

Planned Giving Tip

June 2005

Do you have a spending policy for your foundation earnings? If you do not, you should.

Why?

As you know, the Catholic Foundation makes the total return of earnings available (above corpus) each year to participants. Total return equals realized and unrealized gains on stocks and interest and dividends on bonds. Unlike most non-profit foundations, we do not require participants to reinvest earnings back into corpus or retained earnings, thereby allowing participants to withdraw all their earnings each year.

The problem occurs when the economy experiences a deep recession like it did in 00-02. If a participant withdraws all of its earnings each year and does not build a retained earnings cushion, when the market produces negative results there are no earnings available to be withdrawn. When there are two or three negative years in a row in the market, the problem is exacerbated. It could take many years to get back to the original corpus level. However, if a participant chooses each year NOT to spend all of its earnings and places a percentage into retained earnings, chances are those earnings would be available in years when the market is down.

For example, the United in Faith Committee has chosen to reinvest 50% of earnings each year into retained earnings until the retained earnings balance is 10% of the corpus balance. By doing so, the Committee – knowing that it would like to make annual payouts to each of the five cases – is ensuring that in years that the market is down, retained earnings should be available to make the desired payouts.

Another example is a parish in the Aurora Deanery that has chosen every year since 1990 to place most of their earnings into retained earnings. They currently have a corpus balance of \$125,000, and a retained earnings balance of \$211,000. While this is an extreme example of "building a cushion," it does show how it helps to have a reserve for years when the market experiences a correction like 00-02.

You will be receiving your end-of-year Foundation statements the first week of August. It appears that most, if not all, participants will have some earnings about which to make a decision this year. That is good news. While I know it is tempting to plug holes in the budget with foundation earnings, I strongly suggest that you place a portion of your earnings into retained earnings for a "rainy day." Studies show that the market produces a positive return 7 out of 10 years. It's those 3 years when it doesn't that I am most concerned about.

Do your Sunday envelopes have a planned giving message? If not, why not have your envelope company print "____ Please send me information about how to remember the parish in my will" on the back of one of the monthly envelopes. When parishioners check the box, forward their names to me and I will send them information on wording a bequest in their will.

Keep planting seeds!