Hope for a Better World

A Creative Estate Planning Newsletter for friends of Ananda

Is There a Trust in Your Future?

The popularity of trusts in financial and estate planning has grown as people become more sophisticated and seek other options for the management and dispostition of their assets. Indeed, this popularity is well warranted. Given enough input, a trust can do almost anything the settlor (the person who creates the trust) might do for himself - and even some things he can't do because of sickness, disability or death.

One of the trust's most remarkable characteristics is its ability to bridge the gap between life and death. Through a trust the settlor maintains control of his assets after his own death for as long as the law allows. The trust may last as long as the designated income beneficiaries live and 21 years beyond the death of the last beneficiary. More often than not, trusts are set up more for the benefit of others - spouse, children, grandchildren - than for the settlor's direct benefit, even though these benefits are attractive enough in and of themselves.

Charitable Remainder Trusts

When people think of charitable giving and estate planning, it is seldom in the same context. When people give to charities, they picture themselves giving up all control or rights to that gift. When they plan for their retirement or the disposition of assets to their heirs, they see stock, bonds, real estate and other property, not charitable gift plans.

It is the rare individual who is able to combine the two - charitable giving and estate planning - because he understands that with a trust he can "split the interests" of his assets. Charitable remainder trusts are estate planning tools which a donor can use to give away the future interest to charity and keep the present interest for himself and/or family members. Such "double duty" planning spins off very attractive financial and personal benefits.

While most charitable remainder trusts are irrevocable, there may be circumstances which would dictate that the trust should be revocable instead. This would allow the trustee to invade the principal of the trust as well as distribute all of the earned income. The end result is the same - a significant charitable gift - but the income and estate tax savings are different. The benefits of both should be weighed before the final decision is made.

Creative Uses of Charitable Remainder Trusts

Perhaps the most unique - and often surprising - aspect of charitable remainder trusts (CRT) is their flexibility. CRT's are seldom seen as problem solvers, but many a good charitable estate planning counselor has said to prospective donors, "Tell me what you want to accomplish, and I'll see if there's a charitable solution."

Please continue reading to see several charitable remainder trust solutions that might be of interest to you.

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Creative Uses of Charitable Remainder Trusts

Life Insurance as Funding Asset. Mr. G wanted to provide for his wife as best he could, but he also wanted to endow his annual giving to three of his favorite charities. The charitable solution he chose was combining life insurance with a charitable remainder trust.

Solution: Mr. G created a Charitable Remainder Unitrust with the income-only, make up provisions. He funded the trust with life insurance on his life and named his wife as the income beneficiary. Each year, when he makes additional contributions to the trust, he is entitled to a charitable deduction for the gift portion of each premium payment. In essence the resulting tax savings will subsidize the annual contributions. An additional benefit is that he can contribute appreciated securities and other saleable property and avoid the capital gains tax.

During Mr. G's lifetime the trust will have no income and hence no distributions will be made to Mrs. G. On his death, however, the insurance proceeds will be invested in high-yield bonds. Because of the make-up provision, Mrs. G will be entitled to the income not distributed in the prior years.

Charitable Education Trust. Mr. and Mrs. D would like to be a part of their favorite charity's future, but they also want to be part of their grandchildren's future as well.

Solution: They fund a Charitable Remainder Unitrust with highly appreciated growth stock worth $100,000. The term of the trust is 20 years, and income beneficiaries are their grandchildren as a class, ages three to seventeen. Because the yield of the trust is 8%, it is more than probable that through the years the grandchildren will receive over $160,000 to defray their college expenses. The trustee has "sprinkling powers" and will dispense the trust's income to those grandchildren in college who have the greatest need. After 20 years, the trust's principal will pass to their designated charities.

Wealth Replacement Trust. Mr. & Mrs. S are in their early 60's. They are looking forward to their retirement in a few years. They would like to perpetuate their values beyond their lifetime, but they feel their first obligation is to themselves and their four children.

Solution: They fund a Charitable Remainder Unitrust with an income-only, make-up provision, naming themselves as the income beneficiaries for their lifetimes. They fund the trust with low-yield, highly appreciated stocks worth $160,000. Mr. S will serve as his own trustee and has named his bank as a contingent trustee in case of disability or death.

When Mr. & Mrs. S retire, they will change the investment strategy from low-yield stock to high-yield bonds **with no capital gains liability**. Meanwhile, they use the tax savings generated by the charitable deduction to purchase last-to-die insurance on their lives and give all incidents of ownership in the policy to their children. Their agent figures that in five years the dividends from the policy will pay the premiums.

What have they accomplished? Simply what they set out to do: **prepare for a financially secure retirement** with no reduction in principal due to capital gains tax; **pass a sizable portion of their estate** free of gift tax and estate tax to their natural heirs; **made significant contributions to the charities** they had supported during their lifetime.

More Information

For further information on the personal and financial benefits of charitable remainder trusts, simply by return the enclosed card, and request the booklets "Planning for the Future" and/or "A Guide to Planning Your Will." Or you can contact our office:

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