The Bridgespan Group

Six Pathways to Enduring Results: Lessons from Spend-Down Foundations

Why an increasing number of philanthropists have elected to give away their money by a fixed date

By Amy Markham and Susan Wolf Ditkoff

Collaborating to accelerate social impact

October 2013

After more than three decades as a philanthropist, Swanee Hunt decided in 2012 to spend down the remainder of her foundation's assets over the next 10 years. As founder and chair of the Hunt Alternatives Fund, the politically progressive daughter of oilman H. L. Hunt has committed more than $120 million to social change initiatives since 1981. Much of that support has gone to stopping global sex trafficking and inspiring women to achieve political leadership positions. Now 63, Hunt wants to enact a "big, big push" on behalf of the women's issues she has long championed.

"The reason I chose to spend down was because a lot of my contacts are retiring or dying," she explains. "Working on a project with someone you've known for 25 years is very different from working with her replacement, whom you've known for six months."[1] A former US ambassador to Austria and founder of the Women and Public Policy Program at Harvard's Kennedy School, Hunt has a personal network of potential collaborators spanning the globe that creates powerful opportunities for her foundation—opportunities to effect lasting change that are greater now than they will ever be again.

Hunt's decision to spend down puts her in good company. Whether it is Atlantic Philanthropies' decision to spend its entire multibillion dollar corpus by 2016, or Bill and Melinda Gates' decision to close their foundation within 50 years of their deaths, we at The Bridgespan Group see a growing number of donors resolving to give away most or all of their resources within a defined time frame.

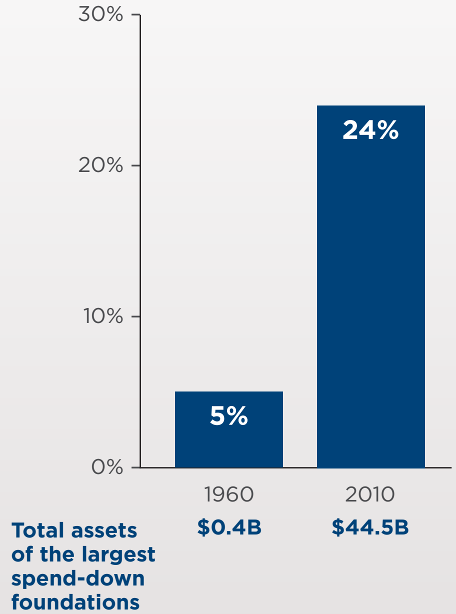
"The trends are unmistakable. Not only are today's newly established foundations announcing the intention to spend down at an increased pace, but they are also dwarfing their mid-20th century counterparts with respect to the assets they intend to disburse," says Joel Fleishman, faculty chair of the Duke University Center for Strategic Philanthropy and Civil Society, who has spearheaded pioneering research in this field.[2]

"These newer philanthropists [like Omidyar, Gates, Marcus, Blank, and Feeney] have assets at the billion-dollar or higher levels." Survey data from the Foundation Center and Urban Institute show that 8 to 12 percent of foundations have decided to spend down their assets, and another 16 to 25 percent are considering it.[3]

Fifty years ago, only 5 percent of the total assets of America's largest 50 foundations were held by spend-downs, compared to 24 percent in 2010.[4] Spend-downs are even more influential when measured as a percent of giving, since they disburse money at a higher annual rate than foundations that aim to last forever. In 2010, 31 percent of giving from the largest foundations came from spend-downs (a figure that reflects the outsized effect of Bill and Melinda Gates and Warren Buffett).

Spend-down foundations have grown significantly over the last 50 years

% of assets of the 50 largest foundations held by spend-downs



And these foundation statistics do not begin to encompass the total appetite for giving while living, since many philanthropists donate directly rather than through foundations. For instance, David Rubenstein, cofounder of the private equity firm, The Carlyle Group, has pledged to give away the majority of his $2.5 billion personal wealth without a foundation. Bridgespan recently interviewed more than 50 major philanthropists and found that four in 10 have decided to spend down much or all of their resources. Foundations are only one vehicle among the proliferation of options, including donor-advised funds, community foundations, personal giving, corporate giving, and more. Why are so many donors now electing to give away their money over a defined interval rather than in perpetuity?

Deciding to spend down

The decision to spend down appeals to donors for many reasons, but one stands out: results. Many philanthropists believe that going big over a short period of time, particularly while they are living, will afford them greater influence on the issues they care most deeply about. They can spend more each year than a perpetual foundation with similar resources, and the external pressure imposed by a declared deadline provides discipline in achieving results. Moreover, the knowledge that their giving will cease at a known future point is a powerful motivator to use their time and money wisely. Without the luxury of perpetuity, spend-down philanthropists strive for much greater clarity on exactly how each initiative and investment will create impact that endures.

Other considerations also come into play. Many philanthropists enjoy directing where their money goes and seeing its effects. "The wonderful feeling of helping somebody—how am I going to get that from the coffin? Why wouldn't I want to do it while I'm alive?" asks Bernie Marcus, cofounder of Home Depot.

Moreover, philanthropists like Marcus and Hunt relish the chance to use their skills, networks, and reputation to multiply the impact of their funds. “I consider myself to be a pretty good businessman, so when I give money now, I try to make something better,” Marcus adds.

Other donors disburse their money during their lifetimes to avoid the possibility that a perpetually endowed foundation might drift away from their intent, shun risk-taking, or lapse into mediocrity without the donor’s active oversight. “If you look at most foundations that have been around for a long time, with rare exceptions, they become quite bureaucratic. They have lots of silos,” explains spend-down philanthropist Herb Sandler. But when you’ve fixed a date to turn out the lights, every grant is an attempt to make a lasting difference now—before the money runs out. “I tell foundation trustees to act as if they were sunsetting starting day one, because of the focus and hyper-vigilance and due diligence about every dollar spent,” says Lauren Merkin, a board member of the AVI CHAI Foundation, which will close in 2020.

As the number of sunsetting foundations grows, so too do the lessons on how to do it well. Those lessons have value for all philanthropists, because even if a foundation plans to continue in perpetuity, no grant, strategy, or program lasts forever. Nearly every philanthropist regularly decides to exit certain strategies or causes, and thus has the opportunity and responsibility to think with the self-imposed discipline and acute focus of a spend-down.

From our decade-plus of experience advising results-oriented philanthropists, we have distilled six pathways that can lead to enduring change: 1) investing in the **people** who will become the field’s future leaders, 2) building the capacity of **powerful institutions and networks** to continue making progress, 3) influencing other **philanthropists**, 4) funding **proven programs** that create lasting results, 5) supporting **pioneering research** to develop new solutions, and 6) changing **government policies**.

These six are not the only possibilities, but they are well-proven approaches that many have found successful. In our experience, thoughtfully considering all six pathways and concentrating on a few makes it substantially more likely that your investments will create lasting results.

Choosing the best pathway is a complex decision that depends on many factors, and the pathways can be mutually reinforcing. So it can be tempting to pursue all or most of them simultaneously. However, just as no single nonprofit or company can execute six lines of business with excellence, no one philanthropist (or foundation) can make outstanding grants across all six pathways.[5] Having a clear, focused approach allows philanthropists to hire appropriate staff, develop deep expertise, and form strong partnerships in the most critical areas. To help clarify the trade-offs, in the examples that follow we describe a philanthropist who has successfully pursued each of the pathways.

Pathway 1: People

Invest in people who will become the field's leaders and carry your values and priorities into the future.

Zalman Chaim Bernstein, founder of Sanford Bernstein & Co. and the AVI CHAI Foundation, believed strongly that his money should be given away by people he knew and trusted. He meticulously selected trustees who shared his passionate commitment to strengthening Jewish community, literacy, and observance. Bernstein directed the trustees to spend down his foundation's resources within a short period after his death so that there would be no need to select replacements who might take it in a different direction.[6]

As AVI CHAI approaches its sunset in 2020, it has followed Bernstein's principles and invested heavily in developing leaders for Jewish institutions. In particular, it has supported Jewish day schools and camps, which research shows play a crucial role in engaging the next generation. To this end, AVI CHAI helped create the Day School Leadership Training Institute. This 15-month program of summer sessions, retreats, individual mentoring, and peer support deepens participants' knowledge of Judaism, personal commitment to Jewish values, and practical skills for infusing Judaism into schools. Most alumni become principals or division heads at day schools. Even after AVI CHAI closes, the foundation expects that the people it has trained will continue to shape the next generation.

Investing in people is particularly promising in fields that rely primarily on a flow of talented individuals. It's also useful if the chosen issue is evolving over time and will thus need leaders who can react to changing circumstances.

Pathway 2: Powerful Institutions

Invest in a powerful institution or network so it can continue to meet evolving challenges.

John Olin believed passionately in the American free-enterprise system and decided to use his family fortune "to help to preserve the system which made its accumulation possible in only two lifetimes, my father's and mine."[7] The John M. Olin Foundation, which spent down between 1953 and 2005, built powerful pro-market institutions that have shifted the national conversation.

In 1982, the foundation gave seed money to a loosely organized collection of law students at Yale, Harvard, Stanford, and the University of Chicago to fund a national symposium on federalism. Out of this conference, keynoted by Robert Bork and attended by rising stars such as Antonin Scalia and Richard Posner, the Federalist Society was born. Soon, chapters at nearly all prominent law schools sought to challenge "the prevailing liberal orthodoxy on campus" and to help connect and support conservative students. The Olin Foundation provided over half the budget of the Federalist Society in the early years and granted more than $5.5 million over the following two decades.

Today, almost a decade after the foundation closed, the Federalist Society continues to thrive, actively promoting limited government and judicial restraint. It has chapters at more than 200 law schools, and its membership includes four current Supreme Court justices.[8] Conservatives consider it an influential counterweight to the liberal-leaning American Bar Association.

Supporting an institution, either existing or new, can be an effective way to lastingly influence complex or evolving issues. A strong organization or network can provide a valuable base where like-minded individuals can build on each other's efforts over time.

Pathway 3: Philanthropists

Cultivate other philanthropists who will support the field or program in the future.

After decades of philanthropic activity, Charles Bronfman and his wife Andrea decided in 2001 to sunset their foundation by 2016. They knew that setting a deadline would create the discipline needed to ensure that their work would succeed without them.

Having watched his father Samuel, the founder of Seagram's, tirelessly encourage peers to give generously to community efforts, Charles knew that partnerships were critical to extending one's reach. So Bronfman joined with hedge-fund pioneer Michael Steinhardt to create Taglit-Birthright Israel offering free trips to Israel to Jewish young adults. After each provided $8 million of seed money for the first trips, they realized that the organization's long-term potential could only be secured by having a broad group of committed donors. They recruited 14 friends to contribute $5 million each over five years and the State of Israel to contribute $70 million in matching funds.

"The success had to be bigger than Michael and me," Bronfman recalls. "It had to be owned by and embedded in the community." As the first core funders completed their commitments, broadening the partnership and enlisting the next generation was going to be crucial to Birthright's durability. In 2005, they created a permanent board whose members would collectively invest millions more and cultivate new donors.

Bronfman and Steinhardt also instituted a rigorous evaluation system to strengthen the program and demonstrate its effectiveness to donors. From two founders in 2000, the program is now supported by more than 30,000 philanthropists, plus the Israeli government. Collectively, they have sent nearly 350,000 young adults to Israel and raised over $120 million in 2012 alone.

Cultivating new funders or new approaches by existing funders begins with building relationships that allow you to understand and motivate other donors, who have their own personal values and priorities.

Pathway 4: Proven Programs

Expand proven programs to increase the breadth or depth of their impact.

Spend-down philanthropist Josh Bekenstein, a managing director at Bain Capital, first encountered Year Up through an intern hired by his firm's IT department. Founded by entrepreneur Gerald Chertavian, Year Up provides low-income young adults with six months of intensive classroom training in professional skills, followed by a six-month corporate internship. Its graduates earn roughly 20 college credits and are qualified for entry-level jobs in careers with living wages and upward growth potential, such as technology and finance. One rigorous study found that Year Up participants earned 30 percent more than control-group members in the year after the program. Year Up is now tracking how its alumni fare over the longer term, and preliminary results are promising.[9]

"Year Up is an incredible program. If you're an 18 to 24 year old not trained for any skilled jobs, what's your future?" Bekenstein says. "How are you going to build a good life for yourself and your family? After Year Up, many participants get jobs making $30,000 to $40,000 a year, as opposed to making $10,000 or $15,000 unskilled. And Year Up graduates are a great example and inspiration for other kids in the community. It's one of the most effective models I've seen."

Support for Year Up demonstrates a broader commitment to results-oriented philanthropy by Bekenstein and his wife, Anita. "We're results oriented," he explains. "If an organization does a good job, we continue supporting them and increase our support for the best ones, so they can grow and prosper and spend time on their programs as opposed to fundraising."[10]

Many philanthropists invest in programs with high hopes for lasting impact. But while many interventions have a great idea and a few dramatic success stories, anecdotes aren't always representative. The key to this pathway is investing in programs that actually change the lifetime trajectory of beneficiaries as evidenced by measurable long-term results and rigorous data.

Pathway 5: Pioneering Research

Support pioneering research that can accelerate the field.

In the mid-1980s, philanthropist Irene Diamond was alarmed by the AIDS epidemic beginning to ravage her hometown of New York City. Fear, prejudice, and confusion were hindering government and institutional investments in AIDS research, she learned. "Decision makers felt that those dying of AIDS were negligible elements in society—gays, racial minorities, the poor, and drug addicts," explains Diamond Foundation former executive director Vincent McGee.[11]

A few years earlier, Irene and her husband Aaron, a real estate developer, had decided to give most of their assets to their foundation and committed to spending down. After Aaron died suddenly in 1983, Irene established the Aaron Diamond AIDS Research Center (ADARC), making the Diamond Foundation the largest private funder of AIDS research in the United States.

The new center opened in 1991 and soon began making valuable scientific advancements. ADARC pioneered the use of combination “cocktail” drug therapy to treat AIDS, which has helped reduce the death rate from HIV in America to one-fifth of what it was 20 years ago. The center also developed protease inhibitors, clarified the virus’s path in the body, and identified a gene mutation that confers immunity to HIV. In 1996, the year the Diamond Foundation closed, *Time* magazine selected ADARC’s director Dr. David Ho as Man of the Year for his team’s ground-breaking AIDS research, which saved millions of lives.

Investing in research can be a powerful lever for lasting influence if information gaps or urgent questions are preventing progress on a chosen issue or if creating new knowledge could be a powerful lever to influence the field. The effects of the research become the philanthropist’s ongoing legacy.

Pathway 6: Policy Change

Invest in the development or adoption of government policy.

Atlantic Philanthropies, which plans to close by 2016, has long been committed to improving health and health-care delivery. In early 2008, Atlantic gave $25 million to found a coalition—Health Care for America Now (HCAN)—aimed at winning affordable and comprehensive health care for all Americans. At the time, there were promising signs that health-care reform could emerge as a major issue during the 2008 presidential campaign.

Over the next two years, HCAN expanded its network of supporters, mobilized grassroots activists, and built a national field operation. It produced thousands of lobbying visits, events, town-hall meetings, and calls to Congress during the grueling legislative fight.

Victory was anything but certain. In December 2009, when the Democrats lost their 60th Senate seat and their filibuster-proof majority, prospects looked particularly grim. Instead of backing off, the Atlantic board made an additional grant to HCAN. Atlantic’s advocacy experts calculated it might be the best opportunity for universal health care in Atlantic’s remaining lifetime, and they didn’t want it to slip away.[12]

An independent evaluation of HCAN concluded it “played an important and valuable role in passing health-care reform. It was crucial in mobilizing the progressive base, assembling a progressive coalition, and keeping it united and engaged through a long and arduous campaign.”[13]

The policy change pathway is not for the faint of heart. Advocacy means taking risks and facing potential controversy. It requires the right social issue, where policy changes make a significant difference. Ideally, there would be a promising window of opportunity, where the potential changes are politically feasible: a news event galvanizing public opinion, a crisis demanding action, a changing of the political guard, or a strong public sponsor.

Finding your pathway

Which pathway is best for you? It's a complex decision but there are three things to consider: 1) your values and beliefs, 2) data and analysis, and 3) your time frame and resources.

Regarding values, do you have a starting inclination towards funding along one of these dimensions? For example, do you believe that change depends on strong leaders or that organizations are more durable than individuals? Are you comfortable with controversial advocacy positions or soliciting other funders, or would you prefer to maintain a lower profile? Such questions will help you to clarify the values and beliefs that steer your pathway choice.

Second, you need to analyze the state of the field to understand what is needed to unlock significant progress over the coming years. Is there an institution well-positioned for you to invest in? A proven program ready for expansion? A window to advocate for a particular policy? A research need?

And third, you also need to consider the resources at your disposal and your time frame for investment. For instance, if the spend-down date is 30 years away, the best path might entail incubating a new institution or evaluating a program's long-term effects. If the foundation or program is ending in two years, cultivating partnerships may be a better focus. If conditions are likely to evolve after the investment ends, supporting institutions or leaders who can adapt may provide more flexibility than investing heavily in unproven programs.

Pathways do overlap at times. For example, Irene Diamond supported research by building a powerful institution, and the Taglit-Birthright Israel pursued its mission through partnerships with other philanthropists. However, while it may seem tempting to pursue all or most of the pathways simultaneously, this is almost certainly not the highest and best use of your resources.

Certain pathways could combine well and amplify results. Funding research to prove the effectiveness of a promising program could lead to advocacy for government funding. However, evaluating a research proposal requires very different skills than charting advocacy strategy. Each pathway requires distinct expertise, so avoid spreading your efforts and resources too thinly. Carefully thinking through your goals and the pathways appropriate to accomplish them takes time and hard work. But spend-down philanthropists that have done it can testify that the payoff is worth the effort. The result is a clear strategy and better odds of results that will endure long after the last dollar is spent. In that regard, all philanthropists can benefit from thinking like a spend-down, both when developing a new strategy and when planning to exit one. By embracing the six pathways framework, all philanthropists—perpetual and spend-down—can maximize their chances of achieving lasting social change.

Notes

1. The Bridgespan Group "Give Smart" interview with Swanee Hunt, 2012, http://www.givesmart.org.
2. Center for Strategic Philanthropy and Civil Society, Duke University, http://cspcs.sanford.duke.edu/.
3. Francie Ostrower, "Limited Life Foundations: Motivations, Experiences and Strategies," (The Urban Institute, February 2009); and Loren Renz and David Wolcheck, "Perpetuity or Limited Lifespan: How Do Family Foundations Decide?" (The Foundation Center, April 2009).
4. These figures are based on a Bridgespan analysis of lists of the largest foundations published by the Foundation Center. The 2010 list is available on the Foundation Center's website. The 1960 list is available in a chapter called "An Economic History of Large Foundations" by Ralph L. Nelson in *America's Wealthiest and the Future of Foundations*, edited by Teresa Odendahl and published by the Foundation Center in 1987.
5. William Foster and Susan Wolf Ditkoff, "When You've Made Enough to Make a Difference," *Harvard Business Review*, January 2011.
6. Joel L. Fleishman, *First Annual Report to The AVI CHAI Foundation on the Progress of its Decision to Spend Down*, (Center for Strategic Philanthropy and Civil Society, Sanford School of Public Policy, Duke University, April 4, 2010).
7. John J. Miller, *A Gift of Freedom: How the John M. Olin Foundation Changed America* (Encounter Books, 2006), 23.
8. The Federalist Society for Law and Public Policy Studies, "Frequently Asked Questions," 2013, http://www.fed-soc.org/aboutus/page/frequently-asked-questions.
9. Mark Elliott and Anne Roder, "A Promising Start: Year Up's Initial Impacts on Low-Income Young Adults' Careers," (Economic Mobility Corporation, April 2011).
10. Bridgespan "Give Smart" interview with Josh Bekenstein, 2012, http://www.givesmart.org.
11. Scott Kohler, "The Aaron Diamond AIDS Research Center: Aaron Diamond Foundation, 1987," in *Casebook for The Foundation: A Great American Secret* by Joel L. Fleishman, J. Scott Kohler and Steven Schindler (Public Affairs, 2007).
12. Gara LaMarche, "A Big Bet on Advocacy Helps to Make History on Health Care," (Atlantic Philanthropies, March 22, 2010).
13. Dan Cramer and Tom Novick, "HCAN Evaluation: Executive Summary," *Grassroots Solutions* and *M+R Strategic Services*, September 21, 2010, http://www.atlanticphilanthropies.org/learning/evaluation-executive-summary-findings-and-lessons-hcan-campaign.

Susan Wolf Ditkoff is a partner and the coleader of the Philanthropy practice in The Bridgespan Group's Boston office, where Amy Markham is a manager. Special thanks to Bridgespan Associate Consultant Colin Murphy who assisted with this research.

BOSTON
535 Boylston St., 10th Fl.
Boston, MA 02116
Tel: 617 572-2833

NEW YORK
112 West 34th St., Ste. 1510
New York, NY 10120
Tel: 646 562-8900

SAN FRANCISCO
465 California St., 11th Fl.
San Francisco, CA 94104
Tel: 415 627-1100

www.bridgespan.org