

# Starting a Fund at the Community Foundation

The Community Foundation was designed to last forever, building permanent support for charitable work that is improving our world in the Pioneer Valley. The Community Foundation offers a variety of options for donors who share this ambition. The principal considerations when establishing a fund are:

## STARTING A FUND – THE BASIC STEPS

### How Permanent Funds Work

Community Foundation attempts to make annual distributions to charity in perpetuity by preserving principal. Distributions restricted to distribution rate (currently 4.5% of principal).

Funds may be designated for specific charities, fields of charitable interest, or geographic regions.

Donors may choose to rely on the expertise of the Foundation's Distribution Committee to support the greatest community needs most effectively.

### ✓ Define your charitable goals; how do you wish to change our world?

- Allow the Foundation to exercise its expertise; or
- Choose to focus on a particular type of charitable endeavor; or
- Choose specific charities to support; or
- Stay involved in grantmaking decisions

### ✓ Choose the amount to give.

### ✓ Choose when to give: now, or via your estate plan.

### ✓ Choose assets to donate:

- Cash
- Privately held stock
- Publicly traded stock
- Mutual fund shares
- Real estate
- Life insurance policies
- Retirement plan assets- IRA, 401(k), 403(b)
- Private foundation assets

### ✓ Choose name for fund:

- Honor someone in perpetuity
- Create a lasting memorial

### ✓ Recommend an investment option.

### How Advised Funds Work

Income tax deduction may be taken in the year the gift is made; distributions made at a later time of donor's choosing.

Donor recommends grants of any amount of \$100 or more, at any time to public charities of choice.

Groups may make grants together (i.e. families, companies, nonprofit agency boards.)

## Our Expertise

Donors turn to the Community Foundation because it offers expertise that makes giving convenient, cost-advantageous, and effective for the long-term.

### Grantmaking

The Foundation makes distributions from its unrestricted funds through a grantmaking process administered by its volunteer Distribution Committee and project reviewers who carefully examine over 200 grant applications each year. The competitive nature of the process helps insure that the highest and best use is made of the limited funds available (applications are typically received for four times the available funds). Its flexibility allows the Committee to adjust to emerging and changing needs. The Community Foundation administers a similar competitive award process for its scholarship and loan funds.

### Financial Stewardship

The Board of Trustees has delegated primary responsibility for the investment of its assets to an Investment Committee, which consists of community experts in the oversight of investment portfolios (see page 21).

An investment policy and a set of operating principles guide the Investment Committee in its deliberations and in the administration of the investment program. An independent consultant provides advice on the Foundation's portfolios and analyzes portfolio performance. The Foundation's Chief Financial/Administrative Officer, its accountant, and its fiscal staff are responsible for the administration of the investment program.

The performance of all portfolios is measured and monitored quarterly by both the Investment Committee and fiscal staff and is compared with specified benchmarks consisting of standard investment indices.

The assets of each fund are commingled with those of other funds in an investment portfolio, but are accounted for individually. Each fund is assigned its own share of interest, dividends, investment expenses, and gains and losses of the portfolio in which it is invested. The Community Foundation

issues quarterly reports on each fund showing the beginning and ending balance and additions to and distributions from the fund. Twice yearly, a separate report is provided, comparing the performance of the portfolio in which the fund is invested with specified benchmarks.

### Planned Gift Arrangements

Donors who want income for life and other split interest arrangements that benefit them can take advantage of the planned giving vehicles administered by the Community Foundation. The Charitable Gift Annuity and the Charitable Remainder Trust are two of the most popular forms of planned giving. The Community Foundation will administer these planned gifts only if the remainder interest comes to an endowed (permanent) fund at the Foundation, and it does not charge its customary fee for doing so (see page 58). Such a permanent fund may be tailored to the donor's charitable interests. Bequests are another planned gift that allows a fund to be established with assets from the donor's estate.

#### *Charitable Gift Annuities*

A charitable gift annuity is a simple contract allowing donors to receive a fixed income for life. The annual income is usually paid for the life of the donor and/or spouse, although it can benefit others as well. Donors can tailor the fund to meet their own charitable interests.

At the end of the annuity period, the difference between the original gift and the cost of providing the annuity (including investment and other expenses noted below) is added to an existing or newly created permanently endowed fund at the Foundation. When a new fund to receive the remainder of a planned gift is created, the minimum tax-deductible portion of the gift must be at least \$10,000.

The amount payable by the annuity is determined by the Foundation using rates based on the age of the life beneficiary(ies). Beneficiaries must be 65 years of age or older. The American Council on Gift Annuities, a national organization, provides the rate tables that we use. These rates are usually lower than the rates available from commercial insurance companies since a gift to a fund at the Foundation

## A GLANCE AT PLANNED GIFTS

### **Bequest**

A simple planned gift can be made naming a fund at the Community Foundation of Western Massachusetts as a beneficiary of your estate. The terms of that fund can be arranged directly with the Community Foundation at that time, and can be changed later simply by contacting the Foundation.

### **IRA, 401 (k), 403 (b) or Other Qualified Retirement Plan Assets**

A donor may use these assets to leave a legacy simply by naming the Community Foundation as the beneficiary. Such assets are often subject to both estate and income taxes, so these assets should be the first used for charitable bequests.

### **Life Insurance**

The Community Foundation of Western Massachusetts can be named as the owner and beneficiary of a new or existing policy—perhaps a policy that is no longer essential to your financial goals. Subsequent premiums that you pay will then become tax deductible.

### **Charitable Gift Annuity**

A gift annuity is a contract with the Community Foundation to pay a fixed income, usually for the life of the donor and/or spouse, but others can be named as the life beneficiaries. At the conclusion of the annuity, the Foundation will add to an existing or a new permanently endowed fund an amount equal to the difference between the original gift and the cost of providing the annuity.

### **Charitable Remainder Trust**

A Charitable Remainder Trust is a trust that allows a donor to receive income (or provide income for another person) with the knowledge that the funds remaining when the trust terminates will be used to support the donor's charitable interests.

### **Charitable Lead Trust**

A Charitable Lead Trust is a trust that enables the donor to make significant charitable gifts in the near term, and then distribute the remainder interest to non-charitable beneficiaries, who may benefit from significantly lowered gift and estate taxes.

will be made after the end of the annuity period. A tax deduction for part of the gift is based on the age of the life beneficiary (ies).

By using appreciated securities for the charitable gift annuity, donors can generate income and defer the long-term capital gains tax normally associated with the disposition of these securities.

### *Charitable Remainder Trusts*

A charitable remainder trust is an irrevocable trust that pays income to non-charitable beneficiaries (donor, spouse, parents, etc.) for a specific period of time, and the remainder to a charity. It is normally not economical to establish and administer a charitable trust with less than \$50,000.

The trust is a separate entity created by an irrevocable, written instrument prepared by an attorney and requiring a trustee. The Community Foundation will serve as the Trustee if the remainder of the trust goes to an endowed (permanent) fund at the Foundation. The fund at the Community Foundation that receives the remainder of the trust can be tailored to the charitable interests of the donor. The amount payable to the income beneficiary(ies) can be a fixed dollar amount (Annuity Trust), or a fixed percentage of the principal of the trust each year, which will vary with the investment returns of the trust (Unitrust). When a charitable remainder trust is established, the donor can usually take a tax deduction for part of the gift, based upon the age of the life beneficiary(ies) and the payout rate. The older the income beneficiary(ies), and the smaller the payout rate, the larger the deduction.

By giving appreciated securities to the trust, the long-term capital gains tax normally associated with the disposition of those securities can be deferred.

### *Bequests*

A donor can create an endowed fund during his or her lifetime that will be fully funded at the time of death via a simple bequest. By establishing an endowed fund during his or her lifetime, the donor is able to choose how the fund is distributed in perpetuity. This method of creating a fund is appealing to donors who want to make a lasting impact on the community, but for whom making a significant gift during his or her lifetime is not an option.

## A CLOSER LOOK AT FUND OPTIONS

### Unrestricted

Donors choose this fund to use the Community Foundation's expertise to the greatest advantage for the community by responding to emerging and changing needs through a competitive grantmaking process. A Distribution Committee of involved and committed citizens, chosen for their extensive knowledge of both the needs and the nonprofit resources of the community, and aided by the Foundation's professional staff and a group of volunteer project reviewers, carefully evaluates every application for funds, usually with an on-site visit. The Committee's carefully disciplined decision-making process provides unequalled access to the community's collective wisdom about how to allocate scarce charitable funds for maximum effectiveness.

### Field of Interest

This fund allows a donor to concentrate on specific areas of charitable endeavor (i.e. education, elderly, environment, the arts). If desired, they can also utilize the expertise of the Distribution Committee and its competitive grantmaking process.

### Donor Designated

Donors can direct that distributions from a fund be made to one or more specifically named charities.

Typically such funds are endowed, allowing for the perpetual support of these organizations.

### Donor Advised

Donors are directly involved in this type of fund, recommending the amount and timing of grants to charitable organizations.

### Education

The Community Foundation has one of the largest scholarship and loan programs in the country. Donors can support students in pursuit of higher education by helping defray the rising costs of tuition. Like the Distribution Committee's competitive process for unrestricted funds, the Foundation's volunteer-based process for awarding scholarships and loans represents the community's collective wisdom about the use of scarce charitable funds. Because of the administrative costs of such grants, scholarships and loans are not made for amounts less than \$1,000.

### Agency Funds (advised and endowed)

Nonprofit organizations establish funds in order to build their own supporting endowments and take advantage of the Community Foundation's sophisticated investment management and other support services.

### *Planned Giving Expenses*

The Community Foundation does not charge for its services in administering charitable gift annuities or charitable remainder trusts, but does charge for preparing the necessary tax returns (currently \$125 for Gift Annuities and \$250 for Remainder Trusts), and for investing the donated assets. These charges will not affect the amount paid to the annuitant or to the life beneficiary of an Annuity Trust. After the death of the life beneficiary(ies), the Community Foundation will levy its customary fee on the endowed fund established by the annuity or trust.

## Key Information

### Minimum Balance

It is not economical for the Community Foundation to maintain a fund for the long-term with a balance

less than \$10,000. In order to encourage the establishment of new funds, however, the Foundation will start a fund with as little as \$2,000, provided there is a plan to build the fund to the \$10,000 minimum in five years or less. Amounts in excess of that minimum each year (including earnings from the fund's investment) would be available for recommended distribution; distributions are not made from endowed funds until the \$10,000 minimum is reached.

Scholarship funds require a higher fund minimum of \$25,000 to support the distribution of a minimum scholarship award of \$1,000 annually and the higher cost of administering these complex types of funds.

Contributions to existing funds are accepted in any amount.

### Fees and Costs

Fees for the administration of the Community Foundation's funds are set from time to time by its Trustees solely to cover the costs of that administration. For permanently endowed funds, the current annual fee is 1% of the principal, applied to a 13 quarter rolling average of the principal. For funds that may distribute principal, the annual fee is 1.25%, which is applied to the current balance of the fund. The minimum annual fee for these types of funds is \$125.

Scholarship funds and funds utilizing the services of the Distribution Committee carry special fees. Fees for scholarship funds are 1.5%, with a special fee of 2% for funds requiring donor participation or other special services. Funds that require the Distribution Committee to determine recipients of distributions carry fees of 1.25% whether they are endowed or not.

Fees for some types of funds are graduated according to size, reflecting the costs of providing the services required to administer the fund. All fees are in addition to the investment expenses, which are different for each portfolio. A complete fee schedule is available online under the About Us/Financial Section of the Foundation's website ([www.communityfoundation.org](http://www.communityfoundation.org)) or by calling the Foundation.

### Donor Advised Fund Grants

If a donor wishes to be involved in the grantmaking process, the Community Foundation can administer an advised fund with the right given to the donor or other designated individuals or organizations to make recommendations for grants from the fund.

Because gifts to Community Foundation funds are tax deductible, the Foundation must own the assets in its funds and recommendations for grants are not binding instructions; the Foundation must have the final authority over such distributions. The Foundation does not accept recommendations for grants less than \$100, and all grants must be made to public charities. Advisors may not recommend distributions that benefit them or the donor (e.g. buying tables at fundraising dinners, or fulfilling legally binding pledges), and advisors to scholarship and loan funds bear particular responsibilities outlined in special guidelines applicable to them.

## STARTING AN AGENCY FUND

Nearly 90 Pioneer Valley charities have established funds at the Community Foundation with assets donated to them or accumulated over time. Starting a fund at the Foundation provides services that many nonprofits may find advantageous.

### Professional investment management, strong fiscal stewardship

Funds are invested under the supervision of local, community-based investment experts with experience in building and preserving funds in perpetuity. An agency fund may enhance a charity's fundraising prospects because some donors may wish to support charity, but prefer the relative long-term security of the Community Foundation, particularly if they wish to insure that their gifts are endowed forever.

### High quality, cost-efficient administration and stewardship services

Foundation staff processes timely, personalized gift acknowledgements and quarterly statements of fund activity.

### Acceptance of unusual assets like privately held stock, mutual fund shares, and real estate

Agencies can receive the benefits of gifts that are highly advantageous to donors, but difficult for charities to process.

### Planned Giving Services

Foundation administers charitable gift annuities, charitable remainder trusts, and lead trusts which direct gifts to endowed agency funds. This may be an efficient way to outsource a planned giving program.

### Fundraising advice and counsel

Agencies can access the Community Foundation's fundraising expertise to help build strategies for development programs of all sizes.

#### **Important Note:**

*Both income tax and securities laws require the Community Foundation to own the assets in the funds it administers; therefore, establishing a fund requires the charity to transfer title to the assets to the Foundation.*