

Charity Endowment Funds

By Greta Luimes, CFP

The financial advisor had just left the meeting and the faces of the Board members in the room revealed the anticipation they felt. They now had a clearer vision for long-term funding of the work of The Mission. The fundraising busyness required to meet the budget of the current month left little time to think beyond that. Thankfully, the chairperson was bold enough to force a more long-term view, realizing its importance for the organization and its loyal donors.

They began to discuss the establishment of an **Endowment Fund** for The Mission and the assurance of a growing annual income such a fund could produce. The task ahead was to learn how to do it.

An endowment is a fund made up of gifts and bequests that are subject to a legal requirement that the principle be maintained intact for a period of years or perpetuity. The funds are invested to create a source of regular income for the charity. The advisor had suggested that the increased activity in gifts of bequests could be redirected to form the basis of the new Endowment Fund.

There was a steady trickle of incoming letters stating that The Mission would become the beneficiary of a testamentary gift (gift through a Will). Certainly it would be great to use this money for current expenses as these gifts arrived, but the Board now realized how short-sighted that thinking was. According to their advisor, most charities have policies that direct all or part of the gifts from bequests and life insurance proceeds into an Endowment Fund. They could be large or small gifts, but would be accumulated and managed together to provide a more secure financial future for the organization. Each gift would be receipted to the donor for its full value at the time of donation.

The benefit to The Mission was the opportunity to release some of the continual financial stress that had become such an everyday part of the life of those called to this vital work. The benefit to the donors was the opportunity to participate in this mission work both now and long after they were gone – what an investment!

The Board decided that it was time to provide for their ministry work. Putting their faith into practice was satisfying and exciting!

Rules in Canada: Gifts to endowment funds are required to remain in place for a period of ten years under current Canadian tax law. Each new gift has its own ten-year time clock. Every year a minimum of 3.5% of the investment assets must be disbursed to the charity, creating a regular annual income stream. As the endowment fund grows, so does this income stream. The charity may even establish a specific purpose for the annual funding coming from the Endowment Fund. They may decide to use a portion for the annual budget and other portions for special projects. Or it may all be used for daily operations.

After the ten year period has expired on each gift, the capital can be made available for the charity's use. As this happens every year, this substantial injection of capital could offer significant ministry growth opportunities. Or the Endowment Fund could be established as a perpetual fund, meaning the capital would remain in place and forever provide an annual income.

Quick and Easy: An Endowment Fund can be established within a public foundation such as the Canadian National Christian Foundation saving the cost and administrative burden of account management, tax return preparation, and investment management and auditing. Semi-annual reporting and access to counsel is provided. The fund can continue to carry the name of the charity organization and specific advisors for the fund can be named. It can be contributed to by many donors, using different monetary sources.

For example, donors can make cash gifts at any time or choose the advantage of preferred taxation on the gifting of securities while they live. But the most common source of endowment funding is testamentary gifts. If every year for five consecutive years donors gave a total of \$200,000 (just through Wills alone), \$1,000,000 would be invested into the Endowment Fund resulting in increased annual income to the charity that five years out would be in excess of \$35,000.

Greta Luimes is a former partner of an independent financial planning firm and has worked with charities for the last six years, including the past three years with the Canadian National Christian Foundation (CNCF). She is a Certified Financial Planner whose experience has centered on Charitable Gift Planning strategies to enhance the work of God's Kingdom.