

# Foundation Maintenance

A growing number of banks, law firms, and consultants now offer wealthy families all the tools they need to manage their charitable foundations

Jennifer Nelson



**F**OR CENTURIES, WEALTHY AMERICANS have been donating a part of their fortunes to promote the social good. Ben Franklin willed 2,000 pounds to tradesmen in Philadelphia and Boston when he died in 1790, stipulating that for the first 100 years after his death, the money be used to make low-interest loans to young men getting a start in business. At his death in 1873, Johns Hopkins left millions of dollars to found a university and hospital bearing his name. Typically, the vehicles used to carry out these early acts of philanthropy were charitable trusts, maintained by banks. Funds were usually earmarked for a specific charity or cause.

It wasn't until the early 1900s that the concept of the modern family foundation was introduced by John D. Rockefeller, Andrew Carnegie, and Russell Sage, among others. In contrast to the earlier trusts with their narrowly defined purposes, these new foundations were stamped with bolder, more far-reaching goals. The Russell Sage Foundation, established in 1907, for example, earmarked \$10 million for the improvement of social and living conditions in America. The Carnegie Corporation of New York was launched four years later with an endowment of \$135 million to promote general knowledge and understanding about the world. In 1913 John D. Rockefeller launched a foundation to improve "the well-being of mankind." Not long thereafter the Rockefeller Foundation turned its focus toward eradicating diseases and addressing public-health issues.

Today, the tradition of creating family foundations to benefit broad social concerns continues. But these days, private foundations are no longer reserved for the superrich. In

2000 there were 50,532 independent foundations in the United States, the majority of which were family foundations, housing \$408.7 billion, according to the Foundation Center, a philanthropic-research organization in New York. The vast majority of these foundations held assets of less than \$10 million. A hefty 62 percent, in fact, had less than \$1 million in as-

sets. "Smaller foundations are being used as pass-throughs for the founders' giving," says Loren Renz, vice president of research at the center. "The donors keep some assets in them and fund them regularly over the years, but they are not fully endowed until after the donors die."

The explosive growth of these small foundations has spawned a burgeoning new industry—private foundation administration. A variety of companies, large and small, now offer foundations soup-to-nuts service that includes investment management, tax-return preparation, excise-tax calculation, grant documentation, and the development of a philanthropic strategy. To find out who the key players are in this fast-growing industry BLOOMBERG WEALTH MANAGER conducted an informal survey. We identified 34 firms that provide turnkey administrative services to some 10,000 foundations, which have roughly \$80 billion in assets.

As the private foundation administrators' table on page 44 shows, these turnkey providers are located throughout the country, with the largest concentration in New York, the San Francisco Bay area, and Boston. Not surprisingly, close to half the firms classify themselves as banks or trust companies. Most of these got into the foundation management business by way of their trust-administration services for wealthy



families—many after the Tax Reform Act of 1969. Among other things, the 1969 act mandated that the foundations pay an excise tax on their income, make minimum distributions, and abide by new self-dealing and excess-business-holdings rules.

There are also five law firms and five consulting companies on our list. The remaining firms are divided among foundation administrators, accounting firms, non-bank financial-services firms, and self-described philanthropic advisers, whose main goal is to help clients pinpoint not-for-profits that best support their objectives and develop a strategy for giving. The group, in short, is a hodgepodge, reflecting various areas of expertise. Not all the firms excel in all areas. For example, although many firms report that they offer investment-management services, most don't require that they be the one to manage the foundation's investments. About 80 percent give the client the option to use an outside money manager. "We're not interested in capturing assets under management," says Melissa Berman, chief executive officer at Rockefeller Philanthropy Advisors, which provides services to eight foundations with \$288 million in assets. "We prefer to focus on what clients' visions are, what their goals are, what their lifestyles are going to be, and what they are interested in funding."

Most of the companies on the list, in fact, work regularly with outside experts, such as investment managers, accountants, lawyers, and philanthropic consultants to fulfill all the management functions. "By their nature, private foundations are very technical and complex. It's almost like a small business with special tax, governance, and grants-management

requirements, with the governance based on federal tax law," says Linda Fisher, managing director of philanthropic-advisory services at Glenmede Trust Co.

Interestingly, the firm that tops our list is one of the country's largest accounting firms, Ernst & Young, which works with 200 private foundations with a total of \$40 billion in assets. Ernst & Young got into the foundation management business around 1980, offering the service as part of its package of charitable-giving services to high-net-worth families. "The philanthropic community has grown tremendously over the past 15 to 20 years, and we've been able to ride that wave with our clients," explains Larry Abowitz, principal in the exempt-organizations group at Ernst & Young's national tax department in Iselin, N.J. "Clients want to talk to one firm about their estate planning, tax, and charitable-giving needs, and we fill that demand by bringing together a combination of resources."

Quarles & Brady, a law firm in Chicago that ranks second on our list, works with 78 private foundations with \$8 billion in assets. Although Quarles & Brady's area of expertise is, naturally, legal matters, it does far more than simply offer advice on how to establish a foundation and file the requisite tax forms. It also provides ongoing legal advice on grant making, investment management, and tax issues. For these services, Quarles & Brady typically charges an hourly fee, which ranges from approximately \$250 to \$350 per hour.

Like most of the other banks and trust companies on the list, Glenmede Trust Co., which ranks third, got into the foundation administration business in order to help out its wealthy clients—in Glenmede's case the Pew family,

descendants of the founder of Sun Oil Co. Of the \$4.8 billion in assets in the 110 foundations that Glenmede manages, \$3.7 billion is in the Pew Charitable Trusts.

Glenmede is one of 10 firms on our list that doesn't set an asset minimum for foundation clients. The average minimum for the firms on our list is \$2 million. At several companies, however, the minimum is much lower. For example, at Merrill Lynch & Co., which ranks fourth, the minimum is only \$1 million. Merrill Lynch also offers a scaled-down version of its administration services to foundations with as little as \$25,000 in assets. At that level, foundations have access only to the services of a financial adviser—not a trust officer or philanthropic consultant. "A good portion of the clients who launch these small foundations are going to be beneficiaries of gifts through wills or charitable trusts in the future," says King McLaughlin, director of the company's Center for Philanthropy in Princeton, N.J. "We're trying to help them come up with solutions for their lives over time, we're looking for long-term commitments." Depending on the assets and the investment-management services selected, Merrill Lynch's fee ranges from 30 to 200 basis points annually.

The firm on the list with the lowest asset minimum—

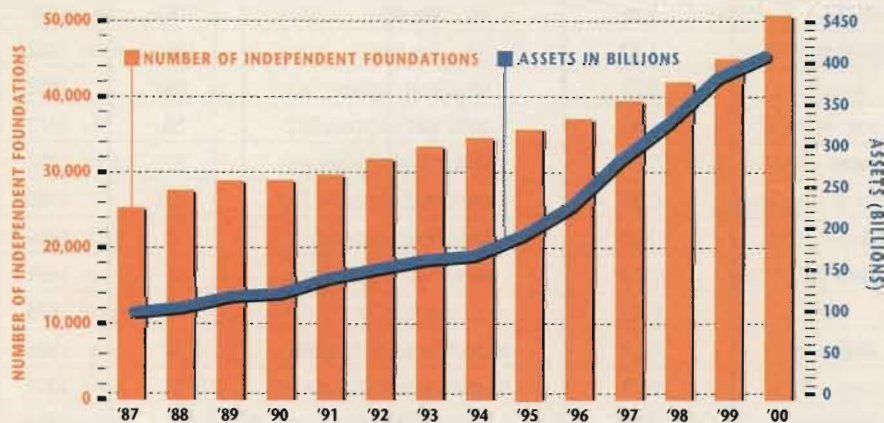
\$100,000—is Foundation Source in Norwalk, Conn. Launched two years ago, Foundation Source is one of a new breed of businesses that is aggressively targeting the private foundation market. "We've standardized the foundation's structure, turning it into a financial product like a 401(k) or IRA, instead of a one-off corporation," explains Douglas Mellinger, chief executive officer. Foundation Source, in short, aims to popularize private foundations in much the same way that Fidelity popularized donor-advised funds (see "Sowing the Seeds," June 2002). "We want to provide people with a way to save for philanthropy the same way they save for retirement," says Mellinger. "They build up the fund while in their peak working years, watch it grow, then once they retire, spend more time on it."

As part of its full-service package, Foundation Source offers to incorporate a foundation in the trust-friendly state of Delaware for a fee of \$4,750. Then, for an ongoing fee that ranges from 1 percent to 0.25 percent of assets, the company takes care of all the administrative details. It has automated most back-office functions and established links with a number of financial services institutions—including TD Waterhouse, Bank One, U.S. Financial Advisors, Bear

Stearns and Morgan Stanley—to download client information. By logging on to customized Websites set up by Foundation Source, clients can track their foundation's assets, research charities, and make grants on-line. As of September 30, 2002, the firm had signed on 35 foundation clients with a total of \$125 million in assets.

Just how big is the market for foundation administration services? No one knows for sure, but Mellinger, for one, points out that despite the recent proliferation of private foundations, only 3.7 percent of the 700,000 Americans whose net worth exceeds \$5 million have a foundation, according to Internal Revenue Service records. Charles Scott, chief executive officer of the Association of Small Foundations in Bethesda, Md., expects the market for foundation services to grow markedly. He notes that a massive transfer of wealth is expected to take

## UPWARD MOBILITY



Asset range	Number of independent foundations	% of total	Assets (\$ millions)	% of total	Annual giving <sup>1</sup> (\$ millions)	% of total
\$1 billion+	39	0.1	155,286.742	38.0	6,515.341	30.5
\$250 million–\$999.9 million	124	0.2	59,439.195	14.5	2,691.914	12.6
\$50 million–\$249.9 million	728	1.5	75,074.049	18.4	3,562.183	16.7
\$10 million–\$49.9 million	2,957	5.9	61,977.309	15.2	3,576.364	16.8
\$1 million–\$9.9 million	15,237	30.1	47,992.052	11.8	3,400.589	15.9
under \$1 million	31,447	62.1	8,980.044	2.2	1,599.839	7.5

SOURCE: Foundation Center's Foundation Yearbook 2002. <sup>1</sup>Includes grants, scholarships, and employee-matching gifts; excludes set-asides, loans, program-related investments, and program expenses.

place over the next 20 years as the baby-boomer generation retires. "People are asking themselves 'How do I handle this wealth?' Their kids are taken care of, and they don't want to give them any more. Instead, they want to give back to the

community and see their dollars make a difference."

Melissa Cliett, former director of philanthropic-adviser services at the Council on Foundations in Washington, D.C., agrees. "These days donors don't see philanthropy as just

writing a check to a charity; they see it as an extension of good citizenship. They want to know what their organizations are doing and where their money is going. They want accountability and results."

And, often, administrative help to make the most philanthropic dollars.

*Jennifer Nelson is a researcher at WEALTH MANAGER.*

## PRIVATE FOUNDATION ADMINISTRATORS

Company and location	Total foundation assets (\$ billions)	Type of firm	Number of private foundation clients	Year started	# of foundation clients that use investment-management services	Foundation assets under management (\$ billions)	Requires assets be managed in-house	Fee structure	Minimum asset per client (\$ milli)
1 Ernst & Young, Washington, D.C.	40.00	accounting firm	200	1980	50	N/A	no	asset-based, à la carte	1.0
2 Ovarles & Brady, Chicago	8.00	law firm	78	1978	12	0.01	no	à la carte	no set min
3 Glenmede Trust Co., Philadelphia	4.75	bank/trust company	110	1956	110	4.75	yes	asset-based	no set min
4 Merrill Lynch & Co., Princeton, N.J.	3.50	non-bank financial-services firm	4,150	1994	4,100	3.30	no	flat, asset-based, à la carte	1.0
5 Wachovia Bank, Winston-Salem, N.C.	2.98	bank/trust company	1,061	1975	1,061	2.98	yes	asset-based, à la carte	1.0
6 Fiduciary Trust Co. International, New York	2.50	bank/trust company	50	1931	50	2.50	no	asset-based, à la carte	1.0
7 Hiles Group, San Francisco	2.50	consulting firm	25	2001	none	none	no	retainer, flat, asset-based, à la carte	10.0
8 JPMorgan Private Bank, New York	2.00	bank/trust company	300	1842	300	2.00	no	flat, asset-based, à la carte, hourly	3.0
9 Fleet Charitable Trust Services, Boston	1.80	bank/trust company	1,061	1784	1,061	1.80	yes	asset-based	no set min
10 U.S. Trust Corp., New York	1.80	bank/trust company	175	1909	300	2.50	yes	flat, asset-based, à la carte	2.0
11 Northern Trust Corp., Chicago	1.51	bank/trust company	249	1892	219	0.97	no	asset-based, à la carte	no set min
12 Bank One Corp., Columbus, Ohio	1.20	bank/trust company	700	1910	700	1.20	no	asset-based	0.2
13 Ropes & Gray, Boston	1.10	law firm	100+	1920	30	0.10	no	asset-based, à la carte, hourly	0.2
14 Cummings & Lockwood, Stamford, Conn.	1.00	law firm	100+	1922	none	none	no	à la carte, hourly	no set min
15 PNC Advisors, Pittsburgh	0.99	bank/trust company	150	1852	150	0.99	no	asset-based	1.0
16 Bank of America, Chicago	0.90	bank/trust company	58	1972	58	0.90	no	flat, asset-based	1.0
17 Grants Management Associates, Boston	0.70	philanthropic adviser	31	1982	none	none	no	retainer, flat, asset-based, à la carte	no set min
18 Harris, Chicago	0.33	bank/trust company	100	1900	69	0.23	yes	asset-based, à la carte	0.7
19 Brown Brothers Harriman, New York	0.30	bank/trust company	20	1936	100	0.50	yes	asset-based	3.0
20 Rockefeller Philanthropy Advisors, New York	0.29	philanthropic adviser	8	1891	none	none	no	retainer, flat, à la carte	5.0
21 IFF Advisors, Irvine, Calif.	0.15	consulting firm	75	1976	none	none	no	flat	no set min
22 Sterling Foundation Management, Reston, Va.	0.14	foundation administrator	50	1998	none	none	no	asset-based	no set min
23 Foundation Source, Norwalk, Conn.	0.13	foundation administrator	35	2001	none	none	no	asset-based	0.1
24 Kramer, Blum and Associates, San Francisco	0.05	consulting firm	7	1963	none	none	no	retainer	N/A
25 Atlantic Trust Peli Rudman, Boston	0.04	law firm	11	1980	17	0.07	no	asset-based	5.0
26 Leventhal/Kline Management, San Francisco	0.04	foundation administrator	8	1998	none	none	no	retainer, flat, asset-based, à la carte, hourly	0.5
27 Capital Trust Co. of Delaware, Wilmington, Del.	0.02	bank/trust company	2	2000	none	none	no	asset-based	1.00
28 National Independent Trust Co., Reston, La.	0.02	bank/trust company	15	1994	15	0.02	no	flat, asset-based, à la carte, activity-based	0.50
29 Raymond James Trust, St. Petersburg, Fla.	0.01	bank/trust company	5	1992	5	0.01	no	asset-based	1.00
30 Cambridge Consulting, Cambridge, Mass.	0.01	consulting firm	5	1995	none	none	no	retainer, flat, asset-based, à la carte	N/A
31 Fidelity Charitable Services, Boston	0.00	foundation administrator	0	2002	none	none	no	flat, asset-based	N/A
32 Conservation Co., New York	N/A	consulting firm	N/A	1980	N/A	N/A	N/A	retainer, flat, à la carte, hourly	N/A
33 myCFO+, Redwood C., Calif.	N/A	non-bank financial-services firm	82	1998	none	none	no	asset-based	N/A