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Build Up, Spend Down, and the Power of Family Philanthropy Engagement

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Private Foundations (PFs) and endowments tend to get lumped together into a tidy package of tax efficiency that grows into perpetuity. But there's more to them than that.

Perpetuity

Most foundations are either static or dynamic. Static foundations tend to form after a single liquidity event and fund grants from interest. Dynamic foundations, often generations old, grow from regular infusions of funding, sometimes from multiple sources including distributions from charitable trust or the sale of traditional or unusual assets. Either way, most governing bodies run foundations as perpetual entities, distributing the 5% minimum and paying the annual excise tax based on the size of the corpus.

Private Foundation as a Vehicle

Occasionally PFs are used as a vehicle and funded annually from marketable securities or other sources at levels that cover the annual grantmaking and expense budget. The Gates Foundation uses this model. Their corpus sits in a trust that funds the foundation. The trust is designed as an investment vehicle, the "source" of funds, and the PF manages the programming and grantmaking work, or the "use" of funds.

Spend Down Foundations

Some PFs are designed as spend downs, although many of those have long time horizons. Chuck Feeney, the co-founder of Duty-Free Shops, created a stealthy foundation in 1982 called Atlantic Philanthropies. After about 20 years the foundation took on the goal of spending both the endowment and Chuck's own fortune. In 2020, after distributing more than $8B, Atlantic closed shop. Chuck passed in 2023. The Billionaire Who Wasn't: How Chuck Feeney Secretly Made and Gave Away a Fortune, by Conor O'Clery, chronicles Feeney's and Atlantic's trajectory. "Give While You Live" became a rallying cry to spend down, and put more money into the field now.

The Power of Philanthropy in Families

Scaffolding philanthropic structures to support family collaboration has a remarkable impact on how families evolve. Whether a perpetual foundation is governed by multiple generations and family lines, designed to spend down, or pay out to other endowments operated by community-based organizations, engaging stakeholders in conversations about the design of foundation structure is the blueprint for future success.

Takeaways

- Engage clients in conversations around goals for family participation and legacy
- Consider whether a perpetual or a spend-down foundation is the best model before you get started
- Provide clients with case studies about how other foundations have managed their sources of philanthropic capital

Read *The Billionaire Who Wasn't* by Conor O'Clery here.

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