

ANNOUNCING DSUMF's **G.R.E.A.T!** PROGRAM



Why: “Dearly beloved, the Church is of God and will be preserved to the end of time.”

The church is eternal yet the reality is that most churches take a short-term view regarding their financial health. Most often, the annual budget sets a church's time horizon. Sometimes we extend our time horizons a bit when we accept three-year pledges for capital campaigns, but how are we going to be able to preserve our churches until the end of time unless we extend our time horizons well beyond the annual budget or three-year capital campaign time lines? What about raising *permanent* funds for the *permanency* of our churches? Permanent Funds are Endowment Funds. By definition, the principal in an endowment fund is never invaded and only the earnings from an endowment fund are used.

Endowment Funding:

- † establishes an income source for future funding.
- † provides members a way to give to something that they know will last.
- † provides for property maintenance, missions, scholarships, music programs and more!
- † establishes a level of expectation for members' contributions.
- † establishes a culture of permanency and long-range vision at your church.

These are some of the reasons why we have created the G.R.E.A.T. Program. “G.R.E.A.T.” is an acronym which stands for a program that involves **G**iving, **R**eceiving, **E**ndowing, **A**nd, **T**ax deductions too! The G.R.E.A.T. Program involves two phases. In the first phase of this Program, donors give; they also receive and their churches receive too! When donors give, they will qualify for an income tax deduction and they will receive income back. Part of the income will be tax-free income. In the second phase of this Program, funds will be used to create an endowment fund for the church, that will keep on giving to the church well into the future! This G.R.E.A.T. Program is a WIN, WIN, WIN scenario!

If, after reviewing the following information, you want to hear more, then call Dr. Rick Brown at 602-266-6956 Ext. 203, or e-mail Dr. Brown using rick@dsumf.org. Schedule a presentation, then after the presentation, decide if the G.R.E.A.T. Program is something in which your Board of Trustees or Stewardship or Finance Committees want to participate. If their decision is “No - Not Now,” then we'll interpret that answer as “Perhaps Later,” because we know a healthy church is one that is not only looking outward, but one that is also looking towards its own financial future. The Desert Southwest United Methodist Foundation's (DSUMF's) tag line is: “Building Your Church's Financial Future One Brick at a Time!” Let us help you realize a healthy financial future for your church

Give: Donors make an irrevocable contribution via the Charitable Gift Annuity.

Giving is part of Phase I of the Program. The Charitable Gift Annuity or CGA is a well known, widely used giving vehicle. The CGA is a contract between a donor from your church and DSUMF. A donor can use cash, stocks, bonds, or mutual funds to make a CGA. Appreciated securities paying low dividends or interest are perfect assets to fund CGAs because the donor will avoid about 50% of the capital gains taxes on such assets as compared to selling them outright. In addition, the remaining capital gains taxes that are due, are spread out over the donor's lifetime. Prior to making their gifts, each donor in your church's G.R.E.A.T. Program will receive a comprehensive, individualized CGA gift proposal that will identify the amount of their tax-free income and the income tax deduction for which they qualify .

Receive: The church will receive immediate cash; donors will receive income too!

In addition to Giving, Receiving is also part of Phase I of this Program. In this Program, 50% of all funds donated to DSUMF via CGA contracts will be immediately returned to the participating church. The remaining 50% of donated funds will be placed into an "Investment Pool." The pool will be invested in the DSUMF's socially screened, actively managed, well balanced, diversified, low risk portfolio. Fixed income payouts to donors will be made from the investment pool. The payout to donors will range between 5.5% and 7.0% times the amount of their original gifts, depending on the average age of all participants in the church's G.R.E.A.T. Program. Payouts will be distributed in equal, semiannual installments at the end of March and September of each year. The DSUMF will provide year-end, 1099 R Statements for each donor by January 31 every year.

Endow: CGA "Remainders" will be used to create the church's endowment fund.

DSUMF's investment performance since 1991 is better than 11% on an annualized basis. Therefore, we fully expect to be able to honor our obligation to make semiannual distributions ranging from 5.5% to 7.0% during Phase I of the Program. We also fully expect there to be funds left over in most donors' CGA accounts after their deaths or at the end of the Program, whichever comes first. These funds are called "remainders." Upon each donor's death, 50% of their "remainders" will be retained in the investment pool. The other 50% of the "remainders" will be used to create the church's endowment fund. At the end of Phase II, when all donors have passed way or when Phase I of the Program ends (whichever come first), all "remainders" in the investment pool will be deposited into the church's endowment fund. At this point, the endowment fund will be considered fully funded. The endowment fund shall be invested by the DSUMF, and 85% of the earnings from the church's endowment fund will be distributed to the church for use as determined by the church and the participants at the time the original gifts are made. The remaining 15% of the earnings will be plowed back into endowment principle so as to force growth in both principle and future distributions.

And, last, but not least, gifts are partially . . .

Tax-deductible: A portion of a donor's original gift is tax-deductible.

Deductions will range from 29% to 50% depending on a donor's age at the time of the gift. The actual amount of a donor's deduction will be calculated using an IRS formula. The formula includes many factors, such as date of gift, age, gender, IRS Discount Rates, etc. While the program is designed to involve a group of people at the same time, each donor's income tax deduction will be different than the next donor's deduction. Deduction calculations will be included in formal gift proposals presented to each donor before they finalize their gift. As always, a donor must itemize on their tax returns to claim a deduction, and donation ceilings of 30% or 50% of Adjusted Gross Income apply for gifts of property or cash respectively.

Frequently Asked Questions:

Q. How does the G.R.E.A.T. Program work?

A. When invited, the DSUMF's Executive Director will present the Program to a group of members who are interested in financially supporting their church. Members who choose to participate in the Program will enter into individualized Gift Annuity contracts with DSUMF, where each contract will guarantee each participant an income stream ranging from 5.5% to 7.0% times the amount of their original gift, per year, depending on the group's average age at the beginning of the Program (see chart on page 4). The

payout to donors will continue until the end of Phase I of the Program. In addition, some of the income received by the donor is tax-free income. The amount of tax-free income a donor will receive is also dependant on their age at the time the gift is made. Tax-free income rates will range between 45% to 66% or more. Tax-free income calculations will be made for each donor prior to finalizing their gift.

Q. How does the church receive money in the G.R.E.A.T. Program?

A. DSUMF will write all contracts and collect all gifts for the church during a “sign-up” period. Upon completion of the “sign-up” period, DSUMF will immediately distribute 50% of all collected gifts directly back to your church. The turn-around time for this process will be 2 to 4 weeks.

Q. When does the church’s Endowment Fund get created?

A. When a G.R.E.A.T. Program participant passes away, or when the distribution part of the Program ends (whichever comes first), it is expected that there will be a sum of money left in their gift annuity account. One half of each participant’s remainder will be immediately deposited into the church’s Endowment Fund. This deposit marks the beginning of Phase II of the Program, eventhough Phase I distributions will continue to surviving participants. The other 50% of the remainder will stay in the investment pool, thus enabling DSUMF to honor the income stream promised to participants.

Q. When does the church’s G.R.E.A.T. Program Endowment become fully funded?

A. The church’s endowment becomes fully funded upon the death of the Program’s last surviving member, or on the date identified in the church’s “Assignment Covenant” with its members, whichever comes first. When that date occurs, 100% of the remaining investment pool’s balance will be transferred into the church’s Endowment Fund account. This is the point when Phase I distributions to donors ends.

Q. What is an Assignment Covenant?

A. An Assignment Covenant is an agreement signed by participants and their church. The agreement identifies a date when participants agree to assign their individual gift annuity contracts back to the DSUMF. When a donor assigns their CGA contract back to the DSUMF, the DSUMF is not obligated to pay any additional annual distributions; therefore, the date on the Assignment Covenant will end Phase I distributions to donors.

Q. When can a church receive earnings from their G.R.E.A.T. Program Endowment Fund?

A. A church can receive 85% of the Endowment Fund’s earnings the first January after the first participant’s death. But remember, only 50% of each participant’s remainder will be deposited into the church’s endowment fund, so in the early years of the Program, earnings will be relatively small amounts of money. The church’s G.R.E.A.T. Program Endowment Fund will not be fully funded until the last surviving donor passes away, or until the date identified in the church’s Assignment Covenant, which ever occurs first.

Q. How much does the G.R.E.A.T. Program cost?

A. The DSUMF will charge a flat fee of 1% on all gifts contributed. In return for this fee, DSUMF will: 1) present the Program to your church’s membership at a time and date convenient to all participating parties, 2) consult with each interested participant, 3) prepare formal CGA Proposals for each interested donor, 4) write individualized CGA contracts for each participant, 5) establish CGA files for each participant, and 5) establish an investment pool account for the church using 50% of all original gifts, less the 1% Program Fee.

Q. Are there any other fees?

A. Yes. DSUMF will charge an annual fee of 1% on the balance (1/12th of 1% assessed monthly) of the church's investment pool. In return for this fee, DSUMF will: 1) make semiannual distributions to all G.R.E.A.T. Program participants, 2) send 1099 R Statements to each participant at year's end, 3) invest the church's G.R.E.A.T. Program Investment Pool Account, 4) produce monthly statements, 5) create and account for the church's Endowment Fund upon the Fund's receipt of its first deposit, which occurs when the program's first participant passes away, 6) prepare annual, year-end, CGA Liability Statements for each participant per audit requirements, and 7) include both the church's Investment Pool and its Endowment Fund in our annual audit. There will be no ongoing investment management fees assessed to the church's endowment fund until it is fully funded. Once the church's endowment fund is fully funded, then the Foundation's normal Investment Service Management Fee of 1.85% per year (0.15416% per month) will be assessed. Finally, if a participating church chooses to remove their G.R.E.A.T. Program Endowment Fund from DSUMF's Investment Service, it may do so. However, in such an unlikely event, DSUMF will charge a penalty fee of 3% of the Fund's balance to do so.

Q. When does the G.R.E.A.T. Program end?

A. The short answer is that the Program never ends because an endowment fund is created at the end of Phase I, and endowments, by definition, operate in perpetuity. Annually in January, after the first deposit is made into the church's endowment fund, 85% of the fund's earnings will be distributed. Endowments operate into perpetuity; therefore, earnings distributions will also be made in perpetuity. Distributions will be made automatically according to the original GREAT Program Agreement signed between the church and the Foundation.

Q. Can I see an example of the G.R.E.A.T. Program?

A. Yes! See Below!

1. Let's assume a group of people from your church agrees to participate in the G.R.E.A.T. Program. Collectively, they donate \$1,000,000 via CGAs to your church's G.R.E.A.T. Program. DSUMF will consult with each individual, create and sign all contracts, collect all gifts, and immediately distribute 50% of the total gifts received, or in this example, \$500,000, to your church. DSUMF will also create your church's Investment Pool with the other 50% of the funds, less the 1% Program fee, or \$490,000 [(\$1,000,000 - \$500,000 to the church) - (\$1,000,000 X 1% Program Fee)] = \$490,000.

2. Let's also assume that the average age of all the participants in your church's G.R.E.A.T. Program is 70 (see chart on page 5). Using this assumption, each participant in the Program will receive an annual distribution of 6.0% times the amount of their original gift. Therefore, if Donor "A" enters into a CGA contract with a \$100,000 gift, then s/he would receive \$6,000, divided into two semiannual payments of \$3,000 each, which will be distributed at the end of March and September of each year. If Donor "B" contributed \$10,000, then s/he would receive two semiannual payments of \$300 for a total annual income of \$600. All donors would qualify for income tax deductions. A portion of each donor's distribution would be considered tax-free income. The actual amount of each donor's deduction and tax-free income will depend on their age at the time of their gifts, and each donor will receive this information in their CGA Gift Proposals prior to finalizing their gifts.

3. Finally, let's assume all G.R.E.A.T. Program participants also sign an Assignment Covenant with the church so that Phase I of the Program would end on December 31 at the end of the 11th year of distributions. Participants may qualify for an additional income tax deduction at the time they assign their CGA contracts back to DSUMF, and more importantly, annual distributions of 85% of the endowment fund's earnings will be made each January at the beginning of the 12th year of the Program. In this scenario, it is expected that the beginning balance in the church's endowment fund will be over \$250,000.

4. So, from the \$1,000,000 of original gifts, the church would receive \$500,000 immediately. Donors would receive their pro rata share of \$660,000 spread out over 11 years [(6.0% X \$1,000,000) (11 years) = \$660,000)]. In addition to their semiannual distributions, donors will receive some tax-free income and will qualify for income tax deductions! Perhaps, best of all, the church's endowment fund would begin with a balance of over \$250,000!

This Program is GREAT!

DSUMF's
G.R.E.A.T!
PROGRAM

GROUP'S AVG. AGE	PAYOUT RATE%	Tax Ded. %	Tax Free Income %	Effective Payout Rate %	PHASE II BEGIN DATE JANUARY 1 OF
55-65	5.5	44.0	51.4	7.2	14TH YEAR
66	5.6	44.4	52.2	7.4	13TH YEAR
67	5.7	44.9	53.1	7.5	13TH YEAR
68	5.8	45.4	54.0	7.6	13TH YEAR
69	5.9	46.1	55.0	7.8	12TH YEAR
70	6.0	46.8	56.1	7.9	12TH YEAR
71	6.1	47.5	56.9	8.1	11TH YEAR
72	6.2	48.3	57.8	8.2	11TH YEAR
73	6.3	49.2	58.8	8.4	11TH YEAR
74	6.4	50.1	59.9	8.6	10TH YEAR
75	6.5	51.1	61.1	8.7	10TH YEAR
76	6.6	52.1	61.9	8.9	10TH YEAR
77	6.7	53.3	63.3	9.0	10TH YEAR
78	6.8	54.4	64.3	9.2	9TH YEAR
79	6.9	55.7	65.5	9.4	9TH YEAR
80	7.0	57.0	66.0	9.5	9TH YEAR