

What do the Terms “Perpetuity” and “Spend Down” Mean?

- A foundation can be set up to exist in perpetuity - that is, forever.
- Or a foundation can decide to spend down its assets in a specific period of time.
- Nearly all private foundations were endowed to exist in perpetuity.

Under current U.S. law, a private foundation is required to pay out at least 5% of the value of its assets every year. This 5% includes both grants and the foundation’s core operating expenses. The key phrase here is “at least.”

A foundation’s assets comprise its endowment, or the pile of money. An endowment might be created by one big contribution from the founder when they establish the foundation. Or donors might add to the pile with new contributions over time. The money then sits in any number of types of accounts, but is almost always invested in some way, which means it grows over time.

Since the average rate of return on investments is higher than 5% (closer to 10%), a foundation could spend the required 5% of the value of its assets every year and continue to have money to give away in perpetuity—or pretty much forever. This is how the Ford Foundation, Carnegie Foundation, MacArthur Foundations and many, many others continue to be among the largest foundations in the world, without any “new” contributions.

While still reasonably rare, a foundation could choose to give away more than 5% of the value of its assets each year and “spend down” its endowment faster than the rate of return on its investment. A founder or foundation board could choose a specific time frame—whether that’s one year or 100—and figure out how much it needs to give away each year to spend down its endowment in that timeframe. (Such foundations are also sometimes called “limited life” foundations.) Small foundations tend to be most likely to spend down, or sunset, but several large foundations have also done this—most notably, Chuck Feeney’s Atlantic Philanthropies, which spent \$8 billion over 30 years.



Most foundations are set up to exist in perpetuity. Some say that's a core feature of a foundation—that it endures for generations, serving the mission the founder intended well beyond her or his lifespan. But a founder who wants to make a big impact during their lifetime—or, say, on some timely issue in the next five years—might choose to spend down quickly instead.

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