

# DOLLAR SENSE

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

**Vol. III: Issue 8    A Service of the Desert Southwest United Methodist Foundation    September 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. We're always updating the content of our site, so be sure to take a complete tour at least quarterly. Our newest information is about Charitable Trusts. Go to Charitable Giving, then click on Charitable Trusts for all the information you'll need on Charitable Trusts.



In past issues of **DOLLAR SENSE**, we've discussed the fact that the function of a Permanent Endowment Fund (PEF) Committee is a teaching function; it requires members to develop a curriculum and lesson plans complete with expected outcomes. Consistent and repeated educational efforts on the part of the PEF Committee are essential to the success of your Program.

Last month we discussed an educational plan for the Leaders of your

church. This month we focus on an educational plan involving all giving units in your church. The members of your church are the ones who will be making gifts to your church's Permanent Endowment Fund. They must be educated as to the importance of the Fund as well as to how to make such gifts. An educational program that engages the members in a face-to-face, hands-on manner is the most effective program.

Such programs, in the form of seminars are provided, free of charge, by the DSUMF. A variety of seminar topics are available for discussion. These topics include, but are not limited to:

1. Estate Planning in Six Steps,
2. The Last Will & Testament
3. The Living Will
4. The Revocable Living Trust
5. Gift Annuities
6. Charitable Remainder Trusts
7. Gifts of Life Insurance
8. Gifts of Appreciated Securities
9. Retained Life Estates

In order to be "consistent and repeated," seminars should be presented at least twice per year in smaller churches where membership less than 300 and at least quarterly in larger churches.

Another, less engaging, therefore less effective educational tool involves mailings. A mailing is one of the ways to keep your congregation aware of estate planning issues and gift planning opportunities. The primary goal of these mailings is not to ask for money for any specific project or ministry, but to inform your members of ways they might give now or later through their estate plans.

A goal of one or two mailings per year is preferable. It is understood, however, that mailings are expensive and time consuming. Therefore, the content that would go into such a mailing could easily go into a Newsletter in the form of an article and be almost as effective.



## **ENDOWMENT FUNDING** Continued

If you decide to do a mailing, every mailing should include:

1. A personalized cover letter from the pastor, Administrative Council chair, or chairperson of the Endowment Fund Committee. The letter should explain the reason for the mailing and the expectation of a member's response.

2. An informational brochure. The subject of this brochure might be:

A. Your church's Endowment Fund Program or your memorial/honor fund program,

B. Wills (one in a series of brochures on wills),

C. Gift plans (such as giving securities, giving through life insurance, giving real estate, giving through life income plans, etc.)

3. Always enclose a response device. Mailings, such as these are designed to prompt one to respond. You can design a response card for each mailing. A response card should enable you to capture the member's name, and contact information, as well as the member's interest in a variety of deferred giving vehicles.

**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  
NOW!**

## **ESTATE PLANNING**

The Last Will and Testament should not be the only document used in the distribution of your assets because it guarantees the costs and delays associated with probating your estate in the court system after your death. For some, those costs and delays might be minor. For others, the costs and delays might be onerous. In the state of Arizona, the

average length of time to probate an average sized estate is 12 to 18 months and costs an average of 5% of the estate's total net worth.

A Revocable Living Trust (RLT), when employed properly, enables one to avoid the problems associated with probate. The process of creating and funding a RLT involves transferring ownership of your assets out of your name and into the name of your RLT.

Do you remember what the probate process is all about? The probate process is about the transfer of assets out of your name (after death) and into the name(s) of your heir(s) after proof of asset ownership is established in the eyes of the court. So, creating an RLT is similar in that asset transfer is the goal.

The difference is that asset transfer is occurring during lifetime and instead of the assets being transferred to an heir, the assets are transferred to a legal entity called the RLT. The RLT has a long history that goes back more than 300 years and it is recognized by the court system as an entity entitled to own, manage, and distribute assets on behalf of the creator of the trust according to the instructions detailed in the trust.

The four main reasons for creating and funding a RLT is to avoid probate, in some cases to reduce income and federal estate taxes, and most importantly to provide for asset management. Within the text of the RLT, there are instructions as to the management of assets before death should the creator of the RLT become unable or unwilling to manage their assets for whatever reason.

The RLT also has provisions for distributions of assets after death and because the RLT is recognized as a legal entity when it is created, the manager, or successor trustee of the trust may distribute the trust's assets after the creator's death without going through the probate process.

Most RLT packages include the trust, a Last Will and Testament (for those items that were not transferred into the trust, a couple types of powers of attorney, a living will, a certificate of trust existence and a deed indicating the transfer of property ownership from your name into the name of your trust.



## CHARITABLE GIVING

If you type the words “charitable trusts” into the GOOGLE Search Engine while connected to the internet, the search returns 1,700,000 matches in 0.1 seconds! Many have heard about these charitable giving vehicles, but few understand them and even fewer understand how a donor should use them in their overall financial planning process.

What is a charitable trust? A charitable trust is first and foremost a gift plan. It is defined by federal tax law and it enables a donor to derive income or tax benefits for him or herself and/or others from a gift that is ultimately intended to benefit a qualified non profit organization – like your church. There are many variations of charitable trusts and some are used much more often in gift planning than others. As a matter of fact, there are some forms of charitable trusts that are so complicated and that require such large funding that in my 25+ years of work in this area I’ve never used.

Some charitable trusts, like Remainder Trusts, actually sound and operate a lot like the charitable gift annuity

we’ve discussed in previous issues of DOLLAR SENSE. Sounds pretty simple right?

Well, charitable trusts are simple in concept, but federal tax law requires the donor to be very specific with their intentions when it comes to these types of gifts. The donor must specify the length of time that income distributions should occur. In this area, the donor has the option of specifying a certain term of years (not to exceed 20 years) or specifying the donor’s lifetime. The donor may also specify that distributions should occur to other beneficiaries, again for a period of years or for the lifetimes of the other beneficiaries.

According to federal tax law, the donor’s annual distributions from the trust fund must be a minimum of 5% of the total fund and the donor’s income tax deduction for creating the charitable trust depends on: 1) how the trust is funded in terms of whether it is funded with cash or securities, or other property, and 2) the value of the trust fund when it is created.

When the trust ends, the amount remaining in the trust fund account is called the “remainder” and it passes directly to the charity. In the case of charitable remainder

trusts, federal tax law also requires that a minimum of 10% of the trust’s initial funding must pass to the charity upon the trust’s termination. Federal tax law also provides the formula used to determine if the trust qualifies under the “10% rule” prior to creating the trust.

There are several types of Remainder Trusts. There are also several types of Lead trusts. What makes all the various types different from each other is a combination of 1) the type of accounting used to track the fund’s growth over time, and 2) the type of distribution expected by the donor.

Explaining various accounting techniques for each of the different types of trusts can become pretty tedious. Reading about accounting techniques is even worse! For the purposes of this article, let’s conclude by making some general comments. 1. The use of the correct type of charitable trust is a great way for a donor to receive income from assets that will ultimately be given to a charity. 2. The use of charitable trusts is not for everyone; financial planners and tax advisors should be involved with the donor prior to the creation of charitable trusts. 3. Charitable trusts are legal documents that can vary greatly in costs.

For more information about charitable trusts of all types, go to our web site at [www.dsumf.org](http://www.dsumf.org), and click on “Charitable Giving,” then click on “Charitable Trusts.”

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



## INVESTING

We’re up to **Step Three** of five steps in our discussion of the Investment Management Process, and our construction of the Investment Practices Matrix. This step requires fiduciaries to **Formalize an Investment Policy**. On a practical level, a fiduciary is responsible for managing investment decisions with a



reasonable level of detail. It makes SENSE, then to reduce all the detail into a written Investment Policy Statement (IPS). The creation and maintenance of an IPS is one of the most critical functions of your fiduciaries. The IPS is your investing business plan; it is the management tool for directing and communicating portfolio activities. The IPS is a formal, long-range plan that enables fiduciaries the ability to coordinate investment services for your church in a logical, consistent process.

Once an IPS becomes operational policy, then it helps fiduciaries avoid conflict, and differences of opinion. The statement minimizes mistakes, establishes a basis for measuring compliance, and establishes clear expectations for all involved.

**Practice Number 3.1: There is sufficient detail to implement a specific investment strategy.** In all cases, there should be a procedure for turn over in a church's fiduciary leadership. When turn over occurs, the people that take our places need to be able to continue implementing the ISP. The only way this

continuity of service can occur is if there is a comprehensive "instruction manual" to read and follow. The ISP serves as this "instruction manual."

**Practice Number 3.2: The investment policy statement defines the duties and responsibilities of all parties involved.** There are many people or entities involved in a proper investment process. Each of their responsibilities needs to be detailed in the ISP. Some of the entities include the: 1) investment committee, 2) consultant, 3) custodian, and 4) asset managers.

**Practice Number 3.3: The IPS defines diversification and rebalancing guidelines.** The asset allocation model is a specific mix of asset classes that meets the mutually agreed upon risk/return profile of the investment committee. The ISP needs to include guidelines that are specific enough to establish asset allocation parameters, yet provide enough flexibility so as not to create an oversight burden.

**Practice Number 3.4: The IPS defines due diligence criteria for selecting investment options.** By establishing a specific asset allocation model and criteria for

selecting asset managers in an ISP, the fiduciary is insulated from temptations to chase the newest asset class or "hottest" stock picker on Wall Street. "Due diligence" criteria in an ISP enable the fiduciary to chose asset managers within the strategy detailed.

**Practice Number 3.5: The IPS defines monitoring criteria for investment options and service vendors.** The duty to monitor portfolio performance is inherent in the fiduciary's list of responsibilities. The investment management process requires reviews of a variety areas including: 1) rate of return, 2) level of risk, 3) return vs. benchmarks, and 4) "up market and down market" capture rates to name a few.

**Practice Number 3.6: The IPS defines investment expense accounting and controlling procedures.** Only reasonable and necessary expenses should be incurred in an investment management process. Annual, independent audits will insure the necessary level of care, skill, and prudence exercised in the controlling of and accounting for investment expenses.

**Practice Number 3.7: The IPS defines socially responsible investment**

**strategies that are consistent with the Social Principles of the United Methodist Church.**

Have your volunteer fiduciaries created a proper IPS? Does the IPS provide sufficient detail for third party management of your investment strategy? Are your volunteers 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!

Protect your church and your volunteers. Manage the investment process correctly. Instead of doing all the work required to re-invent the wheel that we've already created, 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!

