United Church Funds

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COMING UP WITH A GAME PLAN FOR UP- AND DOWN-TIMES

By Matt Wagner, Vice President, Institutional Relationships

Although COVID-19 is less the threat that it used to be, the global pandemic has already transformed our world and shaped a “new normal” for the way we now live. For churches and nonprofit organizations, the pandemic has changed how they will manage their budgets and provide financial resources for operations and mission in years to come. Places of worship have yet to quantify the lasting bottom line impacts to member engagement with hybrid worship and gatherings.

This includes charitable giving – such as weekly tithes, pledges to annual stewardship campaigns and other traditionally reliable sources of income to meet operating budgets.

At the same time, in many communities, the need for missional dollars is even greater now, especially in poorer regions and communities of underrepresented groups, where the pandemic has exacerbated inequities in access to adequate healthcare, jobs, food, education and public safety.

Rising operational costs, spurred by rampant inflation, is also a concern for many organizations today.

Add to that one of the worst years for investment portfolios since the Great Recession of 2008, and the resulting storm of competing priorities and economic circumstances are forcing organizations to make financial decisions that they may never have had to face or even consider before.

How does a church council, finance committee or board of directors go about creating an organizational budget that will account for all these potential negative factors and still fund critical mission?

For many organizations, there is the temptation to draw down, or make an excess withdrawal, from their reserves or long-term endowments. An excess withdrawal would be a distribution from invested assets above what the organization would typically budget. This might, for example, be a draw above 4 or 5%.

At UCF, we encourage our clients to think about excess withdrawals from endowment dollars like this: Every dollar you spend beyond your normal budgeted distribution is a dollar that will not grow with market performance over time. During extended times of down cycles in markets, this concept becomes even more critical. Based on the amount of the excess withdrawal, the number of years excess withdrawals are taken, the sequence of future returns and other factors, it may take years, even decades, to recoup the difference in market values by spending dollars today that were meant for the future.

To be sure, for some organizations, an excess withdrawal from an endowment may be just what is needed in times of extraordinary challenges, natural disasters or unforeseen emergencies. It may be the lifeline needed to continue operations, even to survive.

At times like those, UCF fully understands, and as your fiduciary partner, we would be glad to work with you to help illustrate the impact of excess withdrawals and find ways to limit or mitigate long-term negative consequences.

So before you dip into your non-budgeted endowment dollars, we encourage you to reach out to our experienced UCF team to discuss your ideas, consider your asset allocation strategy and develop a game plan for the future.

Through up and down markets, UCF stands ready to be your guide in helping you meet your current and long-term financial goals. Feel free to reach out to us directly at matt.wagner@ucfunds.org or at (332) 219-8760 to discuss your organization’s specific situation.