

A Guide to Developing

Church Permanent Endowment Funds



CHRISTIAN
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Helping Disciples Make a Difference

Getting Started

Endowments for congregations can be a two-fold blessing: Donors have the chance to make perhaps their largest expression of faith and hope when they put legacy and estate plans in place that include the congregation; and the congregation can use endowment income to strengthen and enhance its witness in its local community and around the world.

The key is following a process that focuses on building an endowment for future ministry. The Christian Church Foundation identifies five foundational principles of critical importance to the building of congregational endowments: 1) The development of a permanent funds policy; 2) The marketing of the policy in the life of the congregation; 3) The receipt and acknowledgment of permanent fund gifts; 4) The investment of permanent funds; and 5) The funding of ministries through distribution of income from investments.

While we recognize that God's Spirit does not always move according to human processes, the system offers the church a way to avoid many problems and potential road-blocks encountered in developing permanent endowment funds. Ignoring any of these principles may hamper the success of a congregational endowment — and the accompanying financial resources.

For purposes of this discussion, the terms "endowment fund," "permanent fund" and "legacy fund" are interchangeable, depending upon congregational preference.

In the Beginning

Where do congregations begin? First, convene a group of persons who understand the potential value of endowment funds for the church. These may be persons who understand finances and have a positive vision for the church; they need to be trusted within the congregation, and be committed enough to be willing to include the church in their own estate plans. The group must focus on long-term objectives. It is important to enable the group working on the development of the permanent endowment fund to be free from other more pressing issues, such as funding the annual budget or prioritizing ministry efforts. Frequently, congregations devote their entire energies to funding the operational budget and never get around to seeking gifts from bequests! The following steps establish the foundation for the congregation's efforts in building an endowment fund.

1 — Develop a Policy

An endowment fund can help the members of a congregation become excited about the ways in which it will resource the future ministries of the church in addition to the witness supported by the church budget.

The Christian Church Foundation provides a model policy that has a proven track record for success. It addresses these issues: the vision and purpose of the congregationally-governed permanent fund; a commitment to honor the donor's restrictions on restricted endowment gifts; the types of gifts that will go into the fund; how to approach restricted and unrestricted gifts; the recognition of named funds; the management of the fund's resources; the distribution process; the amendment procedures; and addressing the possibility of the termination of a congregation's ministry. Each issue merits further exploration.

THE PURPOSE STATEMENT: Purpose statements enable individuals to envision the expansion of the ministry of Jesus Christ into the world. Many congregations experience renewal and revitalization through the development of endowment funds, especially when the focus is more outward than inward.

TYPES OF GIFTS SOUGHT: A gift to an endowment fund of a congregation is unique! Quite often it represents the largest single gift individuals make to the church. Endowment fund policies clearly state that all gifts by bequest, charitable trust or charitable annuity become the property of the congregation's endowment, unless the donor has provided other instructions with the gift. Gifts can come in a variety of forms including stock, bonds, real estate, tangible property and cash. The policy should state that all gifts will be converted to cash as soon as prudently possible. The congregation will then invest the resources in a diversified portfolio of stocks, bonds, and other assets.

DONOR-RESTRICTED GIFTS: Many donors will specify that their gift is to be used for endowment by using language like "endowment, held, or perpetuity." Other language referring to "income from the gift" can also make it clear that the donor intended the gift to be held as endowment. These and other "time restricted" gifts should be held separately from the congregationally-governed endowment. If the use of the income that these donor-restricted endowments generate is not restricted by the donor, it is generally wise for the congregation to use that income in the same manner as determined in the congregation's permanent fund policies.

Some individuals designate specific causes to be funded with their gifts. These purpose-restricted gifts should also be held separately from the congregationally-governed endow-

ment to ensure that their restrictions are honored by the congregation. There are times when a congregation may need to refuse an inappropriate gift. For example, some purpose-restricted gifts may require the spending of congregational funds before the gift can be used. Or the gifts may designate uses that are unpopular with the congregation, or are for concerns that no longer exist. A congregation's policy needs to state who will determine if the congregation needs to refuse a designated, purpose-restricted bequest and should also consider those situations where it may be wise to seek a legal modification of the gift's designated purpose.

UNDESIGNATED LEGACY GIFTS: The policy should clearly state that undesignated legacy gifts (including bequests, beneficiary designations, or annuity/trust residuals) become the property of the endowment fund. Legacy gifts added to the congregationally-governed permanent fund steward the donor's legacy into perpetuity, providing ministry for generations to come.

RECOGNITION OF DONORS: The recognition of legacy-gift donors accomplishes the twin purposes of expressing gratitude and inviting others to give. Creating a legacy or honor society is probably the most useful tool. Members who commit to putting plans in place can be listed, providing another avenue for the sharing of personal testimonies. Annual recognition can take place through a published listing of the funds. Plaques prominently displayed also serve as a reminder of the faithfulness of others.

MANAGEMENT OF FUNDS: In most states, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) sets out the law governing the management of donor-restricted endowments. State-specific UPMIFA regulations generally include both the "duty to

diversify” invested funds and the need to consider inflation in the investment of endowed funds. Bank trust departments, brokerage firms and other similar organizations may partner with the congregation’s officers to meet these legally-required standards. The Christian Church Foundation also offers investment options and ongoing manager reviews that are specifically designed to meet the requirements placed on church endowment trustees. The congregation’s endowment funds policy should give general guidelines on investment policy and document the congregation’s understanding of their stewardship responsibility as well as any requirements placed on them by state law.

DISTRIBUTIONS FROM THE CONGREGATIONALLY-GOVERNED ENDOWMENT FUND: Providing funds for the ministries of the congregation remains the ultimate goal of building and managing a congregational endowment. Congregations frequently divide their annual spending from endowment funds proportionately among several causes. This predetermined apportionment allows for effective planning for future expenditures. An illustration of such a distribution formula would be: 50% to outreach causes; 25% to fund scholarships for the youth of the church to attend camp or conference; 20% to retire the capital debt of the congregation; and 5% to a local mission project, such as Habitat for Humanity or a food pantry. This formula needs to reflect the passions of the congregation for ministry. Occasions sometimes arise when the priorities of the congregation have changed. In those rare cases, the distribution percentages may be amended according to the procedure spelled out in the policy. The congregation must remember, however, that this section of the policy is a promise to donors about how their gifts will be used. Changes should only

be made after careful thought and discussion. Procedures should inspire confidence in potential donors.

DISTRIBUTIONS FROM DONOR-RESTRICTED FUNDS: Once the congregation has accepted a donor-restricted gift, it becomes important to place accounting and administrative controls in place so that the donors' restrictions are forever honored. For gifts that allow the congregation to determine the use of income provided by restricted gifts, it is generally helpful to use the same distribution formula provided for by congregational policy governing unrestricted gifts. When using a common distribution formula, however, it is important to forever preserve the congregation's understanding of the legal requirements for both the spending and investment of these restricted gifts. Without segregated accounting practices in place, future policy changes or emergency spending that might be allowable for congregationally-governed funds may inadvertently violate the restrictions accepted with restricted gifts. The Christian Church Foundation offers investment accounts designed to help congregations ensure that they forever retain and honor the provisions of donor-restricted endowment funds.

AMENDING PROCEDURES: The procedure to amend the spending of congregationally-governed endowment funds should be difficult but possible through the vote of a large percentage of the congregation. Donor-restricted gifts, whether restricted for time, purpose, or both, can be amended with the permission of the donor. When the donor is deceased or otherwise unavailable to agree to changes in their gift, state law will govern the congregation's ability to amend the gift. As a general rule, permission from the state's attorney general is required to amend such gifts.

2 — Interpret the Vision

Most endowment fund policies do not make exciting reading! Don't expect the congregation to read the policy statements. But do keep them informed through such things as brochures, bulletin inserts, newsletter articles and litanies for worship. Use caution when considering high pressure approaches. Estate planning involves the consideration of one's death — a subject most people want to avoid at all cost.

Most persons die without a will! Encouraging estate planning meets a pastoral need for individuals and families in the church. Persons who die without a will frequently cause distress and conflict among their loved ones.

It is, however, possible to successfully market the policy:

- Develop an interpretive brochure suitable for inclusion in church bulletins or newsletters. The Christian Church Foundation will assist you in developing materials relevant to your particular congregation.
- Use All Saint's Day, celebrated the first Sunday in November, to memorialize both the gift and the giver as well as to remember the deceased members of the congregation.
- Provide an estate planning seminar for members of the congregation on a biennial basis. The Christian Church Foundation provides this service to congregations. Specific individuals or age groups may become the focus of the seminars. Seminars highlight wills, estate and gift taxation, deferred giving through charitable trusts and charitable gift annuities, living trusts, various forms of charitable giving and other related topics. Many congregations use local attorneys with Foundation representatives for estate planning seminars.
- Develop articles for the church newsletter,

highlighting the advantages of planned giving both to the church and to the donor. The Christian Church Foundation has resources to assist newsletter editors.

- Encourage those who include the church in their estate plans to offer personal testimony about the importance of faith and the church in their lives.
- To spur interest, use examples from other congregations, highlighting their positive experiences with endowment funds.

The Christian Church Foundation is available to consult with congregations and individuals in this broad and complex field of the stewardship of accumulated resources. The Foundation offers seminars related to congregational responsibilities and policies, investment of permanent funds, estate planning and other topics of interest to congregations.

3 — Plan to Acknowledge Gifts

How do we properly acknowledge the largest single gift an individual may ever make to our church? How do we determine, document, and honor any gift restrictions? Who do we thank? How do we, as a church, express our gratitude in ways meaningful to the family and significant others who remain? Improperly acknowledged or managed gifts hurt the image of the church and represent a lost opportunity to teach others about the stewardship of accumulated resources.

To understand the unique provisions of each legacy gift, congregations should always request the exact language of each legacy gift. Executors may be family members or friends who have not had the experience necessary to understand the nuances of gift language. A bequest that says “10% of my residual estate to First Christian Church to be held and the income used in whatever manner decided by the congregation” may be erroneously communi-

cated to the congregation as an unrestricted gift. (The language “held” and “income used” means that the donor has restricted this gift for endowment. This gift should be held and accounted for separately from congregationally-governed permanent funds, although the unrestricted annual income may be used at the congregation’s discretion.) When receiving the great news of a gift to your congregation, always request a copy of the page or paragraph in the will or trust that creates the gift, and retain this important documentation in your congregation’s permanent files. The Christian Church Foundation can assist your congregation in fulfilling this “forever” responsibility.

Remember to lift up and honor the faithful stewardship of legacy gifts! When congregations receive legacy gifts, six different ways should be found to express gratitude. This may seem unrealistic at first glance; yet simple ways exist to accomplish this objective – from writing letters of thanks to surviving family members to remembering donors on All Saint’s Day.

4 — Funds Management

The Christian Church Foundation recommends congregations adopt a philosophy of money management that meets the twin goals of providing a stream of dollars for ministry and protecting the value of the assets against inflation over time. State laws governing endowments typically require that church trustees thoughtfully document how assets will be diversified to meet the prudent investor standard and document what spending rate will be chosen to allow for the inflation-protected growth of endowment assets.

Investment Decisions in Congregations

Two key questions must be answered related to the investment of congregation’s endowment funds. First, who will be responsible at the congregational level for making invest-

ment decisions? Secondly, who will actively manage the different investment vehicles?

Normally, a congregation's endowment fund policy names the group in the church responsible for investment decisions. Many congregations utilize members with financial expertise. Staggering the terms of service for committee members allows for continuity in the decision-making process. Investments in the equity and bond markets should never be made on a short-term basis. Members with prior church committee experience provide useful information regarding the decision-making process.

The Financial Management of Funds

Many options exist related to the management of a congregation's endowment funds. On behalf of the Christian Church (Disciples of Christ), the Christian Church Foundation has an institutional investment program, called the Joint Investment Trust, that provides a cost-effective solution for congregations.

Some congregations' endowment fund committees make the decisions regarding investment in the individual assets. Congregations report that when trustees provide financial management, all of their efforts focus on monitoring investments, selecting which investment vehicles to use. Unfortunately, the acquisition of new legacy gifts becomes of secondary importance!

A vast array of choices confronts the trustees who seek assistance with investments. There are significant differences related to costs, management principles, the flow of information, and performance monitoring offered by secular investment firms.

When considering a for-profit institution, look for managers who understand an endowment fund's investment horizon and who you can trust to partner with your congregation in fulfilling your stewardship objectives.

5 — Set Annual Distribution

Congregations make the crucial decision regarding the appropriate rate for annual income distributions. Funds invested in the equity markets will fluctuate dramatically in value from year to year! How does a congregation budget for such dramatic changes in the total value of endowment funds from year to year? The Christian Church Foundation generally recommends spending 3 to 5 percent of the total value of a well-diversified portfolio on an annual basis. A disciplined spending rate helps to balance the dual objectives of endowment funds — money for ministry and inflation-protected growth — through market cycles that include spectacular growth and disappointing losses.

Endowments are designed to provide a long-term, steady stream of income for ministry, and provide growth over time. Congregations must guard against increasing their endowment draw during years of robust earnings so that the steady stream of dollars can continue during “lean years.” Thoughtful, disciplined spending generates confidence in the congregation’s management of funds, follows the laws that govern the management of endowment funds, and encourages future gifts.

Conclusion

The five steps are of critical importance in the development of a congregation’s endowment fund. All of the principles involve complex issues and some knowledge of both the financial marketplace and the unique role of the church as a participant in the marketplace. Decisions on these complex issues take time to make.

Investing time and energy in a good endowment policy will provide a great means of en-

couraging and managing gifts given by faithful Disciples. It will lead to developing a new and growing stream of income to enhance the mission and ministry of the congregation.

Ways to Acknowledge Gifts

1. Letters of appreciation should be sent from the senior minister and the board moderator to appropriate family and friends of the decedent.
2. A letter of appreciation from the chairperson of the endowment fund committee builds significant bridges with the remaining family. Personal visits allow family members the opportunity to express feelings about their loss. While the church should not seek guidance from the family on the use of the bequest (the church's policy governs funds management), family members will want to know how the funds will be utilized by the congregation.
3. The gift should be announced to the broader church through the congregation's newsletter or other appropriate means. This announcement should express gratitude.
4. An annual listing of gifts to the endowment fund should be published. All previously established funds also should be listed. Special attention highlighting newly established funds provides stimulus for new gifts and expresses gratitude for the gifts received.
5. Installation of a permanent wall plaque provides a constant reminder of legacy gifts.
6. Create a Legacy or Honor Society that can be lifted up at annual worship service. All Saint's Day provides the church with a particularly effective theological context to remember these gifts. The service could function as a way that renews the congregation's covenant regarding funds given to the church's endowment. Testamentary gifts to the church provide wonderful life-giving expressions of love for the church and God's purposes. They are worthy of our praise!

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Church Foundation
helps Disciples make
a difference forever
and discover the joy
of serving Christ
through sharing their
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