The Wealth Draw-down of the Fabulously Rich:
Insights from Private Family Foundations

2025 Third Georgia Tech - Atlanta Fed Household Finance Conference

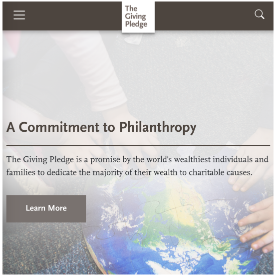
Kunal Sachdeva (University of Michigan, Ross)

March 27th, 2025

Motivation: Rich People “Problems”

Why Study Private Family Foundations?

- **When you’re an ultra-high-net-worth individual, estate taxes, not mortgage payments, top your list of worries.**
- **Private Family Foundations** (PFFs): Tax-friendly structures that let ultra-wealthy families:
  - → Donate appreciated shares (or even a Monet) directly.
  - → Major tax deductions *and* keep control of the philanthropic purse.
- These foundations are recognized as 501(c)(3) organizations, but often used as estate-planning tools *estate-planning* tools.



When billionaires give, who wins?

Are these private family foundations philanthropic vehicles or clever ways to warehouse wealth?
How can they be used for intergenerational giving and potential tax avoidance?

Big Picture – Rich People “Problems”

Private Family Foundations, 501(c)(3)

Many examples of billionaires passing wealth to their family foundations.

What’s happening to Paul Allen’s billions? A year after his death, it’s complicated

Nov. 26, 2019 at 6:00 am | *Updated Nov. 26, 2019 at 12:52 pm*

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Blackstone co-founder Peter Peterson dies, aged 91

By Joshua Franklin

March 20, 2018 9:16 PM EDT · Updated 7 years ago

[1/2] FILE PHOTO - Pete Peterson in Washington, May 25, 2011. REUTERS/Jason Reed/File Photo Purchase Licensing Rights

Gordon E. Moore, Intel Co-Founder Behind Moore’s Law, Dies at 94

His prediction in the 1960s about rapid advances in computer chip technology charted a course for the age of high tech.

Share full article 324

ordon E. Moore in 1990 at the Silicon Valley headquarters of Intel, which he founded n 1968 with Robert Noyce. Alamy

This Paper

IRS Form 990-PF

Form **990-PF**

Department of the Treasury
Internal Revenue Service

Return of Private Foundation
or Section 4947(a)(1) Trust Treated as Private Foundation
Do not enter social security numbers on this form as it may be made public.
Go to *www.irs.gov/Form990PF* for instructions and the latest information.

OMB No. 1545-0047
2024
Open to Public Inspection

For calendar year 2024 or tax year beginning , 2024, and ending , 20

Name of foundation | **A Employer identification number**

Number and street (or P.O. box number if mail is not delivered to street address) | Room/suite | **B** Telephone number (see instructions)

City or town, state or province, country, and ZIP or foreign postal code | **C** If exemption application is pending, check here . ☐

G Check all that apply: ☐ Initial return ☐ Initial return of a former public charity
☐ Final return ☐ Amended return
☐ Address change ☐ Name change

D **1.** Foreign organizations, check here . . . . ☐
2. Foreign organizations meeting the 85% test, check here and attach computation . . . ☐

H Check type of organization: ☐ Section 501(c)(3) exempt private foundation
☐ Section 4947(a)(1) nonexempt charitable trust ☐ Other taxable private foundation

E If private foundation status was terminated under section 507(b)(1)(A), check here . . . . . ☐

I Fair market value of all assets at end of year (from Part II, col. (c), line 16) $

J Accounting method: ☐ Cash ☐ Accrual
☐ Other (specify)
(Part I, column (d), must be on cash basis.)

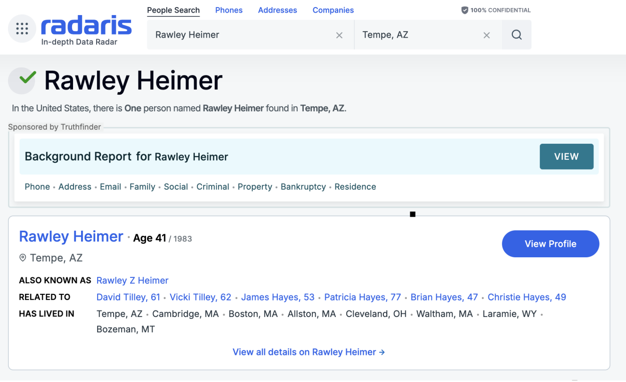
F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here . . . ☐

Part I	**Analysis of Revenue and Expenses** (The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a) (see instructions).)	**(a)** Revenue and expenses per books	**(b)** Net investment income	**(c)** Adjusted net income	**(d)** Disbursements for charitable purposes (cash basis only)
Revenue 1	Contributions, gifts, grants, etc., received (attach schedule)				
2	Check ☐ if the foundation is not required to attach Sch. B				
3	Interest on savings and temporary cash investments				
4	Dividends and interest from securities				
5a	Gross rents				
b	Net rental income or (loss)				
6a	Net gain or (loss) from sale of assets not on line 10				
b	Gross sales price for all assets on line 6a				
7	Capital gain net income (from Part IV, line 2) . .				
8	Net short-term capital gain				

This Paper

Family Foundations Using Genealogical Information

Amazing (and scary) genealogical information



Summary of Results

Contributes to our understanding of inter-generational wealth inequality

- **Inflows and Outflows**
  - → Assets rise by 33% following a death; outflows increase by only 6%.
  - → Large outflows (above 5%) drop after death.
  - → Younger foundations display higher inflows and outflows.
  - → Foundations with heirs see smaller outflow increases, hinting at intergenerational transfers.
  - → Often used Donor-advised funds (DAFs) as a temporary reservoir before establishing long-term charitable priorities.
- **Trustees' Role**
  - → Trustees become main contributors post-death, providing 28% of assets (often non-cash, e.g., equities).
  - → Philanthropic relationships remain steady; emphasis on larger organizations.
- **Impact of TCJA (2017)**
  - → Gift exemption rose from $5.49M to $11.18M.
  - → Postmortem inflows to family foundations dropped by 47.2%, indicating diminished attractiveness.

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Are these warehouses for inter-generational wealth transfer? What are social returns?

Comment 1 – Tax Avoidance For Inter-generational Wealth Transfers?

Is there a pecking order of tax strategies?

What is the pecking order of strategies to avoid taxes for high-net-worth individuals?

ChatGPT o1 pro

Share

Help me develop a comprehensive tax and wealth transfer strategy for an ultra-high-net-worth individual with $100 million. How can I most efficiently pass this wealth on to the next generation while minimizing taxes? Should I use a family foundation, gift assets directly to my children, or employ other methods? What are the limitations of these strategies, and in what sequence or combination should they be used to maximize tax efficiency?

Please present a pecking order of strategies for me.

Tax and Wealth Transfer Strategies

Piecing together strategies...

Details

Ask anything

Search

Deep research

ChatGPT can make mistakes. Check important info.

Comment 1 – Tax Avoidance for Inter-generational Wealth Transfers?

Is there a pecking order of tax strategies?

Here is a (Rough) Pecking Order:

1. Free Transfers
2. Lifetime Exemptions
3. Establish Trusts (GRATs or IDGTs)
4. Family Limited Partnerships
5. Insurance Products
6. Philanthropy ← **THIS PAPER**
   - → Low on the list, tends to be irrevocable
   - → Immediate tax benefits to the estate
   - → Allows family to retain control over timing

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Could family foundations' substantial equity holdings–often originating from founders' businesses or donated securities—influence firm governance?

Comment 1 – Tax Avoidance for Inter-generational Wealth Transfers?

Foundations sometimes own large blocks of companies

This is roughly equal to 10% of the market capitalization of Eli Lilly.

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OMB No. 1545-0047
2023
Open to Public Inspection

For calendar year 2023, or tax year beginning 01-01-2023 , and ending 12-31-2023

Name of foundation
LILLY ENDOWMENT INC

A Employer identification number
35-0868122

Number and street (or P.O. box number if mail is not delivered to street address) Room/suite
2801 NORTH MERIDIAN STREET

B Telephone number (see instructions)
(317) 924-5471

City or town, state or province, country, and ZIP or foreign postal code
INDIANAPOLIS, IN 462084712

G Check all that apply:

H Check type of organizatio

Section 4947(a)(1) non

I Fair market value of all as
of year (from Part II, col.
line 16) ▶$ 62,192,685,

Part I **Analysis of**
of amounts in co
equal the amoun

efile Public Visual Render | **ObjectId: 202421359349103342 - Submission: 2024-05-14** | **TIN: 35-0868122**

TY 2023 IRS 990 e-File Render

Name: LILLY ENDOWMENT INC
EIN: 35-0868122

Name of Stock	End of Year Book Value	End of Year Fair Market Value
ELI LILLY & COMPANY COMMON STOCK	58,157,234,725	58,157,234,725

Comment 1 – Tax Avoidance for Inter-generational Wealth Transfers?

Foundations sometimes own large blocks of companies

This is roughly equal to 13% of the market capitalization of Kellogg Co.

efile Public Visual Render | ObjectId: 202421929349101017 - Submission: 2024-07-10 | TIN: 36-6030614

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Department of the Treasury
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OMB No. 1545-0047
2022
Open to Public Inspection

For calendar year 2022, or tax year beginning 09-01-2022 , and ending 08-31-2023

Name of foundation
WK Kellogg Foundation Trust - No 5315

A Employer identification number
36-6030614

Number and street (or P.O. box number if mail is not delivered to street address) Room/suite
ONE MICHIGAN AVE EAST

B Telephone number (see instructions)

City or town, state or province, country,
BATTLE CREEK, MI 49017

G Check all that apply: ☐ Initial
☐ Final
☐ Addr

H Check type of organization: ☑
☐ Section 4947(a)(1) nonexempt

I Fair market value of all assets at e
of year (from Part II, col. (c),
line 16) ▶$ 7,615,032,022

efile Public Visual Render | ObjectId: 202421929349101017 - Submission: 2024-07-10 | TIN: 36-6030614

TY 2022 IRS 990 e-File Render

Name: WK Kellogg Foundation Trust - No 5315
EIN: 36-6030614
Software ID: 22016089
Software Version: 2022v5.0

Name of Stock	End of Year Book Value	End of Year Fair Market Value
Kellogg Company Stock	3,315,328,755	3,315,328,755
Other Corporate Stock	408,090,158	408,090,158

Comment 1 – Tax Avoidance for Inter-generational Wealth Transfers?

Testable Implications

Dig into the balance sheet more! Are firms holding these stocks in-kind?

Suggestion 1: Dig into the Balance Sheet Data

- See what is being gifted, seeing stocks being gifted is huge
- See if what they are being gifted are being liquidated or held in kind

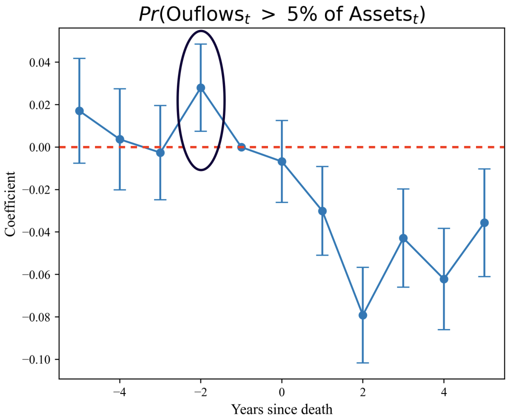
Suggestion 2: If they are holding corporate stock, look at the voting (rights)

- Can rule in/out a corporate governance story. This is an interesting way of retaining control and tax avoidance!
- For foundations using DAF, this is likely ruled out

Comment 2 – Use the Fact There is Anticipation

Evidence of large outflows prior to death event

The pattern suggests that there is (partial) knowledge of imminent passing



Comment 2 – Use the Fact There is Anticipation

Do People Know They are About to Pass? Can you use This Fact?

Can the paper use the passing information to better separate the stories?

Suggestion 1: Cut the Data by Unexpected Passing

- Consider Alex and Bob, and both have a family foundation
- If Alex is 65, and Bob is 85 and they both pass away
- The Alex event is somewhat unexpected
- Bob's passing is more predictable actuarially, so the foundation may plan accordingly.

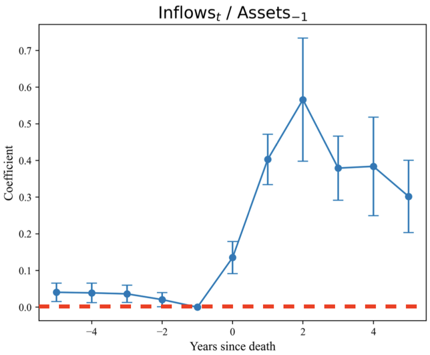
Suggestion 2: Can you compare the passing date to the end of the fiscal year?

- Passing just before the end of the fiscal year doesn't give time to react/plan
- This won't change your main results, but may shed light on the planning motives

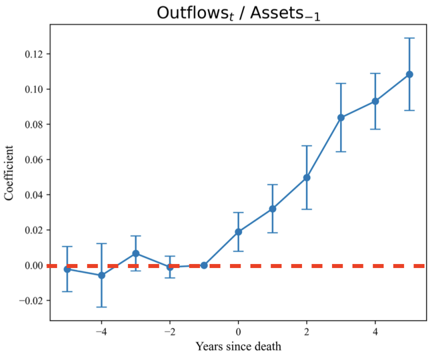
Comment 3 – Wealth Accumulation *and* Real Effects

Do Foundations Become "Warehouses" for Wealth?

Can the paper more directly show if foundations "Warehouse" wealth



(a) Inflows over YOD Assets



(b) Outflows over YOD Assets

Comment 3: Benchmarking “Social Return” on Foundation Assets

Do Foundations Become “Warehouses” for Wealth?

Are these philanthropic dollars truly benefiting society or just sitting idle?

Suggestion 1: Study Dynamics of Wealth Warehousing using IRS 990 Data

- Track the revenue and size of PFF, see they continue to grow post-death event
- PFFs act as intermediaries, delaying when money gets to ultimate charities, can you quantify how fast a dollar added is donated?

Suggestion 2: Evaluate the “Social Return” and Efficiency of Charitable Giving

- Track patterns of recipient organizations (e.g., local nonprofits vs. major universities vs. DAFs).
- Assess whether donations align with a foundation’s stated mission and whether there is “mission drift” (post generational change).
- Explore potential scale economies: does foundation size improve or reduce the overall impact on recipients (e.g., administrative costs, overhead, or timing of grants)?

Excited for this Paper

Documents new facts, raises new questions!

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EXCLUSIVE

Warren Buffett Gives Us a Preview of His Will

The famed investor, who owns nearly $130 billion in Berkshire Hathaway stock, will direct his fortune into a new charitable trust overseen by his children

ALEXANDRA CITRIN-SAFADI/WSJ; PHOTO: REUTERS