

DOLLAR SENSE

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

Vol. III: Issue 10 A Service of the Desert Southwest United Methodist Foundation November 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 visiting our web site! We're always updating the content of our site, so remember to "click a brick" to take a complete tour at least quarterly.

We are approaching the "Year-End-Giving Season" and what better way to give to your church than by giving appreciated securities? Our newest information at www.dsumf.org is about Gifts of Stocks and Bonds. Click on the "Stocks" and "Bonds" bricks in our logo for all the information you'll need when you consider accepting gifts of stocks or bonds from your church members.



The main purpose of a Permanent Endowment Fund Committee is to teach. The Committee must be like teachers. They must develop a curriculum and lesson plans, and establish expected outcomes. In order to be successful, the Committee's efforts must be consistent. The

curriculum must include plans to teach both the leaders of the church, and the members of the church. One of the ways to accomplish these tasks is to conduct Special Programs.

Special Programs, in the form of presentations, workshops, and seminars are a required ingredient in your educational and marketing plan. Such programs provide information about estate planning and gift planning opportunities. (You might consider including the community in your announcements and invitations.) These events should be designed for **those who should be interested** as well as for those who have already shown an interest in planned gifts and the Endowment Fund Program. In addition to announcing the special program to the whole congregation, you should invite specific individuals and specific groups of people.

Write a letter to or call those who have responded to any of your mailings, inviting them to your next special program. You might write,

"Because of your special interest in this area, you will find this *Estate and Gift Planning Workshop* helpful in answering questions you might have on this subject."

When an event is designed with a specific audience in mind and when you send specific invitations (in addition to the general invitation), attendance is usually much better. For example, you might design a workshop specifically for parents and invite them to a workshop on *Estate Planning for Parents*. You might design a *Wills and Trusts Seminar* for members within a specific age group or suspected income level.

Upon invitation, and free of charge to your church, DSUMF will conduct a variety of seminars for churches throughout the Conference. Since January of 1995, The Foundation has conducted more than 400 hundred seminars for almost 10,000 members. The results of these



ENDOWMENT FUNDING Continued

seminars are staggering! Tens of millions of dollars in deferred gifts have been generated for local churches that have participated in the DSUMF's Educational Seminar Series. We're here to help you and your church in your production of special programs!

Offer to present programs (and to assist in arranging for special speakers) for organizations and groups within your church, such as: United Methodist Women, United Methodist Men, specific church school classes, or the senior adult fellowship. Plan each event well in advance of the announced date, allowing at least five or six weeks for promotion. If your seminar is being presented by DSUMF, advertising flyers are created for your seminar and distribution suggestions are provided to maximize attendance. Once a date is set, invite the leaders and secure a commitment from them. Your chances of success in scheduling the best leadership will depend upon several factors, not the least of which is the lead-time before the event, the level of enthusiasm you communicate, and the evidence of good planning on the part of the

Endowment Fund
Committee.

There are many options when it comes to conducting appropriate events to lift up the causes of estate planning, gift planning, and endowment funding for the local church. Suggested seminar topics include:

- Estate and Gift Planning
- Wills
- Living Trusts
- Gift Annuities
- Charitable Trusts
- Estate Planning for Widows, Widowers and Singles Only

**It is time
to look at
your church's
Spring calendar
so you can
schedule an**

**Estate Planning
or
Charitable Giving
Seminar.**

**We already have
several dates
taken!**

**DO NOT
DELAY!**

**Schedule your
next seminar
NOW!**

ESTATE PLANNING

In past issues of DOLLAR SEN\$E, 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.

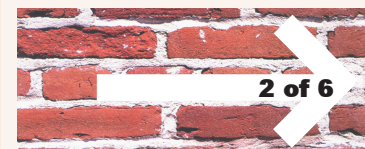
You can, however, avoid these problems by using the Revocable Living Trust or RLT. There are four primary reasons for using the RLT as the main document in your estate plan.

1. The RLT keeps your estate from going through probate. Assets held in a revocable living trust at

the time of your death are not subject to probate. The key here is that the trust must be holding your assets at the time of death. If it does not hold all your assets and if the total value of the assets not held in the RLT is more than \$50,000, then the entire estate is subject to probate.

2. The RLT enables, in certain circumstances, a couple to reduce income taxes. Under the current tax code, appreciated assets held in an RLT, when sold by a survivor, receive a new cost basis upon the death of the first to die. Therefore the survivor has no gain to report upon the sale of assets, therefore no capital gains taxes to pay. However, this provision in the tax code is scheduled to be eliminated in 2010, and unless there are changes in the tax code between now and then, the "stepped up cost basis" provision will go away.

3. The RLT enables, in certain circumstances, a couple to reduce or eliminate federal estate taxes. Each individual is entitled to exclude up to \$1,500,000 of assets from federal estate taxes in 2005. In 2006, '07, and '08, the exclusion amount is \$2,000,000. Let's



ESTATE PLANNING CONTINUED

assume a married couple has a total net worth of \$1,750,000 in 2005. Let's also assume the couple does not have a RLT and the husband dies in 2005. Finally, let's assume the wife also passes away sometime later, but still in 2005. In this scenario, all the couple's assets are owned by the wife after the husband has passed away. When she passes away, the estate's total net worth is \$1,750,000, which is \$250,000 more than the "exclusion amount" for 2005. Therefore the estate must pay federal estate taxes on \$250,000, which will be over \$110,000. If the couple had owned these assets in a proper, "His and Hers" RLT, then the assets would have been split at the time of the husband's death. His estate would have been \$875,000 and her estate would have been \$850,000, which is well under the exclusion amount and no federal estate taxes would be owed. Each individual is entitled to an exemption or "exclusion" amount, but if you don't use it, then you lose it.

4. The RLT provides the capability for income and/or asset management during times of illness or incapacitation.

Remember a Last Will and Testament becomes effective at death. Therefore in times of illness or incapacitation the Last Will is ineffective. The RLT, on the other hand, is effective immediately upon its proper execution. Therefore an RLT can establish your wishes with regard to the use and management of your assets during periods of time when you are unable or unwilling. This asset management can include, investment, bill paying, tax return and all other management functions. By establishing your own wishes in a properly written RLT, you are protecting yourself against improper health care and asset management during times when you are unable or unwilling to make decisions.

Everyone should think about using a RLT in their total estate plan. Those with minor children or family members with special needs should have a RLT without question. If minor children or special needs individuals are not part of your set of circumstances, then cost becomes a factor in deciding about a RLT. If your total net worth, including the value of your house, life insurance, investments, and pension plans exceed \$250,000, then an RLT is very strongly suggested

because the cost to probate such an estate far exceeds the cost of creating a RLT.

ANNOUNCING DSUMF's September 2006 Alaskan Cruise Join Us!



Featuring a presentation on Estate Planning, and another presentation on Charitable Giving, all while enjoying an elegant ship, gracious service, sophisticated five-star dining, and the breath-taking, expansive vistas of Alaska!

If you are interested, then let us know! E-mail us your contact information and whether you want to be a passenger or a group organizer for members of your church or both!

CHARITABLE GIVING

In the eyes of the IRS, Stocks and Bonds are not cash; they are property. Deduction rules are different for gifts of property than for gifts of cash.

If you contribute property to your church, the amount of your charitable contribution is generally equal to the fair market value of the property at the time of the contribution. In the case of gifts of stocks, bonds and mutual funds, donors' deductions are equal to the fair market value of the property on the day it is received by the church.

Fair market values are determined by calculating the average of the high and low trading value of the security on the date of its receipt. However, with gifts of property, a donor can only deduct up to 30% of their adjusted gross income (AGI), whereas donors who make gifts of cash may deduct up to 50% of their AGIs. As always, if a donor acquires more deductions than they can use in the year of the gift, then the remaining deductions can be



**CHARITABLE
GIVING
CONTINUED**

claimed over the next five years, if necessary.

Making a gift of appreciated securities directly to the church can be a great deal for the donor.

Example One: Let's assume:

1. A donor owns stock worth \$10,000.
2. The donor purchased the stock for \$2,000 more than 1 year ago.
3. The donor's adjusted gross income (AGI) is \$50,000.
4. The donor makes no other charitable contributions in the year.
5. The donor donates the appreciated stock to his church.

In this example, the donor qualifies for a charitable deduction of \$10,000 subject to Donation Ceiling Rules of 30% of adjusted gross income (AGI). Thirty percent of the donor's AGI ($0.30 \times \$50,000$) is \$15,000. Therefore, the donor is able to claim the entire \$10,000 deduction for which they qualified.

Example Two: Let's assume:

1. A donor owns stock worth \$10,000.
2. The donor purchased the stock for \$2,000 more than 1 year ago.

3. The donor's adjusted gross income (AGI) is \$50,000.

4. The donor makes no other charitable contributions in the year.

5. The donor sells the stock and donates the proceeds to his church.

In this example, the donor made a costly mistake by selling the security rather than donating the stock directly to the church. Upon the sale of the stock, the donor triggered a taxable event. The proceeds of the sale of the stock equal \$8,000 (\$10,000 less cost basis of \$2,000), which are subject to capital gains taxes at the 15% rate ($0.15 \times \$8,000 = \$1,200$). The total proceeds (\$10,000) are now reduced by \$1,200 to \$8,800.

In this example, the donor qualifies for an income tax deduction of \$8,800 subject to Donation ceiling Rules of 50% of AGI. Fifty percent of the donor's AGI of \$50,000 is \$25,000. Therefore the donor is able to deduct the \$8,800 for which they qualified, but only after paying the \$1,200 in capital gains taxes. In this example, therefore, the donor receives a smaller deduction, pays capital gains taxes and the church receives a smaller contribution as well.

Now, the reality is that most churches do not

have brokerage accounts through which member's gifts of securities transactions can occur. So how can a church encourage their members to make gifts of securities and receive the proceeds of the sales of such gifts with having a brokerage account of their own?

There are actually several options, but most will cost the church from \$65 to thousands of dollars per transaction depending on the amount of the gift. There is one option that won't cost the church anything! That option is for the church to open an investment account with the DSUMF of at least \$5,000.

Why? The answer is that the DSUMF provides electronic transfer of securities services **FREE OF CHARGE** to every client. The electronic transfer services also includes generation of: 1) the required letter of donation with proper language, 2) IRS Form 8282 for gifts of stock valued over \$500, and 3) a partially completed IRS Form 8283 required of the donor by the IRS if the donor intends on itemizing the deduction for which they qualify.

Summary:

■ Readily marketable securities, such as those traded on a stock exchange, will be

accepted by **DSUMF** for the benefit of your church. ■ Gifted Securities will be sold immediately by the appropriate entity representing **DSUMF**.

■ For **DSUMF** gift crediting and accounting purposes, the value of the gifted securities is the average of the high and low, or mean market value on the date of the gift.

■ By law, **DSUMF** is required, and will complete IRS Form 8282 upon the sale of gifted securities. Said form will be sent to the IRS; a copy will be sent to the donor, and kept on permanent file.

■ As a courtesy to the donor, **DSUMF** will partially complete, and send to the donor, IRS Form 8283, which is the form the IRS requires donors to submit in order to claim an income tax deduction for their gifted securities.

■ **DSUMF** will also send to the donor a set of instructions as to their completion of the IRS Form 8283.

The DSUMF extends an "open door" invitation for depositors and their members to use our service, FREE of charge, for their "Gifts of Securities" giving programs.



In next month's issue of DOLLAR SENSE, we will provide a special section which will detail all the Uniform Standards of Care and all the steps in the Investment Management Process and how each of the 27 Prudent Investment Practices fall into a matrix. But what about this issue of DOLLAR SENSE?

We are up to **Step Five** out of five in our discussion of the Investment Management Process, and our construction of the Investment Practices Matrix. This step requires fiduciaries to **Monitor and Supervise** the results of their investment decisions. On a practical level, a fiduciary is responsible for managing investment decisions with a reasonable level of detail. In terms of monitoring and supervising investment decisions, this means that the monitoring process must be more than just looking at rates of return; it must occur across all policy and procedural issues.

Practice No. 5.1: Periodic Reports compare investment performance against an appropriate index, peer group, and Investment Policy Statement

objectives. In fulfilling this responsibility, fiduciaries should establish performance objectives for each "prudent expert" hired. The performance objectives must be a part of the organization's Investment Policy Statement. Asset manager's performances should be monitored and evaluated based on appropriate indices and peer groups.

With regard to asset manager performances, the DSUMF takes monitoring and evaluation to a much higher level than looking at just indices and peer group performances. The DSUMF employs a full array of statistical tools to monitor and evaluate not only an asset manager's rate of return performance, but also their performance relative to the specific level of risk they take in relation to the risk tolerance level as detailed in the DSUMF's Investment Policy Statement. The DSUMF employs these statistical tools in its evaluation of the portfolio as a whole as well.

Practice No. 5.2: Periodic reviews are made of qualitative and/or organizational changes of investment decision-makers. It is unreasonable to expect a specific asset manager to provide the highest rates

of return in all periods of up and down markets. It is important, therefore, to base an asset manager's review on more than just their recent performance results. On the flip side of this practice, it is also important for fiduciaries not to make asset manager decisions because another asset manager in the same peer group has a better rate of return for the month or the quarter. The decision to hire, retain, or fire an asset manager must be made after reviewing information across a broad spectrum of previously established Investment Policy Statement objectives.

Practice No. 5.3: Control procedures are in place to periodically review policies for best execution, soft dollars and proxy voting. The practical application of this practice is for fiduciaries to delegate the responsibility of proxy voting to their asset managers. The fiduciary also has the responsibility to control and account for investment expenses. For example, it is rare, but expenses charged by asset managers and brokerage firms are sometimes incorrect. If left unchecked, such expenses could improperly add to the organization's investment costs. It is important for fiduciaries to monitor and

supervise these aspects of the investing process.

Practice No. 5.4: Fees for management are consistent with agreements and with the law. Prudent experts' or asset managers' fees vary widely. Fees vary depending on the asset class to be invested, the size of the account, and whether the assets are actively or passively managed. Fees are usually assessed in terms of basis points (100 basis points = 1.0%) and are multiplied times the market value or balance of a portfolio at either the end or the beginning of a quarter. It is the fiduciary's responsibility to determine whether the fees are paid directly from the portfolio and whether the fees are reasonable in light of the services provided.

Practice No. 5.5: "Finders fees," 12b-1 fees, or other forms of compensation that have been paid for asset placement are appropriately applied, utilized, and documented. Finders fees paid to brokers by asset management firms are a part of the costs eventually incurred by the fiduciary. Other fees, like the 12b-1 fees are considered soft dollars



INVESTING CONTINUED

paid through fee-sharing arrangements. These fees are usually associated with mutual funds, and mutual fund companies are not required by law to fully disclose these costs. These behind-the-scenes, fee-sharing arrangements therefore, make it next to impossible for the fiduciary to account for all the dollars spent on investment management services.

This is just one reason why the DSUMF does not use mutual funds in its portfolio. Another reason why we do not use mutual funds in our portfolio is that they are passively managed. By definition, a passively managed account cannot be screened for the social principles of the United Methodist Church.

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 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 for your volunteers and reducing risk for your church's portfolio. The Investment Management Process, when performed properly will enable your fiduciaries to maximize the rate of return on your investments, so your church can provide the maximum benefit for the funds contributed.

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

Even Though Tax Laws Have Changed, We Are Still Accepting Used Vehicles!

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DONATE YOUR USED VEHICLE!

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602 - 252 - 1360**

SIDE NOTE

In the first half of 2006, the DSUMF will be conducting Leadership Training events in each district of the Annual Conference and in a few clusters within districts. The training events will provide information on how a church can secure its financial future today!

The training events will be conducted on Saturdays from 9:30 AM to 4:30 PM. Lunch will be served and materials will be distributed to all attendees. A registration fee will be charged to offset the costs. The fee will be \$25 for each of the first two attendees from your church, \$15 each for the next two attendees and \$10 for all additional attendees from your church.

The training events will include important information for a variety of leaders in your church.

Training topics will include:

1. Creating and Operating a Permanent

Endowment Fund Program at your church.

2. Charitable Giving in your church.

3. Charitable Gift Annuities vs. Charitable Trusts.

4. Encouraging Bequests Through Estate Planning.

5. Investing Church Money.

This training event is a "MUST ATTEND" formembers of your church's Finance Committee, Trustees, Stewardship Committee, and Foundation or Endowment Fund Committee.

Look for more information about the dates and times of these events that will be coming to you soon!

You don't want to miss this opportunity!

