

Foundation Alms for the Rich?

Money That Could Support Charitable Grants

Is Instead Funding Wealthy Trustees, New Research Shows

By Sloan C. Wiesen

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A new study analyzing the tax returns of 238 foundations has revealed that in a single year, they spent nearly \$45 million on “trustee fees”—the bulk of which go to their own predominantly wealthy boards of directors rather than to the charitable causes they were set up to fund.

The study—*Foundation Trustee Fees: Use and Abuse*—was released in late summer by researchers at the Center for Public and Nonprofit Leadership (CPNL) at the Georgetown Public Policy Institute. The study can be found online at www.ncrp.org or by contacting the National Committee for Responsive Philanthropy at (202) 387-9177.

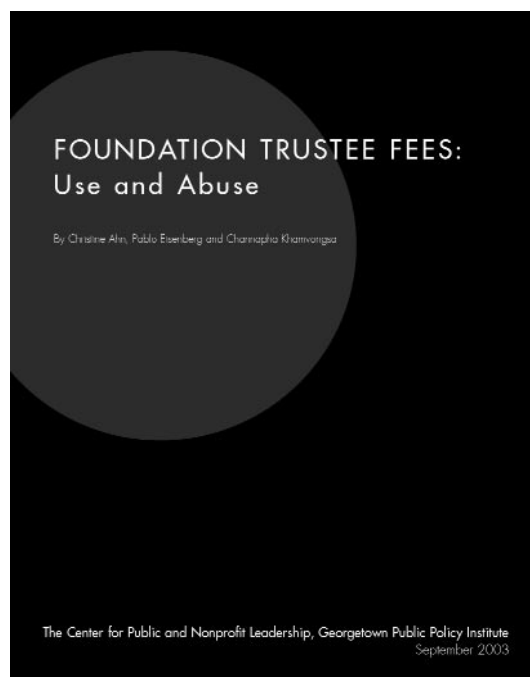
“Frankly, we were surprised by the extent to which foundations are engaged in this sort of less-than-charitable compensation practice,” says Christine Ahn, one of the study’s co-authors and a board member of NCRP. “Considering that we were only able to analyze the habits of 238 of the nation’s tens of thousands of foundations, it may well be that the problem posed by these fees is

even more widespread and troublesome than our findings suggest.”

The CPNL study follows a wave of media reports uncovering questionable foundation spending practices with regard to trustee fees and other areas. Newspapers including the *Baltimore Sun*, *Buffalo News*, *The New York Times*, *The San Jose Mercury News* and *The Washington Post* have covered the issue, and dozens of papers and CNN have covered this summer’s attempts in Congress to reform foundations’ spending habits.

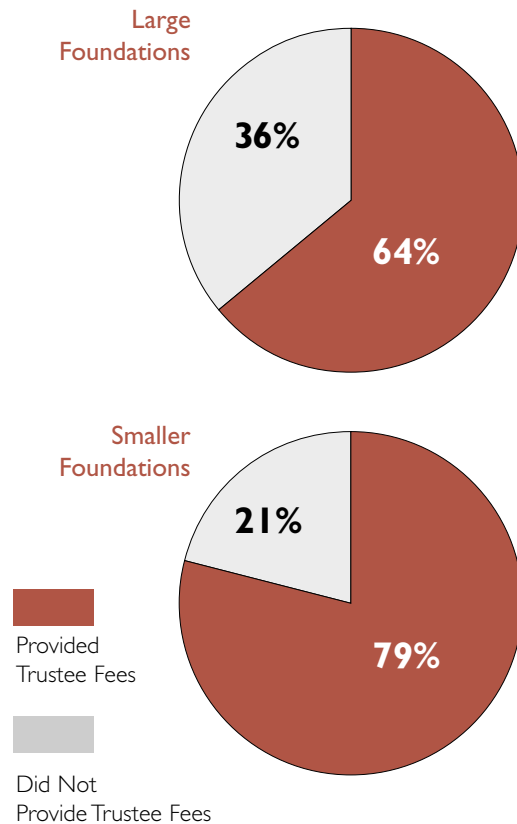
Among the study’s findings:

- A substantial majority of the foundations surveyed paid fees to their board trustees, including 64 percent of the large foundations and 79 percent of the smaller foundations. The amount of the trustee fees varied greatly and did not appear to depend on the size of the foundation.
- The foundations surveyed paid a total of \$44,891,982 in trustee fees in 1998. Of this amount, \$31,054,256 was distributed to individual board members—\$24,749,451 at the large foundations and \$6,304,805 at the smaller foundations. The remainder, \$13,837,726, went to bank trustees at 25 foundations.
- Fourteen of the large foundations paid their trustees more than \$100,000 each. The largest amounts went to two trustees of the Kimbell Art Foundation (\$750,000 and \$747,000) and to Walter Annenberg of the Annenberg Foundation (\$500,000). Three large foundations paid between \$90,000 and \$100,000 to each of their board members, 27 large foundations paid \$50,000 or more and 56 paid \$25,000 or more.
- Five of the smaller foundations paid their trustees more than \$100,000 each. The high-



A new CPNL study raises questions about foundations’ payments to their often wealthy trustees.

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est fee, \$232,619, was paid by the Ira and Doris Kukin Foundation. Four smaller institutions paid between \$90,000 and \$100,000 each to their board members, with 16 paying \$50,000 or more, and 31, or 50 percent, paying \$25,000 or more.

- Based on the 990-PFs and follow-up phone calls, the study’s authors found that, with a number of notable exceptions, trustees in general spent little time on foundation business.
- The Internal Revenue Service and the state attorneys general, which have the responsibility for overseeing foundation activities, have not had the resources or, at times, the will to effectively crack down on abuses.

In light of the findings, the researchers included the following among their recommendations for policy reform:

- Limit private foundation trustee fees to no more than \$8,000 per trustee annually. Such a level was found modest enough to curb excesses, but sufficient to allow for the kinds of

small, reasonable payments that can help promote diversity among foundation boards.

- Prohibit foundation trustees from receiving fees beyond the minimum fee for services to their foundation.
- Prohibit foundations from counting trustee fees as part of their annual minimum required charitable spending (also known as “payout”).
- If the IRS and state attorneys general are to oversee and police the nonprofit sector effectively, their resources will have to be greatly expanded. All or a substantial portion of the excise tax paid by private foundations should be allocated for this purpose.

The study was released just days before the House Ways and Means Committee voted to drop a provision from the Charitable Giving Act that would have ended foundations’ widespread practice of counting many of their own administrative costs (including trustee fees) toward meeting their minimum charitable spending requirement. As of press time, the committee had adopted a weakened version of the measure that allows for some administrative expenses to be included in the payout, which may in fact open more loopholes for potential abuse than it closes (see story on page 2).

“It’s downright shameful that some foundations are taking money that could be used to make desperately needed charitable grants—and are instead just giving that money to their own wealthy trustees,” notes veteran philanthropic researcher Pablo Eisenberg, a senior fellow at CPNL and one of the study’s co-authors. “And to add insult to injury, some of these foundations are then writing off much of the money they spend on their well-to-do trustees and counting it toward their minimum charitable spending or ‘payout’ requirement. It is hard to fathom this kind of wanton disregard for the public trust foundations enjoy in exchange for their special tax status.”

The CPNL study was researched and authored by Christine Ahn, Pablo Eisenberg and Channapha Khamvongsa. ○

Sloan C. Wiesen is communications director of the National Committee for Responsive Philanthropy and editor of its quarterly journal, *Responsive Philanthropy*.

Maximum Individual Trustee Fees by Amount

\$100,001 or Above

Large Foundations	Amount of Trustee Fee
Kimbell Art Foundation	\$ 750,000
Annenberg Foundation	\$ 500,000
Booth Ferris Foundation	\$ 462,153
Richard King Mellon Foundation	\$ 282,454
May and Stanley Smith Charitable Trust	\$ 250,000
Liberty Fund	\$ 223,100
Freedom Forum	\$ 200,000
Horace W. Goldsmith Foundation	\$ 175,000
Liliuokalani Trust	\$ 155,771
Park Foundation Inc.	\$ 144,000
Lynde & Harry Bradley Foundation	\$ 132,500
Duke Endowment	\$ 128,930
Doris Duke Charitable Foundation	\$ 126,078
Casey Family Programs	\$ 102,362

Small Foundations	Amount of Trustee Fee
Ira and Doris Kukin Foundation	\$ 232,619
Seth Sprague Foundation	\$ 161,019
John Stauffer Charitable Trust	\$ 127,000
Sydney Kimmel Foundation	\$ 118,721
H.C.S. Foundation	\$ 102,430

\$50,001 to \$100,000

Large Foundations	Amount of Trustee Fee
Milken Family Foundation	\$ 98,000
John Oishei Foundation	\$ 93,000
Brown Foundation	\$ 91,000
Peter Kiewit Foundation	\$ 89,980
Edna McConnell Clark Foundation	\$ 75,000
Whitaker c/o Chase Bank	\$ 74,000
W.K. Kellogg Foundation	\$ 70,800
Weingart Foundation	\$ 65,900
M.J. Murdock Charitable Trust	\$ 56,000
California Endowment	\$ 55,750
H. & J. Weinberg Foundation	\$ 55,000
Donald W. Reynolds	\$ 53,000
Sherman Fairchild Foundation, Inc.	\$ 52,000

Small Foundations	Amount of Trustee Fee
Robert Stewart & Helen Pfeiffer O'Dell Foundation	\$ 99,841
Frances & Ed Cummings Memorial Foundation Trust	\$ 99,298
Margaret L. Wendt Foundation	\$ 98,583
Carthage Foundation	\$ 93,200
Gladys Kriebel Delmas Foundation	\$ 81,234
E.J. Grassmann Trust	\$ 79,230
Charles H. Dater Foundation	\$ 70,000
Emil Buehler Perpetual Trust	\$ 65,313
Eva L. & Joseph M. Bruening Foundation	\$ 60,667
Harry M. Day Charitable Foundation	\$ 60,175

\$25,001 to \$50,000

Large Foundations	Amount of Trustee Fee
F.W. Olin Foundation	\$ 50,000
Meyer Memorial Trust	\$ 50,000
Robert A. Welch Foundation	\$ 50,000
Ford Family Foundation	\$ 49,250
T.L.L. Temple Foundation	\$ 48,000
Freeman Foundation	\$ 45,757
Claude Worthington Benedum Foundation	\$ 45,100
Lilly Endowment	\$ 44,000
John D. and Catherine T. MacArthur Foundation	\$ 43,276
W. Alton Jones Foundation	\$ 41,860
Connelly Foundation	\$ 41,669
F.B. Heron Foundation	\$ 41,374
Otto Bremer Foundation	\$ 39,500
Moody Foundation	\$ 39,258
Robert W. Woodruff	\$ 37,309
Henry J. Kaiser Family Foundation	\$ 36,250
Rockefeller Foundation	\$ 35,117
Samuel Roberts Noble Foundation	\$ 34,999
Ford Foundation	\$ 34,650
Ralph M. Parsons Foundation	\$ 34,000
Robert Wood Johnson Foundation	\$ 33,000
Robert R. McCormick Tribune Foundation	\$ 32,310
W.M. Keck Foundation	\$ 30,000
Andrew W. Mellon Foundation	\$ 30,000
Jessie Ball duPont Religious, Charitable & Educational Fund	\$ 30,000
John S. & James L. Knight Foundation	\$ 29,250
Irving S. Gilmore Foundation	\$ 26,633
Conrad Hilton Foundation	\$ 26,500
Wayne & Gladys Valley Foundation	\$ 26,145

Small Foundations	Amount of Trustee Fee
Grand Marnier Foundation	\$ 50,000
Fannie Rippel Foundation	\$ 49,000
William G. Rohrer Charitable Foundation	\$ 47,218
William T. Morris Foundation	\$ 43,800
Glenn and Ruth Mengle Foundation	\$ 41,870
Charles Edison Fund*	\$ 39,600
Harry Stern Family Foundation	\$ 39,179
Lindback Foundation	\$ 37,851
John Crain Kunkel Foundation	\$ 37,500
Theresa & Edward O'Toole Foundation	\$ 35,854
Louis M. Plansoen Charitable Trust	\$ 30,529
Harry C. Trexler Trust	\$ 30,000
Wood Foundation (PA)	\$ 30,000
Fred C. Rummel Foundation	\$ 28,407
Joseph Drown Foundation	\$ 26,759

*From 1997 990-PF

Excerpted from Table 5 of Foundation Trustee Fees: Use and Abuse (Center for Public and Nonprofit Leadership, Georgetown Public Policy Institute, September 2003). Listed here are foundations that paid individual trustees more than \$25,000. All data come from surveyed foundations' 1998 990-PF filings with the IRS, except as indicated by an asterisk ().*