

For the billionaire philanthropist, conventional wisdom holds that forming a traditional private foundation is the right way to channel those mammoth charitable assets. But a question that new philanthropists should be asked, is: what is the time frame for *deploying* those assets? Here the author weighs the benefits of the perpetual versus the “deliberate deployment” model.

“Deliberate Deployment” or Perpetuity? Questions to Inform Timing Strategies for Philanthropy

by A. W. “Buzz” Schmidt

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LATELY, WE HAVE BEEN REGALED WITH news of billionaires committing half of their wealth to philanthropy. Fewer details have emerged about the strategies these new mega-philanthropists will pursue to effect their mammoth commitments to society. We can be sure that the professionals—each billionaire’s tax accountant, trust attorney, and financial advisor—will advise a common default solution: form a traditional private foundation. And while you’re at it, they will say, hire a professional staff, invest the endowment in a modern portfolio with broad diversification, and pay out the statutory minimum in annual grants to help assure the retention of “real” perpetual value.

Most will accept that advice. The seductive advantages include estate tax avoidance, continued control of assets, creating a venue for future collaboration among heirs, elevated social status, and a public memorial—complete with a halo—upon one’s death. Add the “best practice” blessing of the professionals, and the default solution is nearly irresistible.

But one question—perhaps the most critical—is seldom asked of the new

philanthropists: what is the timing of the strategy you will pursue to maximize the value of your munificence? It’s not surprising that this question is typically avoided. Its answer may run counter to the interests of advising professionals and the seductive advantages the traditional foundation model confers.

The magnitude of these recent commitments, however, is bound to get some people asking some basic questions. Has billionaire behavior been altered as a consequence of the Giving Pledge? What are the consequences, in the alternative, of so many leaving so much wealth to heirs? Then there’s the complex question germane to our focus here: Might some philanthropists defy the advice, recognize a “time value of philanthropy,” involve themselves fully in immediate solutions to society’s problems, and “spend down” their philanthropic assets during their lifetimes?

The term “spend down” is used by philanthropy professionals to label foundations that concentrate grantmaking over a limited time period, often fifteen to thirty years. A number of us are keen to raise the “spend down” question, if only

to get it on the radar screens of the giving pledgers. But in doing so, and by using this language, we may miss an opportunity to frame the subject of the time value of philanthropy in a balanced way.

When we ask someone, “Would you consider ‘spending down’?” we inadvertently reinforce the default traditional foundation standard and raise the alternative only as an exception to this rule. Further, unlike “granting,” the term “spending” is strikingly negative today, evoking associations with waste and profligacy. It diminishes the perceived value of more rapid grantmaking alternatives. Perhaps, “deliberate deployment” should replace “spending down” in the philanthropic glossary.

To assess philanthropist interest in deliberate deployment, it would be better to promote a more neutral reflection and ask prospective donors to identify their reactions to statements such as the following:

1. Society faces issues that must be addressed quickly to preserve a hospitable natural, economic, and civic environment for your grandchildren;

2. Society will always face intractable problems, and the ones we face today are no different from ones we will face in the future;
3. The economy will continue to grow, society will regenerate its financial wherewithal, and new philanthropic assets will meet future needs; and
4. We must lock up capital in philanthropic endowments to satisfy future needs.

One might then ask, “When you think about your giving, how important are the following factors?”

1. Solving problems now rather than later;
2. Making your own giving decisions; and
3. Leaving society an endowment for future giving.

Next, one might ask, “Given the relative importance of these values and beliefs, which of the following strategies characterizes your intentions?”

1. Establish an entity with a perpetual life. Limit annual giving to ensure perpetual retention of real giving value.
2. Establish an entity from which you will give generously during your lifetime, with the remainder at death to be:
 - a. retained perpetually;
 - b. granted at the discretion of trustees without restriction; or
 - c. granted over a prescribed time frame.
3. Deploy all of your philanthropic assets over a prescribed time frame.

Whether or not this is a useful approach to understanding intrinsic donor thinking about the time value of philanthropy will soon be tested. The London-based Institute for Philanthropy makes a habit of gauging the opinions of the global body of alums, serious philanthropists all, of its Philanthropy Workshops. It will soon assess alumni appetites for a range of time-delineated

strategies for deploying philanthropic funds.

Sadly, even were we to identify a strong donor belief in the value of deliberate deployment philanthropy, it wouldn't mean that behavior will follow that belief. Can we expect such sentiment to overcome the “nearly irresistible” advantages of the perpetual model and the dogma of foundation “best practices?” Frankly, it's a long shot. But it's a non-shot unless we begin the conversation with language that, unlike “spend down,” does not prejudice the response.

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