



ENDRESS

CAPITAL MANAGEMENT, LLC

BUILDING MINISTRY THROUGH ENDOWMENT FUNDS

Definition of an Endowment Fund

Often there are basic misconceptions about what an endowment is.

An endowment is a fund that is established with a specific stated purpose, usually for the long-term benefit of a charitable organization, in which only the earnings, or a specific percentage of the endowed fund's value is spent each year.

Additional income or earnings in an endowment fund are retained to grow the endowment's principal. Donations, often made through planned gifts, can also increase the principal of the endowment.

Think of an endowment as an organized savings plan where only the interest is spent and the principal remains intact forever, generating yet more income in years to come.

Consider as an example a gift made by Mrs. Jones. She has written in her will that the church will receive 10% of the value of her estate at the time of her death. At that time, the church receives a \$20,000 check from her estate. Mrs. Jones has made a bequest to the church.

The bequest is unrestricted – that is, Mrs. Jones has not specified the purpose for her gift. As such, the congregation will use its own discretion in using the gift.

Assuming her church has an endowment or wishes to create one, the gift may be placed in the Endowment Fund. Simply put, the funds are deposited into an investment account that the church holds for its own benefit.

As growth and income are realized in the invested funds, the congregation utilizes the earnings of the investments to fund its future ministry. In this way, Mrs. Jones initial \$20,000 bequest will provide resources for the church into the distant future, perhaps into perpetuity.

Myths About Endowment Funds

There are myths associated with Endowment Funds:

1. Endowments are not limited to large, wealthy churches. The funds can be established with as little as \$1,000. Once established, they can be grown, with an appropriate marketing program.
2. Endowments are not only funded by huge gifts from wealthy people. Once established, an endowment can be boosted by a gift of any size.
3. Estate gifts given after donors die are not the only way to fund endowments. Constituents will usually be willing to make gifts that will benefit the endowment and provide support for the church in perpetuity.

Considerations When Establishing an Endowment Fund

A congregation begins an Endowment Fund with important decisions even before the first gift is made. An endowment policy contains the official record of these decisions.

The endowment policy states clearly who has authority and responsibility for managing and promoting the endowment. This will largely depend on church polity and culture. This authority will also include the ability to choose an investment adviser.

An added feature of the endowment policy would be the handling of unanticipated and unrestricted planned gifts to the church, if such gifts will be directed into the Endowment Fund.

Next the policy should establish an investment policy statement – an understanding in broad terms the investment objectives and tolerances for investment risk that the congregation has.

A disbursement policy should indicate how the proceeds of the Endowment Fund should be utilized. Also included should be the conditions and procedures under which the principal of the Fund could be liquidated and spent by the congregation.

Investment Advisers vs. Brokers

Another important consideration a congregation will make is its selection of an investment adviser.

Congregational leaders should carefully review advisers regarding their fiduciary responsibilities to the church as well as any costs, hidden or disclosed, that will impact the return on their investments.

Brokers often benefit from commissions sold on investment products, and therefore may be tempted to recommend products that command higher commissions.

Investment Advisers have a fiduciary responsibility to their clients. Generally speaking, investment advisers' fees are not based on sales of certain investment products. Thus, investment advisers are freer to suggest a full range of investment strategies.

Promoting Endowments

Endowment gifts can be encouraged among constituents through a formal planned giving program. Estate planning and a wills emphasis will generate gifts to an endowment.

Over 85% of planned gifts will come through a bequest; yet, more than half of your church's constituents do not have a will! Encouraging people to create a will is an important ministry for the church, regardless of the direct financial benefits.

Everyone with loved ones to care for and assets to protect should have a will. Encouraging constituents to craft a will gives a church a perfect opportunity to ask to be remembered in someone's estate plan.

Soliciting planned gifts and endowment giving must be done with consideration of the culture of generosity within the church. Conversations about mortality and the end of one's life are difficult, and a pastoral concern for constituents should be overtly evident in any giving program.

Endowments can offer a huge blessing to churches, lasting across the generations, especially when they are well-managed with carefully considered policies and procedures.

Begin building your congregation's future today by developing established an endowment that supports your congregation's ministry well into the future.