

New Philanthropists Find Drudgery ©

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Among a certain slice of society in the booming days of the late 1990's, starting a private foundation was every bit as de rigeur as taking a company public or commuting to the office on a private helicopter. For many, it was an easy way to flaunt success, ensure legacies and put their wealth to charitable use. At least it seemed that way.

"One of the greatest joys of making money is being able to give it away," said Dr. Charles A. Sanders, a former chairman of Glaxo who became wealthy overseeing a series of mergers in the pharmaceutical industry. "We established a foundation to make a modest amount of money and support things in the community where we live and make it better as a result. But instead, I found myself saddled with a tremendous amount of paperwork." In the last decade, tens of thousands of wealthy people, including sports and entertainment figures like Tiger Woods and Barbra Streisand and business titans like E. Gordon Moore, co-founder of Intel, and Paul G. Allen of Microsoft have created personal philanthropies.

"The new group of philanthropists included very high-profile people, and they didn't mind the visibility that foundations attract," said Loren Renz, vice president for research at the Foundation Center, a research group in Manhattan. "In fact, they liked it. They were from Wall Street, sports, entertainment, high-profile businesses, and they wanted to make a statement about their philanthropy and then attach meaning to it through the causes they support."

Some of the new philanthropists, however, are finding foundation work more cumbersome than glamorous, requiring far more time and expense than they had imagined.

Dr. Sanders found that instead of working to develop and finance programs for educational causes he loves, he was filling out tax returns and scrambling to figure out how to create the paper trail needed for each contribution that the Sanders Foundation Inc. would make.

His distaste for some of the requisite bookkeeping is obvious. The two tax returns that the foundation filed after receiving tax-exempt status in 2000 were filled out by hand and disclose nothing about it. According to its 2001 filing, its last, the fund still awaited financing and, thus, had no assets and no charitable activities.

"The foundation becomes a business unto itself, and our assets just weren't in that league," Dr. Sanders said. "Taxes once a year are tough enough to deal with just in terms of what you have to file personally."

Dr. Sanders converted his foundation into a fund at the Triangle Community Foundation, which works to direct and build philanthropy in Wake, Durham, Orange and Chatham Counties in North Carolina. He still

has the ability to direct his philanthropy, and for a fee, the community foundation does the paperwork.

Community foundations around the country report that would-be Fords, Rockefellers and Carnegies are making similar moves, abandoning their visions of building a legacy through a private foundation.

The Community Foundation Silicon Valley in San Jose, Calif., saw its first foundation conversion in December 2000, eight months after the stock market bubble burst. The next one was in April 2001, and 11 more quickly followed.

"During the boom years, it was popular to create your own foundation, and many folks did not realize how much paperwork is required," said Michelle McGurk, a spokeswoman for the foundation.

Its most recent conversion involved a foundation endowed with stock that has lost 75 percent of its value since the foundation was created, which illustrates another factor in recent foundation terminations. Appreciated stock was the preferred currency of foundation creation in the 90's, allowing donors to take tax deductions up front but give the money away over several years.

Consider the Linda and Ken Lay Family Foundation of Houston. Mr. Lay was chairman of Enron, and 90 percent of the foundation assets, valued at \$52.2 million at the end of 2000, were in Enron stock.

The foundation could comfortably afford a full-time director, Heather H. Herrold, whose salary was \$83,684. Mr. Lay got a tax deduction based on the value of Enron stock when he gave it to the foundation. Enron went bankrupt amid scandal in late 2001, and the foundation recently reported that its assets had fallen to \$2.4 million, forcing it to postpone many pledges. The Internal Revenue Service may not, however, retroactively revoke part of Mr. Lay's deduction to reflect the decline in the foundation's value.

Philanthropy experts disagree on how widespread the phenomenon is. Charles L. Scott II, chief executive of the Association of Small Foundations, said 6 percent of small foundations closed each year for various reasons. Annual surveys by the Foundation Center have found that the termination rate of foundations over all has stayed at 1 percent since 1984. "I don't see any major increase in that," Mr. Scott said.

Linda Lampkin, program director of the National Center for Charitable Statistics at the Urban Institute in Washington, said she would not be surprised if the rate had increased since 2000, the last year with available figures.

"The data is about two years old, and a lot has changed over that period, and not just the stock market," Ms. Lampkin said. "There are clearer alternatives to foundations like commercial gift funds, which have grown very large very quickly, and community foundations, which have really learned how to market their appeal."

From 1990 to 2000, the number of foundations in the United States increased 75 percent, to almost

57,000, compared to an increase of 47 percent in the 80's. By far, the biggest growth was for foundations with less than \$10 million in assets. The Council on Foundations, a trade association in Washington, said it made little sense to operate a foundation with less than \$10 million in assets.

"There are a number of foundations that we believe are inefficient, lack the stewardship a foundation should have and, frankly, shouldn't exist," said Dorothy S. Ridings, president of the council. Ms. Ridings said her organization was concerned about the quality of advice given to people who were considering philanthropic options.

"I'm not blaming financial institutions at all for wanting to get into this game, but that's where some of the inexperience we've seen showed up," she said. "These new foundations became wonderful sources of income. But the fees charged for managing some of these new foundations are eating into their assets to an unconscionable degree." Mr. Scott denied that, saying, "My sense is that administrative costs are quite low, and at the same time, smaller foundations are giving away much more."

Richard Livingstone and his wife, Linda, of Denver, said they did not like financial advisers who encouraged them to set up a foundation after Mrs. Livingstone's father died in 1994 and left a sizable inheritance.

"The very people who can afford to give away the money are being pressed to use all sorts of complicated financial tools to save them money," Mr. Livingstone said. "I'm going to set up a foundation where I'm going to have all of this extra involvement with management issues, so that I save some money that I don't really need to save in the first place? I don't think so."

He and his wife have a small fund at the local community foundation. But the bulk of their philanthropy comes out of their pockets.

"We like the direct involvement with nonprofits that we get when we give directly," he said. "It's one of the rewards of giving, I think, and it's not all that complicated."

Research by the council shows that the average \$5 million foundation cannot afford to spend more than \$41,250 on administrative expenses. The group estimates, however, that a salary for a part-time executive combined with legal and accounting fees will eat up \$43,750, running afoul of governing principles that frown on administrative expenses that exceed 15 percent of charitable giving by a foundation.

That means that a foundation like the Wendt Charitable Foundation, with \$6.1 million in charitable assets in 2000, struggles to manage itself.

"Setting up the foundation was the easy part," said Henry Wendt III, who retired as chairman of SmithKline Beecham in 1994. "The hard part is making sure the money is managed properly. And then, of course, there's the business of choosing the right charities and doing the appropriate due diligence."

So in January 2001, Mr. Wendt decided to convert the foundation into a fund at the Community Foundation of Sonoma County, Calif., where he is chairman. He figures that it costs him a little more than he would pay a professional investment manager, but he said the organization's ability to review charities made up for the additional expense.

"An organization or cause can sound good," he said. "But is it good? In many respects, giving away money responsibly is harder than making it."

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