Building a strong family foundation

Private foundations can be a remarkable tool for engaging family in your philanthropic vision and teaching them valuable skills.

When establishing a foundation, there are a number of important aspects to consider: the mission; legal and good governance principles; and engaging family members in this venture.

Taking care of business

Private family foundations are charitable entities governed by strict rules from the IRS. In order to establish the foundation, you will need articles of incorporation or a declaration of trust, a 1023 IRS application for tax-exempt status, bylaws and other legal documents. In addition, there are plenty of administrative, operational, legal and tax responsibilities one needs to fulfill in order to ensure the foundation is properly run, and to have effective and appropriate oversight.

Consider your goals

Family foundations are often created with the goal of involving rising generations in the vision and values of the founding donor’s philanthropy. This whitepaper will review what good practices include, as the particulars for each private family foundation will differ, because each family is different.

Establishing a board

In basic governance terms, a foundation can be established in a corporate or trust structure. Whether the board is comprised of family members or employees or a mix of both, how many board members or trustees hold seats, and the hierarchy of the board, will vary based on the state where the foundation is registered as well as what the family decides about how the foundation should operate.

Internal and external staffing

The complexity of the foundation and its activities will naturally impact staffing decisions: things like beneficiary and partnership selection criteria, the level of impact measurement, the type of grants to be made and so on. For some families, there is an interest in maintaining control through the formal board of the

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1Articles of incorporation are a document or charter that establishes the existence of a corporation, generally filed with the Secretary of State. Bylaws are the internal operating rules of the organization.
foundation while still allowing for outside expertise from staff or an advisory board in their grant-making efforts.

**What a foundation’s board does**
- Establishes and maintains clearly defined roles and responsibilities
- Ensures legal and ethical integrity and maintains accountability
- Determines the mission and purpose of the foundation
- Enhances the foundation’s public standing
- Ensures effective organizational planning
- Makes decisions about hiring staff, supports their efforts and evaluates their performance
- Devises and executes on a strategic grant-making plan
- Monitors and evaluates programs and services
- Provides sound financial oversight (for investments as well as grant-making)
- Protects assets with a proper investment strategy

**Key roles on the board**
While the total number of board members will vary, and a minimum might be dictated by a state of incorporation, it is important that roles and responsibilities be assigned. Minimum oversight responsibilities include the tasks associated with the President (or Chair), Secretary and Treasurer.

**The President** presides over board meetings, develops agendas for topics to be covered and facilitates the strategic board discussions.

**The Treasurer** oversees the financials, including the investment strategy, cash flow and administrative considerations. The treasurer is also responsible for ensuring that the minimum distribution requirements are met.

**The Secretary** is responsible for recording minutes from the board meetings to document what is discussed and to make these recorded minutes accessible for auditing purposes. Official minutes should include only key decisions and votes, and only those that the board deems necessary to make publicly accessible.

**Frequency and purpose of meetings**
The board is required to meet at least once per year or more frequently as needed or desired. These meetings offer opportunities to discuss how grant programs are faring, if there is a need for course correction, new funding areas for consideration and learning or development opportunities for board members.

**Involving family in the board’s activities**
Whether or not family members serve on the foundation’s board, they can still be involved at various stages of the board’s decision-making process. For instance, adult family members can attend selected board meetings to:
- Discuss organizations or proposals for consideration
- Vote on grants
- Explore discretionary funding opportunities

Private foundations are required to gift at least 5% of their previous year’s average assets. The foundation’s board needs to ensure sufficient liquidity to meet these obligations, referred to as the minimum distribution requirement (MDR).

The board must meet at least once per year, but can meet as frequently as they decide necessary.
Bringing the family together

Beyond the formality of the board’s roles and responsibilities, we find that clients are often interested in ways to engage their family in their philanthropic work. When your family has multiple generations and branches that include children and stepchildren, grandchildren and great-grandchildren, nieces, nephews, cousins, spouses and ex-spouses, you might wonder at what point and whether these family members should become involved in the family foundation.

If you make the decision that family members can become involved when they hit a certain age, it’s important to maintain that consistency for future generations.

You’re never too young to learn

A good practice is to invite all the young people to listen in to the decisions about the grants being made, the causes being supported, and why you chose particular organizations or recipients over other applicants. We often say that “Values are caught, not taught.” These younger generations of our families are watching what we do, listening to what we say, and it is shaping their perception of our values long before we think to articulate them.

If the children are younger or are not yet aware of the extent of the family wealth, philanthropy can be a useful tool to gradually increase the information you share with children and grandchildren, while deepening bonds and teaching them valuable skills. It can provide access to a world beyond that in which they have grown up and teach them about empathy and the responsibilities that come with wealth.

Consider a junior board

Depending on the maturity levels of the family’s children in middle and high school, or perhaps even college, you might consider establishing a junior board. This allows you to involve children in the family’s philanthropic work in a structured, official manner while deepening their sense of responsibility that comes with wealth and the satisfaction that comes with making a difference in the world.

A junior board provides an opportunity for these young members of your family to begin to grow their philanthropic passion, as well as to develop valuable skills. In order for a junior board to be successful, a structure, an agreed-upon amount of ownership, and specific responsibilities and goals should be articulated and honored.

An important first step is to share information with these new members of your foundation. Even if they have been casual observers of the foundation activity, now is a great time to articulate the foundation’s mission, some basic or detailed grant history (how much you share might depend on how long your foundation has been active and what type of records you’ve kept) and the origins of the foundation. Did your family create the foundation from a liquidity event following the sale of a family business? Is it the result of an estate plan from a previous generation? Or does the foundation have a delicate or fraught origin story? Being transparent about the original purpose of the foundation and the circumstances under which it was created gives children important insights into their family’s history.

Including children in your family’s philanthropic efforts helps to pass along values and develop skills.
If your junior board members are sufficiently mature to volunteer with and assess unmet needs of organizations in their communities, consider a variation of the popular “Dollars for Doers” approach that many corporations take with their philanthropy. Have your junior board meet with an organization they are interested in to learn more about what kind of impact a gift from the family foundation could have and ask them to present their findings to the rest of the family or to the foundation’s board. Then ask the family, the board or both to vote on a monetary gift based on the organization’s alignment with the foundation’s stated mission, the children’s pledged time commitment to the organization or simply the persuasiveness of their presentation.

The rising generation
Assigning adult children key roles on the foundation’s staff or board can help give them exposure and experience in leadership and decision-making. It can be a great way to learn about finance, performance measurement, charitable programs and the issues they are looking to address. Involving the rising generation is also a way to clarify and emphasize shared values, keep the family centered on shared experiences and work toward or refine a family’s legacy.

A great way to start introducing the rising generation to philanthropy is invite them to come and see the impact of the family’s work. Give them space to see and experience the work and ask their own questions to help get a deeper understanding for who you are supporting and why. You may be surprised by what you learn about them, as well. Children have grown up in a different world than you did, and are likely to have fresh, thoughtful perspectives on issues about which you’ve been passionate about your entire life.

It’s important that the rising generation feels connected and invested, so if they aren’t excited about any of your grantees, it might be a good time to work with them to identify an organization or cause in their community they are passionate about, and that you feel comfortable with supporting financially.

One approach you can take is to have the members of your rising generation work on a project together. Have a senior board member work with your rising-generation team to develop a realistic objective and assign a budget that will allow them to achieve their goal.

Brainstorming, researching and problem-solving as a group is a wonderful way to deepen relationships among siblings or cousins. A side benefit is that it gives them a chance to learn about each other’s strengths and support each other’s growth and development. They can then present the charity or cause that they chose at the next board meeting and explain their decision-making process and rationale for support.

Learning about an organization or cause, working together and presenting their selection all contribute to valuable skills and building blocks these members of the rising generation will have for the rest of their lives. They will enhance their ability to research organizations, apply critical thinking skills to their understanding of the problem they are looking to address, as well as begin to understand how overhead factors into running a successful nonprofit organization. Depending on the geographic range of their project, they might also begin to learn about how different problems manifest in different parts of the country or world, and why a solution that works in Kansas might not be as successful in Maryland, Peru or Ethiopia.
Across the generations

Family members of different ages, different life stages and even different nationalities may well have vastly different interests. Your foundation can accommodate these varying passions through a strategy that allows for different grant allocations or a “bucketing” approach.

Consider a conversation or an exercise to help the family articulate their shared values and think of what interests or passions each person has that align with those values. This can be a good way to bring the family together while also honoring different interests. Please ask your UBS Financial Advisor for a copy of our publication “Creating an Enduring Legacy” for more ideas.

Caring about causes while caring for each other

In summary, a private family foundation provides the opportunity and structure for family members with different interests to be involved in the family’s philanthropic work in a meaningful way. Private foundations can bring families together around shared interests, while also fulfilling different passions.

Instituting some of these ideas and strategies can make family philanthropy a joyful and collaborative process, and one where family members learn more about the causes they care about as well as each other.