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FT WEALTH: Do your homework before you give

By Andrei Postelnicu
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Charles Robertson and his wife gave \$35m to Princeton university in 1961 with the stated goal "to strengthen the government of the United States . . . by improving the facilities for the training and education of men and women for government service".

The gift, one of the largest given to a US university, helped expand Princeton's Woodrow Wilson School

of International Affairs.

Decades later, the Robertsons' heirs maintain that the university has abused the gift because not enough of its graduates have gone into government service. They have sued Princeton and the case is expected to be tried next spring.

Philanthropy experts say this is an extreme case of what can happen if donors do not clarify the purpose of their gifts to educational institutions. Donors have to consider a range of likely pitfalls in the process of giving money to universities. While ensuring the money is used efficiently might not be an issue, choosing the best way to give it could in itself be a daunting prospect.

Arthur Brooks, an associate professor of public administration at the Maxwell School at Syracuse university and expert in philanthropy, says: "Giving [money] away every year and doing so responsibly and effectively is hard, it is like shopping and almost nobody likes to do that."

He says those who do not or cannot yet set up a family foundation to channel philanthropic efforts have a number of other options at their disposal.

Increasingly popular are donor-advised accounts managed by community foundations or private sector asset management firms who offer advice on philanthropy as part of a wealth management offering. After funding these accounts, donors can tell their administrators which institutions they want to donate to and how much and how often they want to give, without having to do the paperwork themselves and still benefiting from the tax deductions.

Fidelity Investments' Giving Account is an example of a donor-advised account for philanthropic purposes. Unlike those administered by community foundations of other non-profit groups, such accounts offer donors the option of investing the funds deposited, which can then grow in value over time.

But the Princeton example illustrates specific aspects of educational philanthropy that donors must consider to avoid discovering their gifts have been used for different ends than intended.

Anne Neal, president of the American Council of Trustees and Alumni, says the easiest way to avoid the Robertson family's situation is to set time limits on a donation to a university. "Once the donor is deceased, the likelihood of his intentions being followed [by the university] is lower," she says.

The Robertson family heirs allege Princeton strayed from their parents' wishes but the university counters that the heirs are seeking to redefine the terms of the initial donation.

Besides making gifts of indefinite duration, Ms Neal says donors should "do due diligence as they would for an investment" to ensure the money is used to support the causes they had in mind when making the gift. This advice is echoed by other experts in the field.

Getting to know the department, curriculum and faculty affected by the donation is important for donors with particular goals in mind when signing their cheque.

Lee Bass, an alumnus of Yale university gave the Ivy League institution \$20m in 1991 to expand studies of Western Civilisation only to see it returned after the college balked at his request to be involved in hiring the faculty that would teach in the department.

Ms Neal says donors must respect academic protocols, including a university's freedom to hire as it sees fit.

"Academic freedom should not prevent targeted giving," she says, advising would-be donors with particular programmes in mind first to identify faculty members who share their interest.

Ms Neal adds that donors must be aware they cannot take part in managing the programme they are funding. In a guide published by her organisation called: "The intelligent donor's guide to college giving", Ms Neal cautions donors against trying to buy immortality with their gifts and advises them to concentrate on making a gift with the most potential to have an impact.

Mr Brooks at the Maxwell School notes that such specific philanthropy has more often than not been associated with right of centre causes such as limited government, freedom, democracy and personal responsibility. He says: "the vast majority of openly ideologically-driven philanthropy in America has been conservative since about 1970".

The recent example of the conservative Olin Foundation, which shut itself down this year after it concluded it was no longer needed, could be seen as evidence of the effectiveness of targeted philanthropy, Mr Brooks and other experts say.

But donors are becoming more demanding regardless of their political affiliation, a trend that can be seen as a reflection of recent developments in corporate America as a result of the wave of scandals.

"I do not think politics are driving the demand for accountability but that the demand for accountability in our whole economy is affecting our philanthropy," Mr Brooks says.

He says younger, first generation philanthropists, who have recently acquired the wealth allowing them to donate money, have engaged in "venture philanthropy", or a very structured approach to giving that requires "an immediate proof of a considerable social return on investment".

Philanthropy experts largely agree the trend is here to stay and represents a departure from traditional giving to universities, which have grown accustomed to a less stringent regime of accounting for how they use donations for their endowments.

With more affluent people shopping around for programmes and causes they wish to fund, universities may find it increasingly hard to raise unrestricted funds for their operating budgets.

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