

DOLLAR SENSE

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

Vol. III: Issue 7 A Service of the Desert Southwest United Methodist Foundation August 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. Remember to "click a brick" to take the full tour. We're always updating the content of our site, so be sure to take a complete tour at least quarterly.



In the past, we've discussed the function of a Permanent Endowment Fund Committee and the work required of its Members. The function is a teaching function; it requires members to develop a curriculum and lesson plans complete with expected outcomes. Consistent and repeated educational efforts on your part are essential to the success of your Endowment Program.

An educational plan must involve all giving units in your church. The best place to start such a plan is with the church leaders. There are two rationales behind this:

1) Church leaders, by definition, are enthusiastic

and committed to the future of your church, and

2) without the support of your church leaders, you'll not have much success.

How do you teach the leaders of your church?

Include the "Educational Moment," as an agenda item, in every Ad Council, Finance Committee, and Stewardship Committee Meeting held in the church. Educational Moments should involve "mini-presentations" about all aspects of deferred giving and the benefits of such giving.

"Mini-presentations" can be made by members of the Permanent Endowment Fund Committee or by guest presenters including CPAs, tax attorneys, a deferred giving donor, etc. Such "Educational Moments" should be made as often as possible, and they should be kept to a minimum amount of time, say 15 to 20 minutes at most.

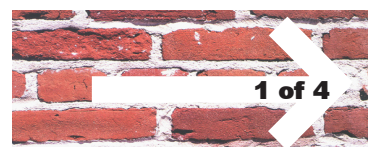
In addition to making "mini-presentations" about deferred giving and the benefits of making such gifts, periodic reports

should be made about the receipt of gifts and the intended purposes of such gifts. Never assume the church leadership is aware of your Permanent Endowment Fund Program. Take every opportunity to inform them about the progress of the program. Consistent and repeated educational programs pay off in the long run, and Permanent Endowment Fund Programs exemplify "the long run!"

**Support the
DSUMF!**

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

**Go To
www.dsumf.org
and click on
Cell Phone
Recycling
to Learn More!**



ESTATE PLANNING

In the last issue of DOLLAR SENSE, we discussed both the advantages and disadvantages of using the Last Will and Testament as the only document in your estate plan that directs the distribution of your assets after death. The disadvantages of using just a Last Will and Testament in your estate plan include the following facts:

1. The Will 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, the Will guarantees probate, therefore
4. It guarantees probate costs and probate delays, and
5. It is made available to the public because probate is a public process.

Can you avoid these problems that are associated with using the Last Will and Testament as the only document in your estate plan? The answer is YES!

How? It is simple. Use more than just the one document to round out your estate plan! We all

use “Will Substitutes” to avoid the problems with using just the Last Will and Testament. “Will Substitutes” include life insurance, pension plans, joint and survivor annuities, payable on death accounts, joint tenancy with rights of survivorship, etc. Each of these substitutes is a different way for one to transfer assets to another after death. All of these substitutes are successful in avoiding probate at the first death.

However, none of these substitutes avoid probate at the survivor’s death. What happens to these assets at the survivor’s death? Therein lays another estate planning problem. Without some legal, transfer intervention, the assets will go through the time and costs associated with the probate process.

Well, the answer to this problem might be that the survivor could create more “Will Substitutes” with heirs in order to transfer the assets to them after the survivor’s death. This sounds like a reasonable solution, but, What if the survivor forgets to create more “Will Substitutes?” What if the survivor doesn’t know what to do? What if the survivor is unable to create new “Will Substitutes” because of a disability or incapacitation? There are

many more “What ifs” to consider and none of them have easy answers.

The only “Will Substitute” that can answer all these “Worst Case, What If Scenarios” is the Revocable Living Trust. We’ll discuss this estate planning document in detail in the next issue of DOLLAR SENSE.



**Support
Your Favorite
United Methodist
Ministry.**

**DONATE
YOUR USED
VEHICLE!
CALL:
602 - 252 - 1360**



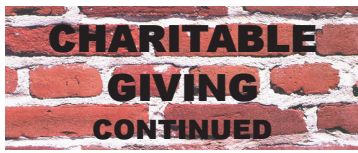
CHARITABLE GIVING

Churches that are actively involved in permanent endowment fund programs which promote the concept and expectation of deferred giving from its members should be aware of this interesting fact: 80% of all deferred gifts come via the bequest. What is a bequest? A bequest is a gift one makes after death via the Last Will and Testament.

For the donor, a bequest to their church is a way of perpetuating their support for the role their church plays in the lives of others. It also enables the donor to make a major gift that might not otherwise be possible.

Through a bequest, the donor may leave to their church a specific dollar amount, or may reserve for the church a certain percentage of the estate after provisions for family members and other beneficiaries have been made. The donor may stipulate whether the bequest is for the general support of the church or for a specific purpose. A bequest may also be made in honor or memory of another individual.





In addition to cash and securities, bequests to the church may include real estate, works of art, personal property, patent rights, mineral rights, etc. All outright bequests to the church are exempt from federal estate taxes, and there is no limitation on the size of the gift. Therefore, if the donor has a federal estate tax liability, one way to eliminate the liability is to give an appropriate portion of the estate to the church so as to reduce the net worth of the estate and thereby either eliminate or reduce the estate tax liability.

There are four different types of bequests that one could make. For specific language you can use to teach your members about making bequests, go to our web site at www.dsumf.org.

1. Outright Bequest: this type of bequest involves a specific dollar amount or specific property that is to be distributed after death.

2. Percentage Bequest: this type of bequest involves giving a specific percentage of the estate. The Bible teaches us to “tithe” or give 10% to the church. The Percentage Bequest is an easy way to honor that teaching.

3. Residual Bequest: this type of bequest usually involves a percentage of the estate that is left after all financial obligations, and all other bequests are satisfied. Believe it or not residual bequests are usually very large in size and often times are the best type of bequest for a church to receive.

4. Conditional or Contingent Bequest: These types of bequests occur only if some other condition is met first. For example: “If my spouse predeceases me, then I bequeath (dollar amount, percentage, etc.) from my estate to the church. These types of bequests are the least common.

It is important to note that each type of bequest can either be designated for a specific purpose within the church, or left undesignated. With undesignated gifts, the expenditure is to be determined by the appropriate authority within the church at the appropriate time.

It is very appropriate for a church to have a brochure available for its members that details the types of bequests members can make. The brochure should provide specific language the members can use in their estate planning documents.

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



In the past few issues of DOLLAR SENSE, we’ve 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 Matrix. By the time we complete this matrix, or chart over the next few issues, we will have listed all 27 investment

practices required by 3 acts of congress.

We’ve completely discussed the first step in the investment management process, which was to **Analyze Your Current Position** in relation to the entire process. **Step Two** involves **Diversification and Portfolio Allocation**.

There are five practices associated with this step.

Practice No. 2.1: A risk level has been identified. The term “risk” has different meanings depending on the investor’s or fiduciary’s frame of reference. What may be risky to one could be considered conservative to another. Risk has a lot to do with being able to meet investment objectives as discussed in Practice 1.5 in the last issue of DOLLAR SENSE.

Simply stated, an investment strategy involving an acceptable level of risk can fail by being too conservative or by being too aggressive. For Example: If inflation is 2.5% and your very safe, very conservative strategy to keep your funds in money markets earns you 2.0%, then your strategy is actually failing because your portfolio is losing





purchasing power. In another example, a fiduciary's long-term growth strategy could over expose the portfolio to aggressive growth stocks. Portfolios that were overloaded in aggressive growth stocks in March 2000 lost as much as 50% of their value.

Practice No. 2.2: An expected, modeled return to meet objectives has been identified. This practice does not involve predicting future returns on investments. Rather, this practice involves developing a model that should produce expected returns based on the investment strategy given both current and historical market information.

If your portfolio is a blend of 50% government bonds and 50% large cap value stocks, then you should be able to calculate, using historical returns for those two asset classes, what your expected rate of return should be in the future.

Practice No. 2.3: An investment time horizon has been identified. Inherent in this practice is a hierarchy of decisions starting with the most important: What is the

time horizon of the investment strategy? What asset classes will be considered? What will be the asset class mix? What asset classes will be considered? Which asset management companies will be selected?

Answers to these questions help identify the time horizon for your investment strategy.

Practice No. 2.4: Selected asset classes are consistent with identified risk, return and time horizon. The fiduciary's role is to choose the appropriate combination of assets that optimizes a return in relation to the chosen level of risk. A fiduciary should choose asset classes after looking at the organization's tax status, risk level, expected return, asset class preference and time horizon.

Practice No. 2.5: The number of asset classes is consistent with portfolio size. There is no formula to determine the best number of asset classes for various sized portfolios. Things that should be taken into consideration during this decision making process includes: 1) the size of the portfolio, 2) investment expertise of the fiduciaries, 3) ability to monitor the options, and a 4) sensitivity to expenses. For DSUMF,

we've decided to use 9 different asset classes for our \$11 million portfolio.

Are your volunteer fiduciaries making correct investment decisions for your church? Are they following the 27 practices prescribed by law? If not, 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 to schedule your Investment Service presentation now!

It is time to look at your church's Fall calendar so you can schedule an Estate Planning or Charitable Giving Seminar. We already have six seminars scheduled! DO NOT DELAY! Schedule your next seminar today!

