

# LIMITED LIFE FOUNDATIONS

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*Motivations, Experiences,  
and Strategies*

Francie Ostrower



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CENTER ON NONPROFITS AND PHILANTHROPY



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## **About the Author**

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“I started the foundation in order to do what I wanted. . . . Twenty-five years after I’m gone, the foundation will terminate.” The donor who said this describes himself as “not super-conventional.” His decision to limit his foundation’s life is indeed an unconventional one. Most foundations are established in perpetuity, but the limited life option is starting to attract more attention, including media coverage of high profile examples of foundation closures. A major gap in the literature on philanthropy, however, is the absence of research on the motivations, strategies, and experiences associated with the decision to sunset. Consequently, little information is available to assist donors, foundation trustees, and staff wishing to consider and/or implement a plan to sunset.

The purpose of this discussion is to help fill this gap. It is not to advocate either for or against sunsetting but rather to shed light on it as an option, and to glean lessons from those that have undertaken it that may prove helpful to donors and foundations considering or implementing a plan to sunset. Furthermore, the research literature typically focuses on foundations with a permanent endowment (and sometimes takes for granted that a permanent endowment is part of the definition of “foundation”). By looking at foundations that do not intend a permanent endowment and asking what impact the decision to terminate has on such a foundation, this study also seeks to broaden our understanding of foundations and their possibilities. The discussion and the conclusions are offered in a preliminary spirit intended to spur and inform future research. Much additional work on sunsetting remains to be done.

In this spirit, we emphasize the fundamental differences we found among limited life foundations and strongly recommend that future research and discussion incorporate a greater recognition of these. We suggest many of these differences can be summarized along three dimensions related to the donors’ and/or trustees’ orientation toward sunsetting, as follows:

- To what extent do donors and/or trustees approach sunsetting as a positive strategy for achieving some purpose? For instance, donors may choose to sunset because they want personal engagement with giving during their lifetime.
- To what extent do donors and/or trustees choose sunsetting because they lack other options, or have a negative view of perpetuity? For instance, some donors choose to sunset because they have no children to carry on the foundation, while others want avoid the bureaucracy that they associate with institutionalized philanthropy.
- Do donors and/or trustees view sunsetting solely a personal preference, or do they explicitly link it to achieving specific philanthropic outcomes? For instance, some choose to sunset solely because they believe that is the best way to ensure the foundation stays faithful to the donor’s intent, while others feel that spending more money in a shorter period provides a more effective way to achieve a particular philanthropic outcome.

One of our most striking findings was how infrequently limited life foundations linked their longevity plans to their overall philanthropic mission, strategy, and impact. Yet a few of them did. Their experiences point to ways sunsetting can be incorporated into a

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broader philanthropic strategy that may interest donors and foundations as they consider longevity. Interestingly, those that chose limited life due to a negative assessment of perpetuity and out of personal considerations sometimes later came to feel that sunsetting did enhance their philanthropy. Reporting on these cases allows other foundations to benefit from their experience and integrate the lessons learned into their implementation strategy.

We did find some marked differences between limited life and perpetual foundations, yet in many respects they were not distinct. Furthermore, we found that some donors opt neither for a pure spend-down nor perpetuity option, but devise modified sunsetting plans or opt to leave their ultimate plans open. Finally, a clear conclusion emerged that, regardless of the decision about longevity that was ultimately made, foundation donors and trustees felt they benefited from an explicit discussion because it helped them clarify and solidify their philanthropic commitments.

## About the Study

The study employs survey data collected for an earlier 2003 Urban Institute survey of foundation approaches to effective philanthropy as well as data from in-depth interviews conducted from 2007 to 2008 specifically for the present study. The survey data include 850 staffed private foundations. Of these foundations, 70 planned limited life, 650 planned perpetuity, and 135 said they were undecided. As we can see, only 8 percent of the foundations had chosen limited life, fairly close to the 9 percent identified by the Foundation Center's survey of 697 foundations (Renz and Lawrence 2004, 10). Some believe that sunsetting is becoming more common, but to date we have not seen evidence to confirm that assertion. A survey of 435 foundations conducted in the early 1980s (which did include unstaffed foundations) found 10 percent of their sample reporting plans to terminate (Boris 1987). Limited life foundations in our study were younger than perpetual life ones, but one would expect that under any circumstance (since by definition sunsetting foundations do not live as long). To answer these questions requires tracking a comparable sample of foundations over time.

Our survey asked a wide set of questions about beliefs concerning what makes a foundation effective and practices related to grantmaking, collaboration, communications, and evaluation. Thus, we are able to compare the attitudes and practices of limited life and perpetual foundations across a variety of practices. Keep in mind, though, that the survey was not designed to study foundation longevity and therefore did not specifically probe issues related to sunsetting.

Thus, to supplement the survey data and probe specifically about motivations, experiences, and strategies associated with limiting life, we followed up by interviewing a set of the survey's limited life and undecided foundations. Note that since the survey was sent to staffed foundations in general, it provided us with a large list of limited life foundations that included not only well-publicized cases but also those not among the "usual suspects," permitting a more inclusive and representative study. For instance, our sample includes both foundations that want to share their experiences publicly to promote

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greater consideration of sunseting as well as others that had no such goal and preferred their decision to remain private as long as possible.

We interviewed the larger foundations in the study (i.e., rather than draw a random sample, we started with the largest and worked down). All of the foundations had at least \$20 million in assets, most had \$50 million or more, and over 25 percent had assets in excess of \$100 million. Foundations with larger assets clearly face different options and challenges with respect to implementing a sunseting plan, and thus, we wanted to maintain some comparability by putting a lower boundary on size. Among those planning termination, 86 percent contacted agreed to an interview, while the percentage was 71 among undecided foundations.<sup>1</sup>

Interviews were conducted with 31 foundation board heads and CEOs from 29 such foundations. Of these, 19 foundations indicated on the survey they planned to terminate and 10 indicated they were undecided. By the time of the interviews five years later, three had opted for limited life, two remained undecided, and three planned perpetuity. The remaining two were pursuing a “modified spend down” strategy, in which they had decided to spend down a portion of the endowment. One planned to leave the balance in perpetuity while keeping open the possibility of changing later while the other deferred the decision about the remaining assets until after the initial spend down. In both cases, the door was left open due to an evolving family situation.

## **Limited Life and Perpetual Foundations: Comparisons**

An interviewee who had been involved with two sunseting foundations observed that “you wouldn’t see [them] any differently than other foundations on a day-to-day basis because of the fact that they are spending down. You couldn’t discriminate . . . based on their grantmaking.” Our survey certainly indicates that other foundation characteristics, such as size, offer better clues to how a foundation will think and behave with respect to their practices across a wide array of areas, including grantmaking, communications, collaboration, and evaluation. There are however, certain differences between limited life and perpetual foundations that we found, including those that speak to rationales for adopting a sunset provision and challenges in implementing one. We begin by considering what our survey reveals about any different organizational characteristics of foundations planning limited versus perpetual life. We then turn to whether the choice of limited versus perpetual life reveals any association with philanthropic beliefs and practices.

### **Organizational and Demographic Characteristics**

Limited life foundations were on average younger (25 years) than perpetual ones (36 years). Medians, which were 19 for limited life and 36 years for perpetual life, reveal even greater age differences. It is tempting to conclude that these findings support the contention some have made that sunseting is becoming more popular—but extreme caution should be exercised in this regard. As noted above, whether or not sunseting is

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becoming more popular, we would expect a sample of perpetual-life foundations to be older by definition, and we do not have the data to draw conclusions about trends over time. An intriguing question that we also cannot answer from these data but that warrants further research is how long a lifespan limited life foundations select (including number of years following the donor's death) and whether this influences their behavior.

We do find evidence that sunseting is somewhat more popular among West Coast and East Coast foundations. Twelve percent of West Coast foundations and 10 percent of East Coast foundations planned to sunset, compared with 6 percent of foundations in the Midwest or South. The pattern is particularly interesting when you consider that even though West Coast foundations are likely to be younger, they remain statistically more likely to choose termination than southern ones even after age is taken into account. And, the East Coast, with the second highest rate of termination also had the oldest population of foundations in the study.<sup>2</sup>

There was a relationship between foundation size and proclivity to choose limited life, but not a simple linear one: foundations with less than \$10 million in assets most often (11 percent) planned termination. Yet there was no significant difference in the likelihood of choosing termination in size categories over \$10 million—where it remains between 6 to 7 percent. It does mean that a considerably higher percentage of foundations planning limited life (49 percent) than perpetual foundations (32 percent) are in this smallest asset group, and their comparatively low level of assets may be one reason foundations decide to sunset. It would be interesting to explore how such foundations terminate, including whether they make direct grants to public charities and spend out, and/or whether some may be converted to funds in community foundations.

Limited life foundations are also far more likely to have a living donor (50 percent) than perpetual life foundations (21 percent). In some cases, it is difficult to disentangle whether differences between limited life and perpetual foundations are due to differences in longevity plans per se or whether they are due to the presence of a living donor. As we shall see, however, our data indicate that a key difference between limited life and perpetual foundations—with respect to adherence to donor intent—comes into play precisely when a living donor is no longer involved.

Our findings do not indicate a proclivity for foundations in particular fields of activity (e.g., human services, culture) to select limited life over perpetuity with one exception: a higher percentage of foundations reporting international affairs as a significant funding area planned termination (15 percent).

Given the antipathy of many limited life foundations to bureaucracy and institutional philanthropy, one might expect them to have substantially fewer staff, but this did not prove to be the case. On average, limited life foundations had an average of three professional staff, compared with four among perpetual life foundations, and both types had an average of three support staff. Our sample includes only those with at least one staff member, however, so we would not be able to tell if limited life foundations were more likely to employ no staff.

Whatever their demographic characteristics, a question that arises is whether the choice of termination is associated with differences in foundations' outlook and operations.

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## Ideas about Foundation Effectiveness

Perhaps the most common argument made by advocates of limiting foundation life is that it promotes adherence to donor intent, while perpetual life foundations drift away from that intent after the death of their founding donor. Our findings are consistent with that position. Among limited life and perpetual life foundations whose donors are deceased, a far higher percent of limited life foundations (91 percent) than perpetual ones (65 percent) say that adherence to the founding donor's wishes is very important. These differences endure even with controls for asset size and age. Among foundations whose donors are alive, however, there were no statistically significant differences among limited life and perpetual life foundations.

A few other attitudinal differences also were found. Limited life foundations were less likely to characterize a strong organizational infrastructure, publicizing the foundation and its work, and joining grantmakers associations as important to being effective.<sup>3</sup> The pattern in the case of emphasizing a strong infrastructure is somewhat distinct and reveals a sharper polarization among limited life foundations than among perpetual life ones. On one hand, 48 percent of limited life foundations actually do feel that strong organizational infrastructure is very important to their being effective, but 34 percent say it is not important. The percentage of perpetual life foundations that characterize infrastructure as very important is quite close (52 percent), but the percent that say it is not important is only 18 percent. In other words, limited life foundations are less likely to fall between the extremes. Again, the differences remain significant with controls for the foundation's asset size.

Limited life foundations were no more or less likely to attribute importance to the other 14 items we asked about (e.g., collaboration, an involved board, soliciting outside advice, establishing focused grantmaking areas).

To this point, we have discussed attitudes. Some attitudinal differences were more likely to be reflected in differences in practice than others. Although limited life foundations less strongly linked effectiveness and publicizing the foundation and its work, they were no less likely to actually engage in any of the communication activities we asked about (e.g., having a web site, publishing annual reports). Likewise, they were equally likely to join grantmakers associations. And, as we have seen, they do not employ significantly fewer staff, nor were they any less likely to provide staff training. However, in the case of adherence to donor intent, limited life foundations were indeed more likely to report using donors' interests as a criterion in grantmaking decisions.

## Grantmaking and Technical Assistance

There were certain differences in the grantmaking criteria limited life and perpetual life foundations used. Limited life foundations reported giving greater importance to the donor's interests in their grantmaking decisions. Here, too, we find that while foundations with a living donor are comparable, there are differences among foundations without a living donor. Among the latter group, 58 percent of limited life foundations

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compared with 37 percent of perpetual ones said the donor's interests were a very important criterion in their grantmaking decisions over the past two years.<sup>4</sup>

On the other hand, limited life foundations less often said strength of an application was very important (47 percent) than did perpetual foundations (66 percent). This difference was related to the fact that limited life foundations were less likely to consider unsolicited applications; once this is taken into account, the differences in strength of proposal as a criterion disappear. Fifty-nine percent of perpetual foundations, compared with 42 percent of limited life ones, say they give serious consideration to unsolicited grant applications. Likewise, 37 percent of perpetual foundations said they often fund unsolicited applications, but that was true of 21 percent of limited life foundations. However, it is difficult in these data to disentangle the extent to which this association is related to longevity choices or to the greater likelihood that limited life foundations have a living donor (and such foundations less often fund unsolicited proposals).

A higher percent of limited life foundations say they often made grants for general operating support (46 percent) than did perpetual life foundations (36 percent). The difference is starker when we consider that fully 33 percent of perpetual foundations compared with only 16 percent of limited life ones say they never or rarely fund general operating support. The difference remains statistically significant with controls.

Our survey did not ask how often foundations make grants for endowments, but this would be a very interesting area to explore, given that limited life foundations reject perpetual endowments in their own case. Our interviews revealed striking differences in outlook toward funding endowments among limited life foundations. For some, funding endowments are used as an important strategy to help sustain grantees following the foundation's demise. Yet others were as averse to permanent endowments for public charities as they were for foundations. For instance, one interviewee slipped seamlessly from criticizing perpetual foundations to criticizing universities that "hoard" large endowments.

On a wide array of other questions related to grantmaking, limited life and perpetual foundations were not distinctive. For instance, they showed no difference in grantmaking goals (e.g., strengthening particular fields or organizations), nor were they more or less likely to support organizational development, to support foundation-designed initiatives, to support greater or fewer fields of activities, or to make long-term grants.

Limited life foundations were more likely to provide technical assistance in fundraising. While few foundations of either type often provided such assistance, 45 percent of limited life foundations did so on occasion, compared with 33 percent of unlimited life foundations. The difference remained statistically significant even after assets and age were taken into account. It may reflect another strategy used by limited life foundations concerned with sustaining grantees after their demise. We found no other differences in provision of technical assistance.

## **Self-Assessment**

Asset management emerges as an area in which limited life foundations give themselves lower ratings. Twenty-four percent of limited life foundations say they are doing

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an excellent job managing their assets, compared with 37 percent of perpetual life institutions. Eighteen percent say they are doing poor or fair, compared with 13 percent of those planning perpetual life. Our interviewees cite as a major reason their need to move endowment funds into lower-risk—and thus lower-yield—investments as they approach termination. Likewise, they note that they have fewer investment options as their time horizon grows shorter. We return to this later.

Given that some advocate sunseting as a way to increase impact (by spending foundation assets sooner), we wondered whether limited life foundations might feel they are more successful in leveraging their resources to achieve greater impact. Although the percentage of limited life foundations that rate themselves as excellent was somewhat higher (33 versus 23 percent of perpetual foundations), the difference was not statistically significant.

Limited life or perpetual foundations were no more or less satisfied with their performance with respect to grants, grantee relations, or staffing. They were more likely to rate themselves as fair or poor on communications (58 percent) than perpetual foundations (45 percent), though substantial percentages of limited life and perpetual foundations rated their performance less favorably on this item.

## **Motivations, Experiences, and Approaches of Those Planning to Limit Life: The Interviews**

Turning from these survey data to the qualitative materials from individuals in foundations planning or considering termination helps to better understand some of the differences identified in the survey and to explore in greater depth the motivations, experiences, and challenges associated with termination.

It was usually, but by no means always, the founding donor who made the decision to terminate. This was true in 15 of the 22 limited life foundations interviewed (in two cases jointly with a child). In seven cases, the decision was made by a child, surviving spouse, or nonfamily trustee. As this suggests, several donors left no instructions about longevity, putting the decision in the hands of trustees.

We propose that many of the very different statements interviewees made about their motivations and general approach to sunseting can be usefully classified in terms of where they fall along the three dimensions mentioned in the introduction: the extent to which donors and/or trustees approach sunseting as a positive strategy for achieving a particular purpose; the extent to which they choose sunseting because they lack other options or have a negative view of perpetuity; and whether they view sunseting solely as a personal preference or link it to achieving specific philanthropic outcomes.

Some foundations held a positive view of sunseting and a negative view of perpetuity, but where one view was predominant it tended to be the negative view of perpetuity. Likewise, it was more common for sunseting to be seen as a personal preference than for it to be linked to achieving specific philanthropic goals. Note that the orientation to sunseting has consequences for how people implement a sunset plan, and it helps explain

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why so many felt little affected by their decision to sunset, and expressed little preoccupation with the process of sunset—deferring it until shortly before termination.

## Deciding to Sunset

The argument often made by advocates of sunset is that it ensures that foundation funds will not be used in ways that are inconsistent with the donor's wishes.<sup>5</sup> This was indeed the most commonly mentioned reason by interviewees, who agreed that over time foundations drift away from the donor's values and interests. For instance, one donor believes that foundations are too often "captured" by trustees that do not follow the donor's intent. Another donor said a "foundation represents something that a human being feels. I never felt anyone could adequately represent what I feel. I always know what I expect when I start something." Conservatives often point to the Ford Foundation as a cautionary tale of a perpetual life foundation supporting liberal causes that would not meet with the founder's approval. Some interviewees expressed this concern and the sentiment that Henry Ford "must be turning over in his grave." One said it was a major motivation in his parent's decision to incorporate a sunset provision.

This was not only a reason given by donors who decided to sunset, but also by trustees of foundations where the donor left no instructions about longevity. In one such case, the family decided to terminate, because "The foundation is very much geared to carrying out the creator's wishes. We have seen foundations drift as they get further away from the creator. . . . To avoid that, we decided to spend out." This concern with preserving donor intent was offered as a reason even in cases where the donor had left no guidelines or instructions about how the foundation's funds were to be used. The head of one foundation board explained their decision to terminate as follows: "[The donor] left no guidelines. We have been governed by his likes and dislikes. The further away we get, the less influence that has on trustees." In one unusual case, however, one trustee objected that fellow trustees' decision to terminate ran counter to what the donor would have wanted—but also acknowledged that the donor had left no explicit directions about longevity that would support the claim.

Some trustees, both in foundations with and without a mandated sunset provision, decided to close the foundation earlier than planned out of concern that the time span away from the donor was growing too long. As the trustees grew older they realized that the time would come when the board no longer consisted of people with a connection to the donor.

Sunsetting was chosen in some cases even by donors that reportedly showed no particular signs of having philanthropic intent or interests. For instance, one board head bluntly said of the foundation's creators, with whom he had a long association, "They started the foundation because the alternative was a ne'er do well son who would have pissed it away or died of a drug overdose first." Far from "giving while living," these donors did not actively engage in philanthropy while alive—and indeed while they were alive, kept the foundation's payout level to a minimum.

Those that limit foundation life out of a concern with donor intent diverge markedly from the longstanding concern that perpetual foundations give donors too much control by allowing "the dead hand" of the donor to rule over the wishes and needs of the living.

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Their objection to perpetuity is that the intent of the donor will inevitably *not* remain dominant. One interviewee objected that too many foundations wind up “180 degrees from the founder.” The head of the board of another foundation, whose donor left no instructions regarding longevity, explained:

The key here is not sunset. We were concerned about staying faithful to donor intent. . . . That becomes difficult over time, not necessarily because the donor’s intent becomes difficult to fill, but because trustees change their minds. We started asking, can we assure ourselves that the board will function as it now does in 25 years?

In what might be the worst scenario from the point of view of those concerned with preservation of donor intent, though, we found (a very small number of) cases in which trustees had considered ways to avoid the foundation’s sunset provision. In one case, the trustee argued that they could implement the donor’s sunset instruction by terminating—but placing the assets in a new foundation that would remain under the family’s control. He contended that if this were something that the founder would object to, he would have explicitly ruled it out. In another case, however, a board member had also considered this because, he said, he is very worried about the impact of the foundation’s termination on some of their smaller grantees. However, he said that he considered it only briefly, because he felt that it would violate the “spirit” of the donor’s intent. In yet another case where trustees were also concerned about the impact on grantees, they investigated the legal possibility of getting around the sunset clause—which proved unsuccessful.

For some, however, the decision to sunset was strongly tied to a sense of personal commitment and enjoyment of their philanthropy. These were the individuals who spoke of the “fun,” the “joy,” and the “fulfillment” derived from engaging in philanthropy during their lifetime. As one put it, he “would like to see the results of my philanthropy during my lifetime.” According to the CEO of another foundation, the family has opted to accelerate their giving because “they enjoy philanthropy” and want to invest in what they believe in, and do so with one another while they are all alive, without concern for perpetuating assets or institutions.

Few interviewees characterized their motivations as connected to a belief that sunsetting offered strategic advantages for accomplishing a specific type of philanthropic goal or mission. A major exception was a donor who both personally enjoys engagement in his giving and also strongly feels that, “I can make more of an impact if I give in a shorter period of time.” He further explained that given the pressing problems in his particular field of interest “how can I not give away all of the foundation’s assets in the very near future?” Likewise, another emphasized that a limited life foundation can have more impact than a perpetual life foundation where “the endowments are primary. They are not optimizing the impact they could have. They’re accumulating.”

As this last response indicates, those who select limited life also express aversion to perpetual foundations apart from their deviation from donor intent. One objection was to tying up money, but more common ones reflected a dislike of institutionalized philanthropy, which was seen as bureaucratic and wasteful. A donor who believes a lot of foundation

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spending is wasteful said, “You can’t maintain things without institutionalization. . . . I don’t want to create something that’s primary purpose is to maintain itself.” Explaining her family’s decision to limit their foundation’s life, another said, “The overriding reason was the desire not to create a self-perpetuating bureaucracy.” She feels that, over time, foundations become “so stagnant” and “spend a lot on offices and staff but not giving much” and that if she and her family cannot decide what to fund without hiring another to do it for them, “then why are we doing this?” A few voiced the sentiment that a memorial or ego was the only reason to want to create a foundation in perpetuity.

Some donors, though, did not object to perpetuity per se but did not feel they had that option. One donor created a foundation with the intent of perpetuity, but his children were uninterested in his causes and did not want to be involved with the foundation. The donor decided to terminate, feeling, “It’s unfair to rule from the grave. It’s unfair to burden the children with your interests.” His children will exercise a stewardship role for a limited time after to ensure that any remaining funds are dispensed as he asked, and then close the foundation.

Family dynamics are influential in this regard. One foundation decided to terminate because of tensions within the family, splitting the assets among the various heirs’ foundations. One child of a donor is considering terminating the family foundation because it has been plagued by family tensions in the past and she does not want her own children to have to experience these in the future. Some trustees described their (deceased) donors as having had no children and/or family with whom they were close as the reason for their decision.

One unusual interviewee expressly rejected the contention that there was anything inherently superior about sunseting. While sunseting is his preference, he believes it is difficult to demonstrate that one longevity plan is superior to another (e.g., with respect to philanthropic impact). He also feels that “perpetuity is not a foolish choice—and if you try to prevent it or outlaw it, as some have, there is an overwhelming risk that, since there are some whose motive is perpetuity, you will lose money.”

In many instances, multiple motivations are at work. For instance, a donor who enjoys personal involvement philosophically questions the legitimacy of perpetual endowments and feels he can have more impact by sunseting also acknowledged that if he had children, he might have reconsidered limiting the foundation’s life. Speaking of her father’s reasons for setting up a foundation with a sunset provision, one trustee said,

He wanted the pleasure of giving it away while alive. Sunseting was set up from the beginning. He felt what had happened at [certain large foundations] was the worst of family foundations. Dad felt very strongly about that. . . . [He felt that] The further you get away from the donor, the further you get away from his values.

## **Debating Perpetuity and Sunseting**

Among foundations that were formerly undecided and debated perpetuity versus termination, we encountered some of the same considerations. One foundation that opted for

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perpetuity considered, but rejected, the idea that it could make a bigger impact by terminating with a “big bang.” The board members felt the foundation would ultimately make a larger contribution by continuing to give to community organizations over time. However, this trustee believed that having the discussion helped clarify and reinforce the board’s sense of purpose. Another foundation head also opted for perpetuity, but explicitly considering the alternatives had a major impact on her. She considered spending down due to concerns about deviation from donor intent—but also did not want the pressure of feeling the foundation had to spend so much money in a given time and wanted the foundation to remain in the family. She also felt that another foundation that decided to sunset had suffered by being under that type of pressure. As a consequence, she decided to opt for a partial spend out, while leaving the remainder in perpetuity. She said she now feels free to give more and is giving more—but because she wants to, not because she has to.

Likewise, at another foundation, when the head of the board sensed (for reasons he declined to elaborate on) that the foundation might move in a direction away from the donor’s intent, he led the board in the decision to terminate. In another case, the termination was more of a “break-up” than a “spend down” explained the foundation’s former head. His relative and the donor’s widow decided to spend out the bulk of the assets on a single gift and split the remainder into her children’s foundations.

The members of one foundation presented a different perspective and an alternative. They have no plans to terminate but stress that perpetuity was never a value for them. Their belief is that foundations must use their assets to maximize the value they contribute—and thus should either limit life by paying out their assets or find ways to better use their assets to fulfill their mission. Thus, they actively look for ways to invest their corpus that help further their philanthropic mission. They believe that by staying alive and trying this approach, they may affect other grantmakers (whereas if they spent out, “no one would care about us now”).

## **The Experience of Sunsetting**

A foundation’s orientation toward sunsetting, however, is not set in stone by the motivations for the initial sunset clause. In some cases, the rationale for sunsetting evolved and expanded, and foundations sometimes experienced unanticipated benefits. For instance, over time, family members at the foundation just described came to feel that sunsetting permitted them greater freedom to innovate and the opportunity to have a greater focus, though they said that was not a consideration at the beginning. We turn now from the reasons for sunsetting to the broader experiences and approaches to sunsetting among limited life foundations.

### **Perceived Influence of Sunsetting**

The influence interviewees most often attributed to sunsetting was that the foundation gave more funds, exceeding the 5 percent minimum payout required of foundations by

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law. This was not only a factual statement but also translated into an impact on the experience of giving. For several interviewees, the fact that they did not have to focus on preserving the foundation as an entity meant they were freer to spend according their assessment of philanthropic needs and opportunities. Responding to a question about whether limiting life has influenced them, one said, “It has in that we’ve never been wedded to the 5 percent rule. We just give what we want. We don’t have a budget.” Yet she also acknowledged that one of their biggest challenges was “trying to gutsy up and make big decisions.” Said another, “We don’t have to worry about future generations. We’re putting all of our money in the game to see what impact we can have right now.” “We don’t think of it as spending down. We think of it as spending a lot!” And one board head feels,

Some foundations are perpetual and [take on] a life of their own, and may lose sight of what they were founded for. They may protect their assets and give less because they are focused on going on forever. You don’t have to worry about that when you plan limited life. So if there is a downturn in the market we can still say, “Let’s give the same amount anyway.”

Sometimes those that initially said sunseting had no impact on them, later agreed that it did lead them to give more at times. Several discussed this in terms of sunseting foundations not being subject to the perceived tendency of perpetual life foundations to focus on self-preservation rather than mission.

Still, several emphasized that they do not give enormous sums, and as one put it they “feel no pressure to give away large sums.” In one admittedly extreme case, the executive director said, “Though we are limited life, our board doesn’t see any need to spend down. We generally go [a little] over 5 percent, but we stay around that because we’ve got [several] years left and the board is waiting to see how the area evolves.” Another feels free to spend more, but also emphasized “I won’t be bum rushed into having to spend.” Still, the prospect of spending sometimes enormous sums of money can be daunting. The CEO of one foundation said, “We have a conservative spending strategy. We’ll have to up our spending before we are done.”

A few said that having a termination date made them more focused. The board head at one foundation who has had experience with both perpetual and limited life foundations said,

If you don’t have the discipline of a date certain, you have in mind a set of long-term operations. . . . You’re not thinking of a date at which you have to account for results but of programs that must run on. . . . So you think in terms of things that you can accomplish by a certain date. It’s a big psychological difference.

Another believes that “the most significant advantage is that you’re on the edge of your seat with a deadline all the time. It creates an atmosphere that you’re much more focused . . . We want to walk out of here making the donor feel proud.” It should be noted that this foundation’s timeline for termination was a comparatively shorter one. Interestingly, because of the time horizon, the foundation decided not to pursue funding in one

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particular area because it felt it could not have an impact within its limited timeframe. Yet another foundation CEO observed that “it focuses the mind more carefully. Like if you knew that you had 10 years to live—it makes you think.” He added that this develops later in the process, because “it can be harder to focus on the end date when you are that far from it.”

A number said that sunseting permits them to have a greater impact through their philanthropy. Two interviewees emphasized that because they were able to spend more, their foundations were able to exercise an influence and leadership role in their field beyond that normally open to institutions of their size.

Said one, being a spend-down allowed them to spend “one-third more dollars” than if they had calculated their payout based on maintaining foundation assets in perpetuity, and “In our experience, you have to come to the table with a credible amount of money to have an impact.” Another foundation said, “We can think a lot bigger. We can say we’ll be the lead million dollar gift.” A couple felt it spurred innovation—but another felt it had just the opposite impact.

A surprisingly high number (over a third) said sunseting had no influence on them. Apart from giving more, most saw no impact on what and how they gave.

In sum, the influences that emerged that were characterized primarily from a positive point of view were

- Greater freedom in grantmaking decisions as a result of not having to be concerned about preserving the endowment;
- The ability for a comparatively smaller foundation to raise its profile and ability to exercise leadership in its chosen field (since it could spend principal);
- A sense of greater focus and discipline from the recognition that time was limited.

Few felt that the decision to limit foundation life resulted in any type of negative influence, but some were mentioned.

### **Perceived Disadvantages of Limiting Foundation Life**

The most commonly mentioned disadvantage was that the foundation’s grantees or in some cases, an entire field, would lose support. Said one interviewee, “It worries me—who will take up the slack after we’re gone,” while another major funder in their field said, “There will be a huge ripple effect when we close.” One distinctive issue that emerges concerns foundations that fund smaller organizations, a subject to which we return under planning and strategy. The head of one such foundation believes that the community would be better served if the foundation were not required to close because it is located in a region lacking in other large foundations. He said,

Most nonprofits, certainly the ones we deal with . . . are smaller. It may hurt the struggling smaller organizations . . . I don’t know where they’ll go. The biggest disadvantage is there’s not another foundation to step up and give them help. . . . Some may have to close up.

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Some foundations expressed confidence that a successful nonprofit would find other ways to support itself—but others (like the one just cited) were less confident. For instance, another foundation head also regretted the sunset requirement, because his city is young and has relatively few foundations.

The issue of sustaining grantees is particularly challenging for foundations that support smaller organizations that they feel are not in a position to be given a large endowment. Indeed, we found some evidence that planning to spend out may bias foundations toward grants to larger and more established institutions able to absorb very large contributions, as some noted. One foundation is dealing with this issue and proposes giving greater attention to funding intermediary organizations as a way to sustain funding for institutions too small to receive large influxes of money.

Perceived negative consequences were sometimes at a more personal level. One foundation president, whose parent closed the foundation after the death of a spouse, expressed regret that the foundation would not be there for his children. Others experienced a parent's decision to sunset as expressing a lack of trust or confidence in them and/or their children. Asked what advice she would give those considering sunset, one donor's child said they need to think carefully about how they will explain the decision to their heirs, acknowledging that her own parent's admonition to "start your own foundation" had "hurt my feelings a little bit." Another donor's child is unsure whether she really wants the family foundation to continue—but has decided that to simply announce a plan to terminate at this point would be too destructive of family relations.

Interestingly, while a couple, as mentioned, had said spending down spurs innovation, one felt that it has just the opposite effect because the recognition that you won't get a second chance prompts you to be more cautious in your choices.

Another negative impact of sunset, interviewees cited was the proliferation of solicitations received once the foundation's plans were announced. One characterized this as the only negative to sunset. Said one board head, "a lot of people have gotten greedy in their asks. Otherwise, what negative consequences could there be?" Another said, "people do start knocking on your door trying to get the big legacy gift." One foundation remained silent about its plans to avoid this.

## **Implementing a Sunset Plan: Challenges, Opportunities, and Approaches**

When asked about how they were planning for the foundation's termination, over half of those interviewed said they had done no planning. Most felt no urgency to do so. In some cases, this was because the foundation was not required to spend down by a set date. In a couple of cases, the foundation decided to spend at a rate that would ultimately result in spending down, but did not set any particular deadline. Thus, one said, "We have no formal spend down plan. . . . The family is flexible and spontaneous. They are not worried. They focus on what's needed for this year, not on where the foundation should be 5 to 10 years from now." Yet even many with a firm termination date feel no compulsion

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to plan. One will not do any planning until five years away from terminating. Another that has not planned said, “I’m a procrastinator” but feels a need to do some planning for termination starting six years prior to closing. At one foundation, there is no feeling of pressure to plan for how to “zero out” because whatever funds remain will simply be split among the children’s trusts.

Others said they will continue to spend as they do, and if funds remain, they will allocate them to charities the foundation has traditionally supported. For instance, at one foundation, they have started to say, “We have certain organizations in mind and maybe we should start to jot down these thoughts when we have them.” But if they have money left, they will simply give it to the organizations the founder valued most. One foundation explicitly avoided the discussion because they felt it would put them “in the mindset of closing” while they want to look at moving forward. He acknowledged at some point, though, they will have to look for a way to keep “golden handcuffs” on staff members to remain.

However, we did find indications that failure to plan can result in problems. In one case, a foundation had not done any planning and found itself approaching its termination date, at which point the board felt it lacked adequate time. This resulted in their extending the termination date (which required legal approval). Still, the foundation trustee feels it was not a mistake to wait. “There was no reason to make plans earlier. The environment changes when people know that you’ll not be here forever.” He explained that once their plans became public, they were besieged by requests, and he spends most of his time speaking with people about their plans to terminate.

A few foundations offered case examples of how a sunset plan can be used proactively to attain specific philanthropic and personal goals. For these foundations, planning was an integral part of their operations at an early point.

The first case is that of a foundation mentioned earlier that saw limiting foundation life as a way to have a far greater impact in its field. The larger grants it made put it at a level of leadership in the field that would require far higher assets if it planned perpetuity (and thus spent at lower levels to ensure the continued level of the endowment). For this foundation,

A goal of someone in a spend-down situation is to create things with sustainability. One way is to nurture other’s willingness to fund them. . . . Our goal was that we could be thought of so well that we would be the Good Housekeeping Seal of approval for other funders. . . . It’s worked a percentage of the time.

They focused on helping grantees in their field develop their own capacity for fundraising (e.g., by developing a membership base). This and some other foundations cited partnering as an important strategy as well. Thus, one “will be partnering more because you don’t want grantees to become so dependent that they will go out of business when you close.” Some foundations made it a point not to become too dominant a funder of any one organization.

In another model, a limited life foundation of a larger size was seen as a vehicle for carrying out a deceased donor’s trust. Rather than view the foundation only as an

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annual grantmaker, trustees planned how to best achieve the donor's purposes and designed foundation operations accordingly. In some cases, that required creating and/or strengthening institutions that would ultimately receive substantial gifts. In trustees' view, the foundation provided an oversight mechanism until such time as the organizations were strong enough to operate and administer their full donation on their own. Indeed, by the time of the interview, they concluded that the foundation's purpose had been accomplished and planned to close early. For smaller grantees that the foundation felt "had no permanence that you'd want to endow," the foundation made a "parting balloon gift."

In a similar case, one of the living donors plans to leave his foundation in existence for a short time after his death for a comparable reason—to provide support to some of the newer ventures he has funded until they are strong enough to be "spun off."

Among those that did more planning for termination, concern about the fate of the grantees was a primary concern. Matching gifts were often mentioned as a way to promote organizations' finding other sources of donations. A couple of foundations indicated that they did not see this as their problem, however, and one emphasized its grantees will have to "row their own boat. It gives them a strong incentive to maintain the quality of their programs." But this was the more atypical outlook.

A few noted that retaining staff (who might leave knowing the foundation's plan to close) was an issue. Some used retention bonuses. Another offered staff funding for educational and retraining programs, though few staff had availed themselves of these. One foundation—again, one that approached spending down more strategically and integrated planning for it early—decided to use a mix of consultants and employees, so that they could more easily cut back at the end of the foundation's life. They provided some incentives for remaining employees. For another foundation, once the decision to terminate was made, "the big concern was how to treat our staff. They will put themselves out of a job. . . . We created a sequestered fund . . . to be paid to employees to remain." Still, several felt it was a challenge to find a delicate balance between incentives to retain staff and spending funds that would otherwise be used for grants. For a number of foundations, the issue of planning for staff did not arise because staff were at an age where they would be retiring.

One executive director who we interviewed pointed to the potential problems of not addressing the issue at all with staff. She said the staff know the foundation will close, but "we're kept in the dark. . . . At some point we'll need answers." The staff remain, she said, because they like the work and the foundation offers them a great deal of discretion in grantmaking—but at some point concerns about job security and the future will become more paramount. Others, however, seemed little concerned either because they would be retiring or felt that they did not need or want to stay in one position too long anyway. The issue did not impact one CEO's decision to take his job. He said, "I like the idea of an entity that self-destructs."

In some cases, challenges to implementing a sunset plan were attributed to circumstances created by a deceased founder, either through instructions given or omitted. In one case, a founder did not leave guidelines concerning philanthropic uses of funds, but did leave specific instructions concerning foundation spending rates. The problem was

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that these instructions were written in a way that kept the foundation from actually spending at levels to permit a drawdown of assets over time, and would require it to do the entire spend out in one day. The foundation has already had to request permission to modify one provision and will seek permission to modify this one as well. In another case, a donor incorporated a sunset provision at the outset—yet also left the foundation an investment that will come to it just around the time it is set to close.

Earlier, we noted that limited life foundations rate themselves lower on asset management. This was indeed a challenge for some foundations, and interviewees shed light on this finding. They explained that as their timeframe shortened, they increasingly have to convert assets to more conservative investments to ensure they would have adequate funds to pay off their obligations. Said one,

There is a difference in how you invest your funds when you plan for perpetuity. If you plan on perpetuity, then you have to tilt toward equity as a high percent of your total return. . . . As you get ready for timing out—your returns diminish toward the end. The thesis here is that limited life foundations will have to tilt toward lower volatility in their investments in order to reduce their risk over time.

Said another,

What was challenging was to develop an investment strategy, knowing that money lost today couldn't be made up later. Our portfolio had to shift dimensions of risk and security over time. Our investment strategy had to become more like your 65-year-old grandmother's, even though our grants were edgy. . . . My goal is that we hit the runway right [in the year we close]. On a quarterly basis, we update our forecast. If we outperform, we have more money that we need to put back in the till. We have developed a planning tool that allows us to do this. The biggest impediment (to spending down) is the financial planning tool to help people do it.

In the previous case, the asset management challenge was compounded by the foundation's goal of "zeroing out." This is less of a pressure for foundations that feel more comfortable with the idea of dividing up and giving away whatever assets are left at the end.

One interviewee believes that this and other perceived challenges reflect an overly closed view of the sunset process. He said, for instance, "Suppose my grant is to [a university]. At the end, I don't have to give them money, I could transfer a part of the foundation's portfolio. The portfolio goes on forever." In his view, spending down has to do only with "the life of the skin," and the foundation is only a skin around the people and resources that constitute it. From that perspective, the foundation may close but the resources will continue to be administered, in another way. In a related vein, one donor likewise emphasized that what is important is not that the foundation endures, because it is only a vehicle. Instead, he said what is important is that the programs it creates develop an independent life and continue.

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## Conclusions and Implications

Limited life foundations represent a small part of the foundation universe, yet one that encompasses considerable heterogeneity. Deep personal engagement by some donors, little evidence of philanthropic passions on the part of others, philosophical convictions by some, purely personal preferences by others—all of these are to be found in the world of limited life foundations. Some are against perpetual endowments per se or want the fulfillment of “giving while living,” while others would not object to perpetuity if they were convinced that the “dead hand” (i.e., their wishes) could indeed rule forever, or had descendants to continue the foundation. We have suggested that this variety is helpfully captured by classifying where foundations stand in their orientation to limiting life along three dimensions: the extent to which they have a positive orientation toward sunseting; the extent to which they have a negative orientation toward perpetuity (or feel it is not an option for them); and whether they approach sunseting solely as a personal preference or as a strategy for strengthening their philanthropic effectiveness.

The orientation has practical consequences, because a spend-down plan that is well suited for one type of limited life foundation may hold little relevance for another. Likewise, it has consequences for how much planning a foundation feels is necessary. Thus, a trustee at one foundation said sunseting was exclusively about preservation of donor intent, and had little influence on long-term planning. Yet for those at a foundation seeking to enhance its impact through sunseting, long-term planning about how to terminate is part of efforts to achieve that impact.

Our interviewees revealed that in a variety of ways, sunseting often had unanticipated benefits—and drawbacks. Thus, a sunseting provision introduced to allow “giving while living” and preserve donor intent at one organization later evolved into a sense that sunseting could permit the foundation to have a greater impact and take greater risks to achieve it. For others, the feeling of freedom to spend according to perception of philanthropic criteria without worrying about the preservation of the foundation as an entity proved a major benefit. Yet another acknowledged that the pressure to spend had resulted in some poor grant decisions.

Experiences of sunseting are also contextual. Those funding in regions or fields without many other funders experienced concerns about grantee sustainability not faced by those that feel confident of other funding sources. For some, the decision to sunset prompted giving to larger and more established organizations capable of absorbing large sums of money—while others that funded smaller organizations saw no way to help these nonprofits following their demise. Some are considering addressing this problem by working with intermediary organizations that can absorb larger funds and continue the foundation’s work in fields populated by smaller organizations.

In response to the mixed and sometimes contradictory forces pulling donors and trustees, some adopted other options. Thus, a donor who wants to pursue her own philanthropic priorities without the pressure of feeling she must spend, and who also wants her family to remain involved (even as she questions what they may do with funds), decided on a partial spend-down strategy. One foundation rejects leaving assets to grow

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in perpetuity because it pulls money out of philanthropic circulation—but rather than spend out, has decided to maximize the percent of its assets invested in ways that will advance its philanthropic mission.

The issue of donor intent is key in discussions of longevity, and our survey findings indicate that donors who are very concerned about this should consider sunseting as an option. Experiences some of our interviewees reported will likely reinforce the fears of those wary of trustees capturing foundations for their own, rather than the donor's intentions. Thus, one trustee, whose proposal to terminate to avoid drifting away from the donor's intent was rejected by fellow board members who did not know the donor, felt other board members wanted to continue in order to enjoy the prestige of their board membership. Yet our findings also reveal that at some foundations, the major challenge to implement donor intent lies not with staff or trustees, but with donors themselves.<sup>6</sup> Thus, one donor required termination while mandating a spending formula that promotes asset preservation. At other foundations, we found trustees struggling to divine the intent of donors who left little or no instructions or records of their philanthropic interests. For instance, a trustee at one foundation said,

It was [the donor's] decision not to leave guidelines. . . . The trustees spent a lot of time determining what to focus the foundation's giving on, and what we think he would want. Our focus could have been better served if we had guidelines. . . . I discussed it with him, and he didn't want to lay down guidelines. I don't know why. Perhaps he thought it might hasten his death.

As this quote reminds us, decisions about foundations, philanthropy, and longevity may be deeply influenced by extra-philanthropic concerns. Our interviews testified to the impact of family dynamics on longevity decisions. They further indicate that the way that a founder discusses plans to sunset can also have a considerable impact on family dynamics and the feelings of other family members.

There are many complexities and nuances to sunseting and decisions about longevity. Thinking about longevity prompts donors and trustees to address explicitly the purpose of a foundation's endowment and its use in relation to the foundation's goals and purposes. We believe that the strategic uses of sunseting as a philanthropic approach would benefit from further exploration. These could then be more fully integrated into donors' and trustees' planning from the outset. Yet we also recognize that for some, such possibilities will be of interest only as a side product to their fundamental personal purpose for choosing to limit life.

We opened by stating that our findings were offered in a preliminary spirit intended to spur and inform future research. In this spirit, we close by identifying some areas for future work.

- What are the ways that limited life foundations have utilized sunseting as a strategic approach to achieving philanthropic outcomes? Does sunseting enhance or detract from the attainment of particular philanthropic objectives?

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- What is the impact of sunseting from the perspective of grantees? Do they experience involvement with limited life and perpetual foundations differently? And what impact, if any, do they feel that a foundation's decision to sunset has on their field?
  - Are there strategies (e.g., use of intermediaries) that some limited life foundations have successfully used to manage the particular challenge of fostering sustainability among smaller nonprofit grantees?
  - How many years are sunseting foundations generally created to endure? What difference does their overall longevity make to their philanthropy?
  - What strategies have limited life foundations developed to deal with the distinctive challenges of asset management (both in terms of investing and setting payout levels each year) that such foundations often experience? How are the challenges experienced influenced by the foundation's end goal for disposition of assets (e.g., "zeroing out" vs. division among other foundations)?
  - What are the consequences of different closure strategies on the benefits and challenges experienced by foundations in the process of sunseting? For instance, how does a commitment to "zeroing out" affect a foundation, compared to a willingness to leave remaining funds to a community foundation or divide it among existing nonprofits?
  - How do the attitudes of limited life foundations toward foundation perpetuity compare with their attitudes about perpetual endowments in public charities? What difference does their outlook make for how they spend down?
  - What is the significance of the foundation as a philanthropic vehicle once perpetuity is no longer a goal? For instance, what difference does it make for a donor to give through a limited life foundation rather than giving the funds away directly to a nonprofit?

As we can see, much remains to be answered. What is clear, though, is that all who had considered both options, perpetuity and sunseting, felt it was beneficial to do so—regardless of how they decided. One foundation emerged from its discussion convinced that it was more beneficial to its community to preserve its assets rather than make a "big bang" by giving more in a shorter period. The process helped to clarify and reaffirm its purposes. Said one interviewee, "Not all foundations should sunset, but all foundations should consider it." This study strongly confirms that donors and trustees would indeed benefit by considering not only sunseting but perpetuity, and the larger question of how the foundation's assets and their use can best serve its own particular philanthropic purposes.

## Notes

1. When we contacted foundations that reported being undecided in 2003 for interviews in 2007 and 2008, several (8 of 22) said they planned perpetuity and did not recollect a time when that had been in question. This is one reason the number of undecided foundations interviewed is lower than the number of limited life foundations interviewed. It is hard to know what accounts for this, but, at least in some cases, it could be due to a turnover in staff and trustees. The calculation of the response rate includes only those that confirmed they were undecided at some point or considered termination.

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2. In multivariate models with a control for foundation age, the West Coast foundations remained significantly more likely to plan termination than southern ones. The relationship between East Coast and southern foundations though was just above the .05 level. The differences endured with controls for assets size and age.
  3. Four percent of limited life foundations characterized publicizing the foundation and its work as very important, compared with 16 percent of perpetual life foundations, and 23 percent of limited life foundations characterized joining a grantmakers association as very important, compared with 33 percent of perpetual foundations.
  4. Limited life and perpetual foundations did not differ in the importance that they assigned the founding donor with respect to formulating their foundation's grantmaking program priorities.
  5. For instance, the Philanthropy Roundtable, whose president describes the history of modern philanthropy as "a story of one foundation after another violating . . . the most cherished values of their founding donors" counsels members to consider a sunset provision (PND News Digest, November 26, 2006).
  6. On this point, see Fleishman (2007) and Meadows (2002).

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