

Saying 'No' to Forever

Why Some Foundations Spend Down

By Jeff Krehely

Nearly all of the 65,000 private foundations in the United States intend to operate in perpetuity. That is, one of their top priorities is making sure that the return on their investments consistently exceeds their outlays. Most also seek to maintain their corpus above the rate of inflation. But an increasing number of foundations are deliberately deciding to spend down and not exist in perpetuity.

Not much research has been conducted on the spending down process, but NCRP recently researched the issue, specifically to learn more about the basics of the spend down process. The research sought to uncover which foundations have done it; which are planning to do it; what is the perceived impact on grantees; what are the different spend-down strategies or options; and what are the practical considerations that need to be taken into account, such as selling office supplies, meeting tax liabilities, and retaining staff. Another priority research question was to find out what motivated a foundation to spend down. Interview findings that help answer this question are discussed below. A full report on spending down will be available soon from NCRP.

Based on literature and Internet searches, 27 nonperpetual foundations were uncovered, including the John M. Olin Foundation, The Atlantic Philanthropies Inc., the Donald W. Reynolds Foundation and the Richard and Rhoda Goldman Fund. Some had already spent down, while others were in the process of doing so. NCRP conducted interviews with 10 of the foundations currently spending down.

The research found that there are four primary reasons why foundations may decide to spend down. These motivations include:

- the original donors' desire to protect their philanthropic intent;
- the foundations' analysis that the fields funded require money sooner rather than later;
- the desire of foundation staff, executives and trustees to focus their grantmaking for greater immediate impact; and

- the donors' feelings of responsibility to give something back to society.

In cases involving the preservation of donor intent, the initial donors—or a board member loyal to the donors—want to guarantee that the foundation remains true to their ideas and views, so the donors stipulate that the foundation is to have a limited life, ceasing operations either during the donors' lifetime or a specific number of years after their death.

Personal politics often influence whether donors instruct their foundation to spend down, especially in cases where the foundation's grantmaking is overtly intended to influence public policy. Especially among philanthropists with a conservative political ideology, there is a tendency to spend down after a specific number of years, to guarantee that the foundation's grantmaking remains true to the donor's own views, as more liberal family members of future generations join the board, or the family becomes less involved with the foundation. As one interviewee stated, "You never know what the next generation will want to do with your money."

Another said that their foundation's original founder "was aware that it is difficult to keep a foundation on a coherent path over the long term—that is, after the donor dies, other trustees leave the scene, staff changes hands, etc." This founder was also "shaken by Henry Ford's resignation from the board of the Ford Foundation in 1977. In that case, a close family member was not able to influence the direction of the foundation." Another stated that "Henry Ford is twisting in his grave," considering some of the programs and organizations that the Ford Foundation has supported.

The second reason for spending down relates to the needs of the fields that the foundation funds. Foundations that fund environmental work, for example, may decide to give all of their money away in a 10-year period to clean up and protect a specific area—perhaps by helping a conservation organization to purchase

land or water rights—rather than simply funding small clean-up efforts each year.

Related to this reason for nonperpetuity is the third motivation for spending down: the desire to bring focus to the foundation’s grantmaking and thereby achieve some sort of demonstrable impact. If there is a time limit to a foundation’s grantmaking lifespan, there is some self-imposed pressure to limit grantmaking programs and to achieve tangible results. One of the smaller foundations interviewed decided to make a couple of large donations to local organizations, in an effort to see its small endowment have a meaningful impact. Simply spending a small percentage of this endowment each year would not have a noticeable impact on the community, but two or three seven-figure donations would, and having that sort of impact was more important to this foundation than existing in perpetuity. One foundation official noted that if a foundation spends down to increase its focus and impact, then “what you don’t fund becomes as important as what you do fund.”

Finally, some donors are motivated to spend down because they feel responsible to give back fully to the society in which they made their fortunes. Putting money into a foundation may earn a donor millions of dollars in tax breaks—money that would otherwise be directed to the U.S. Treasury and theoretically used for public purposes. Donors with this mindset feel a need to give their money back to the people who shared the burden that the tax break created.

Donors with this mind-set often base their spending-down decision on the belief that there will always be a stream of money flowing in to the nation’s philanthropic sector. For example, one interviewee stated “As long as the United States remains a democratic and successful nation, there will always be new wealth generated. It is unnecessary for the wealth of the prior generation to exist in perpetuity.” And another noted that “in 20 or 50 years, the issues impor-

tant to us and our founder may be irrelevant. It should be up to people in the future to decide what the needs of the day are.”

Donors with this motivation are often not enamored with the foundation world. A 1992 article in *The Chronicle of Philanthropy* notes that the late philanthropist Irene Diamond stated, “I’m not really crazy about the foundation world. [At major foundations with large professional staffs], people get in a rut. They tend to forget what the real world is like out there.” She was involved with the spend down of the Aaron Diamond Foundation, named for her husband. *The Chronicle* also notes that the board of the DJB Foundation, which spent down in 1980, released a statement around the time of closing that said, “Our observation has been that preservation of capital becomes the main concern of too many foundations, causing them to worry more about investments than about programs.”

The different motivations discussed above—donor intent, responding to the needs of a particular field, achieving focus and impact, and maintaining financial equity—are certainly not mutually exclusive. In fact, most foundation officials interviewed mentioned being influenced by more than one factor. And although only a minority of foundations have been motivated to spend down, they have demonstrated some compelling results, including the Aaron Diamond Foundation’s support for researchers who developed drug therapies that have extended the lives of millions of people living with HIV and AIDS. At the very least, foundations that are spending down should challenge the larger philanthropic community to reconsider its assumption that foundations must exist forever. ◉

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