

# DOLLAR SENSE

**BUILDING YOUR CHURCH'S FINANCIAL FUTURE ONE BRICK AT A TIME!**

**Vol. III: Issue 6 A Service of the Desert Southwest United Methodist Foundation June/July 2005**



This Newsletter's purpose is to provide clergy and lay leaders of the Desert Southwest Annual Conference with reliable and consistent financial information that we believe you need to help secure your church's financial future.

In every issue of **DOLLAR SENSE**, information under the following headings is provided:

**ENDOWMENT FUNDING**

**ESTATE PLANNING**

**CHARITABLE GIVING**

**INVESTING**



**Desert Southwest  
United Methodist  
FOUNDATION  
DSUMF  
602-266-6956**

## THANK YOU!

We thank you for your visits to [dsumf.org](http://dsumf.org). Remember to "click a brick" to take the full tour. Due to our Annual Conference preparation activities in June, we don't publish a June Newsletter. So please consider this newsletter as your June/July issue.



In the last issue of **DOLLAR SENSE**, we discussed the three steps towards creating an Endowment Fund at your church. Once all the formalities are dealt with, it becomes the Permanent Endowment Fund Committee's responsibility to encourage members to make gifts to the endowment fund.

***There are many ways to do this, and most of them do not include outright solicitations!***

Your church's ministry in planned giving and endowment funding can provide exciting momentum for your church, but only if the

members know about its many opportunities and possibilities. Organizing the Committee is never enough. Only when members and constituents understand the plans and catch the excitement and enthusiasm, will planned gifts be made. This, in turn, funds the endowments, which in turn will benefit the Church.

How do you get people to understand, and eventually share in your enthusiasm? You teach them!

Far too often, we establish a committee, work out a plan, and tell the congregation about it once. Then we sit back and wonder why no one responds. It is critical for the work of the Permanent Endowment Fund Committee to include an on-going educational effort to help members understand how planned gifts can be beneficial to them, to encourage (and assist) members in their gift planning, and to keep before them the value and importance of endowment funding in support of the mission and ministry of

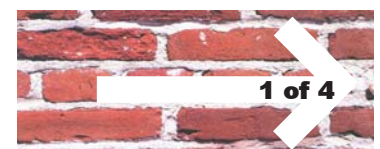
the church.

One of the keys to every successful funding program is the communication of a detailed Education Plan, with a clear vision of the mission and ministry of your church. People want to give, but in today's world it is not enough to simply say, "You should give to the Church." People want to know how their gifts will be used. People want to see that their gifts are being used properly and as promised.

Vital to the success of an Endowment Fund Program is members'

1. Understanding of and support for the vision for mission and ministry,
2. Learning the opportunities for giving through educational seminars,
3. Understanding creative gift planning options available, and
4. Being given clearly defined and repeated opportunities to participate.

Not all persons are ready to hear your message at



## ENDOWMENT FUNDING

Continued

the same time. Some will respond the very first time you give them an opportunity; others will take longer to respond.

A member's receptiveness or lack of it is precisely why **consistent and repeated educational efforts on your part are essential to the success** of your Endowment Fund Program. There are times in everyone's life when they are more responsive to estate planning and planned giving. Unfortunately, no one knows when those moments occur! Since they occur at different times for different people for different reasons, the only option for a successful Permanent Endowment Fund Program is to provide a consistent, on-going educational program that provides information that is readily available to all members at all times.

Key moments of receptiveness in a member's life might include:

Marriage, Birth, Death, Divorce, Planning a Long Trip, Receiving a Large Inheritance, Becoming an "Empty Nester," Changing Occupations, Changing Residences, Setting the

Retirement Date, Tax Law Changes, Major Illness, etc.

As you can see, a single, one-time mailing or a once-a-year seminar will not reach all the people at their key moments of receptiveness. Your educational and marketing plan must include repeated ways throughout the year to inform your members about the Endowment Fund Program, the reasons for it, and why they should respond to it.

In the next issue of DOLLAR SENSE, we'll look at some plans as to how you might go about educating the members in your church about Endowment Funds and Planned Giving.

## ESTATE PLANNING

We've discussed Probate and the Last Will and Testament. The word "probate" comes from Latin, meaning "to prove." Probate is a legal process whereby your representatives must prove that the Last Will and Testament presented to the court is, in fact, your Will. The process also involves proving your claim of ownership of all the estate's assets. Once ownership is proven to the satisfaction of the court, the estate's final debts can be paid and the remaining assets can be

transferred to the rightful heirs. This process involves fees and delays. The asset collection process may result in prices that are below market values. Property located outside your state of residence may involve a completely separate probate process in that (those) state(s) as well.

In previous issues, we indicated that the Last Will and Testament must be the cornerstone of everyone's estate plan. What exactly is a Last Will and Testament?

It is a simple document that must be written to conform to the laws of the state in which you permanently reside. (For you "Winter Visitors" out there, pick a state that you consider your permanent residence and have a Will drawn up to conform to the laws of that state – we hope it is AZ; we miss you when you're not here!).

The Will is a list of instructions that you create for the probate court and your Personal Representative. The instructions provide for how and when your assets are to be transferred to whom after your death. Wills are, however, functionless during your lifetime and have no effect on your estate until after your death. If you don't create your own set of instructions, then your

estate is distributed according to the instructions created by the state legislature.

The Will must be executed with certain formalities prescribed by state law. If your survivors can prove the existence of a Will and that it was properly executed using the prescribed set of formalities, then the properly executed document will control distribution of your property to whom and when you want.

You must not delay the making of your Will. You don't know when you will die. Even with a Will, others can make claims against your estate by filing legal contests. However, a properly created and executed Will goes a long way towards protecting your plan of asset distribution.

### Advantages of a Will:

1. Avoids distribution under the State's Law of Intestacy,
2. Permits the nomination of a Guardian for a dependent,
3. Provides for Waiver of the Probate Bond,
4. Provides for your Choice of a Personal Representative,
5. Enables bequests [Fixed Amounts,

## ESTATE PLANNING CONTINUED

## CHARITABLE GIVING

Specific Property, Percent of the Estate (10%), Contingent, or Residual],

6. Permits the sale of Assets,
7. Authorizes continuation of a business,
8. Permits deferred asset distribution to minors through testamentary trusts,
9. Provides Peace of Mind!

### Disadvantages of a Will:

1. It only becomes active, or takes effect at death, therefore,
2. It provides no ongoing, lifetime management of assets in the event of disability.
3. When used alone, with no other documents, it guarantees probate, therefore
4. It guarantees probate costs and probate delays, and
5. It is made available to the public.

In the next issue of DOLLAR SEN\$E, we'll discuss how you can avoid the disadvantages of using just the Will in your estate plan.

For All Your Charitable Giving Questions or Needs, Contact DSUMF at 602.266.6956 Ext. 203.

Have you ever heard of giving a Life Insurance Policy to your church? Decades ago, it was common for Individuals to secure small life insurance policies (\$1,000 to \$5,000) that were purchased "on time" (\$1 to \$2 per month) in order to provide for final burial costs. You may own one of those policies or know someone who does. Burial costs have increased significantly over the years. As a matter of fact, recently published figures indicate the average costs for a funeral and burial now range between \$8,500 and \$12,500. The old, small life insurance policies may no longer be adequate to fulfill their intended purpose. If such policies are no longer needed by the owner, then these policies can be donated to your church!

The donation process involves notification of the insurance company. The policy owner indicates their desire to donate the policy. This will require a change in the ownership and beneficiary status of the policy. The insurance company will send the proper forms, which must be completed and returned. Once the change is completed, then your church is both owner and beneficiary.

The donor qualifies for an income tax deduction equal to the amount of the policy's cash surrender value at the time of the transfer of ownership.

Upon receipt of a gift of life insurance, your church must make a decision. One option is to hold the policy until the donor passes away, at which point, the church will receive the death benefits of the policy. The other option is to surrender the policy for immediate cash. Upon completion of the policy surrender process, the church will receive the cash value of the policy.

Teaching your members about using these types of policies as gifts to your church enables the donor to make a substantial gift without using current income.

You could also teach your members about Charitable Life Insurance Policies. They work very much like standard life insurance policies. An individual secures a standard life insurance policy based on their life expectancy, health, etc. The individual pays premiums to the insurance company; benefits are paid to the church upon the individual's death.

What makes the insured individual a donor with regard to a charitable life insurance policy is the fact

that when the policy is secured, the insured names your church as both owner and beneficiary of the policy. The use of Charitable Life Insurance policies is a great way for donors in their 40's and 50's to leverage relatively small amounts of current money into substantial future gifts.

Premium payments can be made directly to the insurance company or to the church if such an arrangement is made. If premium payments are made directly to the insurance company, then the premium payments are tax deductible, up to the 30% Donor Ceilings as described in Internal Revenue Code Section 170(b)(1)(A).

If arrangements are made for the church to make the premium payments directly to the insurance company and the donor to reimburse the church, then those payments are deductible up to the 50% Donor Ceilings as described in Internal Revenue Code Section 170(b)(1)(A).

Donate Life Insurance; it is simple to do. It is a low cost option to leverage larger gifts. Gifts of life insurance are very effective!





Recently in DOLLAR SEN\$E, we listed the 7 Uniform Fiduciary Standards of Care that are common to 3 different acts of congress. They shape the investment process for all fiduciaries. The vertical axis of the Prudent Investment Matrix is comprised of the 7 Uniform Fiduciary Standards of Care.

We've also discussed the 5 Step Investment Management Process. These steps make up the horizontal axis of the Prudent Investment Practices Chart. By the time we complete this chart over the next few issues, we will have listed all 27 investment practices required by 3 acts of congress.

Step One in the process is: Analyze Current Position. There are six practices associated with this step. In the last issue of DOLLAR SEN\$E, we discussed the first three of these practices. The next three practices follow.

Practice No. 1.4: Service Agreements and contracts are in writing, and do not include provisions in conflict with fiduciary standards of care.

Your written investment strategy should attempt to

protect the portfolio from losses and to avoid misunderstandings when hiring "prudent experts." In order to define the scope of various parties' duties and responsibilities, all agreements and contracts should be in writing.

Practice No. 1.5: There is documentation to show timing and distribution of cash flows and the payment of liabilities.

Fiduciaries have the fundamental duty to ensure enough liquid assets to pay bills when they come due. Additionally, as it relates to endowment management, fiduciaries have the responsibility to provide the specified level of designated support if it has been promised. The investment strategy should document anticipated cash flows.

Practice No. 1.6: Assets are within the jurisdiction of U.S. courts, and are protected from theft and embezzlement.

Fiduciaries are entrusted to safeguard assets. The best way to do this is to establish and operate an accounting system of checks and balances that is consistent with generally accepted accounting principles.

Are your volunteer fiduciaries making correct investment decisions for

your church? Are they following the 27 practices prescribed by law? If they are not operating within Prudent Investment Practice Guidelines, then they can be held **personally liable** for losses your church's portfolio may experience. Ignorance of the law is no excuse!

If you're not sure about your church's Investment Management Process, then ask questions! This isn't about pointing fingers at anyone. This process is about doing it right; it is about reducing risk. It is about reducing risk for your volunteers and reducing risk for your church's portfolio, while maximizing the rate of return on your investments, so your church can provide the maximum benefit for the funds contributed.

Instead of doing all the work required to re-invent the wheel that we've already created, why not use the DSUMF Investment Service? Give us an opportunity to talk to you about our nationally recognized investment service. The presentation is 40 minutes long, and it is free. What do you have to lose? Contact [rick@dsumf.org](mailto:rick@dsumf.org) to schedule your Investment Service presentation now!

**Support the DSUMF!**

**Volunteer to be a Cell Phone Recycling Coordinator at your Church.**

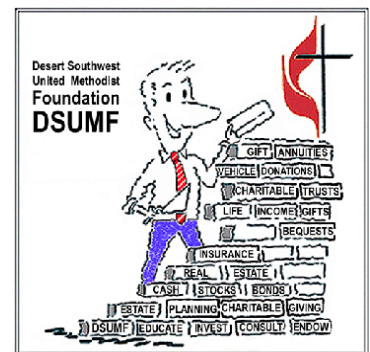
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