

DOLLAR SENSE

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

Vol. III: Issue 9 A Service of the Desert Southwest United Methodist Foundation October 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. Our newest information is about Gifts of Real Estate. Click on the Real Estate bricks in our logo to get all the information you'll need when you consider the acceptance of a gift of real estate.



The main purpose of a Permanent Endowment Fund Committee is to teach. The Committee must plan like teachers do by developing curricula, lesson plans, expected outcomes, etc. In order to be successful, the Committee's efforts must be consistent. The curriculum must include plans to teach the leaders of the church, the members of the church and one of the ways to accomplish both is to publish news items.

Articles in newsletters are excellent ways to remind members of gift planning opportunities. The best articles are stories of what has happened because of planned gifts received by your church and how you have wisely used such gifts.

For example, a brief article in your church's newsletter might tell a story about how a portion of the earnings of the Endowment Fund Program was used to provide Bibles for every third grade Sunday School student in your church on Christian Education Sunday. Another story might highlight the tax benefits a donor received for making a charitable gift annuity. Each planned gift you receive will have its own story that goes along with it.

Short articles and news reports will be read more than lengthy pages of information. Remember — If no one reads it, it doesn't really matter what the article or news report says.

With proper attribution, any or all of the

information in any issue of DOLLAR SENSE can be printed or downloaded and customized and then used in your church's newsletter.

Unless the donor requests anonymity, announce the gifts received by the Endowment Fund Program as they are received. Providing a list of those who give and the names of those who are memorialized or honored is all that is necessary. Do not state the amount of the gift. How much someone gives now or through his or her estate is personal. Unless the family has given permission to share the size of a Bequest, keep that information within the leadership of the church as well.

Telling the congregation that gifts have been received, however, encourages others to give.

In addition to articles in newsletters, include short "one-liners" in newsletters



ENDOWMENT FUNDING Continued

and bulletins, on bulletin boards and hymnal covers, and any place where someone might notice them. One-liners might include:

- Is your will up-to-date?
- Does your will include care for your minor children?
- Have you included your church in your will?
- Is your will keeping up with you or with your Christian commitments?
- God's will does not go through probate, but yours will.
- A memorial gift goes on living and giving.
- Do you know how to make a charitable gift, and receive an income for life?
- Do you know you can make the church a beneficiary of a life insurance policy?

**Even Though
Tax Laws Have
Changed, We Are
Still Accepting
Used Vehicles!
Support
Your Favorite
United Methodist
Ministry.**

**DONATE
YOUR USED
VEHICLE!**

**CALL:
602 - 252 - 1360**

ESTATE PLANNING

Medical technology and treatments are complex and are rapidly changing. Many procedures can be extremely costly. Some procedures can be very painful and have undesirable side effects. Your financial and estate plans can be jeopardized when your last months or years are spent in intensive medical care and with minimal quality of life. Decisions involving end-of-life issues are always difficult. They are even more difficult when someone else must make them for you because you failed to do so when you could.

The Living Will is a legal document that actually deals with end-of-life issues. State law enables us to create a Living Will which provides instructions to medical personnel about the care and treatment of our bodies, in the event that we are diagnosed as terminal, and cannot communicate. Once medical personnel have been informed of the existence of the document and so long as the "terminal" and "can't communicate" conditions exist, the Living Will becomes effective.

The Living Will enables you to establish and maintain your own quality

of life standards and to avoid potential problems before they occur. The Living Will should detail your wishes regarding medical procedures that may be performed on you. It should also detail what procedures may not be performed on you. The Living Will should specifically express your desires regarding: Nutrition, Hydration, Pain Reduction, Resuscitation, Mechanical Respiration, etc. In order to be valid, the Living Will must conform to State laws and it must be properly executed (witnessed and signed).

The law that permits us to create Living Wills does not require medical personnel to honor our instructions detailed in the Living Will. So what happens next?

If you choose to include the Living Will as part of your estate plan, then it also makes sense to include the health care proxy or Durable Health Care Power of Attorney as a part of your estate plan as well. The health care proxy enables you to identify, ahead of time, the person who will advocate on your behalf. Remember, you are terminal and cannot communicate. With a previously determined legal advocate acting on your behalf, the odds that your final wishes being honored are much better

than without the health care proxy.

Settling matters now about our old age and guaranteed death is a gift we can give to our children. It is a burden we can lift from them by planning properly. Settling end-of-life matters now will enable us to move on in our remaining days with the dignity we have chosen for ourselves.

**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!**





CHARITABLE GIVING

Some of the largest charitable gifts made each year are gifts of real estate. Gifts of real estate can be made in a variety of ways:

One way to make a gift of real estate is to make it as an **outright gift**. An outright gift is one where there are no conditions established between the donor and the recipient. The donor makes the gift; the recipient receives the gift with “no strings attached.” Giving appreciated real estate is very cost-effective since a charitable income tax deduction equal to the fair market value of the property may be claimed. If the income tax deduction is larger than the donor can take the year of the gift, the excess deduction may be carried over for up to five additional years. Additionally, if the donor is in a situation where they would owe taxes on gains from the sale of real estate, such taxes would be avoided if the property was donated.

Another way to make a gift of real estate is to retain some rights associated with the gift. For example, a donor may propose to give their residence or family farm or vacation home to the church, but reserve or

retain the legal right to use the property for the remainder of their life. This is called a **Retained Life Estate**.

Accepting gifts of real estate can be very risky business!

In making a Retained Life Estate gift, the donor deeds the property to the church, while reserving the right to use the property for life. The donor continues to use the property in question and pay for all the associated costs of property ownership such as taxes, utilities, maintenance, etc. In such an arrangement, the donor is permitted to claim a significant income tax deduction in the year of the gift. At the time the deed is transferred to the church, the property is removed from the donor’s estate. Upon the donor’s death, there are no delays in transferring the property to the church because it already owns the property. Such a gift guarantees a future gift to the church, one with a

quantifiable gift amount, and one that the church can do whatever it wants after the donor passes away.

A final way to use real estate in a gift plan involves funding a **Life Income Gift**. A Life Income Gift is a generic term for gifts that provides donors with income for the rest of their lives. We’ve discussed a few of these types of gifts in past issues. They include the Charitable Gift Annuity and various types of Charitable Trusts. Specific information about these gifts also appears on our web site at dsumf.org. Each Life Income Gift has unique benefits for the donor as well as for the church to which the gift is made. The donor’s benefits include significant income tax deductions, avoidance of capital gains tax, if applicable, and a reduction or avoidance of federal estate taxes. In all such cases, the funding source for the Life Income Gift is the real estate. In such cases, it is imperative that the real estate be given to the church prior to the implementation of the Life Income Gift plan. If the donor sold the property before arranging the Life Income Gift with the church, the donor would lose a significant portion of the benefits.

Having discussed all the benefits associated with gifts of real estate, you must be aware that acceptance of gifts of real estate can also be very damaging to your church! For example, if your church accepted a residence from a member with the intention of selling the property to generate income for a church mission project, and then discovered an asbestos problem or lead paint problem during the inspection phase of selling the property, then the church is liable for all hazardous material clean-up. What happens then? The gift would probably wind up costing the church more money than what it was originally worth.

It is very important to understand that accepting gifts of real estate can be very risky business. DSUMF strongly encourages all churches and church agencies to create Gift Acceptance Policies so as to establish guidelines for accepting or rejecting gifts of all types, but especially gifts of property.

Never accept real estate without having a Phase One Environmental Study completed first!



We're up to **Step Four** of five steps in our discussion of the Investment Management Process, and our construction of the Investment Practices Matrix. This step requires fiduciaries to **Implement the Investment Policy**. On a practical level, a fiduciary is responsible for managing investment decisions with a reasonable level of detail. It makes SEN\$E, then to do what one does best and delegate the rest to professionals. Church fiduciaries should delegate investment decisions to professionals. Regardless of whether they delegate to professionals or assume the responsibility themselves, they must be able to document a due diligence process with each investment decision.

A suggested due diligence process should include:

1. Asset Manager's performance relative to a peer group,
2. Performance relative a specified level of risk assumed
3. Start date for the investment decision made
4. Correlation to specified peer group
5. Total assets in the investment style

6. Specific holdings that are consistent with the chosen style
7. Documentation of expense ratios or fees, and
8. Organizational stability.

Once an Investment Policy Statement 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 4.1: The investment strategy is implemented in compliance with the required level of prudence. Fiduciary Law does not specifically require fiduciaries to employ professional money managers. However, the law will hold the volunteer fiduciary to the same standards of care, activity, and conduct as it holds professional money managers.

Practice Number 4.2: The fiduciary is following applicable "Safe Harbor" provisions. Safe Harbor rules, when adopted, have a tendency to reduce the volunteer's liability. When volunteers work within the committee structure, there are five generally recognized

provisions to the Safe Harbor rules:

- A. Use prudent experts to make investment decisions.
- B. Document the due diligence process used to select the prudent expert.
- C. Give the prudent expert discretion over the assets.
- D. Require the prudent expert to formally recognize their co-fiduciary status.
- E. Monitor the prudent expert's compliance with previously agreed upon investment activities.

Practice Number 4.3: Investment vehicles are appropriate for the portfolio size. This practice primarily refers to the employment of either mutual funds or separate account managers for each investment style desired. The DSUMF does not use mutual funds in its portfolio. Your church shouldn't either. By their nature, mutual funds cannot be screened for the Social Principles of the United Methodist Church. Mutual funds are not actively managed. Mutual fund managers are not required to report all their expenses, so mutual fund investors never really know exactly how much they are paying in fees. There is no single socially screened mutual fund that is in complete compliance with the Social Principles of the UMC!

Practice Number 4.4: A due diligence process is followed when selecting service providers including the custodian. The custodian is typically a brokerage firm. The firm holds all their securities in street name, and to protect the assets they obtain insurance from the Securities Investor Protection Corporation (SIPC). The role of the custodian is to 1) hold the securities, 2) report on the holdings and transactions, 3) collect interest and dividends, and 4) effect trades.

Please remember that if your church's volunteer investment fiduciaries are not following the 27 practices prescribed by law, then they can be held **personally liable** for losses your church's

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!

INVESTING CONTINUED

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 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! Charitable Contribution Incentives for Cash Gifts Temporarily Increase

“The Church is of God and will be preserved to the end of time.”

SIDE NOTE

The Hurricane Katrina relief bill, unanimously passed by the House and Senate on September 21, and signed into law by the president on September 23, has made changes to tax law designed to encourage certain outright gifts of cash made during the period August 28, 2005 – December 31, 2005.

Highlights of this new legislation include:

1. The contribution limit for certain outright gifts of cash has increased from 50 percent of adjusted gross income to 100 percent of adjusted gross income.
2. These same outright gifts of cash also are exempt from the three-percent reduction in itemized deductions for individuals with an adjusted gross income over \$145,950.
3. Cash gifts to a private foundation, supporting organization, or donor advised fund do not qualify for the higher limit or the three-percent rule exemption.
4. These changes may present some donors with an attractive opportunity to fund outright gifts with assets withdrawn from an IRA or other qualified retirement plan.

Under existing law, the maximum amount of cash contributions that is deductible in any one year is 50 percent of adjusted gross income. That limit is being increased to 100 percent of adjusted gross income in the case of certain cash gifts made between August 28th and December 31st.

Consider this example: An individual with adjusted gross income of \$200,000 made contributions to various charities amounting to \$50,000 prior to August 28. Wanting to help charities involved in Katrina relief, as well as other charities whose donations are down because dollars that normally would have been diverted for Katrina relief, this individual contributes \$150,000 cash to certain public charities between August 28 and the end of the year. This donor will be able to deduct \$200,000 for 2005, resulting in zero income tax. Prior to the increase in the deduction limit, this donor would have been able to deduct only \$100,000 in 2005, though the excess could have been carried forward for up to five additional years.

A contribution to a private foundation, a supporting organization, or a donor advised fund would not qualify for the higher limit. A contribution to a public charity, whether or not that

charity is engaged in Katrina relief, and whether or not the contribution is unrestricted or for a designated purpose, would qualify.

Still another benefit of making qualified cash gifts before the end of the year is that they will not be subject to the reduction rule applicable to itemized deductions. In general, a taxpayer's itemized deductions must be reduced by three percent of the amount by which adjusted gross income exceeds \$145,950. However, there is no such adjustment for qualifying cash contributions made from August 28 through December 31. As with the 100 percent contribution limit, all donations made prior to August 28 and non-cash donations made at any time in 2005 will continue to be subject to this three-percent reduction rule.

Because of the increase in the deduction limit, people who have more money in their IRAs or other qualified plans than they will likely need for retirement security, and who are at least 59 and 1/2 years of age, may want to consider withdrawing assets and contributing them to a charity. Upon withdrawal, the assets, as before, will be added to adjusted gross income, but the full amount added to income

will then be deductible from income, resulting in a "wash."

Before taking such action, donors should consider how increasing their adjusted gross income may reduce the amount they can deduct for medical expenses and casualty losses, accelerate the phase-out of personal exemptions, and cause some loss of other itemized deductions. Although the amount withdrawn from an IRA or other qualified plan and then contributed will not be affected by the three-percent reduction in itemized deductions, other itemized deductions, as well as the personal exemption, may be diminished with a rise in adjusted gross income.

Notwithstanding these possible consequences, contributing assets from an IRA or other qualified plan during this window of opportunity may make sense.

Consider this example: An individual has adjusted gross income of \$200,000 and wants to give \$500,000 to various charities in 2005. The donor, age 65, has well over \$1 million in a qualified retirement plan. If the donor makes these contributions by withdrawing \$500,000 from the retirement plan during the stipulated period, the donor's

adjusted gross income will increase to \$700,000 and the entire \$500,000 in contributions will be deductible. Increasing the donor's adjusted gross income from \$200,000 to \$700,000, however, may increase the donor's income tax in other ways by diminishing the availability of the donor's other itemized deductions and personal exemptions.

Conclusion: Donors should consult their tax advisors about both the optimum amount to contribute in 2005 and the advisability of making contributions from their IRAs or other qualified plans.

While these incentives may increase the likelihood of contributions funded with IRA and other qualified retirement plan assets through the end of this year, do not confuse them with the IRA rollover legislation that the charitable community has been advocating for several years. This legislation would allow donors to rollover their IRAs into planned gifts during life without incurring adverse tax consequences, even when charitable deductions are limited to 50 percent of adjusted gross income and the three-percent deduction reduction rules apply. NCPG and the rest of the charitable community will continue to work for the

passage of IRA rollover legislation.



**Support
Your
Favorite
United
Methodist
Ministry.**

**DONATE
YOUR
USED
VEHICLE!**

**CALL:
602 - 252 - 1360**

Free Pick Up!

Title Transfers

Tax Deductible

**(Equal To Proceeds Realized
by Sale at Public Auction)**

**Any Vehicle,
Any Condition,
Running or Not!**

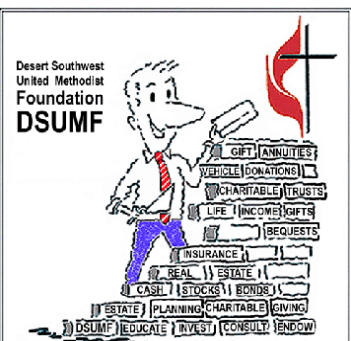
**Support Your
Church!**

**ANNOUNCING
DSUMF's
September
2006
Alaskan Cruise
Join Us!**



Featuring presentations about Estate Planning, and Charitable Giving while enjoying an elegant ship, gracious service, sophisticated five-star dining, and the breath-taking, vistas of Alaska!

If you are interested, then let us know! E-mail us your contact information and indicate your interest by telling us if you want to be a passenger or an organizer of a group from your church or both!



Building Your Church's Financial Future One Brick at a Time!