

Your Largest Contributor, Potentially

The Role of Endowments in Funding Ministry
A Travel Free Learning Article

By

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Congregations depend on two main sources of income in order to fulfill their mission. Every year congregations emphasize the need for tithes and offerings to fund their annual ministry plan (the budget). When large capital needs (buildings, renovation) emerge, congregations will conduct a capital campaign for three years (typically) of over and above sacrificial giving. Many congregations today are pressing on using two legs of financial stewardship, and why not? Who runs a race with three legs?

The three-legged race is a challenging event in field day activities in elementary schools. While not exactly efficient, the three-legged race requires coordination and cooperation by the participants who have one leg tied to one leg of a partner. Partners race by accommodating their pacing to one another in order to achieve the maximum combination of balance and speed and thereby run the race.

Congregations should consider racing with three income legs in order to effectively fulfill their mission: 1. Annual Gifts, 2. Major Gifts/Capital Campaigns and 3. Endowment Gifts. Endowment gifts are the third leg that works cooperatively with annual gifts and major gifts to enable congregations to press on toward their goal. Gifts for endowment become endowment funds which are permanent funds whose purpose is to supply the congregation with a source of income in perpetuity (a really long time).

Why would a congregation want to race three-legged when two legs are more efficient? Because, times are changing. The millionaires are next door and they are also in your pews. Senior adults not only have accumulated more wealth than they ever expected to have, they are concerned as good stewards about its appropriate use after their death. These Builder Generation Christians usually give a large percentage of the congregation's annual gifts and their giving pattern is not yet being repeated by younger generations. What legacy will Christian seniors leave to the congregations that they have worshipped in and served through over a lifetime?

Nearly all congregations are already benefiting from endowment-type assets. If a church owns property and buildings, it has permanent assets which support its mission. Endowment funds are permanent financial assets that, if properly managed, will provide a permanent and increasing source of income to enable a congregation to effectively fulfill its mission. Endowment funds also provide a reasonable and attractive opportunity for seniors to leave a lasting gift from a lifetime of faithful stewardship.

The biggest barrier to the development and use of endowment funds in congregations is the myth that endowment funds lead to the decline of personal responsibility in giving. However, some of the strongest institutions in our nation have large endowments, such as Harvard University. Studies have shown that as long as the annual dependency rate on

endowment income does not exceed 15 percent of a congregation's budget, there is no correlation of decreased annual giving to the presence of endowment funds. Also, an ongoing conversation about endowment giving often creates the possibility for major gifts and larger annual gifts.

An endowment fund of \$100,000 with an average annual net return of eight percent and annual distribution of five percent of the fund's value each year would over 20 years distribute about \$140,000 in income and have remaining in the fund nearly \$170,000. This type of performance illustrates the strategic importance of endowment fund income. Endowment fund income is *permanent* and it *grows over time*. It is not unlikely that an endowment fund could grow to become a congregation's largest contributor.

In order to develop endowment funds in your congregation, take the following actions.

- 1. Create the funds.** Take formal action by the appropriate group in your church to create the funds and clearly establish the ownership of the funds.
- 2. Establish a clear purpose for each fund created.** A fund could have as its purpose to support church members' personal involvement in mission activities, for example.
- 3. Limit funds to a few broad areas.** Many congregations have endowment funds for facility maintenance, for missions beyond their internal programs and ministries, and for clergy and laity scholarships. The unrestricted endowment fund is also valuable to have.
- 4. Build in flexibility for the future.** Think about the use of endowment fund income 20 years from today. Do not over endow and not be able to spend the annual distribution.
- 5. Identify and empower a governing group.** Who is to be in charge of the endowment funds? Will it be a regular church committee, a special committee, trustees or a separate foundation?
- 6. Develop and adopt policies.** Much of this will be done by the governing group and would include policies on gift receipt and acknowledgment, investment management, distribution formula and reporting protocol.
- 7. Publish and distribute an endowment funds brochure.** This necessary step will not be adequate by itself to attract sufficient gifts to the endowment funds.

An official program of gift planning with yearly activities will inform, educate and encourage your members to make gifts to the endowment funds. Since most endowment gifts are life income gifts or deferred gifts, they will not take away from annual gifts or campaign pledges. Your church can expect to begin receiving significant endowment gifts after five to seven years of investment in a gift planning program.

Endowment gifts, often called planned gifts, fall into three broad categories:

Current gifts to endowment funds include cash, stocks, mutual fund shares, CDs, life insurance policies, annuities, personal property and real estate.

Life income gifts include gift annuity, charitable remainder annuity trust, and charitable remainder unitrust.

Deferred gifts include bequests in wills or living trusts, beneficiary designation on IRAs, 401K and 403B retirement plans, beneficiary of life insurance policy and any other financial contract with a beneficiary provision. These are the simplest and most common gifts to endowment funds.

Can your congregation benefit from a permanent source of income that grows over time? Then consider the advantages of running a three-legged stewardship race. Coordinate your stewardship development with annual giving, major gifts (campaigns) and endowment giving. Use endowment gifts to create permanent support for current and future ministry and to give your longtime faithful stewards the opportunity to contribute their gift of a lifetime.

Important Things to Know

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