS, where if you catch it early the interventions are very dramatic." Many social problems might be most effectively fought through early and intense funding support, rather than smaller long-term grants from foundations that protect their endowments.

The notion of spending down a foundation's endowment within a specified time after the original donor's death is not new. Julius Rosenwald created a foundation with the wealth he earned as founder of Sears, Roebuck & Company, and stipulated that all the funds be spent by 25 years after his death; the Foundation closed in 1948, having spent $63 million. The Aaron Diamond Foundation, The Stern Fund, and Field Foundation more recently did the same. Rosenwald wrote about his decision to reject the perpetuity model, "Permanent endowment tends to lessen the amount available for immediate needs; and our immediate needs are too plain and too urgent to allow us to do the work of future generations." Believing that future generations will have the resources and relevant knowledge of the more pressing needs of their time, these funders focused on contemporary issues with current resources. John Healy, the CEO of Atlantic Philanthropies echoes this mindset, stating that the foundation created by entrepreneur Chuck Feeney prefers to spend its endowment on the problems of today, rather than "pretend that we can deal with the problems of future generations."

The uncertainty of the stock market has also led some funders to spend their endowments rather than wait for potential losses resulting from market downturns. Some philanthropic advisors tell their clients that the social investment they make through grants has far greater returns than the potential financial earnings of the foundation's endowment. Paul Jansen of McKinsey & Co.'s Institute on the Nonprofit Sector says that for foundations to give only the 5% minimum per year represents "a tremendous cost to society." Especially when endowments are reduced due to stock market declines rather than by spending down the endowment through grants, he asks the question, "Would we all have been better off if you had given that money out last year and had it deliver benefits, than we are now, with your having lost 15-30% of it in the stock market decline?" Foundations' endowments exist, he argues, to do social good. It's just a matter of when the benefit happens; the sooner the better.

The Long View: Institutions Matter

While increasing numbers of foundations are placing greater value on seeing the effects of their giving during their own lifetimes, the majority of foundations still structure their giving so it will continue in perpetuity. In the U.S., the largest and oldest foundations take a long-term approach to philanthropy. One of the panelists at our session was Neva Goodwin Rockefeller, a Rockefeller Brothers Fund trustee and Co-Director of the Global Development and Environmental Institute at Tufts University. She values the power of collaboration, not only with other current funders, but also with generations of funders yet to come, in effecting lasting social change. "Institutions allow people to share ideas, to build on one another's achievements, to work over the long term on problems that require a long-term approach," she said. She acknowledged that the mandates of foundations that operate in perpetuity must be flexible and broad enough to change focus as the needs of the community change, but feels that as long as the central values that inform the foundation's mission remain constant, the giving programs can evolve as needed. "What the founder and the trustees need to be very clear about are values and the ultimate goals supported by these values."

Ms. Goodwin also discussed the role of long-term foundations in balancing the increasing power that corporations play in our society. She points out, "corporations can roll up ever greater accumulations of money and power… We need countervailing powers." Foundations that grow through time and examine the problems of the world from a long-term perspective provide a balance to the corporations that can also grow and change over long periods of time. The argument of following a business model in designing a foundation's giving can be used either to promote spending down the endowment or giving in perpetuity; just as different businesses structure themselves around fast profits in growth industries or continually reinvest in themselves for long-term growth and durability, so too can foundations.

Does Perpetuity Equal Knowledge and Expertise?

Some foundations that exist in perpetuity have been able to use their permanent endowments to invest in the knowledge and expertise of their staff. As David Bank wrote in the *Wall Street Journal* in his September 2002 article, "Giving While Living; Some Foundations Have a New Idea: Spend It All Now," these foundations may be better equipped to provide technical assistance and strategic leadership to the organizations that they support. When foundations have more resources to commit to the size and quality of their staff, they may be more likely to find smaller or newer grassroots organizations to fund that might otherwise have gone unnoticed. Robert O. Bothwell notes this possibility in his article of *The International Journal of Not-For-Profit Law*, "Should Foundations Exist in Perpetuity?" from September 2003. If foundations are focused only on spending down the endowment, they may miss opportunities to cultivate smaller grantees and assist them in developing strong proposals. This could also be an unintended result of proposed legislation that would require increased payouts, or if foundations cut administrative expenses that no longer count toward the 5% minimum payout.

Many creators of long-standing foundations agree with the Rosenwald viewpoint "that more good can be accomplished by expending funds as Trustees find opportunities for constructive work than by storing up large sums of money for long periods of time." Writing for the Philanthropy Roundtable, Martin Morse Wooster discusses philanthropic peers who supported his views: "Rockefeller Foundation president George Vincent, for example, wrote that the case against 'specific permanent endowments' has 'been proved over and over again.' Edward A. Filene, the department store magnate who founded the Twentieth Century Fund, declared Rosenwald one of America's ten most important business executives because his 'business experience has led him to see through the shams of philanthropy and the pretenses of greatness which so often go with the accidental accumulation of great wealth.' Robert Brookings, founder of the Brookings Institution, told Rosenwald that the wealth he had given away 'was insignificant' compared to 'the value of this idea' of term limits for foundations." Despite these endorsements, however, the Twentieth Century Fund, the Brookings Institution, and the Rockefeller Foundation all continue to exist today. Their founders felt that those fighting the social problems of the future were just as deserving of resources as those working during their lifetimes, and ensured that they would leave a legacy of support for their missions.

In deciding which approach to take, all the panelists at our session urged funders to consider their priorities and the goals they wish they accomplish through their giving. Mario Morino says that what matters to him is seeing the impact that his philanthropy has on his areas of focus, as well as having a long-term effect: "You want to see the results. You're involved in it, so you want to be around… to affect the system in some long term way." Gerry Lenfest wants to keep a sense of innovation and flexibility in his family's giving, and urges funders to "follow your gut" in determining how best and how quickly to work toward the foundation's goals.

Neva Goodwin urges foundations to continue to examine their goals and strategies, and that constant evaluation can keep long-standing foundations relevant and responsive to the needs of the world around them. "Look for the systemic causes, think long-term, keep asking the question: What makes the world a better place? If you keep asking that over and over again, you are prepared to respond to change… The responsibility to keep asking those questions is a critical part of the responsibility of the trustees."

The Three Options: A Quick Summary

Giving While Living

Advantages:

- Personal involvement
- Donor intent protected
- Fast deployment
- Big investments with big potential

Drawbacks:

- Complex timing and planning
- Harder to collaborate
- Tends to favor big nonprofits
- Harder to take the long view
- Will new giving sources emerge?

Defined Endpoint

Advantages:

- Clear goals and timeline
- Clear information for nonprofits
- Timing can relate to issue, not donor
- Good structure for collaboration

Drawbacks:

- Underestimating challenge
- Artificial deadlines
- Complex management

Endowing In Perpetuity

Advantages:

- Allows for evolution
- Principal can support granting
- Forms the ongoing "capital market" for nonprofit sector
- Structured for very long-term efforts

Drawbacks:

- Principal not fully utilized
- Institution can "calcify"
- Donor intent may drift

Linkages in Philanthropy is a bi-monthly newsletter published by Rockefeller Philanthropy Advisors. "Letters to the Editor" with opinions, suggestions and information are most welcome. Letters should be addressed to:

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