NATIONAL COMMUNITY FOUNDATION

The NCF Pooled Income Fund

Pooled Income Fund Overview

1. The NCF Pooled Income Fund ("PIF") pays you and/or your beneficiaries, quarterly income for life.

2. Contributions to the PIF are tax deductible. The type and value of your contribution, your age and the age of other beneficiaries, the PIF investment history, IRS rules and Treasury regulations determine how much you can deduct.

3. Donors often give appreciated assets to the PIF because the PIF can usually sell these assets without being subject to capital gains tax.

4. After the death of all the beneficiaries named in your PIF Agreement the PIF gift value allocated to your Agreement passes to NCF. The gift amount received is then distributed as follows: 1% to NCF and 99% to your NCF Donor Advised Fund. The gift is not subject to estate tax.

5. NCF is Trustee of the PIF. NCF operates the PIF to function as a total return PIF. Income is paid out to the beneficiaries, quarterly and includes the net dividends, interest, lease, rents and royalties. At the close of the year, all realized net short-term capital gains are paid out to the beneficiaries. Also, at the close of the year under a Power to Adjust, the Trustee is permitted to and may allocate a reasonable apportionment of the net realized, post-contribution, long-term capital gains to the income beneficiaries, according to Treasury Regulations and Delaware law. The PIF income will fluctuate, due to the inevitable and continuous changes in investment asset values which are affected by market and economic conditions.

6. The PIF is considered an exempt (from registration) security, and the assets are pooled. However, unlike an investment pool (like a mutual fund), the assets in the pool are fully those of NCF. The units a donor receives are an accounting method to determine how much of the income the donor will receive each quarter; they do

not represent a share in the assets, which is an important distinction from an investment. The PIF could double or triple in value, but if the income did not rise, distributions would not rise either. Moreover, the income beneficiaries will get an accounting of the income, but not a statement of all the holdings.

7. PIF contributions should be looked upon primarily as charitable gifts and not as investments.

8. Pooled Income Fund laws were enacted under the Tax Reform Act of 1969.

How does the NCF PIF operate differently compared to the more than 1,300 Pooled Income Funds in existence?

NCF offers donors "young" pooled income funds, when the investment performance of their soon-to-be old pooled income funds, plus the applicable federal rates, indicate that this would allow donors to enjoy significantly higher income tax charitable deductions.

NCF allows PIF donors to benefit any number of qualified charitable organizations, after the life of the income beneficiary. Currently, NCF distributes 99% of the PIF charitable remainder interest to a donor advised fund for the donor and receives 1% of the charitable remainder interest for its own unrestricted charitable purposes. Most charities require 100% of the remaining PIF assets after the income beneficiary's life.

The NCF PIF is offered to income beneficiaries of all ages; and for donor families, the PIF can operate for multiple generations. By contrast, most charities require the income beneficiaries to be age 65 or older, and only allow 1 or 2-life PIF Agreements.

NCF pays out all of the net-realized, short-term capital gains to the income beneficiaries. This allows the PIF investment manager to have greater flexibility and opportunity to potentially engineer more favorable investment returns for the income beneficiaries. Most charities will not distribute PIF capital gains and instead allocate net gains to the PIF principal.

NCF is willing to accept PIF contributions of any legally-permitted asset that their gift acceptance policies allow (including privately-held stock and real estate). Most charities accept only cash, or readily marketable, publicly traded securities.

NCF allows the donor’s SEC qualified, trusted investment manager to manage the donor’s PIF contribution, for NCF the PIF Trustee.

While other charities may have governing provisions in their PIF documents to allow a total return, to our knowledge, NCF may be the only charity that currently operates a total return producing PIF. This allows NCF to use its “power to adjust” to pay out a portion of the net-realized, post contribution, long-term capital gains. This allows the PIF investment manager to have greater flexibility and opportunity to potentially engineer more favorable investment returns for the income beneficiaries. And, long-term capital gains are currently taxed at lower rates.

Charitable Gifts to NCF

NCF requires donors to contribute a *minimum* current, outright, unrestricted charitable gift to NCF equal to 1% of their initial PIF contribution value, and a minimum of 1% of the value of all additional contributions to their PIF. (These are minimum requirements because non-cash gifts can be extremely complex and require greater acquisition costs and related ownership transfer expenses, including expensive out-of-pocket legal fees. As a result, NCF may request a larger current, outright, unrestricted charitable gift.)

(NCF PIF donors often discover that the primary source of funds needed for the upfront professional services (legal, accounting, appraisal fees, etc.), actually comes from the Federal income tax savings, which flow from the PIF’s generous charitable tax deductions. And, for donors who pay estimated income taxes, the tax savings are enjoyed sooner, because the next estimated tax due has to be recalculated.)

Administration Fees

NCF charges the PIF an annual administration fee of 70 basis points. The fee is billed quarterly, based upon the value of the PIF assets at the end of the quarter.

Note: These fees do not include additional expenses for investment management fees and direct out-of-pocket expenses.

(Importantly, when donors contribute long-term capital assets to the PIF, that are subsequently sold for reinvestment, the PIF pays no capital gains taxes. This means there are more after sale proceeds to invest and this may mean that a greater effective

rate of return can be quantified for the income beneficiary. Why? Because no capital gains tax is paid, there is more money to invest in the PIF.

Additionally, the income tax savings, generated by the Federal income tax charitable deduction, may offset the PIF taxable income for up to 6 years, depending on the income beneficiary's circumstances.

Finally, NCF PIF income beneficiaries potentially have the opportunity to receive legally-permissible net short-term capital gain income and net long-term capital gain income from the investments managed by their trusted advisors.)

PIF Planning Opportunities

The PIF can create significant income tax savings, by generating substantial charitable deductions (not affected by the Alternative Minimum Tax). The tax deduction can offset post-transaction taxable income, or for offsetting other ordinary taxable income. The PIF deduction may be engineered to average down the tax cost of nearly any liquidity event. It can create a virtual capital gains type of taxation on an ordinary income tax transaction, if half of the ordinary income event is sheltered by the deduction!

Imagine being able to create a charitable deduction without forgoing the income earned from the gift that was donated to the PIF.

Notable Features and Benefits of the PIF

- Receive payments with the potential to increase with inflation, including net realized short-term gains
- Transfer qualified debt-encumbered assets to the trust
- UBTI subject to trust tax rates—not CRT 100% rate
- Involve multiple family members as concurrent or consecutive income beneficiaries
- No minimum or maximum payout rate
- No 10% minimum charitable remainder interest requirement
- Enjoy lifetime income that include favorable long-term capital gains tax rates (see the "Total Return" PIF section below)
- Receive deductions significantly higher than a comparable Charitable Remainder Unitrust/Annuity Trust or Gift Annuity