

Frequently Asked Questions About Philanthropy

# Do I Spend Down or Form a Foundation in Perpetuity?

According to a 2009 [Foundation Center](#) report, 12 percent of foundations plan to spend-down their assets, and 63 percent plan to give in perpetuity. What's surprising is that 25 percent of foundations are undecided. No one likes to dwell on his or her own mortality, but thinking about how you want your philanthropy to be managed after your lifetime is essential.

Why? First, if you are the foundation's creator and you don't make your wishes known, then others will eventually make this decision for you (if history is our guide, they'll probably opt for giving in perpetuity). Second, you will face different strategic choices based on your decision, so getting clear will ensure that your philanthropy has the best chance of delivering the results that you seek.

No one likes to dwell on his or her own mortality, but thinking about how you want your philanthropy to be managed after your lifetime is essential.

To help you think through the decision to spend down or give in perpetuity, let's look at some important considerations and next steps.

## Why spend down?

Bill and Melinda Gates, driven by the urgency of the causes they support, and by the potential to effect great change, have made plans to close their foundation 50 years after the death of its last founding trustee. "The more I learned, the more I realized there is no time," Bill Gates said of their decision. "Disease won't wait." Warren Buffett is similarly—and famously—in this camp. Is it right for you? It may be if:

- **You are passionate about problems you believe you can help solve in your lifetime—and you believe future philanthropists will emerge to address future problems.** Some of today's most prominent philanthropists, including the Gates Foundation and Atlantic Philanthropies, did not exist 25 years ago. As former Atlantic President and CEO Gara LaMarche put it, "In another 25 years, there will be other resources available, so why not do what we can in our lifetime to make an impact on social problems?"
- **There are things that you can do while you're alive—such as contribute your particular skills or passion—that will direct this money to its best use.** As Tom Steyer and his wife Kat Taylor wrote in their Giving Pledge letter, "We have strong opinions based on lessons learned about how to 'invest' our resources on behalf of the common cause." Furthermore, excellence is self-imposed. Some believe that the founder plays a key role in ensuring high-performance and adherence to values. As Buffett writes in his [2006 Berkshire annual report](#), "I've set this

schedule because I want the money spent more promptly by people I know to be capable, vigorous, and motivated. These managerial attributes sometimes wane as institutions—particularly those that are exempt from market forces—age.”

- **You worry there may not be people interested in carrying the torch; and even if they are interested, it can be a challenge to preserve true donor intent across generations.** Today’s philanthropists don’t presume that future generations will share their charitable interests. As Carrie Avery, third-generation president of the Durfee Foundation, explained, “Donors and their children have usually lived together and have similar values, [but] as you move down the family line, people are different and have different views. It can be much harder to hold things together.” To some extent, intergenerational distance between a donor and his or her heirs is inevitable.

## What steps should I take if I want to spend down?

- **Revise your strategy to reflect your giving timeline.** LaMarche explains that when Atlantic decided to spend down its assets, it also narrowed its strategic focus to four program areas in which Atlantic believed it could have an impact in its limited lifespan. In addition, there are also operational considerations (e.g., are your assets sufficiently liquid to fund shorter-term grantmaking; do your staff understand the implications of limited-life employment?).
- **Help grantees plan accordingly.** Every time a foundation closes its doors, its grantees must redouble their efforts to replace funding. This funding may be especially hard to come by for grantees that operate in a specialized area. It is also hard on grantees to lose a trusted relationship. “These are groups with whom we’ve cultivated relationships,” says Alice Cottingham from the Girl’s Best Friend Foundation, which closed its doors in 2007. “We’ve been their ally as well as their funder.” Take note of the many things you can do to mitigate the impact. See the article “[Saying Goodbye](#)” for more thoughts on exiting grantee relationships thoughtfully.

### Additional Reading

- “[A Classic Study of Donor Intent](#),” Philanthropy Roundtable
- “[Perpetuity or Limited Lifespan: How do Family Foundations Decide](#),” The Foundation Center
- “[Winding Down the Atlantic Philanthropies: The First Eight Years: 2001-2009](#),” Atlantic Philanthropies & Duke University Center for Strategic Philanthropy & Civil Society

- **Communicate your decision to the public.** Your decisions may affect others' choices. For example, when the Whittaker Foundation announced its plans to close, grantees were concerned. "No one else was supporting the field they way we were," said Director of Communications Frank Blanchard. "But since then, other organizations have increased their support for biomedical engineering, and things are definitely looking brighter."

## Why give in perpetuity?

Families such as the Rockefellers and the Hiltons have inspired future generations to make their own mark on humanity by requiring them to carry the family's mission forward, and planning to give in perpetuity. Giving in perpetuity may be the best choice for you, if:

The Nobel Foundation has made adjustments overtime ... while staying true to its founder's wishes.

- **You are passionate about problems you believe will be with us forever, and you see the value of a constant resource—available in good times and bad.** Take Alfred Nobel, whose foundation has awarded prizes for outstanding achievement in physics, chemistry, medicine, and literature, and for efforts to promote peace since 1901. The Nobel Foundation has made adjustments over time—including adding a new prize for economics in 1969—while staying true to its founder's wishes. Meanwhile, the prize's longevity adds to its distinction.
- **You'd like to see family engagement across the generations, and you believe yours will honor your intent.** To ensure that the Conard N. Hilton Foundation remains a family foundation, the board of directors instituted a policy that a majority of the directors shall always be composed of direct descendants of Conrad Hilton. Today, two second-generation and four third-generation family members serve on the

### Ask Yourself...

- Would I rather use my money for today's problems or reserve money for tomorrow's problems as well?
- Would my involvement help to ensure my resources would be put to their best use?
- Would endowing my philanthropy in perpetuity be a burden for my family—or an opportunity for future generations to make a difference?

board. Key sections of Conrad Hilton's Last Will and Testament are displayed in the office and serve as the foundation's guiding principles.

- **You like the idea of leaving a legacy.** The Rockefellers are one of the most prominent families known for their philanthropy legacy. "Our family has created a long list of institutions—nearly 100 over the years—and I think this fact speaks to how the example set by Grandfather and Great-Grandfather includes the spirit of entrepreneurship," writes Elieen Rockefeller Growald, Founding Chair of Rockefeller Philanthropy Advisors.

## What should I do now if I want to give in perpetuity?

- **Craft a clear, flexible statement of donor intent so your philanthropy can respond to needs over time.** If giving in perpetuity is your ambition, this is the one task on your plate—but it's a vitally important one. If your statement of intent is too rigid, future generations may feel as though they are bound by guiderails that don't apply to current times. On the other hand, if your statement is too vague, future decision-makers may stray far from your aspirations. Andrew Carnegie understood the importance of flexible, clear guidance when he set up Carnegie Corporation of New York in 1911 with \$125 million. He gave his trustees very wide latitude to adjust the work of the foundation to suit the times, stipulating only that the foundation "promote the advancement and diffusion of knowledge and understanding." He also acknowledged, "An endowment is created with flexible guidelines that enable future generations to adjust programs to meet changing needs."

---

### SOURCES USED FOR THIS ARTICLE:

- U.N. Secretary General's Luncheon United Nations, Bill Gates, Co-founder of the Bill and Melinda Gates Foundation (May 2002)
- "Turning Passion Into Action: Giving While Living," *Atlantic Philanthropies* (June 2010)
- Tom Steyer & Kat Taylor Letter, Giving Pledge (accessed September 2011)
- "Foundations With a Limited Life," *New York Times* (November 2010)
- "Alternatives to Perpetuity: A Conversation Every Foundation Should Have," National Center for Family Philanthropy (2005)
- Bridgespan interviews with Carrie Avery
- "Foundations' Longevity Should Be Valued," *The Chronicle of Philanthropy* (September 2008)
- "In The Footsteps of Extraordinary Men," Hilton Foundation (accessed September 2011)
- Barron Hilton Letter, Giving Pledge (accessed September 2011)
- "Three Centuries of Rockefeller Family Philanthropy," Rockefeller Philanthropy Advisors (2005)
- "Here and Now or Forevermore," *Foundation News & Commentary* (January/February 2005)
- "Perpetuity or Limited Lifespan: How do Family Foundations Decide," The Foundation Center (April 2009)