

Family Foundations—Benefits Stretch Beyond Charitable Giving

Many affluent individuals view the family foundation as a means for meeting specific philanthropic goals. For some, it also creates visible evidence of a donor's charitable intent. However, a family foundation also can serve two unique purposes within the confines of familial walls. A foundation can assist an affluent donor in maintaining the integrity of his or her charitable intent for many years into the future, as well as helping to inspire the character, sense of community, and knowledge of future generations.

Establishing a Philanthropic Legacy

A study by the Council on Foundations found that 92% of family foundations were still committed to the original donor's charitable interests. This is an important fact because it is estimated that almost 80% of all family foundations' board of directors are not first generation members. This underscores the importance a family foundation can play in establishing an ongoing atmosphere for family philanthropy.

A family foundation allows a wealthy donor to establish a set of ground rules for future charitable work, as well as provide heirs with incentives to carry forward the donor's (and family's) philanthropic legacy. However, this cannot be achieved without carefully evaluating existing and potential family relationships and proper planning. Although statistics appear to favor the preservation of donors' original intentions, an interesting trend that is increasing among some older, more established family foundations is that the further the foundation is removed from the original donor (i.e., more and more generations become involved as time goes by), the further the foundation moves away from the foundation's (and the donor's) original mission.

Generation after generation, it is possible that the grant-making agenda of new board members may begin to differ from that of the original donor. In addition, it is equally possible that the philanthropic vigor displayed by the original donor may be lost in future years. Hence, some donors feel the need to have at least one "outsider" seated on the foundation's board to provide stability and objectivity. However, the involvement of outside professionals can slowly move a family foundation toward the direction of a public foundation—something that future heirs may indeed favor, but the original donor (and the current board) may wish to avoid.

To alleviate these future, potential problems, a donor can tie an incentive-based estate plan together with the family foundation. In doing so, the donor can create a family environment and attitude that is more consistent with the donor's goal of preserving the integrity of the foundation. Under such an arrangement, heirs are rewarded for overall participation and employment by the foundation, as well as the execution of the foundation's original mission.

Family Involvement—More Than an Incentive

Certainly, wealth provides many heirs with an additional means to meet specific goals. However, one of the greatest challenges that some heirs will face in their lifetimes is learning how to grapple with inherited wealth. For some affluent parents (or grandparents), teaching a child (or grandchild) to be willing to learn complex financial subjects and management skills is an equally imposing challenge. In addition to providing a means for gaining insight into the importance of charitable giving, a family foundation creates an ideal platform for heirs to hone their finance and management skills—in essence, their life skills.

Heirs can be involved in a family foundation as volunteers, employees, and/or board members. As a volunteer or employee, an heir can gain valuable business management skills, as well as witness firsthand, the positive impact charitable giving can have on the community. Heirs who are selected to become board members will further delve into the decision-making and grant-making process, which can foster greater accountability and expand knowledge of financial matters.

If the donor already has several grown children who are regularly involved in the family foundation, he or she may consider making all of them board members. If this is logistically impractical, it may be wise to establish a rotating seat on the board. For instance, every two years, a different child would occupy a seat on the board.

Additionally, one might suspect that the age of a younger heir might limit his or her overall participation in the foundation. On the contrary, many donors welcome the opportunity to start heirs early when it comes to financial and philanthropic education. How young is too young? That entirely depends on each individual set of circumstances. Generally, twelve- and thirteen-year-olds are certainly not too young to volunteer some of their time and begin to gain an understanding of "charity."

In fact, it is fairly common for many donors to have their entire family participate, to some degree, in their foundation's activities. To enhance the learning experience, some donors have initiated creative methods for promoting life skill development, in addition to more traditional foundation activities. For instance, a donor could set up a contest in which each heir is responsible for managing \$10,000 of the foundation's assets. After a specified period of time, all portfolios are analyzed and discussed. Or, where younger, school-aged heirs are involved, a donor could establish an essay contest asking each heir to write an essay on a charity they would wish to benefit. Again, all essays, when complete, are reviewed and discussed. In both cases, modest prizes are given to heirs whose portfolios yielded positive returns, or whose essays were well written and topical. The benefits of such programs can be immeasurable for the participant, the donor, and ultimately, the foundation.

A Lifetime of Dividends

Without question, philanthropy is extremely important to many affluent individuals. At the same time, many wonder how they can instill in their children, and/or other heirs, a similar sense of passion for philanthropic pursuits. Similarly, many affluent individuals are concerned about how they can school future generations in handling wealth. When properly established, the family foundation can provide the means to accomplishing both goals.

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