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OTHER VOICES: Family foundations -- Know when to close

By Mark Neithercut

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More family foundations should plan in advance to shut their doors. This has nothing to do with their performance or the current economy and everything to do with their long-term success.

According to 2008 figures, there are 2,306 foundations in Michigan; 80 percent of them family foundations. The Foundation Center reports that 48 percent of family foundations awarded less than \$50,000 in grants in 2007 and 59 percent had less than \$1 million in assets. Most family foundations, especially these small ones, would benefit from establishing a "sunset date."



Today, most of us are struggling to do more with less. By adopting a sunset date, a family foundation can maximize its impact over a finite amount of time. Most family foundations limit their annual grant-making to 5 percent of their assets, as required by the IRS. Yet, if a foundation focused 100 percent of its assets on a finite period, say, 25 years, it should have much greater impact during that period.

Sunset dates also reduce the likelihood that a foundation will stray from the original vision and values of the founder(s). Too many family foundations fail to consider what the foundation will be like after the founder is gone. Yes, a foundation can be a wonderful tool to keep your children, and even your grandchildren, working together to perpetuate the family's charitable goals. But what about 50 years or 100 years later? When a sunset date is adopted, the founder enjoys a much greater sense of fulfillment by not only seeing the greater impact, but by receiving the thanks and praise that he or she deserves.

Finally, sunset dates ensure that the economic impact of the foundation is not separated in time from when the assets were accumulated. Many founders want to give back to their community. A sunset date provides a more direct link between the time and the place that the assets were earned.

How do you determine a sunset date? There is no easy rule, but 25 years to 50 years is often a useful life span for a small family foundation. This allows the board to be composed of people who knew the founder(s) and understand their values and vision.

Many large foundations are endowed in perpetuity, and Michigan has benefitted enormously from the long-term vision of the Kellogg, Mott, and Kresge families, to name a few. But for those with more modest wealth, a sunset date can increase impact as well as the founders' sense of fulfillment.

So the best advice for family foundations: establish a sunset date, or consider alternatives for setting up a foundation in the first place (e.g. donor-advised fund). In other words, ride off into the sunset before riding off track.

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