

Understanding Pooled Income Funds

Charitable pooled income funds provide donors with many of the same advantages of charitable remainder trusts, (*see General Letter on Charitable Remainder Trusts* in this section) but with far less expense and bother. The donor simply contributes the minimal required amount or more to the fund and receives whatever income his or her account produces. The pooled income fund manager, usually a bank or trust company, invests the fund's assets, makes payments to the fund's income beneficiaries, and provides them with an income report for their taxes.

Pooled income funds are donor friendly: easy to contribute to, and easy for most donors to understand. They are something like a charitable mutual fund. Donors simply contribute to a pooled income fund account, much as an investor opens an account in a mutual fund. They are also easy for charities to establish. Unlike gift annuities, which are guaranteed by the full faith and credit of your organization, pooled income funds are not contracts between you and your donors. You do not have to register with the state to have a pooled income fund, as some states require of charities establishing gift annuity programs. All you need to do is find a reputable and experienced vendor of pooled income fund management services, have your board formally appoint them trustee or agent of the pooled income fund and you're in business.

But pooled income funds do not always attract enough contributions to justify their expense. Because most pooled income funds roughly follow interest rates, they lose some donor appeal when interest rates are low. Some once-enthusiastic charities have dissolved their pooled income funds when donors turned away from four-, five- and six-percent rates of return and the funds failed to be self-supporting, or worse, the donors' original gifts were eroded by management costs, resulting in a steep decline in donor payments. When interest rates dip below five percent, pooled income funds lose their appeal for all but the most charitable donors. Unlike charitable gift annuities, pooled income funds do not dip into principal, which could further erode the ultimate gift to the good cause that established the fund. They are called pooled *income* funds because they share only income, narrowly defined as dividends and interest, with the fund's participants. This means that the good cause may receive close to the face value of the donor's initial contribution, unless management fees have taken a significant toll on the fund's value, often the case when the fund's total value declines and the minimum management fee becomes unsustainable.

Still, when interest rates are attractive pooled income funds can help some donors conveniently fulfill their financial and charitable objectives. Below find a typical letter to an interested donor, a pooled income fund disclosure summary - you should provide the donor with a full disclosure statement – and typical “how to contribute” instructions for donors, typical pooled income fund agreement, and a subsequent contribution form. Whomever you select as your pooled income fund trustee, you and your own legal counsel should review the model letter and forms before you use them.

Model Letter to Pooled Income Fund Prospect

Dear _____,

I am pleased to send you the enclosed information on the (Official Name of Your Pooled Income Fund.).

Let me suggest an approach to this packet that will make it a little easier for you to learn about the Fund:

First read the one-page summary. That briefly highlights some key features of the Fund.

Next, review the form entitled "Gift Agreement and Beneficiary Designation." That form allows you to indicate who is to receive lifetime income from your gift to the Fund. Also review the one-page "Donor/Income Beneficiary" form. That simply asks for basic identifying information about the donor(s) and beneficiary(ies), and the nature and size of your gift.

Finally, read the Disclosure Statement. Have your financial advisers review it with you as well.

If you have any questions about the Fund, please call me. I will be happy to answer any questions you might have about the nature of the Fund, its current rate of return, and the tax deduction you can expect from your contribution. I will also explain the best method of transferring stocks to the Fund.

Our organization appreciates your considering a contribution to our Pooled Income Fund. It is through life income plans like this and through thoughtful bequests that our organization will be able to continue its mission. .

Sincerely,

Pooled Income Fund Summary

Here are some highlights of our Charitable Pooled Income Fund. Please review the full disclosure statement for a detailed treatment of the Fund.

- 1) The Fund pays your or your beneficiary(ies) quarterly income for life.
- 2) Contributions to the Fund are tax deductible for those who itemize. How much you can deduct is determined by the amount of your contribution and the age of the beneficiary you select. The older the beneficiary, the greater the deduction will be.
- 3) Contributors often give appreciated securities to the Pooled Income Fund because the fund can sell these securities without being subject to capital gains tax.
- 4) After the death of all beneficiaries, the gift principal passes to our organization to support our work. The gift is not subject to estate tax.
- 5) (Name) is trustee of the Fund. Their objective is to realize income consistent with some growth of principal (make sure the preceding phrase accurately reflects your funds investment strategy). Income from the Fund will fluctuate with changes of market and economic conditions.
- 6) The initial minimum contribution to the Pooled Income Fund is (minimum amount to establish an account in your Pooled Income Fund). Contributions of (minimum amount for additional contributions) or more are allowed anytime thereafter.
- 7) Pooled Income Fund contributions should be looked upon primarily as gifts, not as investments.
- 8) Pooled Income Funds were developed in 1969 to allow individuals to contribute into a common charitable trust to gain the tax and income advantages available before only to those who could afford to establish their own charitable trust.
- 9) The Pooled Income Fund gives contributors similar tax and financial advantages of most individual charitable trusts without their having to contribute the more substantial amounts or to pay the set-up costs individual trusts require.

To find out the tax deduction you should claim, the current rate of return of the Fund, and the answers to any other questions you might have about our organization and its Pooled Income Fund, call (Name) at (phone).

HOW TO CONTRIBUTE TO OUR POOLED INCOME FUND

- 1) Complete the *Gift Agreement and Beneficiary Designation* form.
- 2) Complete the *Donor and Beneficiary Information* form.
- 3) If you are contributing cash, make your check payable to:

(Official name of your organization's pooled income fund.)
- 4) Put all the forms you have filled out and your check in an envelope and mail to:

(Name, address, and phone number of your Pooled Income Fund Manager)
- 5) If you are making a gift of stock or other securities please (Name, address, and phone number of your Pooled Income Fund Manager) for instructions on handling the transfer.
- 6) Have any questions about contributing something other than cash or securities? Please call (your contact person's name and phone number).

**TYPICAL POOLED INCOME FUND
GIFT AGREEMENT AND BENEFICIARY DESIGNATION
DO NOT USE THIS FORM WITHOUT REVIEW
AND APPROVAL OF LEGAL COUNSEL**

I hereby irrevocably transfer to (Name of Trustee), as Trustee of the (Official name of your pooled income fund) ("Trustee"), property listed in Schedule A attached hereto, to be held and distributed pursuant to terms of the Trust Agreement between (Name of your Organization) ("Donee") and Trustee dated (Date of the agreement your organization signed with the pooled income fund trustee) ("Trust Agreement") and this Gift Agreement and Beneficiary Designation ("Gift Agreement").

In accordance with provisions of Trust Agreement, I hereby designate the following persons as Income Beneficiaries to receive net income attributable to this gift (check and fill out one option):

_____, as sole Income Beneficiary, during his or her lifetime.

_____ and _____, in equal shares, as concurrent Income Beneficiaries, until death of first Beneficiary, with all income to survivor during his or her lifetime.

as consecutive Income Beneficiaries, in order named, each life income interest to begin on termination of preceding interest. If more than one name is listed on **SAME LINE**, persons so listed shall be concurrent Income Beneficiaries with income payable in equal shares to such persons while they are all living, and in equal shares to survivors during their respective lifetimes, until all persons listed on line are deceased.

Upon termination of the income interest of the last of the Income Beneficiaries, the Trustee shall sever from the Fund an amount equal to the value of Income Beneficiaries' units in Fund. Such amount shall be transferred to the Donee to be used by it for its General Purposes.

The gift hereby made is irrevocable, and may not be modified by me other than by optional right to revoke or terminate by will that I may elect to retain as set forth at the end of this Gift Agreement.

It is my intention that this gift qualify as a gift to a pooled income fund as defined in section 642(c) (5) of Internal Revenue Code of 1986, as amended from time to time, and this Gift Agreement shall be interpreted accordingly.

No gift, legacy, succession, inheritance, estate, or generation-skipping tax which may be assessed against property transferred to the fund by this Gift Agreement shall be paid out of any property held in the Fund. I agree on behalf of myself and my heirs, legal representatives, successors, and assigns to provide for payment of any such taxes from sources other than this gift property and to indemnify Trustee for all liability for any such taxes.

I have read the disclosure statement describing the Fund and have received a copy of Trust Agreement.

IN WITNESS WHEREOF I have executed this Gift Agreement this _____ day of _____, 19 ____.

Signature of Donor

Printed Name of Donor

I hereby retain power, exercisable only by will, to revoke or terminate any income interest herein created, other than an interest of Donee.

Signature of Donor

ACCEPTANCE OF GIFT

Trustee acknowledges receipt of property listed on Schedule A and accepts transfer thereby made, subject to all terms of Trust Agreement and this Gift Agreement, this _____ day of _____, 19 ____.

(NAME OF POOLED INCOME FUND TRUSTEE)

By _____

DONOR AND BENEFICIARY INFORMATION
(Official Name of your Pooled Income Fund)

DONOR

Name _____

Date of Birth _____ Social Security Number _____

Address _____

City _____ State _____ Zip _____

INCOME BENEFICIARY (IES)

Name _____

Date of Birth _____ Social Security Number _____

Address _____

City _____ State _____ Zip _____

Name _____

Date of Birth _____ Social Security Number _____

Address _____

City _____ State _____ Zip _____

Gift Information (check one): First Gift Additional Gift

Amount of Gift \$ _____

Nature of Gift (Cash, Stocks, Other) _____

Date of Gift _____

SCHEDULE A

(If gift made by check) Check Number _____

Subsequent Gift Form Cover Letter

(Send with the two pages that follow: (1) the pooled income fund summary (2) the form)

Date

Dear _____,

On behalf of Our Organization, I am pleased to enclose a subsequent gift form for you to complete an addition to your pooled income fund account. Please write the amount of your gift and your social security number on the form where checked. Sign the form. Enclose your check made out to (Official Name of Pooled Income Fund).

I also enclose a brief summary of the main features of the fund, most of which you already know.

Your addition to the fund is truly appreciated. Thoughtful gifts like this are vital to the future of Our Organization. Please call me if I can be of help.

Cordially,