EPISCOPAL CHURCH FOUNDATION
empowering congregations

STRUCTURING AN ENDOWMENT FUND

This is a memo that addresses some general concepts for endowment funds that you may find helpful in thinking about the structure of your endowment. Getting the structure of your endowment right is often the key to its success. Whether you are just starting an endowment, or managing one that has been in existence for years, structure matters.

Structure also matters in building a successful planned giving program. Very simply, if you want to encourage legacy gifts to your endowment, you need to be able to explain to the congregation how the money will be used, how it will be invested, how much will be spent each year, and who is in charge of making those decisions.

To help churches structure their endowment funds the Episcopal Church Foundation has developed a set of sample endowment fund policies and guidelines that can be adapted to your local circumstances. These have been used by a number of Episcopal churches as the starting point for their endowment structure. Let us know if you would like to receive your set of the sample documents and we will send them to you as Word documents by e-mail.

THE THREE PHASES OF ENDOWMENT MANAGEMENT

When we talk to churches about endowments we usually talk about three things:

1. Organizing the Endowment
2. Investing the Endowment
3. Growing the Endowment

1. Organizing the Endowment

VISION

At the beginning, it is important to establish a purpose or vision for the endowment fund, answering the most basic question of why have an endowment fund at all. Often churches will use words such as the purpose of the fund is to provide "a means to enable the church to fulfill its ministry beyond what is possible through its annual operating funds".

The question of whether or not to use the returns generated by the endowment fund for general operating expenses establishes an important principle. When the *only* purpose of an endowment is to supplement the operating budget of the church, it often has a corrosive influence on annual stewardship and saps the vitality of the church's mission. When endowments serve as God-given resources to do the work God has called us to do in ways we could not do without them, they become blessings. The more mission-oriented the endowment fund becomes, the more additional gifts it will attract.

PERMANENCE

The second principle that endowments usually establish is the permanent nature of the fund. Generally, there are two types of endowments: donor restricted – the only "true" endowment, and board restricted, or "quasi" endowment. If a donor makes a gift to your church (usually through a bequest in a will or a larger cash gift) and places a restriction on the gift that the principal cannot be spent, you have a true endowment and a legal obligation to fulfill the terms of the gift. However, if the governing board sets aside unrestricted funds to be managed as an endowment, you have a quasi-endowment since the governing board could decide at some later date to invade the principal.

Most vestries, in establishing an endowment, intend to mange it as a true endowment, ensuring that the principal will not be invaded and the endowment fund will exist in perpetuity. The reality is, however, that no vestry can bind future vestries, and there is no way to guarantee that some policies and practices will not be modified at some future time. Frequently, a provision will be included in the establishing resolution that imposes strict requirements for an amendment to the rules. The best protection for assuring the permanence of the endowment is the formal adoption of clearly drawn resolutions, polices and guidelines, and the wide dissemination of this information to the entire congregation.

Recognizing, that in some dire circumstances the church may need to use the principal of the board-restricted funds, the sample enabling resolution includes a paragraph that allows the vestry to change the rules, but requires a two-thirds vote. Some churches set the barrier even higher requiring a two-thirds vote of the full congregation.

PURPOSES

The endowment then typically defines the purposes for which the funds generated by the endowment can be spent. Purposes are often for the capital needs of the parish, outreach ministries, new ministries, special projects, and other purposes specifically designated by donors whose gifts are included in the Fund. While it is important to be specific about how the money will be used, it is also important to have enough flexibility to allow future vestries to respond to the needs of their time.

You can also set up dedicated funds within one endowment with one fund devoted to capital needs, for example, and another to program or ministries. This would allow donors to direct their legacy gifts to a broad area of need.

OPERATING RULES

The next step is to set up the rules by which the endowment will operate and put them in writing.

- a. enabling resolution
- b. gift acceptance policy
- c. disposition of bequest policy
- d. designated fund policy
- e. spending rule
- f. investment guidelines

The **Enabling Resolution** sets up the basic ground rules. It establishes the purposes of the fund and how it will operate. It determines who is on the committee, how often they meet, reports required, etc. It also puts in place some fundamental principles, such as that the endowment will be managed as a "true endowment," meaning the principal shall not be invaded. It also determines the endowment's spending policy, and how changes in the rules can be made.

The **Gift Acceptance Policy** defines the types of gifts the parish may receive and how it will handle them. **The Disposition of Bequests Policy** establishes, in advance, how the church will handle bequests.

The **Designated Funds Policy** essentially sets a minimum for any donor designated funds and defines how they will be managed.

The **Spending Rule Policy**, which assumes a total return principle, sets up a formula that determines how the funds available for distribution will be calculated and how the funds will be spent.

Finally, the **Investment Guidelines** describe the committee's general investment goals and objectives, risk tolerance, and target asset allocation.

It is important to establish the basic policies up front so that donors know how their funds will be invested, and spent.

2. Investing the Endowment

Your initial choice in investing your funds will be what asset classes to own. Your basic choice is between growth (stocks) and income (bonds and other fixed income investments). How much of which asset to own will emerge from decisions you make about risk tolerance, time horizon, and the need for withdrawals. The investment guidelines established by the committee and approved by the vestry usually set broad parameters with regard to asset allocation, investment goals and objectives.

A second major consideration is diversity. Diversity means that among the stocks you own you want to be invested in several asset classes, such as Large Cap U.S. Stocks, Mid Cap U.S. Stocks, Small Cap U.S. Stocks, International Equities, etc. You should diversify your fixed income holdings as well.

Some endowment committees will take on the responsibility of investing the funds themselves. Others will work with a local bank, an investment company, or invest through a diocesan investment trust. Others choose to invest through the endowment management services offered through the Episcopal Church Foundation. (See the Foundation's website: www.episcopalfoundation.org and click on "Endowment Tools/ Getting Invested.")

The Episcopal Church Foundation, through our investment manager State Street Bank, provides investment options for Episcopal institutions starting at a minimum of $10,000 up to many millions of dollars. This Community of Episcopal Investors gains a number of collective advantages by investing together – including pooled funds for accounts under $1 million and individually managed portfolios for accounts over $1 million.

3. Growing the Endowment

Endowments usually grow through bequests in a will, maturing life income gifts, and direct cash gifts. The Foundation will work with churches to help set up and implement planned giving awareness activities in the church. These can range from notices in church bulletins and newsletters about remembering the church in your will, to establishing a legacy society, to shared information on the various tools of planned giving – such as bequests in a will, life income gifts, or gifts of life insurance.

Also, the Foundation will work with individual donors to facilitate life income gifts to benefit your church, such as charitable gift annuities, charitable remainder trusts, or pooled income funds.

We hope this information helps you shape the endowment fund policies and guidelines at your church. We would also be pleased to work with your committee to develop ways to grow your endowment through planned gifts. Please stay in touch.