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CHARITABLE GIVING

Supplementing Retirement Income with a CRT

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SUPPLEMENTING RETIREMENT INCOME WITH A CRT

SUMMARY

More and more individuals are discovering a way to increase retirement income using an unlikely source: charitable gifts. These gifts are called "life income gifts" because they pay an income back to the donor. Life income gifts enable people to transform highly appreciated assets that produce little or no income into charitable gifts, and also receive an income stream that can last for life or for the joint lives of two or more people.

WHAT'S A CRT?

A charitable remainder trust is a "split-interest" trust that pays an income to the donor (or someone chosen by the donor) for a number of years, then distributes the remainder of the trust assets to charity. The income payout to non-charitable beneficiaries may last for up to 20 years or for the lifetime of the beneficiaries.

CRTs come in many different forms, but two particular ones are best suited to create retirement income—the net income charitable remainder unitrust with a make-up provision (NIMCRUT) and the "flip" unitrust.

WHAT'S A NIMCRUT?

A charitable remainder unitrust is unique in that it pays the income beneficiary—usually the donor—a fixed percentage of the trust assets as revalued every year. If the trust income in any given year isn't enough to make the payout, the trustee is forced to invade the trust principal unless the trust design includes a "net income limitation." Such a limitation allows the trust to pay the lesser of the trust's net income or the fixed percentage.

The net income unitrust with a makeup provision, or NIMCRUT, lets the trust make up payout deficits in later years of the trust.

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WHAT'S A "FLIP" UNITRUST?

A "flip" unitrust contains special language in the trust document that allows a net income unitrust (with or without the makeup provision) to "flip" or change to a straight unitrust on a specific date or upon the occurrence of an event, such as a sale of the assets originally contributed to the trust.

The "flip" option is particularly useful to donors who contribute real estate, closely held stock or some other non-income-producing asset to the trust. The net income limitation disappears after the illiquid asset is sold, which can be designed to match the donor/beneficiary's expected retirement date.

WHAT'S THE PROCESS?

The donor begins by funding the "flip" unitrust with a non-income-producing asset, such as real estate. In the year of the gift, the donor who itemizes receives an income tax charitable deduction based on the present value of the charity's remainder interest in the trust.

The trustee holds the non-income-producing assets contributed to the trust or invests in assets that produce little or no income until the donor reaches retirement age. Then, the trustee converts the assets into income-producing investments and begins the income payouts. When the trust expires, trust property is distributed to the charitable organization.

CONCLUSION: FLEXIBILITY

For those who are charitably inclined, adding the well-known flexibility of charitable remainder trusts to a donor's charitable motivations can accomplish the twin goals of enhancing retirement income while also making a substantial gift to charity.

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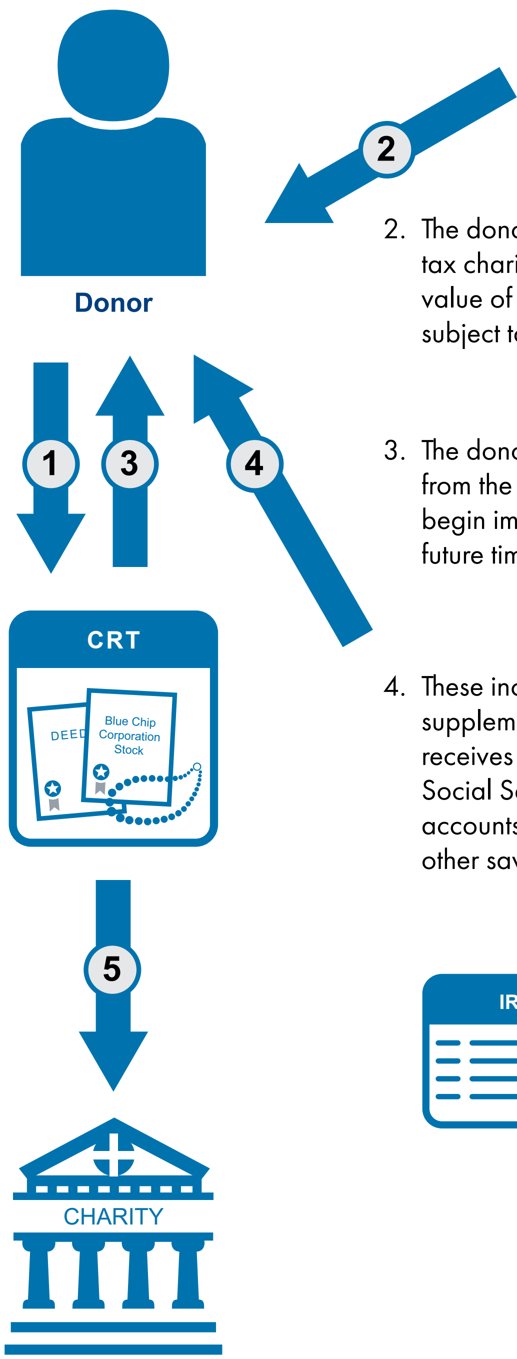

1. The donor irrevocably transfers cash or property to a charitable remainder trust.
2. The donor qualifies for a federal income tax charitable deduction for the present value of the charity's remainder interest, subject to limitations.
3. The donor receives income distributions from the CRT, which can be timed to begin immediately or at some specified future time.
4. These income distributions from the CRT supplement retirement income the donor receives from other potential sources: Social Security, employer retirement accounts, personally owned IRAs, and other savings and investments.
5. The charity receives the remainder when the trust term expires.