CASE STUDIES IN PLANNED LEGACY GIFTS

Rich and Beth and the Charitable Lead Annuity Trust

Case

Rich and Beth are married. They have one son, Max, who has graduated from medical school and now has two children of his own. Rich and Beth raised Max with a strong spirit of giving to the community and hope the same attitude will be passed on to their grandchildren.

Question

Rich and Beth have worked hard and made some wise investments and they are now quite wealthy. However with wealth, come the questions of how to be certain they will continue to have enough money to support them in their senior years, how to leave a legacy for their son and grandchildren, while reinforcing the spirit of tzedakah and of how to save taxes.

They met with their estate planning attorney and discussed their family, tax and charitable issues. She suggested they amend their family trust to include provisions for a Charitable Lead Annuity Trust (CLAT).

Solution

Rich and Beth amended their family trust so that upon the death of both of them, Max will receive the maximum federal estate and gift tax applicable exclusion amount, which today is $3.5M per person. The remainder of their assets will be distributed to four (4) separate Charitable Lead Annuity Trusts (CLATS), each of which will remain in existence for a period of ten (10) to twenty (20) years.

While each CLAT is in existence, it will distribute monies to Rich's and Beth's favorite charities. Once each CLAT ends, the monies remaining in that particular CLAT will be distributed to Max.

No estate taxes will be due upon the death of Rich and Beth and no taxes will be due when the monies are distributed to the charities. Also, Max and his children will be receiving distribution from the CLATS over a twenty (20) year period of time.

Rich and Beth loved this idea. They continue to have control over their wealth during their lifetime because these provisions are in their revocable family trust. They are able to provide for their favorite charities and to reinforce their ethical values with their son and grandchildren. And they have a potential tax savings of millions of dollars for their family.

Teacher Rose and the IRA Rollover

Case

Rose Rubin is a retired teacher. When she retired, she was given the option to rollover her retirement plan into an IRA. Since she wanted to have control over the investment of the IRA, she decided to rollover her retirement plan into a self-directed IRA.

Rose recently turned 71. She volunteers regularly for favorite charity and makes a gift each year of $2,000. This is a substantial gift for Rose. In order to make the gift, she must withdraw $2,000 from her IRA, report that amount in her income and then write a check to charity. Each year the charity must then give her a receipt, since the gift is over $250. She then reports and deducts the $2,000 charitable gift on her tax return.

Question

Rose heard about the new IRA rollover option. She spoke with the development director at the charity and asked about using the IRA rollover to make her annual gift. The charity said that it is a public charity and would be qualified for the IRA rollover gift. Rose would merely need to contact her IRA custodian and have the gift transferred to her favorite charity. Is this IRA rollover gift possible? Is it a good plan for Rose?

Solution

Rose contacted the large financial company that managed her IRA and was directed to the distribution form. She asked that the financial company make a "qualified charitable distribution" to favorite charity. The amount she selected was $2,000. The financial company transferred the $2,000 directly to favorite charity. The balance of her required minimum distribution was then distributed to Rose. She reported the IRA distribution to her on her tax return, but did not report the $2,000 gift to charity.

Rose loved the simplicity of the IRA charitable rollover. The $2,000 did not get reported on her income tax form and she did not have to itemize to take the deduction. The simplicity and convenience of this gift was a wonderful benefit for Rose.

Dorothy and the Remainder Interest

Case

Dorothy is 95 years old and has lived in her home for over 50 years. She has decided that she wants to make a major gift to her synagogue, which has meant so much to her and her family throughout their lives. She is in excellent health and wants to remain in her home, but she also wants her synagogue to inherit the house after her death.

Question

Dorothy has supported the synagogue with small gifts for many years, but has always hoped she could make a major gift that would have a more significant impact on the congregation. Is there a planned gift arrangement that would allow Dorothy to live comfortably in her house until she dies, but also help her fulfill her lifelong wish to make a major gift to her synagogue?

Solution

Dorothy signed a deed by which she gave a remainder interest in her home to the charity. The deed provided that Dorothy retain a life interest for herself, so that she could live in the home for the rest of her life. It also meant that Dorothy got a large income tax deduction, which effectively increased her income during the rest of her life. After Dorothy died, at age 102, the synagogue sold Dorothy's home and used the proceeds of sale, in accordance with Dorothy's wishes, to support the congregation's endowment.

<u>Harry and his Life Insurance Policy</u>

<u>Case</u>
Harry is 74 years old , married to Sue and has one daughter and one granddaughter. He is, thankfully, in complete remission from a bout with colon cancer from five years ago. Recently he sold his business and feels that he has no further use for what was a $750,000 business related policy on his life. (This can be term or cash value insurance, but in this example, let us say term insurance).

<u>Question</u>
Harry is a man who believes that his family's great success in life is genuinely linked to its Jewish foundations. If there was a way for him to support his congregation while adding to his pension and helping his granddaughter with her future college costs, he and his wife would both feel more personally fulfilled and financially secure.

<u>Solution</u>
Harry felt that the continuation of this extra business life insurance policy was costly, taking money away from the family's current cash flow. After some thought he realized that not only is the policy unnecessary for business purposes, but also unnecessary for his traditional family obligations that would potentially occur at his death (in 15+ years as predicted by his probable life expectancy).

However, rather than lapse his policy for no value, Harry and his wife learned that they, their granddaughter and the congregation can realize a substantial current value from this insurance while he is still alive.

In this case Harry is making a gift to the congregation ***of the proceeds from the sale of one half*** **of the insurance policy ($375,000).** As the fair market value is typically 7% to 21% of the death benefit, the congregation is to receive from $26,250 to $78,750. Harry then used the proceeds of the sale to create a Charitable Remainder Trust, creating an income for him and a gift to the congregation. He then sold the remaining $375,000 of death benefit and contributed what he received to a 529 program for his granddaughter.

This two part sale and contribution resulted in an immediate increase in Harry's cash flow from:
a) annuity income
b) the lower income tax bill
c) no further premium payments
This arrangement has given Harry and his wife the ability to address both their charitable concerns and their *personal needs* while establishing a personal legacy.

And, all of this from an unrecognized asset that over 80% of seniors will end up lapsing, purposefully or inadvertently.