WHITTIER TRUST COMPANY
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Leadership Transitions in Family Foundations – Know Your Options!

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Demographers are predicting that between $45 and $155 trillion in wealth will be transferred inter-generationally in the next five decades. A significant portion of this wealth will move from the Silent/Great Generation to Baby Boomers, who also stand to inherit a significant amount of responsibility, as leadership positions in their family foundations shift from aging or deceased parents to their children.

Most high net worth families with private foundations recognize the importance of involving younger generations in the activities of family foundations – administration, governance and grant-making – and the critical role that involvement can play in instilling values, unifying family members and fostering financial management skills. But very few family foundations have developed and implemented formal succession plans. Without one, a leadership transition can result tragically in the dissolution of the family's foundation and philanthropic legacy, often accompanied by a breakdown in family communication, cohesiveness and good will.

Baby Boomers Differ from their Parents

Parents of baby boomers came of age at a time when families were typically supported by one parent. Traditionally, Dad was busy creating the family's wealth, perhaps through a family business, and Mom stayed home to run the household. For this now-senior generation, Mom (and sometimes Dad as well, upon retirement) has taken pleasure and pride in handling the administration of the family's foundation. As children grew up and left the nest, Mom was increasingly able to devote the significant time and energy required to oversee the grant-making and ensure regulatory compliance.

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As the senior generation ages and/or passes away, these foundations require new leadership. The obvious choice is the next generation of family members; however, for various reasons, baby boomers are often unable or unwilling to put in the time that their parents did to run the foundation. In typical "boomer' families, both parents work, and they are working longer hours than their parents did. By necessity, this generation out-sources much of the household chores, hiring housekeepers, gardeners, caregivers, handymen and personal assistants just to keep their own households running smoothly. Contributing to the problem is a regulatory environment that has grown ever more complex and exacting as the public demand for oversight has increased in recent years. Understandably, when they realize just how much work is involved in running a family foundation today, many boomers feel overwhelmed and in need of advice and support.

The Obvious Options May not Be the Best Ones

Nationally, family foundation succession appears to be at a crossroads: some recent trends are not necessarily in the best interests of the donors, the next generation of family members or the charities that stand to benefit from the families' philanthropy.

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Closing up shop. We've learned about many family foundations that, when faced with succession challenges, have simply wound down the foundation by donating out all of their assets. While technically permissible, this is a sad outcome, since it flies in the face of most donors' intent to create a philanthropic legacy in perpetuity and leaves beloved charities without consistent support in future years.

Creating a Donor-Advised Fund at a Community Foundation. Some next-generation family members opt to fold the family foundation's assets into a donor-advised fund and dissolve the foundation. While this allows for charitable giving to continue, the family loses the family governance opportunity afforded through a foundation to bring the family members together around philanthropy. Moreover, many community foundations only allow for one successor advisor to be named, after which the funds roll over into the community foundation's general fund, Finally, many community foundations charge high fees - close to 2% - for administration and asset management.

Hiring administrative staff. Many boomers who decide to keep the family foundation operational in perpetuity erroneously believe that their only alternative to running it themselves is to hire permanent staff for that purpose. But this is an expensive option, and adds undesirable complexities as well. Staff members require office space and supplies. There are benefits, payroll taxes and insurance to consider. Our own research has uncovered several California-based family foundations of modest size ($10-20 million) with permanent staffing that are expending twice as much in overhead and administrative costs as they pay out each year in grants!

Consider Outsourcing Your Foundation Administration

In truth, for family foundations with assets below $50 million, it probably makes little economic sense to hire a staff. And many foundations that are much larger in size also decide against in-house management because they don't want the headache and possible liability that comes with becoming an employer. For these foundations, contracting with a professional, experienced provider of foundation administrative services may be the best option.

Whittier Trust Company has been providing complete foundation administration services for over 50 years. Serving as the central office for family foundations, we handle all aspects of grant-making, governance, record-keeping and compliance – freeing family members from the administrative burdens and enabling them to simply experience the joy of giving. We offer all of these services, plus expert and highly customized asset management, for the same fee that other entities charge for asset management alone.

If a donor-advised fund makes more sense, Boomer-generation foundation heirs may elect to roll the foundation assets into a WTC-managed donor-advised fund, for which the fees are only 1.5% and there is no limitation on the number of successor advisors that can be named.

While WTC's philanthropic services may not be the best fit for every foundation, we would be happy to consult with you to find a solution that will honor your foundation's mission, preserve the family's philanthropic legacy in perpetuity, and minimize the burdens on your family members.

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