

To: Pastors  
Local Church Trustee Chairs  
Date: October 23, 2007  
Subject: To CD or not to CD, that is the question.

Many local churches have endowment funds and savings accounts. The money in the accounts comes from many sources: bequests, sale of a property, or a gift. The local church trustees are charged with the responsibility of investing church funds. The funds must be invested according to the social principles of investing as described in the Discipline, paragraph 716.

Sometimes churches struggle with choosing the right type of investment. There is not a “one size fits all” model for local churches for a number of reasons. Sometimes gifts are given with a specific purpose in mind and the church must follow the wishes of the donor. A good example is a bequest from a former church member who may restrict the gift so that there will be no withdrawal of principal and earnings from the investment to be used for scholarships for college students. Ok, so far so good. But the donor did not say how to invest the money. One very simple way to invest is to buy a Certificate of Deposit or CD. These investments are easy to obtain; most banks sell them and there are no fees when purchased. The interest rate is set at the time of purchase so you always know what you will receive. If the interest rate exceeds the rate of inflation, you have done a good job. You also know that the amount invested will not “lose value” as stocks and bonds sometimes do.

Is this a wise choice? Sometimes, but not always.

Here’s another example. A church receives a bequest that is undesignated. The church has no major renovations planned for the next few years. The trustees determine that they will not use the earnings but will reinvest them with the principal. By choosing a longer term mix of investments, not only will earnings result but the value of the investments themselves will have the opportunity to grow. When you add the growth in the investments plus the actual dividends and interest, the total return is historically better than a CD. This is a bit frightening to some local churches that worry about the value of the money they invest. What if the stock loses value?

Let me give you an example. The conference received a substantial donation years ago with a specific designation for the earnings to be distributed to 3 churches for mission. The money is invested in a *conservative* mixture of stocks and bonds that were chosen within the social principals of investing mentioned earlier and for their high quality. Over the last 3 years, the amount given to the 3 churches was almost \$100,000. The amount earned on the investment averaged 8.12%. The value of the money changed from \$985,000 at the end of 2004 to \$1,053,000 at the end of 2006 (even after paying out the \$100,000).

If the funds were used to purchase CD’s, the amounts earned might have been about 4.5%/year and the principal value would have remained at \$985,000.

While the task of setting an investment policy and choosing a cash manager may seem daunting, it is the local church trustees' responsibility to practice good stewardship over the local church assets.

Many churches have a congregation member with a relationship to a reputable cash manager who could provide your trustees with good advice. Some conferences have foundations that provide this opportunity for local churches. The Western New York Conference does not have their own foundation, however there are several such organizations within the United Methodist Church that can accommodate these needs. If you need assistance in any step of this important process, please call me. I remain,

At Your Service,

Barbara Gasiewicz