

Establishing a Legacy Fund

Abstract: Donating charitable gifts in memory of a loved one is a generous way to honor his or her life. But the options for where to give are numerous and the process of selecting recipients can be time-consuming. Helping your client design the best legacy strategy is a process that is about more than making a one-time donation.

If you want to help your client serve the emerging needs of the community for decades, consider working with your local community foundation (CF). “A CF can guarantee a steady flow of giving in memory of your loved one, even as the level of your charitable giving changes over the years,” explains Becky Davis, a development officer with the Community Foundation of Western North Carolina. “This is because the principal is invested in perpetuity and the income supports the projects that serve a client’s interests in the community.”

“Establishing a legacy fund through a CF increases the visibility and broadens the recognition of the person you are memorializing by granting support to a variety of projects throughout the community over time in your loved one’s name, versus being attached to one organization year after year,” suggests Hans Dekker, president of the Community Foundation of New Jersey.

Advantages of Working With a CF

“A community foundation knows the needs of the community and which organizations are doing the most effective work,” explains Heather Larkin Eason, executive vice president of the Arkansas Community Foundation. Endowments are meant to last forever — funding projects that support an evolving community — and are managed by community leaders and experts, she explains. For example, rather than fund a local animal shelter with an undetermined future, a donor can create a fund to support the field of animal welfare, which allows the CF to match the donor’s interests to future community needs and services.

A CF offers a variety of fund choices for a memorial gift: donor advised, field of interest, designated, customized or unrestricted funds that the foundation uses to support new or creative projects. “A community foundation does all of the work for the donor,” explains Joe Woosley, CPA of Jordan, Woosley, Crone & Keaton, Ltd. It administers the grants, ensures compliance with IRS regulations, and produces transparent fund statements. “This allows your clients to meet their objectives of doing good things in a loved ones name simply and efficiently,” says Eason.

Creating Meaningful Legacies

A CF can help design a legacy fund to serve a specific geographic region, community population, and/or changing needs of the community. A fund can have broad objectives

— such as supporting the arts, environment, or education — or be tailored to support certain groups, such as battered women.

“It takes one level of expertise to create a scholarship fund at an alma mater, and another to create a scholarship fund for working-class kids in a geographic region that reflects the donor’s interests or roots,” explains Dekker. A recent grant from the CF of New Jersey sent a group of battered women to a theater production put on by an emerging theater company, combining the interests of one donor’s fund. And Tom Phelan, an estate attorney and partner in Nichols Thomson Peek & Phelan, assisted Austin O. Hooey, who was interested in higher education, in creating a scholarship fund at a local high school that provides \$10,000 per year for four years to help four students each year attend the best colleges that accept them.

“Legacy funds can also be used to instill philanthropic values in future generations,” states Dekker. One grandmother set up a portion of her legacy funds to support a specific organization and provided guidelines for family members to disperse the rest of her funds. This provided a way for her family to honor her memory and allowed her to share her philanthropic values even after death.

People often put off estate planning because they think there will be time to do it later, says Eason. One donor set up a legacy fund with the Arkansas CF when she received a diagnosis that she had six months to live. She expected to use her estate to fund it, but when her health improved she decided to fund her legacy immediately. Ten years later she continues to enjoy the impact of her gifts on the community.

Donor Involvement

Recent changes implemented with the Pension Protection Act of 2006 have discouraged donor involvement in grant awards because of IRS concerns of undue influence to benefit family and friends, explains Eason. The changes are meant to keep the grant process competitive so that a scholarship fund, for example, is not awarded to a family member or neighbor’s daughter. However, donors can help define grant objectives, review proposals, help select recipients, and ask for grant reports to evaluate effectiveness of funding, she says.

Coordinating your financial services with the charitable giving expertise of your local CF can help your clients achieve their legacy goals with simplicity and efficiency. In addition, many CFs offer professional seminars about charitable giving regulations, strategies, vehicles, and the use of unique gifts such as real estate. “Community foundations can be the solution resource for professional advisors wrestling with how to create an effective legacy fund for their client,” suggests Phelan, “especially if the client has broad goals and wants the help of a reputable institution to meet them.”