

Promoting your Endowment Fund

NEWSLETTER AND BULLETIN INSERTS

The following articles can be used in your organization's newsletter or bulletin to promote giving to your endowment fund at the Lutheran Community Foundation:

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I would like to give money to our church, but how can I make sure that the gift will be lasting?

Endow for the future. Our Endowment Fund is designed to preserve the principal and a portion of the earnings, and use the remainder of the earnings to fulfill our mission. Because only a portion of the annual earnings on our Fund is used each year, the Fund continues to grow, buffering the Fund against inflation and providing a permanent source of support to our mission.

Our Endowment Fund is located at the Lutheran Community Foundation in Minneapolis, Minnesota. The Foundation can give you more information on how this type of gift might work for you. You can reach the Foundation at 1-800-365-4172.

What is an endowment fund? Why do we need one?

An endowment fund is a repository for unexpected gifts or unusual gifts or special-purpose gifts. An endowment fund is also a repository for plans and projects that are unexpected or unusual or have a special purpose. However, primarily, an endowment fund is focused on the long-term financial future of the congregation. An endowment fund receives gifts and funds of various types,

invests those gifts and funds for long-term growth and distributes income from those investments to current projects in support of the congregation's mission.

A congregation needs an endowment fund in several circumstances: When they have property or money which should not be spent currently but should be held for future needs; when they have a special project that needs long-term planning and long-term fund raising; when they develop a vision of a future need that will require significant financial support, beyond what the annual budget can provide.

Our congregation is currently discussing an endowment fund because _____. Over the next few months, you will have an opportunity to join this discussion and help shape our endowment fund so that it serves our needs and our vision.

Our plan for the endowment fund is to use the services of the Lutheran Community Foundation, based in Minneapolis, Minnesota. The Foundation is dedicated to supporting the charitable, religious and educational purposes of Lutheran congregations, institutions and communities, and benefiting society in general. It offers individuals and organizations the opportunity to create permanent charitable funds to benefit the charities and causes representing their diverse interests and concerns. At the Foundation, our endowment fund would be invested for long-term appreciation. Only a part of the income from the fund would be available to be spent each year; the remaining income would stay in the fund to build a buffer against inflation and future market fluctuations.

Is there a way to make a gift to benefit the church while remaining anonymous?

Gifts to our Endowment Fund can be made directly to the Lutheran Community Foundation, which holds our Fund. You can reach the Foundation at 1-800-365-4172. Please tell the Foundation that you wish to remain anonymous and that you want your gift to be allocated to our Endowment Fund. The Foundation can also help you to design the gift to maximize the benefit to you.

Is it possible to provide for the church and other charities through one gift?

Yes, you can to make a single gift that benefits both the church and other charities that are important to you. Our Endowment Fund is located at the Lutheran Community Foundation in Minneapolis, Minnesota. The Foundation can help you design a gift that benefits our Endowment Fund and any other tax exempt charity, Lutheran or non-Lutheran. It is a way to simplify your charitable giving.

What is planned giving?

“Planned giving” means creating a specific plan for future gifts to benefit our church and other charities important to us. These gifts may be made during lifetime or at death. Many people first consider planned giving when preparing a Will or along with other estate planning, but planned giving can be made part of our financial plans at any time in our lives. The donors who make planned giving arrangements are usually motivated by a strong commitment to a particular project or mission of the church. Their planned gifts allow them to acknowledge their gratefulness to God and fulfill their goal of supporting charitable work important to them, work that reflects their values

and commitments. In addition, donors may receive tax benefits and lifetime income through several types of tax-favored plans.

Planned giving takes many forms; each planned gift must be tailored to meet the needs and goals of the donor. Each person's dreams make each gift unique and important and planned giving is not only for the wealthy -- each of us finds ourselves materially blessed in many ways. Martin Luther stated, "The heart of the giver makes the gift dear and precious."

Planned gifts to our church Endowment Fund will ensure that the mission of the church will continue into the future. Our Endowment Fund is located at the Lutheran Community Foundation in Minneapolis, Minnesota. The Foundation can help you design a planned gift that works best for you. You can reach the Foundation at 1-800-365-4172.

Do I need a will?

Without a will, state law dictates who will receive your assets and who will manage your estate. The state's plan for your assets may not include all of the persons that you would like to benefit and definitely will not include gifts to your church and other charities. A will also allows you to appoint a guardian for your minor children, choose a representative to carry out your wishes, and decide the final destination of your estate assets.

Making a charitable bequest (i.e., giving assets to your church or other charities through a will) is the simplest way to make a planned gift. You can specify in your will the amount or percentage of assets that are to pass to the church. Your estate will receive an estate tax deduction for the bequest. There is no limit on the amount of the charitable gift made by bequest or on the amount that can be deducted for estate tax purposes.

As an alternative to a specific dollar amount or percentage bequest, you may wish to designate the church as the "residual beneficiary" of the estate. After children, friends and others have received specific bequests, the church as a "residual beneficiary" will receive what is left in the estate.

To be sure that you have an enforceable will that accomplishes your objectives, it is best to work with an experienced estate planning attorney.

How can life insurance be used to benefit the church?

You can give an existing or a new life insurance contract to the church, making the church the owner and the beneficiary of the contract. At your death, the church will receive the death benefit. You will receive a charitable deduction for your income taxes. If you give the church a new insurance contract, you can deduct the amount of the annual premiums you pay each year to keep the insurance in force. If you give the church an existing insurance contract you can claim an immediate income tax deduction based on the lesser of: (i) the cash value of the insurance contract or, (ii) the aggregate amount of the paid premiums.

Alternatively, you can remain the owner of the insurance contract, but name the church as primary beneficiary. Although you will not receive an income tax deduction, your estate will be entitled to an estate tax deduction for the amount of the death benefit. You can also name the church as a

contingent beneficiary, meaning that the church receives the death benefits only if the primary beneficiary dies before you do.

Our Endowment Fund is located at the Lutheran Community Foundation in Minneapolis, Minnesota. The Foundation can give you more information on how a gift of life insurance might work for you. You can reach the Foundation at 1-800-365-4172.

I would like to make a large gift to the church, but I also need an income during my lifetime. What can I do?

There are two charitable vehicles that enable donors to gift an asset and receive payments in return. They are the charitable remainder trust and the charitable gift annuity.

The charitable remainder trust works like this: 1) You transfer an asset into the charitable remainder trust. 2) The trustee pays you and your spouse, if you wish, income from the trust for life from the trust investment. 3) At the time of your death, the remaining assets in the trust go into the Endowment Fund of the church.

There are different types of charitable remainder trusts, one type pays you a fixed income that will not vary from year to year; another type pays you a percentage of the value of the trust, which is recalculated each year.

If you have an asset, such as real estate, that has increased in value significantly, the income stream from a charitable remainder trust could be greater than the income you're now receiving from the asset and even can be greater than the income you would receive if you sold the asset outright, paid the capital gains tax and invested the balance for income. Because the church isn't required to pay capital gains taxes on the sale of appreciated assets, the full fair market value of the asset contributed to the trust provides income back to you. And when you make a gift of appreciated stock or real estate to a charitable remainder trust, you are entitled to a charitable income tax deduction equal to a portion of the fair market value of the contributed asset.

In contrast, the charitable gift annuity works like this: 1) You transfer an asset to charity. 2) The charity creates a gift annuity contract. 3) The charity pays you a fixed annual payment to you and your spouse, if you wish, for your lifetimes. 4) After you and your spouse's lives, the residuum of the gift annuity goes into the Endowment Fund at the church.

While the charitable gift annuity sounds virtually identical to the charitable remainder trust, it differs in some very significant ways. First, donors of a charitable gift annuity enter into a contract with the charity. In contrast, charitable remainder trust donors create a trust. Second, a charitable gift annuity donor who gifts appreciated long-term capital assets, such as stock, will recognize a portion of the capital gain, spread out over a period of time. In contrast, the charitable remainder trust donors who donate long-term capital assets will recognize no capital gain at all. Finally, a portion of the payments received by charitable gift annuity donors is usually tax-free. In contrast, charitable remainder trust donors are taxed on all of the income they receive from their trust.

Our Endowment Fund is located at the Lutheran Community Foundation in Minneapolis, Minnesota. The Foundation can help you design a charitable remainder trust or gift annuity that works best for you. You can reach the Foundation at 1-800-365-4172.

I would like to give my home to the church, but continue to live in it during my life. Is that possible?

Yes. You can deed your home, your farm or your recreational home to the church now, reserving the right to live there for the rest of your life. You would have the comfort of knowing that some day the church will benefit from the value of your property without having to wait for a probate proceeding. You also would receive an income tax deduction right now. During your life, you would continue to enjoy use of the property or rental income (if you choose to rent it out). You would continue to pay for the costs of maintenance, insurance and property taxes. At the time of your death, the property would be sold for the benefit of the church's Endowment Fund.

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Can I receive a charitable income tax deduction for giving gifts of securities?

Yes. In fact, if your gift of stock or bonds has appreciated since you first bought it, and you have held those securities for more than one year, you can make a gift at a significant discount to you.

For example, assume that you paid \$3,000 for stock in Acme Company six years ago, and that stock is now worth \$8,000. If you sell the stock for \$8,000, you would net about \$7,000, if you are in a 20% capital gains tax bracket. If you then gave that money to the church's Endowment Fund, you would receive an income tax deduction of \$7,000.

However, if you transfer the stock itself to the church's Endowment Fund and it is sold for \$8,000, the Endowment Fund receives the entire amount, because the church's Endowment Fund is exempt from capital gains tax. In addition, you would receive an income tax deduction of \$8,000, the full fair market value of the stock.

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Making a gift with appreciated assets

Mr. and Mrs. Smith own stock that is now worth \$20,000, which they bought for \$5,000 more than 18 months ago. Mr. and Mrs. Smith want to donate \$20,000 to their congregation's endowment fund. Is it better for them to give the stock or sell the stock and give the cash?

We will assume that Mr. and Mrs. Smith are joint taxpayers, with \$100,000 in annual taxable income, and that they have two children still living at home. Taking into account just the proposed charitable gift, this chart shows the difference between making the gift with appreciated stocks and making the gift with cash resulting from the sale of appreciated stocks.

	Gift of Stock	Sale of Stock Gift of Cash
Fair Market Value of Asset	\$20,000	\$20,000
Original purchase price	\$5,000	\$5,000
Amount of appreciation	\$15,000	\$15,000
Capital Gains tax paid	\$0	\$2,250
Proceeds available for charity	\$20,000	\$17,750
Charitable deduction*	\$20,000	\$17,750

If the Smiths give the stock to their church, they will be able to take a charitable income tax deduction for the fair market value of the stock on the day of the gift. In addition, they will avoid paying capital gains taxes on the increase in market value of the stock. The net result will be more net cash income for other purposes and less taxes to pay.

**The Smith's ability to use the deduction in one tax year is limited. Charitable deductions resulting from gifts of appreciated assets can be used up to 30% of federal adjusted gross income. Any unused deduction can be carried forward to subsequent tax years, for up to five additional years. Charitable deductions resulting from gifts of cash can be used up to 50% of federal adjusted gross income, but can be carried forward in the same way.*

Can I leave the remaining balance of my qualified retirement plan to benefit the church?

Yes. In fact, if you leave your qualified plan balance to someone other than your surviving spouse or a charity, it could be subject to income and estate taxes. The amount of the tax depends on the balance in your qualified plan and the marginal income tax bracket of the beneficiary.

The recent changes to the IRA minimum distribution rules result in more money being left in plans after the owner's life. Under the new rules, plan owners are now required to withdraw smaller amounts. As a result, it is projected that 90% of the people at 90 years of age will have 150% of their plan balance left. If you have planned to leave your IRA balance to children or others, you might want to consider the tax implications. One alternative could be to bequeath the balance to the church Endowment Fund, thereby avoiding income tax on that gift and providing a benefit to the church.

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Endowment Funds – Current actions with future impact

All of us, individually and collectively, want to believe that we can make a difference. We look for ways to use our time, our talent and our money to make positive changes in our world. However, we often feel frustrated by the short-term duration of the work that we do. We work hard to gather pledges and budget wisely, every year, year after year. We organize successful festivals, rummage

sales and spaghetti dinners, raising much-needed funds for special projects, but as soon as they are over, we start planning for the next one, because the need will return. Well, we can't effectively plan several years of annual budgets at once, and we can't effectively organize more than one year's festival at a time, but we can take some other steps that will have a long-term positive impact on our congregation.

An endowment fund can be one of those steps. An endowment fund is a repository for long-term gifts from many donors. It is also a resource for long-term plans and projects, plans and projects that may not find sufficient resources in annual budgets. Here are some examples:

- Ms. Tate is a life-long member of a church that is near to a large university. As a retired professor, she has a special fondness for university students and wants to encourage her church to do more outreach in the university community. Using some securities that she purchased many years ago, Ms. Tate established the Student Outreach Fund within the endowment fund of her church. Ms. Tate gave the securities to her church, which sold them and placed the proceeds in the new Fund. The church council passed a resolution accepting the gift and giving the Outreach Commission the responsibility to decide how to use it. Ms. Tate's generosity has not only given new energy to her congregation's outreach to students, but has stimulated other donors to make gifts to her Fund as well. In addition, by giving appreciated securities to the church, Ms. Tate avoided paying capital gains taxes on the increase in value, and received a charitable deduction for the market value of the securities.
- Mr. Smith is quite elderly. Although he wishes he could be more generous with his annual giving to his church, he feels he needs to maintain control of his assets, to pay for his own living expenses. Mr. Smith, whose wife died some years ago and who has no children, decided to name his church's endowment fund in his will as recipient of half of his estate. He enjoys knowing that his gift will become part of the endowment fund principal, which will earn income each year to support special projects and the congregation's mission priorities. The bequest will be a charitable deduction to his estate and will not be taxed.
- Mr. and Mrs. Allen are generous supporters of their church. Their children are grown and they are working on simplifying their lives. Last year, they received an unexpected bequest from a relative that they had hardly known. After considerable soul-searching, the Allens decided to share their windfall with the community of their congregation. First, they talked their ideas over with their pastor and the congregation president. Then, they hosted a coffee party at their house, and proposed an endowment fund for scholarships for congregation members attending seminary. With the Allens' initial gift and infectious enthusiasm, the idea took fire. Contributions have come in steadily, and the congregation looks forward to the regular reports they get from "their" seminarians. The Allens were able to take a charitable deduction for their gift, but more importantly, they received great satisfaction from knowing that they stimulated an effort that will benefit the larger church in a meaningful way.

An endowment fund works like this: Gifts to the endowment fund are invested and preserved for the long-term future of the congregation. Every year, a modest part of the fund (5-6%) is used for current needs. In most congregations, the annual distribution from the endowment is allocated to special projects and initiatives that cannot be funded through regular annual giving, but some congregations use their endowment to support the annual budget. Those congregations with an

especially long-term view provide for *both* short-term needs and long-term disaster protection: They invest their endowment funds for long-term growth and try to spend only part of each year's investment earnings. A portion of the annual investment gain remains in the fund, building a buffer against inflation and future market fluctuations.

While it is possible for a congregation to set up, invest and run its own endowment fund, many congregations choose to seek assistance from an established organization such as the Lutheran Community Foundation, which maintains endowment funds for hundreds of congregations and other nonprofits. Working from a large base of assets and expertise, such an organization can invest more effectively for the very long-term and can assist the congregation in accepting complex gifts and gifts of unusual assets. For instance, the Lutheran Community Foundation could assist a congregation in California to accept a gift of farmland in Connecticut, something that most congregations would never attempt on their own. In addition, the Foundation, with more than \$100 million under management, and expectancies and current gifts of over \$450 million, can get expert investment advice that is not available to a congregation with an endowment fund of a much smaller amount. Using Foundation, it is also possible to offer congregation members gift plans that will benefit the congregation but allow the donors to remain anonymous, and gift plans that benefit a variety of charities, including the congregation.

The key to an endowment fund that *works* is the effort that goes into shaping an endowment to the needs of the particular congregation. Pastors and lay leaders who understand the needs and desires of their members and donors will shape an endowment fund that supports the work that the congregation wants to do and will be rewarded by the growth and expansion of their fund.