

HOW TO CREATE A MISSION ENDOWMENT FUND

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A guide for congregations



ELCA Foundation
Evangelical Lutheran Church in America
God's work. Our hands.

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We are a church that rolls up our sleeves and gets to work.

As Lutherans and members of the Evangelical Lutheran Church in America (ELCA), we do God's work in the world – restoring and reconciling communities. We pursue justice and seek peace no matter how long the journey or wide the chasm.

Your congregation's mission endowment fund is critical to this work. By creating an ongoing financial resource above and beyond regular offerings, mission endowment funds enable your congregation to:

- Expand outreach in the community and around the world
- Alleviate world hunger and poverty
- Respond to disasters
- Sponsor missionaries
- Fund seminary scholarships
- Support new congregations

In addition to creating a steady income stream that strengthens missions and ministry, mission endowment funds are also a hallmark of sound financial stewardship. You'll be able to offer congregational members the flexibility to make outright and planned gifts, and manage large gifts more effectively – making the most of all that God has blessed you with.

We're confident you'll find this guide a user-friendly, systematic approach to establishing a mission endowment fund. If you need further assistance, please contact the ELCA Foundation at 800-638-3522.

Blessings to you as you embark on this important effort to nurture the whole church and do God's work in the world with your hands.

WHAT IS A MISSION ENDOWMENT FUND?

The name mission endowment fund emphasizes the fund's purpose: to fund mission work at home and around the world above and beyond programs supported through regular offerings. Commonly understood as a "perpetual" fund, a congregational mission endowment fund supports current and future ministry of the church. Distributions from an endowment fund come from a distribution amount established by the mission endowment fund leadership. Additional gifts and a sound distribution strategy help maintain the endowment; it produces a steady stream of income from which the congregation can strengthen mission and ministry for years to come.

A mission endowment fund can benefit the church as a whole, as well as provide advantages to individual congregations. For example, a mission endowment fund can attract current giving through cash and planned and future gifts, as people are inspired to leave a legacy for ministry.

An endowment fund can also provide an option, should your congregation receive a large gift. Many congregations of the ELCA receive at least one large gift that the donor intends as a lasting benefit to ministry. The opportunity for these gifts to enrich and support ministry is great. A congregation with a carefully prepared mission endowment fund can joyfully and strategically respond to these large gifts and encourage other gifts.

And finally, a congregational mission endowment fund has the flexibility to be created for general purposes, or for special uses, like funding seminary scholarships, outreach efforts, sponsoring missionaries, youth programs, building maintenance and Christian education ministries.

Only a donor can designate a gift as permanently restricted for endowment purposes. It is important to ensure the donor's restrictions are met.

Many experts suggest using the phrase "total return" as the appropriate accounting term when discussing an endowment fund's earnings or profits.

- Ordinary income refers to cash paid to the endowment, like interest and dividends.
- Total return also may include capital gains (realized gains) from the sale or other disposition of the assets, and the change (unrealized gains) in the market value of investments.

The congregation should create a distribution policy to define exactly what amount it wants to use as a basis for distribution. Many use growth and income as the basis for determining their distribution amount.

You should determine if your state has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or modifications of the UPMIFA, that assumes a total return approach to endowment management. Under this approach, a distribution policy would define the distributable amount as a percentage of the market value of all endowment assets. Although this method may require a small liquidation of the endowment assets, it recognizes the total return of the endowment assets and therefore all categories of income. For example, in a state that has enacted UPMIFA, a distribution policy might state: "4% of the prior year-end value may be distributed."

Assets such as:



CASH



SECURITIES



REAL ESTATE



OTHER
OUTRIGHT GIFTS

Planned gifts including:



BEQUESTS
(GIFTS MADE
THROUGH TRUSTS
OR ESTATES)



LIFE
INSURANCE
PROCEEDS



CHARITABLE
GIFT
ANNUITIES



BENEFICIARY
DESIGNATION
OF AN IRA



Congregational mission endowment fund:



A PERMANENT – “PERPETUAL” – FUND. A SINGLE RECEPTACLE SET UP
BY A CONGREGATION TO RECEIVE GIFTS.



Distributions:



INTEREST



DIVIDENDS



CAPITAL GAINS



OTHER INCOME



Missions, projects and other ministries



HOW DO WE ESTABLISH AN ENDOWMENT?

You may be reading this booklet because you think your congregation should establish a mission endowment fund, or you serve on a committee to create a mission endowment fund.

This section outlines suggestions for developing an endowment, including:

- Select an endowment committee
- Determine the mission purpose of the endowment
- Name the mission endowment fund
- Determine a method to establish and manage the endowment
- Establish the endowment with congregational approval
- Develop support

A. Select an endowment committee

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In nominating individuals for this committee, look for people with a sense of mission that extends beyond the congregation – those who are dedicated stewards in word and deed of God’s gifts to them. It also helps, but is not required, if they have knowledge of financial, legal and marketing matters.

B. Determine the mission purpose of the endowment

Determining the mission purpose of the endowment has several benefits: keeping the congregation focused on the need for and purpose of the endowment; helping develop support for the endowment; and helping ensure the endowment’s long-term integrity.

In some instances, a congregation may have multiple needs and may want to establish separate endowments for different categories of need. Separate endowments may also be desirable and attractive to potential donors.

Consistently communicating the mission purpose in written materials and in presentations can help members understand how funds will be used. The endowment should have flexibility to meet unforeseen developments, but also should steer away from passing



trends or whims. Use the following suggestions to develop a mission purpose that reflects a congregation’s ministry:

- Encourage gifts of accumulated assets to enhance the mission outreach of the congregation, synod and ELCA churchwide ministries beyond regular gifts, Sunday offerings and special appeals.
- Provide for the receipt of endowment gifts by having a congregational mission endowment that is coordinated with the congregation’s total stewardship ministry and the mission of the congregation.
- Promote faithful Christian stewardship of all resources, present as well as accumulated, by encouraging wills and estate plans that reflect love for family, neighbor and God’s work through this church.

C. Name the mission endowment fund

The ELCA Foundation encourages using the word “mission” when naming the endowment fund to reflect its purpose: to make distributions to mission and ministry. Recommended names include Mission Fund or Mission Endowment Fund, but your congregation may prefer to use a name like Cornerstone Mission Fund, Mission Expansion Fund or Extended Mission Fund.

It is not helpful for congregations to use the terms “trust” and “foundation” in an endowment fund name

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because of the potentially confusing independent legal significance of the terms and their tax implications. Except under unusual circumstances, instituting a separately incorporated body is neither advisable nor necessary for a congregation. A separately incorporated fund may have adverse tax and legal implications and may be subject to rules for private foundations and potentially subject to additional reporting requirements.

D. Determine a method to establish and manage the endowment

The committee may wish to consult legal counsel to review the congregation's articles and bylaws and determine the best way, within local, state and federal law, to establish the endowment fund. Additional filings, returns or other documents will not be required because the endowment fund will simply be a separate account within the congregation. A congregation might establish a mission endowment fund in three ways:

- change the congregation constitution
- enact a bylaw
- enact a continuing resolution

In order to ensure consistency within the fund, create relatively long, staggered terms of office for committee members. Committee members should understand their responsibilities and avoid any possible conflict of interest. The congregation should have an employee dishonesty blanket bond (fidelity bond) as part of its insurance coverage. This provision generally covers any member elected to serve on a committee dealing with the congregation's money. The congregation council, or appropriate committee, should check with its insurance agent to verify the coverage of its insurance. The congregation also can protect itself by delegating some or all of its responsibilities to other fiduciaries.

Provisions regarding endowment committee structure, acceptable gift procedures, investment management and distribution calculations should be included in the document used to establish the endowment.

See the appendix of this document for important legal considerations.

E. Establish the endowment with congregational approval

When establishing an endowment by change in the congregation's constitution, by bylaw, or through a continuing resolution, consider your time frame, as well as the level of ease with which you want changes to be made, when choosing which method to use. Changing the congregation's constitution takes the most time, requiring two congregational votes and synodical review and comment within 120 days. Other acceptable options include enacting a bylaw, which requires only one congregational vote, and enacting a continuing resolution, which requires just the congregation council to enact.

F. Develop support

Developing a sense of ownership in the purposes of the endowment can help your congregation support the endowment fund. Through the use of educational materials and programs, you can encourage members to make a planned gift or to contribute to the mission endowment fund. Also, church leadership, the congregation council, stewardship committee and endowment fund committee can lead by example by remembering the endowment fund in their estate plans.

Create your endowment fund

This resource provides a systematic approach to establishing a mission endowment fund for your own congregation. The guidelines are adaptable to the unique needs of your congregation.

If you would like assistance beyond the scope of this guide, please contact the ELCA Foundation at elcafoundation@elca.org or 800-638-3522. Visit www.ELCA.org/foundation for online resources, including the name and contact information of a regional gift planner near you.



ORGANIZATIONAL TIMELINE

Your congregation may enter the process of creating a mission endowment fund along several points of this continuum:

Task	Planning Time
1A Ad hoc committee, possibly one to five members, decides the need for a congregational mission endowment fund. Research to learn more about establishing such a fund takes place.	One day to several weeks
1B Congregation receives significantly sized bequest (a gift from a will or trust); the congregation council decides to create a mission endowment fund with a portion of or the entire bequest.	At least one council meeting
2 The congregation council appoints a committee.	One council meeting as introduced by the ad hoc committee or council
3 The committee determines the purpose for the fund, elicits initial support from key leaders in the congregation and names the fund.	One to two months
4 The congregation establishes the fund according to whatever method the committee, congregation council and outside counsel suggest.	Depending on method and timing of next annual meeting, between six months to one year
5 Congregation elects first official committee.	First annual meeting after or concurrent with the establishment of the fund
6 Committee publicizes the fund, gifts are received, fund assets are invested and distributions are made according to established distribution guidelines.	Ongoing for life of the fund

MANAGE WITH INTEGRITY

The congregation's endowment committee or its official corporate structure should oversee the endowment fund's management, and the endowment committee should educate, motivate, celebrate, thank and distribute gifts to ministry. Sound stewardship principles should guide where and how to invest the funds. Wise investment of endowment funds will maintain the proper balance between income and growth, and will ensure the security of the invested principal.

Investment objectives

All mission endowment funds should seek to achieve two primary investment objectives:

- an annual distribution to further the purpose and ministry goals of the mission endowment fund; and
- long-term capital appreciation to preserve the purchasing power of the annual distribution.

Determining a distribution policy

- The committee must ask: "How much do we want to distribute each year?" and "How much risk should the congregation take regarding asset allocation?"
- The committee also must consider that a typical distribution rate for college and university endowment funds, as well as the minimum required for private foundations, is 5% of the assets as valued at the end of the year, or based on a rolling average of several quarters or years. Studies show 4% to 5% as an optimal rate to maintain purchasing power of the dollars distributed as well as to provide an opportunity for long-term growth.
- Finally, creation of a spending policy emphasizes: a) the use of prudence and a systematic formula to determine the portion of cumulative investment return to be used for ministry every year; and b) maintaining or keeping pace with inflation.

Endowment Fund Investment

Investment options for endowments are available through the ELCA Endowment Fund Pooled Trust and the Mission Investment Fund of the ELCA. For more information contact the ELCA Foundation at 800-638-3522.

Social Investing Policies

Invest in the values of your church

As a congregation of the ELCA, investment fund managers should take into account policies and guidelines adopted by the ELCA Church Council regarding social responsibility and ethics in investments. If you have questions, please call the ELCA Foundation or the congregation's regional gift planner to learn more.

Avoid conflicts of interest

The members of the mission endowment fund committee, and the congregation as a whole, must avoid all conflicts of interest, investing the fund with an impartial third party. As matters of public trust and good business practice, and to maintain these funds for their intended use, the congregation should never "borrow" from the principal for other purposes. The same independent review board or auditor should inspect the mission endowment fund along with other congregational accounts, as the mission endowment fund is simply another account within the congregation.

Reporting

The mission endowment fund should report on the activities of the fund to the congregation council at least quarterly. For this reason, it makes sense to have an endowment committee member as an ex-officio member of the congregation council. The endowment committee should make a complete annual report, either at the congregation's annual meeting or at a special meeting called for that purpose, so members know of all funds invested and disbursed. In addition, the endowment committee should report regularly in the congregation's newsletter all gifts received and distributed by the mission endowment fund. Celebrate and give thanks publicly in Sunday bulletins, congregational newsletters, during worship and on display boards.

ENCOURAGE GIFTS

Some of the functions of the endowment committee include educating members about the purpose of the congregational mission endowment fund and recommending beneficiaries of the annual distribution.

Another function is to encourage additional gifts to the fund. Ways to do that include working with the stewardship committee to educate members about complete Christian stewardship, both during life and at death. The committee also can create brochures and other materials, and conduct seminars on the full range of giving options available.

With a mission endowment fund in place, the congregation now has the appropriate vehicle to receive and distribute the benefits of bequests. However, only a small percentage of people remember their congregation, the wider church and other ministries with a bequest. Moreover, many adult ELCA members do not have an up-to-date will.

Wills education can bring about a dramatic change. With a primary emphasis on providing for the family, wills education can play an important role in stewardship ministry. If opened to the community, wills education also can become an effective outreach opportunity for the congregation.

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Bequest language to use in a will or trust

Donors should use specific language when remembering the mission endowment fund in a will or trust. Three examples you may want to use in your communication include:

- To give directly to the congregation's mission endowment fund: "... to the _____ Lutheran Church, (city), (state), for its Mission Endowment Fund."
- Even with a mission endowment fund, and your encouragement that bequests should be given to the mission endowment fund, some members may still wish to give to the general purposes of the congregation: "... to the _____ Lutheran Church, (city), (state), for its general purposes."
- Many members have more than one Lutheran ministry that they wish to include in their will or trust. The ELCA Foundation administers bequests for all aspects of this church and can seamlessly liquidate real estate and securities for the benefit of the named beneficiaries. Instead of having the attorney or executor contact every Lutheran beneficiary, a bequest can be made to the ELCA for distribution by the ELCA Foundation: "... to the Evangelical Lutheran Church in America, a Minnesota non-profit corporation, located in Chicago, Illinois, c/o the ELCA Foundation, to be distributed as follows:
 - ___ 30% _____ Lutheran Church, (city), (state), for its Mission Endowment Fund;
 - ___ 30% _____ College;
 - ___ 30% Lutheran Social Services of _____ ; and
 - ___ 10% ELCA, for its general purposes."

Gifts that provide lifetime income

Individuals wishing to provide a substantial gift or bequest to this church can explore opportunities that benefit ministry and also provide lifetime income. These gifts involve the donor giving some of his or her assets to this church, which the church manages during the donor's lifetime. Upon the donor's death, gifts are distributed according to the donor's wishes. The donor can specify any ELCA ministry as the ultimate beneficiary.

These gift opportunities are tailored to the needs and priorities of the individual donor. ELCA Foundation gift planners can help donors and congregations determine how the donor's giving priorities can be best realized through various gift options, such as charitable gift annuities, charitable remainder trusts, donor advised funds, etc. The ELCA Foundation encourages individuals to explore these options. There is no obligation or cost and inquiries are held in the strictest confidence. ELCA Foundation gift planners are salaried employees of the churchwide organization with no commissions to earn.

Ways to give

Congregational members and other donors have a wide range of options from which to choose when giving to a mission endowment fund:

- Bequest or trust distribution: giving of assets, such as stocks, bonds and personal property, through a will or trust.

- Life insurance proceeds: either through beneficiary designation or through a gift of the policy itself. A donor transfers ownership of a life insurance contract, or cashes out a current policy and donates the proceeds.
- Assignment of certificates of deposit, bonds and bank deposit accounts as payable on death to the congregation for its mission endowment fund.
- Charitable gift annuity: a donor gives an asset, such as cash or stock, to the ELCA, receiving fixed income for life and a variety of tax benefits. The remainder of the gift goes to the mission endowment fund.
- Beneficiary designations from an IRA, 401(k), 403(b) or other qualified retirement plans.
- Outright gifts, including: cash, stocks, bonds, real estate, securities and assignments of life insurance policies.

For more information, or for assistance with wills, estate and gift planning education and development, call the ELCA Foundation. The ELCA Foundation has gift planners throughout the country available to provide no-cost, no-obligation services for congregations and other ministries.

Preamble for Christians

Call the ELCA Foundation and ask about a Preamble for Christians for your will. You also can ask for the Will and Trust Workbook and the Important Notes About My Estate guide.



CELEBRATE!

We all like to be thanked for gifts we give. With proper permission, the committee and other congregational leaders can publicly acknowledge the gifts already given to the mission endowment fund, as well as the gifts to come through such future commitments as bequests, payable on death designations, life insurance beneficiaries, or other revocable methods.

Distributions made

Gift recognition can encourage additional gifts to the mission endowment fund, so be sure to celebrate during worship. Members can then see how the funds will be used for ministry. You can remind members how they, too, can give to the endowment fund.

Invite a representative from your synod office, an ELCA regional gift planner or beneficiaries to visit and share how the distribution has made an impact. You also can ask members to give testimonies of why they are remembering the church in their will.

Congregations have developed many ways to select beneficiaries of their distributions. Some



Acknowledge Gifts

Express appreciation in a personal letter to donors of outright gifts, or to surviving family members of a loved one who has given through a bequest. Unless the donor requests anonymity, the congregation may honor donors through a public celebration of thanks. The congregation can include donors' names in a "Book of Remembrance" and display it in the narthex or other suitable location. Your congregation may also want to create a recognition society specifically to honor your donors.

have application forms; others rely on congregational members to provide ideas. Still others rely on the committee members to determine how the distributions will be divided.



FREQUENTLY ASKED QUESTIONS

Q: HOW DOES AN ENDOWMENT FUND DIFFER FROM A SPECIAL FUND?

A: Gifts to a special fund are used only for a designated purpose and may be depleted. Examples include building funds, organ funds, and Good Samaritan funds. Endowment funds, however, are permanent, spending only the income from interest, capital gains and dividends.

Q: HOW CAN WE GUIDE DONORS WHO WANT TO MAKE A PLANNED GIFT TO OUR CONGREGATIONAL MISSION ENDOWMENT FUND?

A: Encourage donors to give undesignated gifts, as they provide congregations with the most flexibility to meet needs as they arise. Designated gifts, on the other hand, can restrict the use of the gifts to a specific purpose, which may be inconsistent with the endowment fund's mission.

Q: HOW CAN CONGREGATIONS SET A POSITIVE EXAMPLE OF RESPONSIBLE STEWARDSHIP?

A: Congregations can give 10 percent of all special gifts and bequests directly to other ministries, and invest the balance in their mission endowment fund. This can be an expression of the congregation's commitment to "first-fruits giving" and can encourage members to follow the congregation's lead.

Q: IN WHAT WAYS CAN WE SET UP AN ENDOWMENT?

A: Your congregation can establish, invest and manage its own fund, or establish it through the ELCA Foundation.

Q: HOW CAN MY CONGREGATION BENEFIT BY INVESTING OUR MISSION ENDOWMENT FUND WITH THE ELCA?

A: Through the ELCA, your congregation's endowment gains professional expertise and access to investment portfolios typically not available to congregational

endowments. Also, the ELCA relieves the mission endowment committee of investment and record-keeping duties, allowing the committee to put more energy into promoting and growing the fund.

Q: WHAT FEES DOES THE ELCA CHARGE WHEN WE INVEST OUR ENDOWMENT FUND WITH THEM?

A: The ELCA assesses an annual 1 percent administrative fee to cover investment and administrative expenses.

Q: WHAT OTHER BENEFITS DOES MY CONGREGATION RECEIVE BY INVESTING OUR ENDOWMENT FUND WITH THE ELCA?

A: Your congregation can have peace of mind knowing the ELCA is independently audited every year, ensuring gifts are properly monitored, reported and managed. Other benefits include assistance with a wide range of gift arrangements, including charitable remainder trusts, gift annuities and other complex gifts; and access to fundraising experts who can assist with gift design or who can work directly with donors, their attorneys and other advisors.

Q: WHAT IS THE MINIMUM AMOUNT NEEDED TO INVEST A CONGREGATIONAL MISSION ENDOWMENT FUND WITH THE ELCA?

A: The minimum to establish a fund is \$25,000. You also can address multiple purposes within the fund, as long as each sub-fund meets the \$25,000 requirement.

Q: WHAT TAX ADVANTAGES DO DONORS RECEIVE BY GIVING TO A CONGREGATIONAL MISSION ENDOWMENT FUND?

A: A gift to an endowment fund qualifies for a charitable income tax deduction, to an extent allowed by law, and possibly an estate tax deduction.

APPENDIX

Important considerations

For any congregation wishing to incorporate endowment-governing documents into the congregation's constitution, the Model Constitution for Congregations of the ELCA has an optional provision at C5.05 for establishing a mission endowment fund to operate as specified in bylaws or continuing resolutions.

C5.05. This congregation shall have a mission endowment fund that will operate as specified in this congregation's [bylaws][continuing resolutions]. The purpose of the mission endowment fund is to provide for mission work beyond the operational budget of this congregation.

Subsequently adopted bylaws or continuing resolutions could then address such topics as:

- The congregation's processes for deciding whether to accept a gift designated for the mission endowment; receipt and donor acknowledgment; and reporting to congregation membership.
- Description of the difference between donor-designated and council-designated contributions to the endowment.
- Description of how gifts placed in endowment are recorded and tracked, especially as to who made the endowment designation, but also with regard to historic dollar value.
- Statement about how operation of the endowment, including its purpose, is subject to change over time and that this will be communicated in promotion of the endowment.
- Investment policy, e.g., asset allocation, duration management and investment return expectations, in compliance with state legal requirements for institutional investments, i.e., Uniform Prudent Management of Institutional Funds Act (UPMIFA) or other applicable state law.
- Investment implementation, e.g., deciding where to invest and how investing will be accomplished.
- Investment management review process.
- Spending policy, e.g., alignment with state legal requirements for donor-designated endowment funds (i.e., UPMIFA or other state law), whether the congregation will follow the same policy for council-designated funds, and determination of annual distribution percentage.
- Distribution decisions, e.g., determination of annual distribution amount and whether there is a specific apportionment among types of ministries, such as percentages for ministries in different expressions of the ELCA that may include the synod, domestic and international ministries coordinated by the churchwide organization, social ministry organizations, and outreach in the congregation's local geographic area.
- Whether there is an application process for receiving distributions and how the distribution process is implemented.
- Council and/or staff responsibilities.
- The congregation treasurer's responsibilities involving the mission endowment fund, including check-writing, accounting, reporting to the council (including how often) and reporting to the congregation; whether some of these responsibilities are delegated to another individual, such as an assistant treasurer for endowment.
- Parameters, including regularity, for mission endowment activity reports to the council and the congregation.
- Leadership and organization, such as whether there is a specifically designated endowment committee.
- How the committee is selected and its terms of office.
- Description of the committee's responsibilities, e.g., research and recommend investment policy and implementation options to the council, promote giving to the mission endowment fund, make decisions about distributions, and take the lead in celebrating gifts and distributions.

All examples and information in this booklet are for illustrative and educational purposes only and should not be considered legal or tax advice. Please consult with your congregation's legal or tax advisor before proceeding with decisions regarding asset management, governing documents and other topics addressed in this booklet.



As members of the ELCA,
we believe that we are freed in Christ
to serve and love our neighbor.
With our hands, we do God's work of restoring
and reconciling communities in
Jesus Christ's name throughout the world.





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8765 West Higgins Road
Chicago, Illinois 60631-4101

800-638-3522 • fax 773-380-2280
elcafoundation@elca.org
ELCA.org/foundation