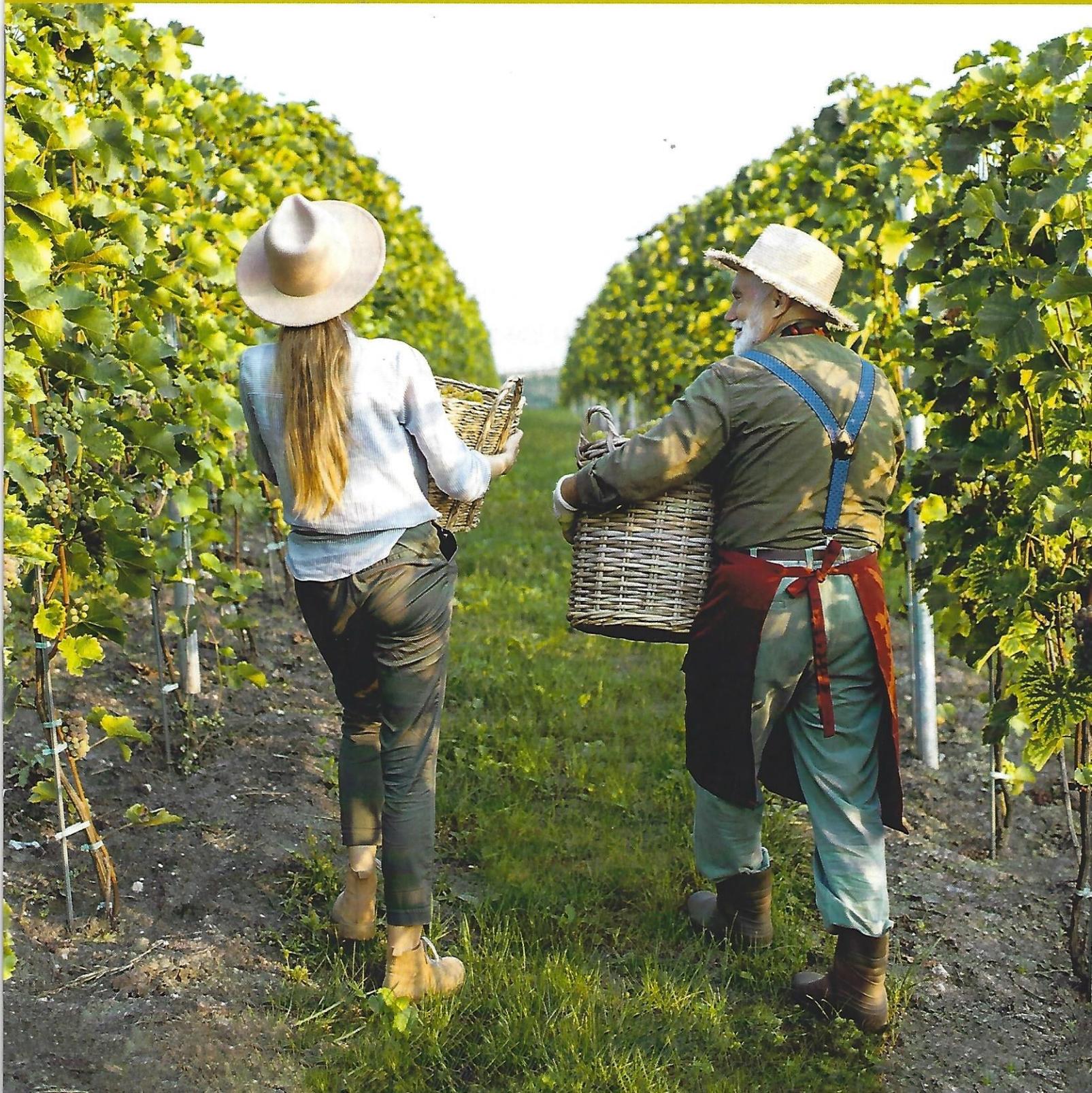


The NALC Foundation



Providing a Harvest of Perpetual Support to the Mission and Ministry of  
the North American Lutheran Church



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### *The NALC Foundation*

Written by Michael Johnson, NALC Treasurer

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Layout and design: The Rev. Dr. Amy Little,

General Secretary

## **What is the NALC Foundation?**

The North American Lutheran Church Foundation (hereafter referred to as “Foundation”) is a ministry fund of the North American Lutheran Church (NALC) that receives and manages legacy assets, those that have been bequeathed to the church or seminary, to provide long-term, perpetual financial support for NALC congregations, seminarians, and missions - both continentally and globally. The Foundation will also serve as a stewardship resource for alternative methods of giving and lifetime asset transfers. The Foundation operates under the direction of the NALC’s Core Values of being Christ Centered, Mission Driven, Traditionally Grounded, and Congregationally Focused.

### **Foundation Objectives**

The Foundation will provide annual support funds to NALC ministries. Allocation of funds to recipients will be determined by the NALC Executive Council (EC) using their current procedures and personnel. The Foundation will seek to avoid the following: permanent endowment of funds, numerous committees, funding panels, and investment management by others which will provide simplicity in structure with minimal administration, as well as uncomplicated /minimal cost for investment management.

### **Foundation Purpose**

The purpose of the NALC Foundation is to provide a structure for empowering God’s people to fulfill their desires for creating a legacy to the mission and ministry of the North American Lutheran Church. The Foundation is a planned giving resource that will provide donors a way for their Christian witness and love for the Lord Jesus Christ to outlive their lives for many years into the future. As a result of congregants’ and other donors’ generosity, the Foundation will be able to provide vital long-term, perpetual support each year to the full scope of ministries and missions of the church.

The Foundation’s primary purpose is to annually distribute funds to the NALC for its Executive Council to allocate toward the mission and ministry support objectives, while being faithful, trustworthy stewards of the funds received by the Foundation’s donors.

### **Mission and Ministry Support Objectives**

1. Building up and strengthening theological education in the NALC and raising up the next generation of church leaders by supporting the North American Lutheran Seminary and its network of affiliated seminaries.
2. Supporting the Great Commission Fund which enables the expansion and development of mission starts, congregational renewal, and global workers in North America and abroad.
3. Discretionary purposes as presented to the Foundation’s Committee by the NALC Executive Council for any of its ministries, congregations, or objectives not fully funded by the approved annual budget of the denomination.
4. Each year, the EC will decide the manner of support granted to the NALC’s mission and ministry.

## **Formation of the NALC Foundation**

The NALC Executive Council approved the formation of the NALC Foundation. A task force, led by Mike Johnson, NALC Treasurer, was established to create the Foundation's structure. Next, the NALC's legal counsel drafted the Operating Agreement forming the Foundation Oversight Committee. The EC appointed the five-member committee. Initial funding was from the NALC Bequests Fund which is a designated fund created by the unsolicited generosity of deceased persons. The committee agreed to open an NALC Foundation brokerage account with Charles Schwab, a third party custodial where most investments can be purchased with no or minimal trade commissions.

Rather than working through the NALC's banking relationship, resulting in higher fees, Schwab was chosen as the preferred custodian. The committee may change the custodian, if necessary, at a later time. The NALC general secretary, treasurer, and EC committee member, will be the authorized agents on the account to place trades and disburse funds once consent has been granted by the foundation committee.

### **A Separate 501(c)3 Not-For-Profit Corporation**

The Foundation will operate as a separate account fund within the NALC until 501(c)3 status is in place. To receive an IRS determination letter is a 2 year or more process. The Foundation expects not to apply for such a letter until asset growth and an operating history are achieved.

The Foundation will initially operate as a restricted sub-asset account of the NALC, under its federal tax ID number. At such time as an application is made and a determination letter from the IRS is received, the Foundation would then become its own separate not-for-profit corporation, wholly owned by the NALC.

### **Oversight Committee**

The Committee shall be appointed by the Executive Council and be comprised of a member from the Board of Regents, the Finance Committee, the NALC Treasurer, and two other appointed individuals who are members of an NALC congregation. NALC Executive Staff will not hold a position on the committee; however, input is always welcome. The committee will make fund disbursements in the first quarter each year to the mission and ministry support objectives. The NALC Executive Council will authorize the allocation of funds to its selected objectives. Committee members are to be independent from fund recipients if the committee ever begins making the fund distributions instead of the Executive Council.



## **Annual Ministry Support Percentage Spend Rate**

Based upon the December 31 year-end net asset value of the fund, the committee provides an annual spend rate/amount from those funds each January to provide supplemental financial support to the mission and ministry support objectives of the NALC. Four percent will be the starting annual spend rate. This rate may be adjusted by the committee after a 3-year investment history. Fund disbursements are made in the first quarter of each year to the NALC-EC to be disbursed as outlined above. Long-term historical market data supports the 4% distribution rate while providing potential modest growth of capital. The 4% spend rate is much like the distribution rate a retired person would utilize for annual withdrawals from their retirements funds. The retiree must only spend at a rate that will best keep the fund balance from being depleted during their latter stage of life.

## **Discretionary Annual Spend Rate**

As mentioned above, the Foundation's objective is NOT to permanently endow the funds, thereby creating an ever-growing pool of assets that are restricted in use only to the determined annual percentage spend rate. Therefore, the Foundation will allow for additional yearly spend rate distributions. There must, however, be limits, ie. guardrails, imposed upon the discretionary annual spending rate. Otherwise, the Foundation's financial soundness could be put at risk. In no calendar year should discretionary fund disbursements exceed 4% of the previous calendar year's December 31st statement value.

Application for said discretionary fund disbursements will be made by the NALC Executive Council to the Foundation Committee. The Committee will take into consideration current market conditions before making discretionary fund disbursements. The purpose for the 4% restriction is to avoid yearly spending that jeopardizes the Foundations long term support potential while allowing for modest future growth of capital.



# Foundation Investment Policy Statement

## Creating an Asset Allocation Model

1. The first need is to define a liquidity position for funds outside of invested assets. The NALC constitution calls for \$500,000 in emergency funds.
2. Understand, risk cannot be totally avoided. Everything has a risk of some type. Risk, however, can be managed over time. **Credit Risk:** Will the issuer of the bond or other debt instruments be able to repay the loan?

US Government bonds are considered the safest. A 90-day bond has less risk than a 10-year bond for 2 reasons: first, the money is returned sooner with a 90-day bond and can be reinvested; second, a 10 year bond has **Interest Rate Risk** (if rates go up you lose money IF you sell the bond, hence the need for a liquidity fund). Bonds also carry **Inflation Risk** (when a \$10,000 10-year bond matures, the money is returned, but it is no longer worth 100% of the buying power of when the bond was originally bought).

Equities fluctuate/deviate greatly, but generally stocks will out-perform the other asset classes (and has done so over the last 150 years) over the long term. Equity assets should always be funds not needed over a long business cycle.

Investing requires a thinking, non-emotional discipline. When markets drop, NEVER sell stocks. When markets go up, NEVER change your allocation to higher equities percentages. Instead, periodically rebalance. If the 40% debt target is 35%, then the discipline is to sell 5% of the equities. If the equities target is 60% and the stocks are 55% then sell 5% of the bonds and buy stocks. Studies show that the discipline allows for selling higher and buying lower. A majority of the investors will sell when stocks go down.

Investors must understand markets are cyclical. Each contraction will give way to an expansion. Each expansion will at some point begin contracting.



## Investment Strategy

To minimize investment management expenses and to not overly complicate the mechanics by trying to exceed market results, the following is a sample asset allocation, using low-cost index ETFs:

1. 60-65% to equity index funds to be defined by the Committee (sample asset categories: Large Cap, Growth, Small Cap, International).
2. 35-40% to high quality debt instruments, cash/insured MMFs 10%, 1-year treasury bond 10%, 2-year treasury bond 10%, 3-year treasury bond 10%. The bonds will rotate on their maturity date.

The committee will adjust bond maturities depending on interest rates available.

3. The allocation will be rebalanced to the model when ratios deviate by more than 3-5%, and/or on the first week of each new quarter.

A priority of the Foundation is to have no salaries, minimal administrative expense, and investment management fees of less than 0.20% annually. Donors can be assured the distributions from the asset base are going fully to the mission and ministry of the church. The Foundation Committee will choose the allocation.

The long-term investment performance of the above allocation has provided on average 6.5-7% annual rates of return. Said asset allocation strategy could be utilized up to \$30 million of assets, however could be adjusted as committee deems necessary within the boundaries of the set equities/debt allocation (60/40) to make the allocation broader in scope.<sup>1</sup>



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<sup>1</sup> Historic market data last 30 years-7.87% and since 1871- 7.6%. Source: Vanguard Group, [www.Vanguard.com](http://www.Vanguard.com)

## Creating a Financial Legacy Utilizing the NALC Foundation

Why should we consider legacy gifting utilizing the NALC Foundation?

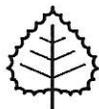
Legacy giving is faith living into the future! It's a way to provide donors with an opportunity to perpetuate their love and witness for the Lord Jesus Christ and His Church.

During our lifetime, and only by the grace of God, many individuals and families accumulate some amount of wealth—it could be a little or a lot. Many very devoted and faithful people have no clear plan on how some of their financial and property assets will be distributed in ways that honor God. Your testimony of faith can live on into the next generation through a legacy gifting plan.

In today's culture, many secular organizations and nonprofits are vying for and soliciting our financial assets. They are quite pervasive and persistent. But one important question to ask is, "Do these institutions align with my Christian beliefs and values?" It has been the norm for some time that families usually leave all their wealth and possessions to their children and extended family, even if those family members live according to a completely different value system.

Legacy gifting gives the giver an opportunity to ground their giving in the gospel of Jesus Christ. And it expands our understanding of generosity to include above all else—Christ's church—both the local congregation and the North American Lutheran Church. Through directives in your will, beneficiary listings on your retirement or individual accounts, or named beneficiaries in your trust—your legacy giving last will and testament is a statement of your faith in Jesus Christ which can live on for generations to come.

The NALC Foundation was created to provide the tools to perpetuate your testimony of faith in our Lord Jesus Christ and His church. After our deaths, the wealth God has given us can live on to support vital ministries of the NALC, such as the North American Lutheran Seminary, by equipping future pastors and church leaders, as well as national and global missions and workers.



## How to Include the Foundation in your Documents

If you decide to make a legacy gift, use the name, "NALC Foundation" in your wills, beneficiary designations of bank and brokerage accounts, as well as IRAs and other types of retirement plans (401k, 403b).

Your funds will be pooled with that of others' who have contributed. Each year a grant will be made from those funds to the mission and ministries of the NALC.

For more information contact NALC Treasurer, Mike Johnson: [treasurer@thenalc.org](mailto:treasurer@thenalc.org).

Contact your financial advisor of your investment accounts to change your beneficiary designations naming the "North American Lutheran Church Foundation" for a percentage of 10%, 20%, or more as you believe God is leading you.

For wills or trusts, contact your legal representatives to add a codicil or amendment to the document.

## Lifetime Transfers to the Foundation

Lifetime transfers can be accepted. Low-cost basis appreciated stock works best and can be transferred from a brokerage account to the Foundation. The donor receives a current year tax deduction for the market value of the gift on the day the transfer was received, and the donor avoids paying capital gains taxes had they sold the shares.

## Annual Potential Ministry Support from Invested Assets:

Gift Amount	Yearly Support
\$1,000,000	\$40,000
\$10,000,000	\$400,000
\$30,000,000	\$1,200,000

Thank you for considering the NALC Foundation in your legacy giving plans!



## Frequently asked Questions about the Foundation

### Why is the Foundation not its own separate entity?

The NALC legal counsel recommended against competing boards of directors, hence the use of a Foundation Committee for oversight. One major benefit is that a donor receives full and immediate deductibility of donations versus having to wait until an IRS determination letter is received.

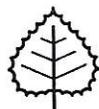
### Is the Foundation separate from the NALC?

The desire of the EC and the recommendation of the Foundation task force was for the EC to be the controlling entity and thereby avoid the possibility of having conflicting boards.

The task force felt it prudent from a cost perspective especially, to not duplicate services already provided by the NALC administration, boards, grants, finance and accounting. A primary objective of the Foundation is simplicity of structure and minimal costs. The Foundation would then be able to state that, of the funds donated, 99% of the funds received will be generating support for the NALC ministry objectives.

### Why is there a committee for the Foundation?

The parent entity of the Foundation is the NALC which has its own governing board (the EC). There can only be one board for the entity. The NALC governing by-laws therefore allow for the creation of committees.



## Appendix

### **The Initial Foundation Oversight Committee (2023):**

Mike Johnson, Chair: Mr. Johnson is the treasurer of the NALC, and holds the Certified Financial Planner Designation (CFP) and the Charter Financial Consultant (ChFC). He is the founder of Wealth Planning Corporation (1984) and a retired principal.

The Rev. Dr. Paul Krueger: Pastor Krueger is a regent of the North American Lutheran Seminary and is Senior Development Officer for the Dakota Boys and Girls Ranch. He holds ECRF certification (IUPUI), and a Doctor of Missional Leadership degree from Fuller Seminary.

Ryan Schwarz: Mr. Schwarz is the former treasurer of the North American Lutheran Church, holds a Juris Doctor degree from Harvard Law School, and is a managing partner of NaviMed Capital in Washington DC.

Darrell Shideler: Mr. Shideler is a member of St. Timothy Lutheran Church (San Jose, CA). He is a retired partner of Landmark Wealth Management Group and holds the CFP and ChFC Designations.

Joel Williams: Mr. Williams a member of the NALC Executive Council and the finance committee. He is Director of Donor Services for the Institute of Lutheran Theology (ILT).

### **NALC Foundation Formation Task Force (2023):**

The Rev. Dr. Daniel Selbo, Bishop

Mike Johnson, Treasurer

Joel Williams, Executive Council/Finance Committee

Scott Kramer, Executive Council/Finance Committee

Darrell Shideler, NALC Congregation Member

Ryan Schwarz, Treasurer Emeritus, NALC Congregation Member



## Providing a Harvest of Perpetual Support to the Mission and Ministry of the North American Lutheran Church

### Mission and Ministry Objectives of the NALC Foundation

1. Raising up future pastors and church leaders for the NALC.
2. Supporting the work of the North American Lutheran Seminary and its network affiliates.
3. Supporting the Great Commission Fund.
4. Supporting ministries, congregations and objectives not fully funded by the annual budget of the NALC.

For more information, contact Mike Johnson: [treasurer@thenalc.org](mailto:treasurer@thenalc.org)

