



## Promoting Your Endowment Fund

### Newsletter and Bulletin Inserts

The following articles can be used in your organization's newsletter or bulletin to promote giving to your endowment fund at the Lutheran Legacy Foundation.

**Q. I would like to give money to our church, but how can I make sure that the gift will be lasting?**

**A.** Endow for the future. Our endowment fund is designed to preserve the principal and a portion of the earnings, and use the remainder of the earnings to fulfill our purpose. Because only a portion of the annual earnings on our fund is used each year, the fund continues to grow, buffering the fund against inflation and providing a permanent source of support for our mission.

Our endowment fund is managed by the Lutheran Legacy Foundation in Paris, Illinois. The Foundation can give you more information on how this type of gift might work for you. You may reach the Foundation at 217-463-8202 or [www.LutheranLegacyFoundation.org](http://www.LutheranLegacyFoundation.org).

### TABLE OF CONTENTS

- I would like to give money to our church, but how can I make sure that the gift will be lasting? (p.1)
- What is an endowment fund? Why do we need one? (p. 2)
- Is there a way to make a gift to benefit the church while remaining anonymous? (p. 2)
- Is it possible to provide for the church and other charities through one gift? (p. 2)
- What is planned giving? (p. 3)
- Do I need a will? (p. 3)
- How can life insurance be used to benefit the church? (p. 4)
- I would like to make a large gift to the church, but I also need an income stream during my lifetime. What can I do? (p. 5)
- I would like to give my home to the church, but continue to live in it during my life. Is that possible? (p. 6)
- Will I receive a charitable contribution deduction for income tax reporting purposes for giving gifts of securities to the church's endowment fund? (p. 7)
- Making a gift with appreciated assets. (p. 8)
- May I leave the remaining balance of my qualified retirement plan to benefit the church? (p. 9)
- Endowment Funds – Current actions with future impact. (p. 10)

## Q. What is an endowment fund? Why do we need one?

**A.** During His public ministry, Jesus talked frequently about the potential power of seemingly small things. For example, a seed planted in the ground can grow into something large and provide many benefits.

Endowment funds are like planted seeds—they start small and they grow with a little nurturing. When endowments are planted and grown, they can provide opportunities to expand the horizons of work in God’s kingdom.

An endowment fund is focused on accomplishing the current and long-term financial goals of the congregation. An endowment fund receives gifts and funds of various types, invests those gifts and funds for long-term growth and distributes income from those investments to current projects in support of the congregation’s mission.

## Q. Is there a way to make a gift to benefit the church while remaining anonymous?

**A.** Yes, gifts may be made anonymously through direct giving to our church’s endowment fund, managed by the Lutheran Legacy Foundation. Visit our fund by going to [www.LutheranLegacyFoundation.org](http://www.LutheranLegacyFoundation.org), clicking on “Funds” and then selecting our church’s fund from the list. When you click on our fund, our church’s page will appear. At the bottom of the page you are given two options: 1) donate by check or 2) donate by credit card. Both options provide you with the opportunity to remain anonymous. If you have questions, you may contact Lutheran Legacy Foundation at 217-463-8202 or by email at [LLF@LutheranLegacyFoundation.org](mailto:LLF@LutheranLegacyFoundation.org). The Foundation can also help you design the gift to not only maximize the income tax benefit to you but also to tailor your endowment gift to foster your specific charitable endeavor.

## Q. Is it possible to provide for the church and other charities through one gift?

**A.** Yes, you can make a single gift that benefits both the church and other charities that are important to you. Our endowment fund is managed by the Lutheran Legacy Foundation in Paris, Illinois. The Foundation can help you design a gift that benefits our endowment fund and any other tax-exempt charity, Lutheran or non-Lutheran. It is a way to simplify and encourage generosity.

## Q. What is planned giving?

**A.** “Planned giving” means creating a specific plan for future gifts to benefit our church and other charities. These gifts may be made during lifetime or at death. Many people first consider planned giving when preparing a will or along with other estate planning, but planned giving can be made part of your financial plans at any time in your life. Donors who make planned giving arrangements are usually motivated by a strong commitment to a particular project or mission of the church. Their planned gifts allow them to acknowledge their gratefulness to God and fulfill their goal of supporting charitable work important to them—work that reflects their values and commitments. In addition, donors may receive tax benefits and lifetime income through several types of tax-favored plans.

Planned gifts to our church endowment fund will ensure that the mission of the church will continue into the future. Our endowment fund is managed by the Lutheran Legacy Foundation in Paris, Illinois. The Foundation can help you design a planned gift that works best for you. You may reach the Foundation at 217-463-8202 or [www.LutheranLegacyFoundation.org](http://www.LutheranLegacyFoundation.org).

## Q. Do I need a will?

**A.** Without a will, state law determines who will manage your estate assets and how those assets will be dispersed to pay outstanding obligations and to be distributed to your heirs. The state’s plan for your assets may not include all of the persons you would like to benefit and definitely will not include gifts to your church and other charities. A will allows you to appoint a guardian for your minor children, choose a representative to carry out your wishes and decide the final destination of your estate assets.

Making a charitable bequest (i.e., giving assets to your church or other charities through a will) is the simplest way to make a planned gift. You can specify in your will the amount or percentage of assets that are to be passed to the church. Your estate will receive an estate tax deduction for the bequest. There is no limit on the amount of the charitable gift made by bequest or on the amount that can be deducted for estate tax purposes.

To be sure that you have an enforceable will that accomplishes your objectives, it is best to work with an experienced estate planning attorney.

## Q. How can life insurance be used to benefit the church?

A. You may give an existing or a new life insurance contract on your life to the church, making the church the owner and the beneficiary of the contract. At your death, the church will receive the death benefit. If you give the church a new insurance contract, you can treat the amount of the annual premiums you pay to keep the insurance in force as a charitable contribution deduction for income tax reporting purposes. If you give the church an existing contract, you can claim a charitable contribution deduction based on the lesser of:

- The cash value of the insurance contract, or
- The aggregate amount of the paid premiums

Alternatively, you can remain the owner of the insurance contract, but name the church as primary beneficiary. Although you will not receive a charitable contribution deduction for income tax reporting purposes, your estate will be entitled to a deduction for the amount of the death benefit.

Our endowment fund is managed by the Lutheran Legacy Foundation in Paris, Illinois. The Foundation can give you more information on how a gift of life insurance might work for you. You may reach the Foundation at 217-463-8202 or [www.LutheranLegacyFoundation.org](http://www.LutheranLegacyFoundation.org).

## Q. I would like to make a large gift to the church, but I also need an income stream during my lifetime. What can I do?

**A.** The charitable remainder trust is an ideal way to gift an appreciated asset and receive a stream of income or an annuity in return. The charitable trust works like this: 1) You gift an appreciated asset into a newly created charitable remainder trust. 2) The trustee generally sells that asset and reinvests the proceeds in a diversified portfolio. 3) The trustee pays you and your spouse, if you wish, income for life or joint lives or for a term of years from the trust's invested assets. 4) At your death(s) or at the end of the designated term of years, the remaining trust assets are distributed to the endowment fund of the church.

There are different types of charitable remainder trusts—one type pays you a fixed annuity; another pays you a variable annuity based upon a percentage of the value of the trust assets, with the amount of income (or annuity) recalculated on an annual basis.

If you have an asset, such as a security or real estate, that has significantly increased in value since it was acquired, the annuity from a charitable remainder trust could be greater than the income you are currently receiving from the security or real estate. The annuity from a charitable remainder trust could even be greater than the income you could generate if you sold the asset outright, paid the resulting capital gains taxes and invested the after-tax proceeds to generate a new stream of income.

Because the charitable remainder trust is considered a tax-exempt entity, the trust would generally not be required to pay any capital gains taxes on the income generated from the sale of its appreciated asset; thereby allowing the entire proceeds from the sale of the appreciated asset to be fully invested to generate an even greater stream of income that could be available for distribution in the form of an annuity to you. And when you make a gift of an appreciated asset to a charitable remainder trust, you are entitled to a charitable income tax deduction, for income tax reporting purposes, equal to the present value of the remainder interest that ultimately funds our endowment.

Our endowment fund is managed by the Lutheran Legacy Foundation in Paris, Illinois. The Foundation may help you design a charitable remainder trust or gift annuity that works best for you. You may reach the Foundation at 217-463-8202 or through our website at [www.LutheranLegacyFoundation.org](http://www.LutheranLegacyFoundation.org).

**Q. I would like to give my home to the church, but continue to live in it during my life. Is that possible?**

**A.** Yes. Through a life estate agreement, you can deed your home, your farm or your vacation home to the church now, reserving the right to live there for the rest of your life. You would have the comfort of knowing that some day the church will benefit from the value of your property without having to wait for a probate proceeding. You also would receive a charitable contribution deduction for income tax reporting purposes at the time of the creation of the life estate. During your life, you would continue to enjoy the use of the property or rental income (if it is rented). You would continue to pay for the costs of maintenance, insurance and property taxes. At the time of your death, the property would be sold and then the net proceeds would be transferred to the church's endowment fund.

Our endowment fund is managed by the Lutheran Legacy Foundation in Paris, Illinois. The Foundation can provide you more information on how a property gift might work for you. You may reach the Foundation at 217-463-8202 or through our website at [www.LutheranLegacyFoundation.org](http://www.LutheranLegacyFoundation.org).

## Q. Will I receive a charitable contribution deduction for income tax reporting purposes for giving gifts of securities to the church's endowment fund?

**A.** Yes. In fact, if your gift of securities has appreciated since you first acquired them and you have held those securities for more than a year, you can claim a charitable contribution deduction for income tax reporting purposes based on the fair market value of that security, determined on the date of the gift to the church's endowment fund.

For example, assume you paid \$3,000 for a stock in Acme Company six years ago, and the stock is now worth \$8,000. If you sell the stock for \$8,000, you would net about \$7,000 after taxes, if you were in a twenty-percent capital gains tax bracket (combined federal and state). If you then gave the after-tax proceeds to the church's endowment fund, you would receive a charitable contribution deduction for income tax reporting purposes of \$7,000.

If, however, you transfer the stock directly to the church's endowment fund, the endowment fund would receive the entire proceeds from the stock's sale because the church's endowment fund is exempt from any capital gains tax on the sale of the stock. In addition, you would receive a charitable contribution deduction based on the stock's fair market value, determined on the date of the transfer to the church's endowment fund. Based on the above example, your charitable contribution deduction would be \$8,000.

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## Making a gift with appreciated assets

Mr. and Mrs. Schmidt own stock that is now worth \$20,000, which they bought for \$5,000 more than eighteen months ago. Mr. and Mrs. Schmidt want to donate \$20,000 to their congregation's endowment fund. Is it better for them to give the stock or sell the stock and give the cash?

This illustration assumes that Mr. and Mrs. Schmidt are joint taxpayers, with \$100,000 in annual adjusted gross income and two children still living at home. Taking into account just the proposed charitable gift, this chart shows the difference between making the gift with appreciated stocks and making the gift with cash resulting from the sale of appreciated stocks.

|                                | GIFT OF STOCK | SALE OF STOCK<br>GIFT OF CASH |
|--------------------------------|---------------|-------------------------------|
| Fair Market value of asset     | \$20,000      | \$20,000                      |
| Original purchase price        | \$5,000       | \$5,000                       |
| Amount of appreciation         | \$15,000      | \$15,000                      |
| Capital gains tax paid **      | 0             | 20%                           |
| Proceeds available for charity | \$20,000      | \$17,000                      |
| Charitable deduction*          | \$20,000      | \$17,000                      |

If the Schmidts give the stock to their church's endowment fund, they will be able to claim a charitable contribution deduction for income tax reporting purposes equal to the fair market value of the stock on the day of the gift. In addition, they will avoid paying capital gains tax on the increase in the appreciation in market value. The net result will be more net cash to the church's endowment fund and less income taxes for the Schmidts to pay.

*\*The Schmidts' ability to use the deduction in one tax year may be limited. Charitable contribution deductions resulting from gifts of appreciated assets are limited to thirty percent of federal adjusted gross income. Any unused charitable contribution deduction can be carried forward for up to five additional years. Charitable contribution deductions resulting from gifts of cash are limited to fifty percent of federal adjusted gross income, and also can be carried forward for up to an additional five years.*

*\*\*Combined effective federal and state income tax rate*



## Q. May I leave the remaining balance of my qualified retirement plan to benefit the church?

**A.** Yes. In fact, if you leave your qualified plan balance to someone other than your surviving spouse or charity, it could be subject to income and estate taxes. The amount of tax depends on the balance in your qualified plan, the marginal income tax bracket of the beneficiary and the marginal estate tax bracket of the decedent. The current rules regarding required minimum distributions from qualified retirement plans often result in plan balances upon the death of its owner. It is projected that ninety percent of the people who attain ninety years of age will have 150 percent of their original retirement plan contribution remaining to be distributed upon their death.

If you have planned to leave a portion of your estate to your church's endowment fund, you might want to consider naming the church's endowment fund as a beneficiary of a portion or all of the balance in your qualified retirement plan to fulfill this bequest. The church's endowment fund would not have to pay income taxes on qualified plan distributions, while qualified plan distributions to your children generally would be considered taxable income subject to their individual income tax rates.

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## Endowment Funds – Current actions with future impact

All of us, individually and collectively, want to believe that we can make a difference. We look for ways to use our time, our talent and our money to make positive changes in our world. However, we often feel frustrated by the short-term duration of the work we do. We work hard to gather pledges and budget wisely, every year, year after year. We organize successful special events and fundraisers to raise much-needed funds for special projects, but as soon as they are over, we start planning for the next one...because the need will return. Well, we can't effectively plan several years of annual budgets at once, and we can't effectively organize more than one year of special events and fundraisers at a time, but we can take some other steps that will have a long-term positive impact on our congregation.

*An endowment fund can be one of those steps.* An endowment fund is a repository for long-term gifts from many donors. It is also a resource for long-term plans and projects—plans and projects that may not find sufficient resources in annual budgets. Here are some examples:

- Ms. Cruz is a lifelong member of a church that is near a large university. As a retired professor, she has a special fondness for university students and wants to encourage her church to do more outreach in the university community. Using some securities that she purchased many years ago, Ms. Cruz established the Student Outreach Fund within the endowment fund of her church. Ms. Cruz gave the securities to her church, which sold them and placed the proceeds in the new fund. The church council passed a resolution accepting the gift and giving the Outreach Commission the responsibility to decide how to use it. Ms. Cruz's generosity has not only given new energy to her congregation's outreach to students, but has stimulated other donors to make gifts to her fund as well. In addition, by giving appreciated securities to the church, Ms. Cruz avoided paying capital gains taxes on the increase in value and received a charitable deduction for the market value of the securities.
- Mr. Schmidt is quite elderly. Although he wishes he could be more generous with his annual giving to his church, he feels he needs to maintain control of his assets to pay for his own living expenses. Mr. Schmidt, whose wife died some years ago and who has no children, decided to name his church's endowment fund in his will as recipient of half of his estate. He enjoys knowing that his gift will become part of the endowment fund principal, which will earn income each year to support special projects and the congregation's mission priorities. The bequest will be a charitable deduction to his estate and will not be taxed.
- Dr. and Mrs. Meyer are generous supporters of their church. Their adult children are independent and the Meyers are working on simplifying their lives. Last year, they received an unexpected bequest from a relative that they had hardly known. After considerable soul-

searching, the Meyers decided to share their unexpected inheritance by starting an endowment fund with their congregation. First, they talked their ideas over with their pastor and the congregation president. Then, they hosted a coffee party at their house and proposed an endowment fund for scholarships for congregation members attending seminary. With the Meyers' initial gift and infectious enthusiasm, the idea took fire. Contributions have come in steadily, and the congregation looks forward to the regular reports they get from "their" seminarians. The Meyers were able to take a charitable deduction for their gift, but more importantly, they received great satisfaction from knowing that they stimulated an effort that will benefit the larger church in a meaningful way.

An endowment fund works like this: Gifts to the endowment fund are invested and preserved for current and long-term financial needs of the congregation. Every year, a modest part of the fund (4 percent to 5 percent) is used for current funding priorities. In most congregations, the annual distribution from the endowment is allocated to special projects and initiatives that cannot be funded through regular annual giving, but some congregations use their endowment to support the annual budget. Congregations with an especially long-term view provide for *both* short-term needs and long-term disaster protection; they invest their endowment funds for long-term growth and try to spend only part of each year's investment earnings. A portion of the annual investment gain remains in the fund, building a buffer against inflation and future market fluctuations.

While it is possible for a congregation to set up, invest and run its own endowment fund, many congregations choose to seek assistance from an established organization such as the Lutheran Legacy Foundation, which manages endowment funds for many congregations and other Lutheran nonprofits. Working from a large base of assets and expertise, such an organization can invest more effectively for the very long-term and can assist the congregation in accepting complex gifts and gifts of unusual assets. For instance, the Lutheran Legacy Foundation could assist a congregation in California to accept a gift of farmland in Nebraska, something that most congregations would never attempt on their own. In addition, the Foundation can provide expert investment advice that is not available to a congregation with an endowment fund of a much smaller amount. Using the Foundation, it is also possible to offer congregation members gift plans that will benefit the congregation but allow the donors to remain anonymous, and gift plans that benefit a variety of charities, including the congregation.

The key to an endowment fund that *works* is the effort that goes into shaping an endowment to the needs of the particular congregation. Pastors and lay leaders who understand the needs and desires of their members and donors will shape an endowment fund that supports the work that the congregation wants to do and will be rewarded by the growth and expansion of their fund.