APRIL 2009

Highlights of

Perpetuity *or* Limited Lifespan: How Do Family Foundations Decide?

Intentions, Practices, and Attitudes

Foundation donors and leaders are engaging in an increasing number of conversations on the phenomenon of foundation "spend-down," or limited lifespan. These discussions have been spurred by the heightened visibility of individual philanthropists who have announced their intention to limit their foundation's lifespan and by the fact that many family foundations created in the 1980s and 1990s are now facing a transition in leadership that leads them to consider foundation lifespan options that may be open to them.

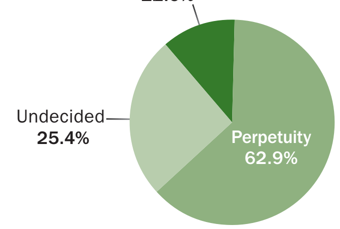
To answer the basic question of how many active family foundations are planning to spend down or exist in perpetuity (or have not yet made a decision), and to examine foundations' motivations and decision-making, the Foundation Center, in collaboration with the Council on Foundations and with additional assistance from the Association of Small Foundations, launched a study of family foundations in 2008. The report, *Perpetuity or Limited Lifespan: How do Family Foundations Decide?*, presents the full range of study findings, which are based on survey responses from 1,074 family foundations. This brief summarizes key findings from the report.

KEY FINDINGS

This study's most basic finding is that while perpetuity is the norm for the majority of existing family foundations, a small segment (12 percent) plan to limit their lifespan or are in the process of spending down while a larger segment (25 percent) are currently undecided, either because they have not yet discussed this issue or because of uncertainty about the family's future involvement in the foundation. These findings are based on the first national survey on this topic to target a very broad cross-section of active family foundations—more than 5,800. While the study provides a reliable snapshot of the current intentions of family foundations, it is not intended to generalize about all foundations nor should the findings be considered indicative of foundation practices during any time period other than the present. Nevertheless, the core findings are consistent with the results of a smaller Foundation Center survey conducted in 2004.

Foundation operating characteristics influence the lifespan options of active family foundations. In general, small foundations established since 1980 that do not employ paid staff and whose founder is still living are the most likely to plan to limit their lifespan though the percentage who expect to spend down is still modest; those that do not fund their grants out of endowment are especially likely to expect to spend down. In contrast, more mature, larger, staffed foundations whose founder is deceased are the most likely to plan to exist in perpetuity. Smaller foundations formed in the past two decades are the most likely to be undecided.

Foundation Lifespan Plan: Limited Lifespan, Perpetuity, Undecided



Total No. of Foundations = 1,074

SOURCE: The Foundation Center, *Perpetuity or Limited Lifespan: How do Family Foundations Decide?*, 2009.

Having a living founder is an especially strong determinant of lifespan planning choices. Foundations with a living founder are three times more likely to expect to spend down than those whose founder is deceased and they are almost twice as likely to be undecided. Not surprisingly, the proportion of family foundations with living founders steadily increases as foundation age decreases—for all categories of foundations. As the proportion of living founders grows by decade, so too does the rate of limited-lifespan responses. The influence of a living founder is strongest among foundations formed in the 1980s and 1990s. Roughly one-sixth of foundations formed in those decades and whose founders are living plan to spend down. It appears that having a living founder increases the chance that a foundation will consider alternatives to perpetuity or leave the door open for future consideration.

Most family foundations do not incorporate a decision about intended lifespan into their founding documents. The majority of survey respondents (55 percent) have a charter that neither specifies perpetuity nor includes a sunset clause. Only about one-in-four foundations made a formal decision about their intended lifespan at inception that was incorporated into their charters. Of those that did, a large majority planned to exist in perpetuity. Interestingly, a handful of perpetual and limited-life foundations have a charter that specifies a contrary option. Perhaps in such cases the by-laws of family foundations were written in a way that allowed flexibility should the founder change his mind while still alive or should the decision no longer make sense.

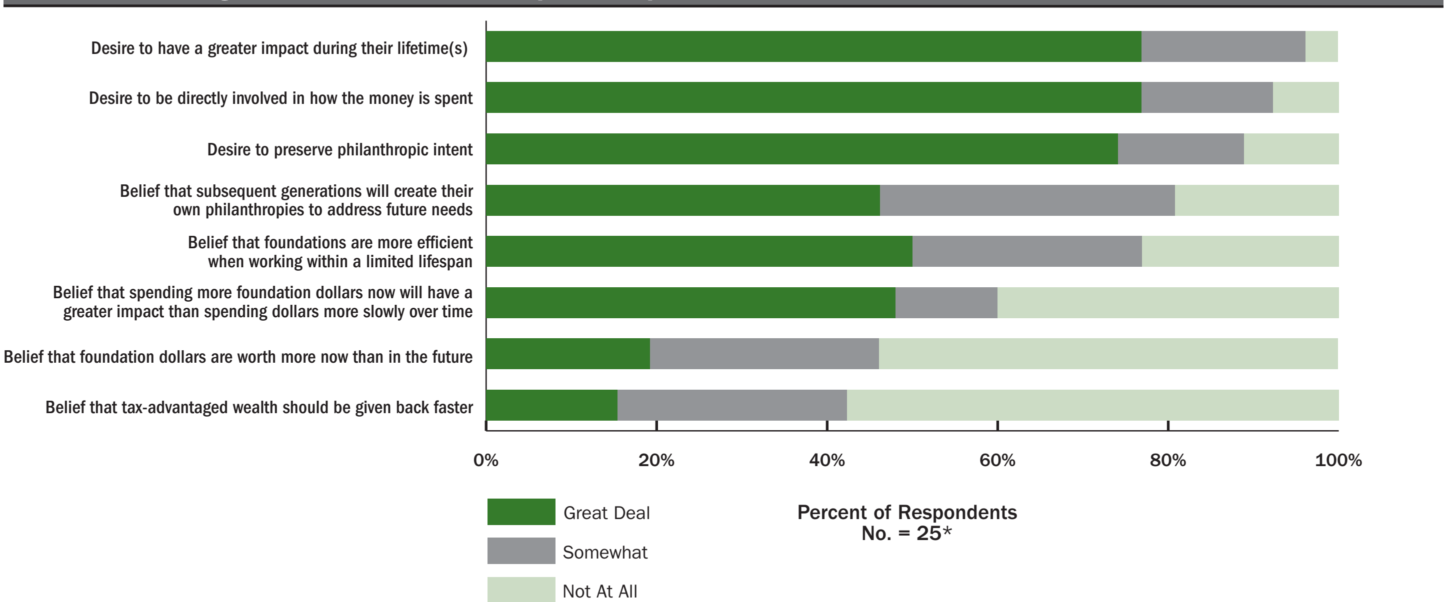
LIMITED-LIFE FOUNDATIONS: DECISION-MAKING, TIMEFRAME, OPTIONS, AND STRATEGIES

Foundations that expect to limit their lifespan are much more likely to make a formal decision later in the foundation's life cycle than at inception. Only 21 percent of limited-life foundations have a charter that includes a sunset clause (another 5 percent made the decision at inception even though it was not incorporated into their founding documents). More typically, the decision to limit the foundation's lifespan was made later by the founder(s) (49 percent) or, to a lesser extent, by the founder(s)' heirs and/or the foundation's board (25 percent). The average number of years between foundation creation and deciding to spend down was 19, while the median (or mid-point) was 13 years. All but one respondent said that the decision was made after 1980 and the vast majority said it was made after 1999. In fact, the largest number of respondents by far made the decision in 2007 or 2008, which suggests a growing trend.

Reasons for deciding to limit the foundation's lifespan vary depending on whether the decision was made at inception or later. When made at inception, the two leading factors by far that drove the decision were the desire of the founder(s) to have a greater impact during their lifetimes and to be directly involved in how the money was spent. To a lesser extent, the decision was also driven by a desire to preserve philanthropic intent, a belief that subsequent generations will create their own philanthropies, and a belief that foundations are more efficient when working within a limited lifespan.

When the decision was made later in the foundation's life cycle, the most frequently cited reasons were a shift in the founder(s)' attitude toward limited lifespan versus perpetuity; a constellation of family issues, especially uncertainty about the family's future interest and involvement in the foundation; and a belief that subsequent generations will create their own philanthropies to address future needs. Interestingly, only a small proportion of respondents said that a decline in resources was an important factor driving the decision. (In light

Factors Influencing the Decision Made at Inception to Spend Down



SOURCE: The Foundation Center, *Perpetuity or Limited Lifespan: How do Family Foundations Decide?*, 2009.
*Number of respondents for each factor ranged from 25 to 27.

of recent steep declines in foundation endowments, responses to this question may well have differed if the survey was conducted six to nine months later. See also "What Impact Will the Current Economic Crisis Have on Foundation Lifespan Planning?" on page 6.)

Most foundations that have made a decision to limit the foundation's lifespan have not yet started the spend-down process. More than two out of five limited-life foundations have not yet set a timeframe for spending down. Among those that have, nearly one-half (48 percent) said that the period was more than 20 years and 26 percent said 30 years or more. Only 16 foundations (30 percent) said that the period was less than ten years and just six expect to spend out over five years. These findings suggest that the limited-life foundations in the study are likely to have only limited impact on total foundation resources now and in the immediate future, since few of them are actually in the process of spending down. That said, their impact is likely to grow over the next few decades, especially if the rate of decision-making continues at recent (2007 and 2008) levels.

Since few foundations in the study have begun to spend down, limited-life respondents overall have made only limited changes in their operational and grantmaking strategies. The most frequently cited change by far in foundation operations (reported by four-in-ten respondents) was increasing the payout level. The only other option cited by at least one-tenth of respondents was changing the balance of investments from equities to fixed income. About one-third of respondents indicated that they had not yet made any changes.

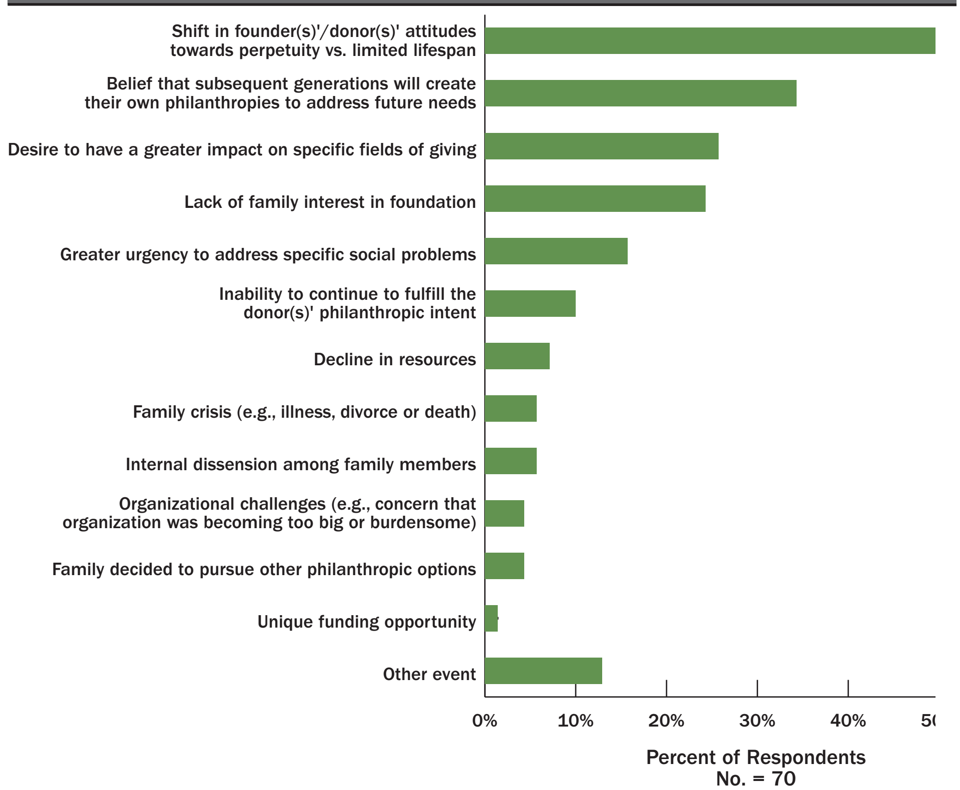
As for changes in grantmaking strategies, a majority or close to a majority of respondents indicated "no change" to the various options provided. The most frequently cited option (by 47 percent of respondents) was increasing the size of grants, yet a nearly equal proportion (45 percent) indicated "no change." The response to this option was much stronger among the 37 foundations with at least $10 million in assets that responded: 62 percent of them are increasing the size of their grants and none are decreasing grant size.

Foundations that have set a timeframe for spending down are more likely to have taken steps in preparation for closing the foundation. Among respondents that have set a timeframe, the largest groups are communicating with their grantees and partners about their plans for closing the foundation (36 percent) and/or documenting the process of spending down (31 percent). At the same time, the majority of limited-life foundations that have not yet set a timeframe for spending down have also not yet taken any steps in preparation for this event, while about 21 percent are documenting the process. Whether or not they have set a timeframe, very few have announced publicly that they intend to close down. In fact, even among the foundations whose spend-down timeframe is less than ten years, less than one-fourth have publicly announced their plans.

PERPETUAL FOUNDATIONS: DECISION-MAKING AND CONSIDERATION OF ALTERNATIVES TO PERPETUITY

Foundations that have made a formal decision to exist in perpetuity are much more likely to make the decision at inception. The majority of perpetual foundation respondents (57 percent) said that a formal decision was made to exist in perpetuity. (Of those, four out of five respondents said that the decision was made by the founder(s) at the time of the foundation's creation.) Apparently, among the remaining 43 percent of respondents that have not made a formal decision, perpetuity is considered the norm.

Factors Influencing the Decision Made Later to Spend Down



SOURCE: The Foundation Center, *Perpetuity or Limited Lifespan: How do Family Foundations Decide?*, 2009.

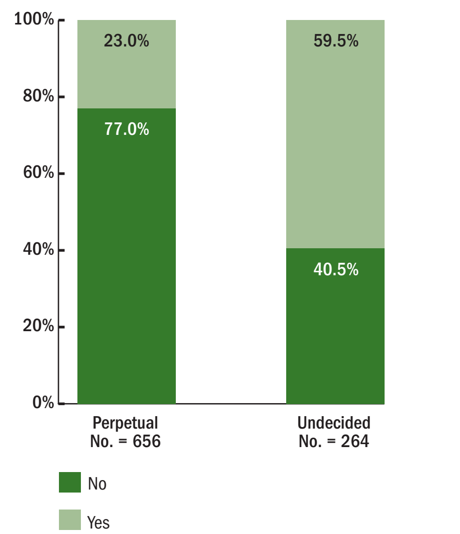
Reasons for deciding to exist in perpetuity focus on impact and family engagement. Respondents cited two principal reasons for deciding to exist in perpetuity: a desire to have a sustained, long-term impact on the local community and a desire for family engagement in philanthropy across generations. More than 70 percent of respondents said that each of these factors influenced their decision "a great deal." Three other key factors cited by at least half of respondents as having a great deal of influence on their decision include a belief that their areas of giving will continue to need investment, a desire of the founder(s)' to leave a lasting legacy, and a desire to ensure the availability of continued funding for grantees. The smallest foundations were much more likely to cite family issues as a very strong influence, while the largest foundations were the most likely to cite the belief that their causes or areas of giving will continue to need investment. Not surprisingly, the youngest foundations were the most likely to cite family bonding and family engagement issues as a very strong influence.

A large majority of foundations that plan to exist in perpetuity have never considered other options and are unlikely to do so in the future. At least 70 percent of perpetual foundations of all sizes have never considered alternatives to perpetuity and a similar percentage say they are unlikely to do so in the future. Among the small minority that have considered other options in the past, the leading reasons cited were uncertainty about the level of family interest in the foundation, desire to preserve philanthropic intent, and a shift in the donor(s)' attitudes toward perpetuity vs. limited lifespan.

UNDECIDED FOUNDATIONS: CONSIDERATION OF ALTERNATIVES TO PERPETUITY

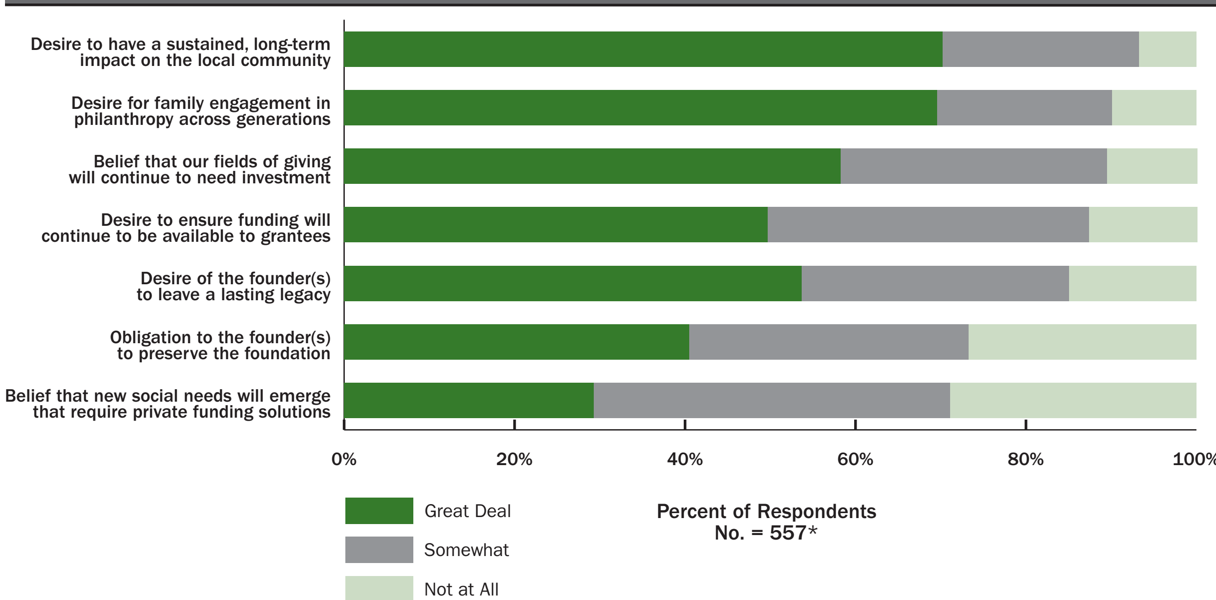
Unlike perpetual foundations, most foundations that have not yet decided have considered alternatives to perpetuity at some time and the vast majority of them expect to consider limited lifespan in the future. At least one-half to more than two-thirds of the undecided foundations of every age group and asset size have considered other options (including 70 percent of those with assets greater than $50 million), and nearly four out of five expect to do so in the future. These findings reveal a distinct openness to limiting the foundation's lifespan among a substantial cross-section of family foundations that are currently undecided. This suggests that being

Percent of Undecided vs. Perpetual Foundations that have Considered Alternatives to Perpetuity



SOURCE: The Foundation Center, *Perpetuity or Limited Lifespan: How do Family Foundations Decide?*, 2009.

Factors Influencing the Decision to Exist in Perpetuity



SOURCE: The Foundation Center, *Perpetuity or Limited Lifespan: How do Family Foundations Decide?*, 2009.
*Number of respondents for each factor ranged from 557 to 586.

"undecided" should not be construed as merely a default position or as just a stage in the path toward perpetuity.

Undecided foundations cited family issues and a shift in the founder(s)' attitude toward perpetuity versus limited lifespan as the leading reasons for considering other options. Roughly two out of five respondents mentioned these reasons. Only one other reason—desire to preserve donor(s)' intent, was mentioned by close to one-in-five undecided foundations.

ADVANTAGES AND DISADVANTAGES OF LIMITED LIFESPAN AND PERPETUITY

For foundations that plan to have a limited lifespan, the two leading advantages cited were the ability to honor donor intent and to preserve the founder(s)' vision and level of engagement. More than two out of five limited-life foundations mentioned these advantages, followed by the ability to achieve greater impact (29 percent). Three out of four foundations that plan to spend down did not see any disadvantages to this option, compared with smaller percentages of perpetual and undecided foundations that did not indicate any disadvantages to existing in perpetuity.

Foundations that plan to exist in perpetuity were most likely to mention as advantages family-related reasons—such as engagement across generations, shared responsibility, and family unity—and a concern for the long-term needs of people and causes assisted by the foundation. Other advantages cited include having a long-term impact, leaving a lasting legacy, and following the wishes of the donor(s). Two-in-five perpetual foundations that answered the question do not see any disadvantages to existing in perpetuity. The disadvantages cited most frequently were uncertainty about family members' future commitment to the foundation and the threat of "mission creep."

Undecided foundations were much more likely than perpetual foundations to see disadvantages to the perpetuity option. While many undecided foundations cited advantages to existing in perpetuity, especially family-related advantages, they were also more likely to mention disadvantages, such as uncertainty about the family's future commitment and concerns about preserving the donor(s)' intent (mission creep). Only one-sixth of the respondents who answered this question saw no disadvantages to existing in perpetuity.

ATTITUDES TOWARD LIMITED LIFESPAN IN THE FOUNDATION COMMUNITY

A substantial minority of all three types of respondents agreed that attitudes toward a limited-lifespan policy are changing in the foundation community. Not surprisingly, limited-life foundations were the most likely to agree (49 percent). Still, 41 percent of undecided foundations and 34 percent of perpetual foundations agreed that limiting a foundation's lifespan is now seen as a viable option. At the same time, at least half of all types of respondents had no opinion one way or the other.

This report was written by researchers at the Foundation Center and prepared in collaboration with the Council on Foundations. The authors and project partners take no position as to whether foundations ought to make a particular lifespan choice. Our sole objective has been to collect reliable empirical data on a broad cross-section of active family foundations and to provide an objective and accurate analysis of their current intentions, practices, and attitudes.

WHAT IMPACT WILL THE CURRENT ECONOMIC CRISIS HAVE ON FOUNDATION LIFESPAN PLANNING?

When the Foundation Center surveyed family foundations in June 2008 about their lifespan plans, the U.S. economy was already rattled over bank failures, the credit crisis, and falling equity prices, but some of the worst shocks to the system—the demise of Lehman Brothers, the buyout of Merrill Lynch and the bailout of the American Insurance Group—were yet to come. In light of the financial turmoil that prevailed in the second half of 2008 and that ravaged philanthropic endowments, it is fair to consider whether some foundations might have responded differently about their lifespan plans and intentions had they been asked six to nine months later.

To gain perspective on this question, we turned to our study advisors. Specifically, we asked them whether the steep decline in foundation assets might result in a greater proportion of foundations than were documented in the 2008 study deciding to spend down; and if so, what particular kinds of family foundations were likely to be affected.

While their opinions are not conclusive, the advisors who responded are largely in consensus: they believe that a good number of family foundations that had expected to remain autonomous may now consider spending down or folding their assets into donor-advised funds. Smaller and newer family foundations that have not had much time to grow are considered most at risk. According to one advisor, the economic crisis "is inevitably going to speed up [the] decision-making process." With resources dramatically reduced, some families may not feel they are having enough impact to justify the administrative costs of running a foundation. "It's also worth noting," added the advisor, "that many more of the community foundations have beefed up their family philanthropy services and are actively courting smaller foundations that might be interested in switching to a donor-advised fund."

Even if the spend-down rate increases, however, the proportion of family foundations making this decision is still likely to be modest. The vast majority of larger endowed family foundations that wish to exist in perpetuity will weather the storm. And foundations with living donors have another option: the donors may decide to put more money into their foundation to make up for losses in the financial markets. One family foundation respondent pointed to a particular case in which the donors "did not want to see the foundation cut back in these very challenging times."

In summary, family foundations still have a range of lifespan options. It seems reasonable to think that in these difficult financial times many foundations that have never before considered the issue of perpetuity or limited lifespan—or something in between—will at least consider their options deliberatively. Over the next few years, the Foundation Center will monitor changes in the birth and death rates of various types of foundations, including family foundations, to determine the impact of the current recession on the size and composition of the foundation community.

Download *Perpetuity or Limited Lifespan: How do Family Foundations Decide?* at foundationcenter.org/gainknowledge/research/specialtrends.

For more information contact Loren Renz, senior researcher for special projects, at (212) 807-3601 or lr@foundationcenter.org.

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