InvestmentNews
The Leading News Source for Financial Advisers

Small family foundations grapple with losses, costs

Many are rethinking their future and may shut down, study finds

By Lisa Shidler
May 10, 2009

Declining endowment values are leading many small family foundations to question their future.

About 12% of foundations, in fact, intended to spend down their endowments and cease operations, according to a study from the New York-based Foundation Center and the Arlington, Va.-based Council on Foundations.

The study, “Perpetuity or Limited Lifespan: How Do Family Foundations Decide?” was based on an online poll of 1,074 foundations completed last summer, supplemented with interviews completed as recently as February.

Loren Renz, a senior researcher for special projects for The Foundation Center, said that the foundations at greatest risk are smaller, less established organizations that may find overhead costs too steep.

“They have to make a decision as to whether they can still have an impact if they've lost 30% of their assets,” she said. “There are administrative costs that they have to weigh.”

Due to the dramatic decline in the value of their endowments, smaller family foundations may be forced to limit their giving this year to the 5% minimum required by law, Ms. Renz said.

On the other hand, some healthier foundations are trying to do their part by giving extra donations to hard-pressed charities, she said.

Ms. Renz said that the analysis found that most foundations that are planning to spend down their endowment haven't yet started the process and have made just limited changes in their operational and grant-making strategies. Foundations that have set a time frame for spending down are more likely to have taken steps in preparation for closing.

The study also showed that many family foundations don't incorporate a decision about intended lifespan in their documents.

“It seems reasonable to think that in these difficult financial times, many foundations that never before considered the issue of perpetuity or limited life span — or something in between — will at least consider their options deliberatively,” according to the study.

The study's findings are consistent with what Les Winston, a financial adviser with Insurance and Financial Services Inc. in Miami, has seen with his own clients. Right now, he said, about 25% of his clients' foundations — which range from $4 million to $28 million in assets — won't be able to survive.

“The basic reason was, they took a big hit in the market, and the cost to maintain the foundation is too great,” said Mr. Winston, whose firm manages more than $150 million in assets.

“In addition to the big hit suffered in their foundations, these clients also are suffering personally,” he said. “Their focus has shifted to their personal needs, which is a little bit selfish.”

Mr. Winston said that about three-quarters of the foundations with which he works are planning to forge ahead and are aggressively cutting administrative costs.

Some clients of Dennis K. O'Brien, an adviser with Coastal Financial Advisors Inc. in Farmingdale, N.J., also are considering closing their family foundations and conducting philanthropy through less costly donor-advised funds. Most of those clients have foundations in which assets have dropped below $1 million, making overhead costs too onerous.

Mr. O'Brien said that none of his clients is adding to his or her foundations' endowments this year, and probably won't for several more years.

Ironically, market volatility earned Jim Holtzman, an adviser with Legend Financial Advisors Inc. of Pittsburgh, a new foundation client.

Mr. Holtzman, whose firm manages $350 million in assets, said that the client had lost so much during the previous 16 months that he wanted to try a new investment approach.

E-mail Lisa Shidler at lshidler@investmentnews.com.

Jim Holtzman: *Market volatility*

