



Springfield Foundation

For **good.** For **ever.**®

OPPORTUNITIES FOR GIVING

PARTNERING WITH YOUR COMMUNITY FOUNDATION

*The Springfield Foundation is not engaged in rendering legal or tax advisory services.
The purpose of this publication is to provide information of a general nature.*

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INTRODUCTION

This guide has been created to provide insight as to how charities can work with donors to create endowments that will support the charity forever. While this document is not intended to cover all possible opportunities, it has been written to introduce charities to common planned giving techniques and partnership opportunities with the Springfield Foundation – Your Community Foundation.

What is Planned Giving?

About 70 percent of all Americans give to charity during their lifetimes. These lifetime gifts are often given annually to support the donor's favorite charities.

Planned Giving uses tax, financial, and estate planning techniques to enable donors to make substantial gifts to charitable organizations, while providing the donor with significant tax and financial benefits.

Through planned gift techniques, the gift is often greater than the donor may have previously considered because there may be ways to fill the donor's wishes that they were not aware of.

There are several reasons why donors may want to create an endowment. For example, they may be interested in finding ways to perpetuate their annual giving. Maybe they are interested in finding a way to benefit their heirs, or simply avoid paying excess taxes. Through carefully thought out (planned) gifts, charities may be able to achieve any or all of these goals.

What is an Endowment?

Endowments are funds permanently designated by a non-profit organization to fulfill a specific purpose. They can be created by the action of the organization's board of directors or by the wishes of a donor.

How do Endowments Work?

Gifts are made and placed in an account (fund). The fund is permanently invested to generate earnings. A percentage of the appreciation and income are distributed annually to support the charitable purposes as indicated by the donor. The original gift (and subsequent gifts) are typically not spent, guaranteeing that the fund will benefit the community forever.

Why are Endowment Gifts important?

Most non-profit organizations rely on annual support to sustain operations and programming. In addition, it is increasingly important to secure permanent, long-term stability. Think for a moment what might happen if your organization quit receiving annual support from donors.

Contributing to existing endowments or providing a gift to establish a new one, is one way donors can support their favorite charity long after they are able to give. Endowments substantially increase a non-profits ability to continue their vital work for generations to come. Endowments establish quality and permanence for the charity and work as a conduit through which donors can leave their legacy. No matter the amount or type of gift they make, a gift for endowment will make a lasting difference.

PERMANENT ENDOWMENT FUNDS

There are several different types of endowment funds at community foundations. By partnering with the Springfield Foundation, charities can create an agency endowment which can be tailored to meet the charity's specific needs.

When an individual creates an endowment fund, they may specify the purpose of their gift by creating a designated fund; choose an advised fund where they make annual recommendations regarding the distribution of the fund's income; or create an unrestricted fund, which will provide support for Clark County in areas where it is most needed, as determined by the Foundation's trustees. A fund agreement signed by the donor and the foundation outlines how the fund will benefit the community. Individual donors may name the fund for themselves, or honor family or friends, or they may remain anonymous.

Endowment Fund Types

Agency Funds- *Secure the future.*

These endowments are created by local non-profit organizations to provide an ongoing source of income for operations and programs. Distributions are paid out in a manner which best suits the needs of the organization.

Unrestricted Funds-*Think Broadly.*

Offer the broadest giving option, allowing the donor to support the Foundation's priority areas as identified by the Foundation's board of directors. Unrestricted funds address the current and future needs of Clark County.

The Foundation's trustees will direct the distributions to do the most good, now and forever.

Field of interest Funds-*Address issues.*

Support charitable organizations that address issues donors care about most. Maybe it is the arts, education, health care or other interest area.

Designated Funds-*Provide ongoing support.*

Support one or more specific charitable agencies, organizations or programs in the community forever. For instance, donors can create a fund whereby their church receives the annual income to support its operations.

Donor Advised Funds-*Stay Involved.*

Allow donors to contribute assets to their fund at any time and then recommend grants to support non-profit organizations of their choice.

Scholarship Fund-*Provide educational support.*

Benefit students of any age or education level. Donors have many options in determining the selection criteria for the fund, such as the school the scholarship recipient comes from, the school they will attend, the major, or their level of financial need.

Endowment Gift Size

Community Foundations typically have a minimum balance for endowment funds. At the Springfield Foundation a cumulative gift of \$10,000 is required to establish a permanent, named endowment fund; scholarship funds require \$30,000. These

minimum balances may be achieved over time.

Fees

Community Foundations typically charge an administrative fee to administer an endowment fund. The Springfield Foundation reduces the fee for agency endowments. An investment fee is also charged to each fund.

Investment Options

Endowed funds are invested to produce earnings that are distributed in the form of scholarships or grants to not-for-profit agencies. The investment philosophy is focused on generating an adequate amount of return while preserving the endowed funds forever.

The Springfield Foundation offers two investment approaches: a Balanced Approach and an Income Approach. The Balanced Approach is used to obtain the highest total return through the appreciation of stock, dividends and interest. The Income Approach generates income primarily through return of dividends and interest.

Distribution Options

Just as there are two investment approaches, there are two basic ways used to make distributions. Each approach is optimized to match an investment philosophy. The two ways to distribute funds are a Total Return or a Net Income approach.

Total Return Distribution Method

The method calculates income for charitable distributions as 5% of the 12-quarter moving

average of the principal value of the fund. The difference between the actual income earned and the 5% payout is made up from appreciation.

Income Only Distribution Method

Donors may request that the net income earned on the endowment be the only amount distributed. Net income includes interest and dividend income minus any fees.

Agency Distribution Methods

Agencies are able to create a customized method of distribution to meet their specific needs.

WAYS TO GIVE

Donors have several options when making a charitable gift. Gifts may come in the form of outright gifts of cash, stocks, bonds, real estate, etc. or in the form of deferred gifts such as payable on death designations (P.O.D.), transfer on death designations (T.O.D.), a beneficiary designation of a life insurance policy or retirement plan, or bequests from wills.

Cash

Cash, usually in the form of a personal check, is the most common asset used to make charitable gifts. Cash gifts allow the donor the ability to claim a current income tax deduction. The gift is deductible up to 50% of the donor's adjusted gross income (AGI) in the year of the gift. Any unused deduction amounts may be used to help reduce taxes for up to five additional tax years.

Stocks

If a donor contributes stocks they may get a double federal tax benefit. Gifts of stocks are deductible at the average high and low of the stock on the day of the gift. The donor also avoids any capital gains that would have been paid if the donor had sold the stock outright. Capital gains are avoided if the donor held the stock for longer than twelve months before donating the stock. If the security has been owned for at least one year, the gift is deductible up to 30% of their adjusted gross income (AGI) in the year of the gift. Any unused deduction amounts may be used to help reduce taxes for up to five additional tax years.

U.S. Savings Bonds

Donors cannot donate savings bonds while they are alive, however they can be given to a charity upon the donor's death. Donors can designate a charity as the beneficiary of Series E, EE, H and HH savings bonds.

Retirement Plan Assets

Qualified retirement plan assets, such as IRAs, 401(k) accounts, 403(b) accounts, SEPs, and pension and profit sharing plans cannot be donated during life, but make excellent charitable gifts at the death of the plan participant. These assets enjoy favorable tax treatment prior to retirement, but can be subject to significant taxes at the death of the plan participant. Qualified plans may be subject to both income and estate taxes. In many cases, it may be advantageous to leave other assets to heirs and to name a charity as the beneficiary of the retirement plan.

Mutual Funds

Mutual funds may also be donated to a charity. The gift value when donating a mutual fund is the Net Asset Value (NAV) on the date of the gift.

Tangible Personal Property

Charities may accept gifts of tangible personal property including property such as artwork, antiques, collectibles, jewelry, rare books, stamps, coin collections, etc. Donors are entitled to a deduction for the fair market value of the item(s) unless the contributed property is unrelated to the tax-exempt purpose of the charity, in which case the donor is entitled to a deduction limited to the cost basis in the property. An independent appraisal may be necessary and appraisal fees are the expense of the donor.

Life Insurance

Donors may name a charity the owner or beneficiary of existing or new policies. Donors are entitled to an income tax deduction for the lesser of the approximate cash surrender value of the policy in the year the transfer of ownership was made or the owner's cost basis. If the charity is made the owner of the insurance policy, any premiums subsequently paid by the donor are also tax-deductible.

Real Estate

Charities may accept a gift of real estate including a personal residence, farm, vacation home, commercial buildings, or land. In most cases, the charity may require certain procedural steps, including a site visit to the property, an environmental assessment, qualified appraisal and a title search.

Life Income Plans

With a life income plan, donors can give an asset to a charity with a beneficiary continuing to receive annual income. Income beneficiaries may include the donor, their spouse, children, or any other designated individual. The gift may result in income tax savings for the donor and may increase their annual income also. For donors with highly appreciated, low-income producing assets, the asset can be donated, sold by the charity without capital gains taxation, and reinvested to produce a higher amount of income for the beneficiary. The remaining principal assets may then be used to create an endowment.

Charitable Trusts

With a charitable remainder trust, assets are gifted to the trust and managed by a trustee. The trust distributes its income to current beneficiaries for life or a specified number of years. Generally, donors may select a payment that is a set percentage, net income, or a fixed annual amount. When the income distributions end, the assets remaining in the trust are distributed to the named charitable remainder beneficiary.

A charitable lead trust is the reverse of a charitable remainder trust. Income from the trust is distributed to a named charity for the trust term, after which the principal is returned to the donor or other beneficiaries. A charitable lead trust is especially useful for larger estates and for property with potential for appreciation. Charitable lead trusts are useful for a donor who can afford to relinquish the income from the gift property during the term of the lead trust or has a current desire to assist charity.

Charitable Gift Annuities

A Charitable Gift Annuity (CGA) is a contract between a donor and a charity. Under this contractual arrangement, a donor transfers assets to the charity in exchange for a commitment by the charity to pay the donor (and/or another beneficiary) a fixed and guaranteed payment for the remainder of their lifetime(s). The payment, which is a fixed percentage as determined by the American Council on Gift Annuities, may also be partially tax free. The donor receives a current charitable income tax deduction for the computed value of the charitable gift.

Life Estates

Donors may donate a personal residence or farm to a charity and remain living on the property until death. This entitles the donor a charitable tax deduction for the present value of the remainder interest. When the life estate terminates, the charity sells the property and uses the proceeds to create an endowment that will support the organization.

GIVING AT DEATH

Bequests

A charitable bequest is a gift made by will or trust agreement that is effective at death. A charitable bequest may reduce estate taxes.

There are several types of bequests. General bequests, which direct a set amount of money be paid to a particular beneficiary, are the most common. A specific bequest directs that a particular asset or piece of property be awarded to a beneficiary. A residuary bequest directs that a beneficiary receive all or a portion of everything remaining in the

estate after payment of taxes, debts, settlement costs, and general and specific bequests. Examples of will and codicil language are found at the end of the document.

P.O.D. and T.O.D. (Payable on Death and Transfer on Death) Designations

Many assets, either individually or jointly owned, can be transferred at death using a beneficiary designation. P.O.D. designations may be used with bank deposit accounts (i.e., checking, savings, or money market accounts or CDs). T.O.D designations may be used with real estate, and brokerage and investment accounts. These designations provide an easy way for the donor to make a deferred gift to the charity without having to go through the trouble or expense of formally changing their will or trust agreement.

Both POD and TOD gifts avoid probate. These gifts are completely revocable during life. Special forms are needed to designate Payable on Death (POD) or Transfer on Death (TOD) beneficiaries.

Staff Directory

The Foundation's professional staff is also available to meet with you to discuss ways in which your clients can take advantage of the services offered by the Springfield Foundation.

Ted Vander Roest, Executive Director
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SAMPLE LANGUAGE FOR A CHARITABLE BEQUEST TO THE SPRINGFIELD FOUNDATION:

Unrestricted Bequest:

I give and bequeath the sum of _____ Dollars (or _____% of my estate) (or a specific asset) to The Springfield Foundation, the community foundation for Springfield and Clark County, Ohio, to be held as part of its permanent endowment, with the income therefrom to be used for charitable purposes.

Restricted Bequest:

I give and bequeath the sum of _____ Dollars (or _____% of my estate) (or a specific asset) to The Springfield Foundation, the community foundation for Springfield and Clark County, Ohio, to be held as part of its permanent endowment, with the income therefrom to be used for (describe specific charitable purpose).

Residuary Bequest:

I give devise and bequeath all (or a portion of) the rest and residue of my estate and property, of whatever kind and character and wherever situate, to The Springfield Foundation, the community foundation for Springfield and Clark County, Ohio, to be held as part of its permanent endowment, with the income therefrom to be used for its general charitable purposes, or a specific charitable purpose.

Note: The above are sample clauses only and do not constitute specific legal advice.

If the donor has already made out his or her will and wishes to amend it to include your charity, he or she may consider using the following codicil language to make the desired changes.

**SAMPLE LANGUAGE FOR A CHARITABLE CODICIL
TO THE SPRINGFIELD FOUNDATION:**

I, _____, of the County of Clark and State of Ohio, do make, publish and declare this to be a Codicil to my Last Will and Testament, executed at Springfield, Ohio, this ___ day of _____, ____.

I hereby add the following pecuniary bequest at the beginning of the dispositive items of my said Last Will and Testament, dated ___/___/___, and I hereby renumber existing provisions of my said Last Will and Testament accordingly:

ITEM____: I give and bequeath the sum of _____ and 00/100 Dollars (\$_____) to The Springfield Foundation, the community foundation for Springfield and Clark County, Ohio, to be held as part of its permanent endowment fund, with the income therefrom to be used for the purposes of the foundation in the direction of its board of directors.

In all other respects, I ratify and confirm my said Last Will and Testament.

In WITNESS WHEREOF, I have hereunto set my hand at Springfield, Ohio this ___ day of _____, ____.

Signed and acknowledged by the said _____ as and for a Codicil to his/her Last Will and Testament, in our presence, and signed by us, as witnesses, at his/her request and in his/her presence, and in the presence of each other on the day and year last above written.

Note: The above are sample clauses only and do not constitute specific legal advice.