

# ENDOWMENT GIVING ESSENTIALS

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# Our Mission

*Our mission —*

## Invest responsibly. Strengthen ministry.

United Church Funds lives its mission by —

- Investing wisely to help our investors achieve their financial goals for their ministries
- Using the power of ownership to effect positive change, believing a responsibly managed company makes a better long-term investment
- Offering our investors a range of options and resources to strengthen their portfolios, their endowment management, and the ministries they value

# About Us

- The trusted investment partner of over 1,000 local churches and ministries of the United Church of Christ
- Over \$800 million in assets under management\* in 13 diversified and professionally managed funds
- Experienced leadership in the development, management and governance of endowments
- The UCC's new resource for planned giving marketing, management and administration

\* As of September 30, 2014



# Building a Legacy — Supporting Church Endowments



- UCF provides educational resources to help churches better understand the essential elements of building a strong endowment and related policies
- UCF manages administration and marketing of legacy giving for the UCC, with resources under development to assist churches and organizations in creating sustainable legacy programs

# Building a Legacy — Supporting Planned Giving

- Since the inception of the UCC's planned giving program, United Church Funds has served as the fiscal agent for the program
- UCF supports local churches and ministries as they develop endowment giving programs — providing educational resources and assisting churches as they grow their legacies
- Unlike a commercial broker or bank, UCF stands ready to be your trusted partner to grow your endowment by helping your church create new gift opportunities



# Endowment Definitions

- **True Endowment**  
Permanent restriction by donor with designation as to purpose, usage, and/or definition and distribution of return.
- **Quasi-Endowment**  
Unrestricted funds that are designated as endowment by Board policy. Unrestricted as to usage, but may be restricted or unrestricted as to purpose.
- **Temporary Endowment**  
Monies that are restricted by time or purpose by board policy or donor designation.

# Endowment Policy

## ➤ Administration

- Who is responsible for communication with donors & prospects?
- Is there a minimum level for creating named endowments?
- What are accountabilities, governance and staff levels?

## ➤ Accounting

- What are the procedures for ensuring financial transparency?
- Who is responsible for insuring the endowment's integrity?

## ➤ Investment

- How are the funds to be invested?
- Who is responsible for making investment decisions?

## ➤ Spending

- What are the policies for how funds will be spent?

# Planned Giving Definitions

➤ **Planned Gifts**

Transfers of assets that, in addition to having a charitable dimension, have financial planning and/or estate planning impacts.

➤ **Deferred Gifts**

Those whose impact are not fully realized until some future date, generally at the death of the donor(s).

➤ **Life Income Gifts**

Irrevocable transfers of assets creating vehicles whereby donors receive income for themselves or their designees, favorable tax treatment, and provide support from their assets to a charity of their choice.

# Taxes and Planned Giving

- **Estate Tax**  
Tax on right to transfer assets at death
- **Gift Tax**  
Tax on transfers between individuals at no exchange of value or less than full value
- **Capital Gains Tax**  
Tax on increase in value of asset
- **Income Tax**  
*IRS Discount Rate*

# Bequests

- **Wills and estate planning**
- **The probate process**
  - Appointment of administrator
  - Inventory and appraisal
  - Settlement of debts and expenses (including taxes)
  - Distribution of assets
- **Gift administration and on-going cultivation**
- **Recognition and stewardship**

# Donor Advised Funds

- Donors make an outright gift to a qualified charity and receive a charitable deduction. In a formal gift agreement, the charity agrees to take into account the donors' — or their designees' — recommendations in making final disposition of the funds.
- Recipients of funds — originally and eventually — must be tax-exempt organizations
- Granting organization must demonstrate some degree of independence in making dispositions
- Donors must relinquish control of funds

# Life Insurance & Retirement Assets

- Gifts of Life Insurance
- Whole Life Insurance
- Term and Group Life Insurance
  - Less than \$50,000
  - More than \$50,000
- Retirement Assets

# Charitable Gift Annuities

- A contract under which a charity, in return for a transfer assets, agrees to pay a fixed payment to one or two individuals, for their lifetime.
- A pooled fund, so risk is shared among a group of people
- Income dependent on age of income recipient
- Contract between not-for-profit and individual(s) to provide income for life
- Income beneficiaries must be individuals; remainder beneficiaries must be non-profits
- The charity determines payout rates, but many use rates recommended by American Council on Gift Annuities

# American Council on Gift Annuity Rates — Single Life

<b>Age</b>	<b>Rate</b>	<b>Age</b>	<b>Rate</b>
50	3.7	73	5.5
51-52	3.8	74	5.7
53-54	3.9	75	5.8
55	4.0	76	6.0
56-57	4.1	77	6.2
58	4.2	78	6.4
59	4.3	79	6.6
60-61	4.4	80	6.8
62-63	4.5	81	7.0
64	4.6	82	7.2
65	4.7	83	7.4
66-67	4.8	84	7.6
68	4.9	85	7.8
69	5.0	86	8.0
70	5.1	87	8.2
71	5.3	88	8.4
72	5.4	89	8.7
		90+	9.0

# Gift Annuity Illustration

## ASSUMPTIONS:

Annuitant	65
Date of Gift	7/1/2014
Principal Donated	\$20,000.00
Cost Basis	\$20,000.00
Annuity Rate	4.7%
Payment Schedule	quarterly at end

## CALCULATIONS:

Charitable Deduction	\$6,979.60
Number of Payments in First Year	1
Annuity	\$940.00
Quarterly Payment	\$235.00

## BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2014 to 2014	163.56	71.44	235.00
2015 to 2033	654.24	285.76	940.00
2034 to 2034	426.28	513.72	940.00
2035 onward	0.00	940.00	940.00

After 19.9 years, the entire annuity becomes ordinary income.  
IRS Discount rate 2.4 (May, 2014)

# Pooled Income Fund

- Through a Pooled Income Gift, assets from the donor are invested together with the assets of all other fund donors.
- The donor's proportional share of the fund's income is distributed to the one or two people whom the donor named to receive life income.
- At the death of the life beneficiaries, a charitable institution receives the funds.
- Other rules
  - Income includes short-term capital gains
  - May not invest in utility stocks or tax-free instruments
  - All income is taxable to recipient
  - Original corpus is never invaded
  - Not all organizations may offer pooled income funds
  - Additions may be made

# Charitable Remainder Trusts

## **UNITRUST**

- An instrument into which a donor places assets and which then makes variable lifetime annual payments equal to a percentage of the fair market value of trust assets, determined annually. At death, a charitable institution receives the remainder.
- May include Net Income Provision or Net Income with Makeup Provision

## **ANNUITY TRUST**

A trust designed to receive a person's assets subject to the trustee paying fixed annual income for life that is equal to at least 5% of the initial net fair market value of the trust at the time the assets were delivered to the trustee.

# Charitable Lead Trusts

## Non-Grantor Lead Unitrust

- Donor transfers assets to a trustee, the trustee invests the assets and pays a fixed percentage of the current value to the **charity**.
- When the trusts terms end, the charitable payments cease and the trust transfers all assets to family members or other individual (not charitable beneficiaries).
- Term may be for one or more lifetimes or a specific number of years (most commonly 10–20 years)
- Donor receives GIFT TAX deduction equal to the value of the income stream to the charity (not subject to limitations)
- If trust income exceeds that paid to the charity, the trust pays income tax on the excess
- Additions may be made

# Charitable Lead Trust

## Grantor Lead Unitrust

- Donor transfers assets to a trustee, the trustee invests the assets and pays a fixed percentage of the current value to the **charity**.
- When the trusts terms end, the charitable payments cease and the trust returns all accumulated assets to the donor.
- Term may be for one or more lifetimes or a specific number of years (most commonly 10–20 years)
- Donor receives income tax deduction equal to the value of the income stream to the charity (subject to IRS limitations)
- Because donor retains ultimate possession of assets, all income is taxable to the donor
- Additions may be made

# Charitable Lead Trust

## Grantor Lead Annuity Trust

- Donor transfers assets to a trustee, the trustee invests the assets and pays a fixed amount to the **charity**.
- When the trusts terms end, the charitable payments cease and the trust returns all accumulated assets to the donor (Grantor) or other non-charitable beneficiaries (Non-Grantor).
- Term may be for one or more lifetimes or a specific number of years (most commonly 10–20 years)
- Donor receives income tax deduction equal to the value of the income stream to the charity (subject to IRS limitations)
- Additions may NOT be made

# Family Foundations

- Immediate tax deduction, requires relinquishing personal control
- Minimizes estate tax liability
- Avoids capital gains tax on the sale of appreciated property
- Provides continuing engagement for family members
- Creates an enduring legacy
- Must pay at least 5% of assets to charitable purpose
- Can be costly to create and maintain

# Estate Giving and Personal Property

- Outright Gifts
- Appraisals
- Gift Acceptance Policies
- Life Estates

# Resources

## FUNDRAISING

- *Mega Gifts*, Jerold Panas
- *Wealth in Families*, Charles Collier

## TAXES

[www.irs.gov](http://www.irs.gov)

## PLANNED GIVING

- Planned Giving Design Center — [www.pgdc.com](http://www.pgdc.com)
- *The Art of Planned Giving: Understanding Donors and the Culture of Giving*, Doug White

# Contacts

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