THE CHRONICLE OF
PHILANTHROPY

OPINION
SEPTEMBER 04, 2008

Foundations' Longevity Should Be Valued

By Susan Berresford and Lorie Slutsky

Too many Americans are losing their homes and jobs, and the already high number of people without health insurance is growing.Shouldn't America's endowed foundations, which hold more than $600-billion in assets, be required to give away more than they now do to solve those and other problems facing the nation?

That is the view of some government officials and nonprofit advocates who would like to require foundations to distribute a greater share of their assets each year, even if doing so causes foundations to go out of business instead of operating forever, as many of their donors intended.

Since most Americans don't understand how foundations operate, they easily accept the notion that foundations should spend everything on today's problems, so it is important for foundations, donors, nonprofit groups, and others concerned about the philanthropic enterprise to explain why such thinking is so shortsighted.

Plenty of foundations already choose to distribute a big share of their assets every year; federal law requires private foundations to annually give at least 5 percent of their assets. The 5-percent figure can include both grants and many of the administrative costs involved in making them responsibly.

That rate makes it possible to retain a foundation donor's original purchasing power over long periods of time, if the foundation's money is invested wisely and inflation does not spiral out of control. Community foundations, which consist of funds set up by many donors, are not required to distribute a set amount every year. But because their donors include people who want to give their money away rapidly and people who want to make a gift that lasts forever, most give away more than 5 percent.

Empirical studies have shown that the 5-percent spending rate comes closest to maintaining intergenerational equity for an institution whose portfolio has average risk and return characteristics.

That's because spending less is likely to increase capital in real terms, favoring future generations, while spending more would probably shrink the endowment over time, favoring the current generation. At the 5-percent spending rate, the odds of growing faster or more slowly than the rate of inflation are about even.

So why would it be in society's interest to cut off the perpetuity option that has appealed to so many donors?

Is there an inherent weakness in these foundations?

Advocates for change argue that older foundations are less relevant, less ambitious, and less effective than the newest. We also hear that foundations established long ago naturally drift from their original purpose. But is this picture accurate?

Unfortunately, no research is available to answer these questions definitively, but our collective 60 years of experience in philanthropy suggest a far different picture, and we offer a few of our favorite examples to make the point.

- The foundation created by Alfred Nobel in his 1895 will has awarded prizes since 1901 for outstanding achievement in physics, chemistry, medicine, and literature, and for efforts to promote peace. Although it was not provided for in Mr. Nobel's will, a new prize for economics was added in 1969. The stewards of Nobel's wealth have overseen the evolution of the prize through staggering changes in knowledge and world affairs, made adjustments, and still stayed true to the donor's wishes. The prize rewards and inspires innovation, and its longevity adds to the distinction it confers on the winners.
- The Franklin Funds were created by Benjamin Franklin in his will, which left 1,000 pounds each to Boston, where he was born, and Philadelphia, his adopted home, when he died in 1790.
  Each trust was to last for 200 years, at the end of which distributions would help men pursue a craft or trade. After the trust expired in 1990, it was worth several million dollars, and a committee of distinguished Franklin scholars selected the Philadelphia Foundation to administer the fund.

Today, Franklin's intent is being honored through scholarships that educate young people in the latest technologies and old and new crafts. Franklin, a printer by trade, identified an important use for his philanthropy, and the need for it has not diminished over the centuries.

- Almost 200 years after Ben Franklin's bequest, Victor Heiser left money to the New York Community Trust to find a cure for leprosy, a disease he had encountered first in the Philippines while serving on the board of the Rockefeller Foundation. His will allowed the trust to spend all of the money in his bequest if it saw an opportunity for a major breakthrough.
  Since 1972, the fund had made grants for leprosy-research projects at a pace that left its principal intact. But in 1996, with new advances now available, the trust received an exciting proposal to map the leprosy genome. To finance that award, the trust had to spend principal — well beyond the amount it earned in a typical year of investments. Successfully mapping the genome has led to further research into the first-ever diagnostic test for the disease, also financed by Dr. Heiser's bequest. As a doctor and scientist, he knew that he could not anticipate the changes in research and technology, and he designed his will to be flexible to respond to changes.

Those are just a few examples to demonstrate that foundations do not routinely get stale, lazy, or disrespectful of donors' wishes just because they have the flexibility to operate forever. Foundation boards make practical adjustments to changing realities, which donors would expect since they cannot foresee the future.

Donors who set up endowments in perpetuity understand the value of a constant resource, available in good times and bad, for causes popular and unpopular.

Many have bold ambitions and seek solutions to problems such as poverty and injustice that they know will take many lifetimes of effort. Others want to ensure that future generations can deal with the inevitable — and now unimaginable — challenges that will arise. They find many approaches to ensure their money is properly used, and they express trust in future generations' wisdom to use the money appropriately.

Such donors exist in every community, along with those who want to distribute all their philanthropic assets in their own or their children's lifetimes. Philanthropy, like democracy, is strongest when people with differing visions and capacities participate. Public policy should encourage this full range of donors, especially since we live in a fastmoving, throwaway culture. We should value institutions with an ambition for longevity and be wary of simplistic generalizations that trivialize one or another part of the philanthropic world.

Susan Berresford is the former president of the Ford Foundation. Lorie Slutsky is the president of the New York Community Trust.