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Economy Expected to Take a Toll on Charitable Giving

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To the list of big losers in the turmoil on Wall Street, add these: some big foundations.

Several prominent foundations in the New York area have been particularly damaged by the recent collapse of Lehman Brothers and Bear Stearns and the difficulties of the American International Group. The biggest among them is the Starr Foundation, which held 15.5 million shares of A.I.G. in May. Its assets have fallen by at least $1 billion since the end of 2006, or by nearly one-third of its total value at that time. The 2006 figures are the most recent data available.

Some personal foundations of Bear Stearns executives have been hurt as well, because they held Bear stock. In addition, Bear’s corporate culture, where each year 1,000 senior managing directors gave away 4 percent of their compensation to charity, has disappeared.

The Lehman Brothers Foundation has $28 million in assets, and a spokesman said the foundation’s holdings were diversified. Still, there is no certainty that the foundation will get any new contributions. Some of Lehman’s operations have been acquired by Barclays Capital. Generally when companies merge, the foundations also merge.

Some of Lehman top executives, too, had foundations that played a role in New York philanthropy. A foundation set up by Richard S. Fuld Jr., Lehman’s chairman and chief executive — the Kathy and Richard S. Fuld Jr. Family Foundation — gave away about $5 million in 2006. The Fulds are still on the philanthropy scene, and are among the co-chairmen at the New York Public Library’s annual gala on Nov. 3. But it is too early to forecast their future role, given the changing economic environment.

What this all means to the recipients of those foundations’ largess is still largely unknown. Foundations are required by law to give away at least 5 percent of their assets a year. But when their assets shrink, their donations tend to shrink as well. Gathering enough money to return to their previous level is often hard.

At the same time, individual and corporate gifts to foundations and other charities generally slow during hard times. According to research prepared by Giving USA, donations did not keep pace with inflation for three consecutive years around two economic slumps, in 1973 and 2001.

“The long and the short of it is that most foundations pay out what they have to, and if the 5 percent is a percentage of a lower amount, they will pay less,” said Joel L. Fleishman, author of “The Foundation: A Great American Secret” (Public Affairs, 2007). “To be sure, some foundations would rather dip into capital than cut back on commitments. They rarely do that. But in terms of new commitments, that is where the brunt of the problem will be felt.”

Florence A. Davis, president of the Starr Foundation, said she expected that the foundation would "be making smaller grants going forward." She added: "At least for the time being, some of the initiatives will be put on the back burner. That is unfortunate because more than half of our giving over our 53 years has been in the city of New York: well over $1 billion."

She was quick to add that the foundation was still large and "we have a lot of cash," and that it would honor all its existing commitments.

The charities are clearly nervous. "We are getting a lot of calls from institutions," said one foundation director, who asked for anonymity because the calls were private. "They are polite, but they are clearly worried."

Phyllis Fisher, a spokeswoman for the Hospital for Special Surgery, said the institution received money from both the Starr Foundation and the Lehman Brothers Foundation. "We got a $1 million grant last year from Lehman Brothers when we honored Richard Fuld," she said. "We got $400,000 so far. We don't know what will happen."

Randolph Peers, executive director at Opportunities for a Better Tomorrow, which helps disadvantaged youths and adults learn skills to get jobs, got $75,000 a year from the Starr Foundation for five years but will not get money this year. "We were told that the foundation was focusing on other priorities," he said. Mr. Peers said he was grateful for the help, but "it hurts to lose $75,000."

He predicts that the fallout from Wall Street "will impact us all." As a result, he said, "We have to tighten out budgets. We won't see such generous philanthropy coming our way, and people in my field are going to have a harder time finding jobs for disadvantaged adults when the job market is tightening."

To be sure, foundations generally try to make sure that gifts do not drop precipitously. Starr appears to be planning to give away more than 5 percent of its assets this year, and it says it is completing its planned gifts. The foundation has pledged $7.5 million over five years beginning in 2006 to the New York Public Library, for example, and a library spokesman said it was on track to meet its pledges.

Starr remains one of the largest foundations in the country. It gave away $198 million in 2006, much of it in New York. The donations ranged from a three-year commitment totaling $50 million to a stem cell research project involving Memorial Sloan-Kettering Cancer Center, Weill Cornell Medical College and Rockefeller University to a $600,000 grant to train New York state teachers who work with the visually impaired.

Among the things that will be shelved for the future are efforts to fight childhood obesity and teacher training for math and science, Ms. Davis said.

The Starr Foundation is named for Cornelius Vander Starr, who founded A.I.G. in 1919 and later hired Maurice R. Greenberg, who would one day succeed him as chief executive and build the company into an insurance colossus. Mr. Greenberg, who was pushed out of A.I.G. in an accounting scandal in 2005, remains chairman of the foundation and is still embattled in lawsuits surrounding his role at the company.

His role at the foundation, too, has been an issue. There have long been questions about whether Mr. Greenberg used the foundation to further his own goals.

While the real sting of the Wall Street fallout has yet to be felt, some charities are at least trying to tighten their belts. Last spring, a breakfast honoring the veteran hedge fund manager John M. Angelo of Angelo, Gordon & Company raised a record $2 million for the Damon Runyon Cancer Research Foundation.

But the foundation's executive director, Lorraine W. Egan, said, "Many people have lost a lot of their wealth." Among the donors to the breakfast was Lehman Brothers, she said, "which gave us $25,000." She added: "I think all charities are inevitably going to be hit. We have built up an endowment over 60 years, so we can dip into it. But the bad economy will definitely take a toll."

Ms. Egan said she decided against hiring more staff at the foundation in an effort to control costs.

Some charities are already instituting new programs to raise larger amounts from existing donors who may have adequate financial resources.

"I think there is clearly an impact on philanthropy," said Paul M. Cane, a senior vice president at UJA-Federation New York. "At UJA, for those who can't make a gift now because of their jobs, we have asked the big givers to do more to offset those who can't give. We are creating a challenge pool for the leadership that will match a percentage of any new gift as well as any increase in this year's giving from existing donors."

Even those who are still working are likely to watch their wallets in such uncertain times. "The wild swings create uneasiness in terms of what the future holds for individuals," said Douglas Rothermich, vice president for estate planning and trust consulting at TIAA-CREF. "It is going to cause them to slow down in giving."

Laurance R. Hoagland Jr., chief investment officer of the $8.5 billion William and Flora Hewlett Foundation, noted that foundations must pay out 5 percent. Accounting for inflation, he said, "You need an 8 percent nominal return to maintain your giving power." But, he said, "Most foundations will have a negative return, so that is the decline in giving power. If it goes on for several years, that is a real dent in the giving power of the sector."