Transitions in Family Philanthropy

An Overview for Donors
Table of Contents

Introduction .................................................................................................................................................... 1
1. What transitions do families experience in their philanthropy? .............................................................. 2
2. What opportunities and challenges do family philanthropy transitions present? ................................. 3
3. What legal and financial considerations are associated with family philanthropy transitions? .............. 4
4. How can families best prepare for transitions in their philanthropy? ...................................................... 5
5. What resources are available to support families through transitions in their philanthropy? ................. 6

Recommended Resources ........................................................................................................................................... 8

Acknowledgement
The Goldman Sachs Philanthropy Fund acknowledges the author of this article, Melinda T. Tuan, an independent philanthropic consultant.

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Transitions in Family Philanthropy: An Overview for Donors

Introduction

“Families have no transactions, they have multiple transitions.”

James E. Hughes, Jr.
Families of Affinity

Each family will take a unique approach in navigating through their transitions in philanthropy. We hope that this paper will help families anticipate the transitions as best as possible, and manage their philanthropy accordingly.

Whether your family philanthropy is managed through a family office, a foundation, a donor-advised fund or around the table at Thanksgiving each year, one thing is for sure – you will experience transitions in your family philanthropy.

Some transitions may be for positive reasons, such as a liquidity event in the family business. Others may be associated with unfortunate or unexpected events, such as the death of a member of the older generation. Regardless of the impetus for a transition in the family philanthropy, it is essential that your family prepare for the variety of possible changes, in order to maximize efficacy and minimize stress.

This publication is designed to help you think through five key questions related to transitions in family philanthropy:

1. What transitions do families typically experience in their philanthropy?

2. What opportunities and challenges do family philanthropy transitions present?

3. What legal and financial considerations are associated with family philanthropy transitions?

4. How can families best prepare for transitions in their philanthropy?

5. What resources are available to support families through transitions in their philanthropy?
1. What transitions do families experience in their philanthropy?

“Family giving programs are subject to changes both in family composition and the lifecycles of organizations. Further, the unique circumstances of family in business together (including philanthropic business) create a whole set of key transitional moments in the evolution of the enterprise.”

Family Philanthropy Transitions: Possibilities, Problems, and Potential
National Center for Family Philanthropy

Transitions in family philanthropy may feel overwhelming or abstract. These three experts suggest ways to break down these transitions:

Tim Brugh, West Coast Director of Fiduciary Services for Goldman Sachs Trust Companies, suggests there are two types of family philanthropy transitions:

1. Relationship transitions. These are intergenerational transitions and succession transitions that often involve bringing the next generation(s) into the philanthropic work.

2. Situational transitions. These involve a change in resources available for philanthropic work (increases or decreases), or a shift to a different focus within the philanthropic practices.

Ginny Esposito, President of the National Center for Family Philanthropy, divides family philanthropy transitions into three categories based on different types of triggers:

1. Family circumstances (e.g., weddings, deaths)

2. Foundation circumstances (e.g., involving professional staff)

3. Major transitions in much-respected grantees (e.g., large gifts or crises)

Susan Wolf Ditkoff, Partner at The Bridgespan Group, suggests categorizing family philanthropy transitions by thinking about them through the lens of the five who, what, when, why and how questions:

1. Who is involved in the family philanthropy? Is the benefactor making decisions alone? Are spouses, children, other family members, or staff members engaged?

2. What is being granted through the family philanthropy? How much money is available to the family philanthropy? Have there been either losses or gains to funding?

3. When are the funds given? Is the family foundation moving from existing in perpetuity to distributing its assets over a certain number of years? Is the family deciding to spend a portion of the asset base on a one-time, large-scale opportunity while continuing a steady payout rate thereafter?

4. Why is the family involved in philanthropy? Has there been a life event, such as a family member’s illness, that may result in a decision to make a major contribution?

5. How are decisions made about the family philanthropy? Is the family considering moving from check-writing to making more significant investments with trusted co-funders?

Understanding what triggers transitions, how to categorize them and how to think about them in the overall scheme of your family philanthropy is the first step in preparation – but regardless of the route you choose, advanced planning will ease the transition of your philanthropy.
2. What opportunities and challenges do family philanthropy transitions present?

“What makes family dynamics work for or against great giving? Largely, it is an understanding of how the same things that make you strong can lead to complications.”

Managing Family Dynamics through Transitions: What Makes You Vulnerable Can Also be Your Greatest Strength
National Center for Family Philanthropy

With transitions, philanthropy experts argue, opportunities and challenges are often two different sides of the same coin. When a founder is handing off leadership to the next generation, for example, the situation presents opportunities to renew, reimagine and reinvigorate the family’s philanthropy. At the same time, that transition can present challenges, such as how to fully engage the next generation and help the new leaders maintain the same level of enthusiasm and commitment that the founder demonstrated.

The following lists summarize the opportunities and challenges identified by experts. These may serve as a guide for strengthening your family’s philanthropy during a time of transition as well as offer words of caution to consider in avoiding unintended outcomes.

Opportunities

- Movement from a public expression of private values to a public expression of family values
- Identification of new systems for doing the work of grant-making (e.g., upgrading technology systems, rethinking how site visits are conducted, etc.)
- Discussion of key nonprofit organizations you hope will endure
- Review of current policies
- Introduction of new tools and techniques to the family philanthropy toolkit (e.g., Impact Investing)
- Establishment of a shared legacy among generations and increase in ownership of family philanthropy by younger generations
- Relationship-strengthening between generations

Challenges

- Establishing public expression of common family values among different generations
- Taking the time for a thoughtful transition process
- Avoiding burdening the next generation with having to invest in institutions to which they do not feel deeply connected
- Reviewing of current policies
- Upholding precedent of successful family philanthropy
- Ceding control to the next generation in order to create a shared legacy
- Bridging the multi-generational communication gap

As the authors of an article on family philanthropy state, “Because each family is unique, with its own values, assets, and challenges, you will want to ensure that you work to take advantage of your assets and minimize the challenges.”

1 The Bridgespan Group. “How Do I Work with My Family to Achieve High-Impact Philanthropy?”
3. What legal and financial considerations are associated with family philanthropy transitions?

“Whether dealing with the transition of a donor-advised fund, foundation, or other charitable vehicle, it is essential that those involved understand the operational issues associated with the family’s philanthropy. There can be a steep learning curve that’s specific to each philanthropic vehicle.”

— Kathleen Kinne
Vice President, Trust Services
Investment Management Division
Goldman Sachs

Depending on the philanthropic vehicle(s) your family uses and the type of transition your family is facing, there are a variety of legal and financial considerations to keep in mind. Here are some ways to handle this aspect of transition:

1. Create a legal structure that suits the family's current philanthropy and will withstand a transition to the next generation. Melissa Berman, President and CEO of Rockefeller Philanthropy Advisors argues that if the intent of the founding donor is the most important factor, the philanthropy should be organized as a charitable trust or with restricted funds to restrict successive generations' decision-making authority, by appointing them, in effect, as administrators of the founding benefactors’ wishes. Berman has seen cases where there is confusion about whether someone in the next generation is a legal fiduciary, or if that person can be overruled. Ultimately, when assessing the philanthropy's legal structure, the emphasis should be on clarifying who has decision-making authority and access to resources both before, and after a transition.

2. Ensure that those involved in the future transition understand the legal structure for the family philanthropy. For example, is it a private foundation or a donor-advised fund? Says Berman: “We’ve seen many examples of the next generation being kept in the dark and then all of a sudden they find out about things like minimum payout requirements, 990s, policies, restrictions on self-dealing, taxes, annual meeting requirements, and all of this is totally new to them.”

3. It is essential that the next generation understands what financial commitments are expected of them. For example, in the case where a family philanthropy operates programs or is an operating foundation, it may be that the endowment will no longer be able to fund the ongoing operations. The next generation will need to figure out how to remedy the situation and learn how to act as a fiduciary, how to assess appropriate levels of risk, and how to manage the grant-making.

4. If the transition is triggered by, or results in, a large influx of cash to the family giving vehicle, determine how and when the inflow of funding will occur, and how decisions will be made about it. Chris Blume, Managing Director, Portfolio Management Group at Goldman Sachs, says that in the case of family foundations, “one of the earliest decisions families need to make is what the horizon will be for the organization: will it try to exist into perpetuity or not?” He adds: “This is a personal decision families need to make, a decision with a lot of implications.”

5. Engage a financial advisor, especially in cases where larger sums of money are involved. An advisor can help families determine their spending policy, investment strategy and overall risk tolerance. If the family philanthropy gives through a donor-advised fund (DAF), for example, Blume recommends that the DAF match its investments horizon with its horizon of giving.

Ultimately, in the midst of all these considerations, families may benefit from sophisticated advice given by experts in order to maximize their philanthropic efforts and ensure they are meeting their legal and financial obligations.
4. How can families best prepare for transitions in their philanthropy?

“The best time to plan for a transition is before it is upon you and, therefore, much less emotionally charged.”

Virginia Esposito, National Center for Family Philanthropy

Sharna Goldseker, Executive Director of 21/64, a nonprofit practice focused on multi-generational and next generation philanthropy, observes that while “people should obviously concentrate on the legal and financial considerations during family transitions, advisors spend a lot of time ‘below the line.’” She says: “They need to spend more time thinking with the family ‘above the line’ – talking about their values, vision, intentions, goals, and having conversations about the family as they relate to the philanthropy.”

Henry Berman, CEO of Exponent Philanthropy, says: “It sounds cliché, but you need to think ahead, and have thoughtful conversations, absent of a specific situation.” He draws a parallel between how one would create an investment policy statement for financial investments with developing a family policy statement for philanthropic investments. Esposito cautions families: “If you wait until the death of a major family leader, you are likely to make decisions out of grief rather than best interest. If you wait until your daughter is getting married to think about spouses being involved, you can’t help but make the decision based on how much you want (or don’t want) that person on the board.” She adds, “Make decisions based on principles, not personalities.”

Taking the advice of these experts, here is a series of recommended ways to prepare for transitions:

- Craft a family philanthropy policy that takes into consideration whether spouses are included in decision-making, what happens in the case of divorce, whether there should be a children’s junior board and the age at which children are granted decision-making authority.

- Codify rules and procedures that could potentially cause conflict in times of transition, such as who will take notes at meetings, how votes are taken, whether consensus is required and which decisions require a quorum.

- Schedule an annual meeting where families do not talk about grant-making or investments, but instead focus on connecting as a family. “Attend to the family in philanthropy as much as the philanthropy,” Goldseker says.

- Keep record of major family transitions and set aside time at meetings to engage in deeper discussions. The who, what, when, how and why questions may be useful to draw from for these conversations.

Esposito points out, “It’s better to talk in the abstract about things that might happen tomorrow than talk about age limits for board members when your aunt is 102 and still driving herself to board meetings.” Once the family philanthropy policies have been decided, “regardless of how formal or informal,” H. Berman emphasizes, “It is important for the family to document what they decided. It can be simply a letter in the files, not folklore and urban myth. Otherwise it can be fodder for a pretty ugly Thanksgiving dinner!”
5. What resources are available to support families through transitions in their philanthropy?

“In the same way that you would transition your family business with advisors who have that expertise, families can access high-quality philanthropic advisors to avoid the red flags and pitfalls faced by families before them.”

Susan Wolf Ditkoff
Partner, The Bridgespan Group

There are three types of expertise families may require in times of philanthropic transition: 1) expertise regarding the financial, legal, and tax implications; 2) expertise regarding philanthropic strategy; and 3) expertise regarding family conversation facilitation. Regardless of the category, Ditkoff recommends talking to advisors who don’t “have skin in the game” to ensure objectivity and clarity in decision-making.

While the benefits of hiring a professional advisor on legal or financial issues may be more obvious, experts agree that engaging advisors with philanthropic strategy and family counseling backgrounds are equally important. In fact, Ditkoff suggests most families overweight the importance of obtaining expertise around tax and legal assistance. She observes, “families often don’t invest sufficiently in accessing expertise regarding the best way to maximize the family philanthropy’s impact on society and the issues they care about.” This expertise includes knowledge of the family’s values and priorities for their legacy, in addition to knowledge of the social sector and how to get results from their giving.

When dealing with family governance issues and overall process, many conversations related to transitions in philanthropy are difficult for families to navigate on their own. It can be challenging, even for family members who have the background and expertise, to facilitate conversations that deal with sensitive issues and dynamics within their own family. Given his background in law, taxation, and counseling psychology, Tim Brugh, of Goldman Sachs Trust Companies, is familiar with the need for this special expertise. “Sometimes it’s helpful to bring in professional facilitators to help families learn how to work together in a new context,” he says.

New context can be tricky, remarks H. Berman. For example, he says, “it’s really important to think through the implications of appointing one person from the next generation to be the professional staff member of the family philanthropy with his/her siblings as members of the board of directors.” H. Berman adds, “Bringing in someone from the outside can help you think about these issues.”

In addition to the support of professionals, peer philanthropists can also be an important source of support for families as they transition their family philanthropy. There are several different associations of family philanthropies listed in the recommended resource section and, in all likelihood, someone in your family knows others with a family foundation or fund who would be willing to share their own experiences and lessons learned.
Conclusion

“There are transitions in philanthropy that are universal, regardless of whether a family is involved or not. However, it is important to acknowledge that families introduce special circumstances and different dynamics.”

Henry Berman, CEO, Exponent Philanthropy

As stated in an earlier Goldman Sachs Philanthropy Fund publication, “Families and Philanthropy: An Overview for Donors”, “philanthropy can be one of the strongest glues that bind a family together over the years.” That said, transitions in family philanthropy can test the strength of those bonds and result in tension and disorder if the family does not properly prepare for the transitions.

This publication has been designed to help you think through the types of transitions your family philanthropy may encounter. We encourage you to consider the questions listed in this publication and remember that your family dynamics will change with each transition. A list of recommended resources for each of the five questions is included at the end of this publication. For more information on this topic or additional assistance with philanthropic topics, please contact your Goldman Sachs Private Wealth Advisor.
Recommended Resources

1. **What kinds of transitions do families experience in their philanthropy?**

2. **What types of opportunities and challenges do family philanthropy transitions present?**

3. **What kinds of legal and financial considerations are associated with family philanthropy transitions?**

4. **How can families best prepare for transitions in their philanthropy?**
5. What types of support are recommended to help families transition in their philanthropy?

Family Philanthropy Advisors

- **Arabella Advisors** – www.arabellaadvisors.com – Arabella helps foundations, families, investors, and corporate clients achieve greater good with their resources. Arabella offers a comprehensive suite of philanthropy services including: planning and strategy development, outsourced foundation management and philanthropy support, family engagement, and support for impact investing. Arabella also offers platforms to support and host donor collaboration, new initiatives, and policy advocacy.

- **The Bridgespan Group** – www.bridgespan.org – Bridgespan is a nonprofit advisor and resource for mission-driven organizations and philanthropists. Bridgespan works with individuals, families and foundations as they align their values and beliefs to maximize the results of their giving. Bridgespan generally engages with individuals and families as they are about to embark on or revise a significant philanthropic investment.

- **National Center for Family Philanthropy** – www.ncfp.org – The only national nonprofit dedicated exclusively to families who give and those who work with them. NCFP provide the resources, expertise and support families need to transform their values into effective giving that makes a lasting impact on the communities they serve.

- **Rockefeller Philanthropy Advisors (RPA)** – www.rockpa.org – A nonprofit organization that helps donors create thoughtful and effective philanthropy throughout the world, RPA currently serves more than 150 donors in facilitating over $200 million in annual gifts and grants to more than two dozen countries. RPA provides research and strategic planning, develops philanthropy programs, provides complete grant-making management services, serves as a fiscal sponsor for philanthropic initiatives, and communicates widely about philanthropy.

- **The Philanthropic Initiative (TPI)** – www.tpi.org – A nonprofit advisory team that designs, carries out and evaluates philanthropic programs for individual donors, families, foundations, and corporations. Since it was founded in 1989, TPI's goal has been to help clients to invest in their own values, communities and societies for maximum impact.

- **21/64** – www.2164.org – 21/64 is a nonprofit consulting providing multigenerational advising, facilitation and training for next generation engagement, especially within family philanthropy and other family enterprises. We specialize in serving families with funds, foundations or other family enterprises as well as wealth and philanthropy advisors—so that multiple generations can work, give and serve together more effectively.

Networks of Individual/Family Peer Donors

- **Exponent Philanthropy** – www.exponentphilanthropy.org – A vibrant membership organization providing resources and valuable connections that help funders make the most of the minutes they have and the dollars they give. Exponent Philanthropy members choose to give big while staying small, working with few or no staff to make the most of their resources. Its network comprises thousands of philanthropists who use a variety of giving vehicles including donor-advised funds, foundations, giving circles, and more.

- **The Gathering** – www.thegathering.com – An international network of individuals, families, and foundations engaged in Christian philanthropy and stewardship. The Gathering holds an annual conference as well as small “forums” of individuals and foundations who have an interest in a very particular topic or issue meet throughout the year. Participation is by invitation only, and is limited to individuals, families or foundations which have the capacity to or are currently giving a minimum of $200,000 annually to Christian ministries.

- **Philanthropy Roundtable** – www.philanthropyroundtable.org – A national association of individual donors, foundation trustees and staff, and corporate giving officers that help members
achieve their charitable objectives through expert advice and counsel and connecting peers with similar concerns and interests. Philanthropists who contribute at least $50,000 annually to charitable causes are eligible to become members of The Philanthropy Roundtable.

- **21/64 Next Gen Donors** – [2164.net/we-offer/convening](2164.net/we-offer/convening) – At Next Gen Donors, participants explore the messages and legacies they were raised with, articulate their current values, and develop their own philanthropic analysis and capacity for strategic giving and investing moving forward. Next Gen Donors offers retreats, ongoing in-person and online learning opportunities, as well as a peer network for its members; and, it helps other organizations build next gen networks for their own constituents.

- **Wealth and Giving Forum** – [www.wealthandgiving.org](www.wealthandgiving.org) – An organization founded in 2003 to provide inspiration, innovation and insights to individuals and families of significant means with respect to their philanthropy and socially responsible investing. Through its annual gatherings, topical symposia and communiqués, the Forum offers members of its community thoughtful peer-to-peer exchanges of ideas and practices on aligning wealth allocation with one’s values.

**Next Generation Resources**

- **21/64** – [www.2164.net](www.2164.net) – A nonprofit practice specializing in next generation and multigenerational engagement in philanthropy and family enterprise.