



# What do we do now?

## A congregational discussion guide regarding bequests

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*Prepared by Mennonite Foundation of Canada*

### 1. What is a bequest?

A bequest is any gift left to a charity through a person's will. A bequest is made once an individual no longer has need of the cash or other assets being given. Therefore, bequests are often larger than gifts an individual may give during his/her lifetime.

### 2. Why should you talk about bequests?

More and more people are choosing to leave a portion of their estates to charity, and research predicts that this trend will continue and flourish in the years to come. If your church has not yet received a bequest, it is very likely that it will receive one at some time in the future.

The potential size of bequests gets many church members excited about the opportunities for their use. However, the many and different ideas church members may have also create potential for conflict in your church over the use of a bequest. For this reason, MFC strongly encourages your church to discuss bequests and their use, even before you receive a bequest, and to agree upon guidelines and procedures to be followed if and when a bequest is received.

### 3. What can you do with bequests?

Bequests are unpredictable in both timing and size. Therefore, they should not be seen as a reliable funding source for continuous programs, such as operating a youth drop-in centre at your church. Bequests should also not be relied upon for funding projects with a specific time line, such as a building project.

Bequests may be designated for certain purposes by their donors, or they may be undesignated, leaving your church free to make decisions about their use. When MFC works with individuals in estate planning, we encourage donors to make undesignated gifts or to make designations as general and flexible as possible. We believe this creates the greatest benefit and the least difficulty for the charity receiving the gift.

The Canada Revenue Agency (formerly Revenue Canada) has special rules regarding the use of bequests. Unlike gifts from living donors that are to be used by your church within a period of time specified by the donors, bequests may be spent over any period of time your church chooses. However, at MFC we believe it is the most efficient for a church to make a one-time decision, perhaps subject to periodic review, regarding the timeline over which it will use bequests. This avoids the need for a major decision-making process, and the potential for conflict which accompanies such a process, each time a bequest is received. MFC has assisted a number of churches in their decision-making regarding bequests. Our staff is available to assist your church in understanding and working through the issues and processes outlined below.

### 4. What should you do with designated bequests?

If a donor's will designates a specific purpose for a bequest (e.g. paving the church parking lot) your church must honour this designation if it chooses to accept the bequest. It is wise to ask the donor's executor if any such designations accompany a bequest.

With designated bequests, your church must decide on a case-by-case basis if it is prepared to accept the gift and honour the designation. Your church may wish to write a policy regarding the process which will be followed in such a situation. MFC recommends that your church council (or equivalent) be responsible for researching the implications of accepting a designated bequest, and for making a recommendation to the church membership regarding the bequest.

As long as the purpose stated by a bequest designation is honoured, your church still has the freedom to spend the bequest over any period of time that it chooses, unless the designation also contained a time provision (e.g. paving the parking lot within five years of receiving the bequest).

## 5. What should you do with undesignated bequests?

MFC recommends establishing a bequest fund for the management of undesignated bequests.

A bequest fund:

- relieves your church of the need to make a decision regarding the use of a bequest each time one is received, as these gifts could automatically be directed to the bequest fund and spent according to its policies
- gives church members confidence and excitement that a bequest will be put to good use, thus encouraging them to consider making such gifts
- creates an opportunity to plan for and discuss bequests with church members when they are doing their personal estate planning
- reduces the possibility of receiving a bequest with a designation that your church does not wish to act on, as church members can be confident in the wise use of an undesignated bequest
- creates a reliable, longer-term income stream for projects or purposes of interest to your church, rather than a potentially problematic spike in income from spending a large bequest in the year it is received.

Policies regarding a bequest fund should clearly outline which gifts will be directed to it, how the fund will be invested, and over what period of time and for what purposes the fund will be used. It is recommended that a committee be assigned to propose policies to your church which address the details outlined below.

### *Step 1 - Which gifts will be directed to the bequest fund?*

Your church must agree on which bequests will be directed to the bequest fund, rather than being applied to the current year's annual budget. Some churches choose to direct all undesignated bequests to the bequest fund, while others direct undesignated bequests in excess of a certain amount, such as \$5,000 or \$10,000, to the bequest fund.

### *Step 2 - Over what period of time will the bequests be spent?*

*Option #1* - A bequest fund can be designed to pay out each bequest in equal annual installments, plus investment earnings, over a prescribed period of time. Spending bequests over a 5-year or 10-year period is common. This option creates a manageable but time-limited stream of income from each bequest.

*Option #2* - A bequest fund can be designed to hold bequests in perpetuity, and to make only the investment earnings available for use by your church. This option creates a reliable and perpetual stream of income from each bequest.

In both options, the predictable stream of income created can be more practical and manageable for your church's ongoing use than unpredictable lump sums. As CRA's regulations regarding the use of bequests offer complete freedom, congregations may pursue other options. In MFC's experience, the above two options are the most practical and most commonly used.

### *Step 3 - How will the fund be invested?*

This document includes an outline of MFC's procedures for managing and investing a congregational bequest fund on your church's behalf. Alternatively, the church treasurer, a church committee, or an investment broker would need to be assigned responsibility for investment decisions regarding the bequest fund. Your church may want to discuss ethical "screens" to be used in selecting investments, such as avoiding companies that manufacture weapons.

### *Step 4 - How will the bequest fund income be used?*

*Option #1* - The bequest fund income, or a portion of it, may simply be directed to the church's general budget to supplement annual giving. The reliable and predictable income may offset other irregularities in your church's giving patterns.

*Option #2* - Some churches prefer to have current rather than past members carry the responsibility for the regular expenses of church life. Therefore, the bequest fund income may be used for special projects or purposes outside of the general budget, such as to provide scholarships to individuals or grants to projects which meet stated criteria. If your church uses your bequest fund income in this way, it is important that the guidelines regarding the use of the fund clearly state:

- Which purposes will be considered for support from the fund, and perhaps also which purposes will not be considered for support?
- What information is required to be considered for support from the fund (e.g., a standardized application form)?
- Who will make decisions regarding the requests received (e.g. special grants committee, the Finance Committee, etc.)?

- How often and when distributions will be made from the fund?

Examples of bequest fund policies and promotional brochures developed by other churches are available from MFC upon request. These examples may be very useful to your church in focusing discussion regarding the use of bequest fund income.

## 6. How can MFC assist you in managing your bequest fund?

It is part of MFC's mandate to assist our supporting churches in responsible stewardship of their resources. One of MFC's services is to manage bequest funds on behalf of individual churches. A bequest fund managed by MFC offers:

**Professional management** - Wise investment choices require experience and expertise. The responsibility of managing a bequest fund can be overwhelming for many volunteer treasurers. MFC offers fund management based on 30 years of experience in providing this service.

**Socially responsible investment** - MFC has written ethical policies regarding our investment selections that are in keeping with the faith convictions of our constituency.

A bequest fund may be established at MFC according to the following procedures and understandings:

- an agreement is signed between MFC and your church, creating an account open to receive bequests
- your church deposits bequests to the account in accordance with its own policies. New deposits may be made to the account at any time
- MFC invests the bequest fund in one of our investment pools. The MFC Pool is a fixed income pool, and yields a net rate of return comparable to 4&5-yr GIC's. Funds have 6-month liquidity after the first year of investment. The MFC Pool's primary investments are in church, conference and church-related mortgages, and government and corporate bonds which meet our ethical and financial criteria. In certain circumstances, the MFC Balanced Pool may also be an investment option. The MFC Balanced Pool combines our fixed income pool with equity investments, also subject to our ethical and financial criteria. The MFC Balanced Pool has a variable rate of return. It is a higher risk investment pool with the potential for higher returns
- MFC distributes the account's principal and earnings to your church in accordance with your policies. Distributions can be made annually, or as frequently as monthly. Your church then allocates these payments in accordance with your policies
- your church is responsible for the promotion of this fund to your church members.

These are general guidelines describing how a bequest fund might operate. Depending on decisions made by your church, specific agreements and operating guidelines would be drafted.

## What other services does MFC offer?

MFC offers other services in the area of bequests and estate planning. MFC staff are available to provide presentations on estate and gift planning to your church members, or to assist in tax and gift planning for those who are considering major lifetime or bequest gifts.

Your church members may be encouraged to make charitable bequests by naming MFC as the beneficiary of the charitable portion of their estates. They then provide instructions to MFC regarding the distribution of their bequest. This allows church members to re-allocate bequests to different charities without making changes to their wills. This also allows those church members who wish to make anonymous bequests to do so.

You are encouraged to contact the MFC office nearest you if you have questions or if you would like assistance in processing the information presented here.