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Foundations With a Limited Life

By DEBORAH L. JACOBS

TRADITIONALLY people who set up private foundations — either during their lifetimes or through an estate plan — envisioned an entity that would carry on their philanthropy for generations. But lately, some founders or their immediate successors are spending their full endowments and closing down. Other donors are creating new foundations with a limited life span.

What brought about these changes? Endowments were battered by the recent financial crisis. And for some founders, the administrative burden and cost of running a foundation have come to outweigh the initial thrill of giving like a Carnegie.

Demographics are also at play. Baby boomers don't presume, as past generations did, that their offspring will share their charitable interests. They are also more realistic than past generations about the difficulties of getting children and grandchildren, who are scattered geographically and may have differing interests, to work together toward a charitable goal.

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ALL IN THE TIMING John Hunting started the Beldon Fund in 1982, but in 1998 he devised a 10-year plan to wind it down.

And more prominent philanthropists have been outspoken advocates of giving while living. Through their own actions they have shown how foundations that frontload their grants can address urgent problems today.

The Atlantic Philanthropies, founded by Charles F. Feeney, a founder of the Duty Free Shoppers Group, plans to spend its assets and close by 2020. Its latest report, “Turning Passion Into Action: Giving While Living,” published in June, profiles other philanthropists who have already taken that step, or intend to. They include Bill and

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Melinda Gates, whose foundation plans to close within 50 years after its current trustees die.

Another, lesser known, example is Tim Gill, the software entrepreneur who founded the desktop publishing company Quark. The Gill Foundation, which he started in 1994, is scheduled to end 20 years after his death. And John Hunting, who inherited substantial shares in Steelcase, the office furniture company, and started the Beldon Fund in 1982, later decided to end it. In 1998, he devised a 10-year plan for dispersing the foundation's assets before closing it last year. He redesigned the foundation's Web site (www.beldon.org) to offer guidance to other foundations that want to follow suit.

Still, Richard L. Fox, a lawyer with Dilworth Paxson in Philadelphia and author of "Charitable Giving: Taxation, Planning and Strategies" (Thomson Reuters, 2010), hardly sees a groundswell of short-lived private foundations. Most families that retain him to set up these entities want something far more permanent.

Yet, he said, he appreciated the appeal of limited-life foundations: less worry about mission drift — that grants will stray from the donor's intent with each succeeding generation — and the possibility that control over the foundation might someday shift to people outside the family.

The Foundation Center, with the Council on Foundations, has tried to chart patterns from those that have closed. Their 2009 report, "Perpetuity or Limited Lifespan: How Do Family Foundations Decide?" based on answers from 1,074 family foundations, showed that 12 percent of foundations surveyed planned to have a limited life span; 25 percent were undecided.

Both groups were dominated by foundations set up during the last 20 years and whose founder was still alive, rather than a situation where heirs were wrestling with how to carry out a relative's wishes. Typically, the study showed, the decision to limit a foundation's life span was not made at its founding, but later. Of those that decided to shut, most made the decision in 2007 or 2008, the researchers found.

For the Quixote Foundation, based in Seattle, the decision to shut was part of a strategic plan that followed the death of its founder, Stuart Hanisch, in 2002. His son Erik and daughter-in-law Lenore, who run the operation, intend to spend seven more years on that endeavor, giving the foundation a life span of 20 years.

The endowment, which stands at about $14.8 million, has been used to finance projects involving environmental issues, election integrity and media reform, among other things. "All of these seemed to need more effort — there was a sense of urgency" and the chance to shape future policies, said Erik Hanisch.

Harriet Barlow, a trustee of the Harold K. Hochschild Foundation, which plans to shut in two years, says that money used to build an endowment is, in effect, out of circulation and "is not nearly as effective in sustaining the common good as money that's in circulation."

While shutting a foundation tends to be an afterthought for most philanthropists, Victoria B. Bjorklund, a lawyer with Simpson Thacher & Bartlett in New York, encourages clients to think about the issue when they create their foundations.

They might want the entity to end when a specific event occurs, perhaps when the last of the founders dies, and to specify where the money will go if it does shut. The simplest way for a private foundation to close is to give all the money to a public charity, said David Scott Sloan, a lawyer with Holland & Knight in Boston. The recipient may be a single institution, like a hospital or school.

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