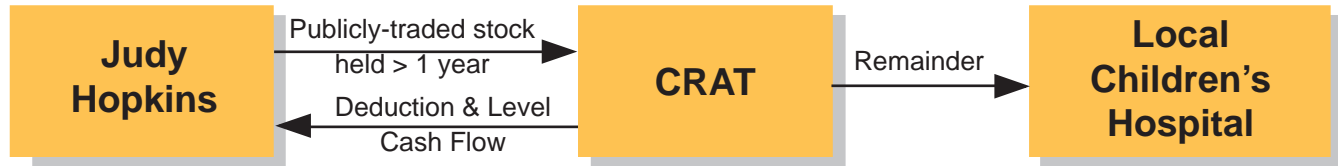


Case Strategy:

Charitable Remainder Annuity Trust

HOPKINS



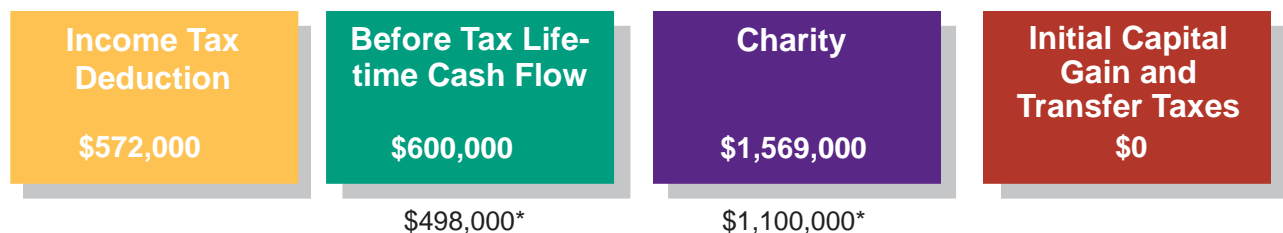
Judy Hopkins (75) wants to stabilize her retirement cash flow and turns to her financial advisor, Bruce Hall, for help. At their initial meeting, Bruce immediately spotted a \$1,000,000 position in one publicly-traded stock, which Judy bought several years ago for \$300,000. Bruce knew that a sale of the stock would trigger a \$135,000 capital gain. During their meetings, Bruce learns that Judy has been a long-time supporter of the local children's hospital since her nephew was treated there many years ago.

To satisfy her goals, Bruce suggests a plan that will increase her cash flow, defer capital gain taxes, diversify her assets, create an income tax deduction, remove the stock from her taxable estate and make a substantial gift to the hospital. Bruce recommends creating a Charitable Remainder Annuity Trust (CRAT) and giving the stock to the CRAT. Bruce explains to Judy that the trust, as a non-tax paying entity, can sell the stock without incurring a tax liability. The CRAT can then invest the entire proceeds from the sale of the stock in a diversified portfolio of stocks and bonds. In addition, Judy will receive an income tax deduction of \$572,000 and a level annual cash flow of \$50,000 (5% of the portfolio's initial value) for the rest of her life.

Judy's CRAT allows her to save a substantial amount in taxes, diversify her portfolio, take advantage of the ability to invest the entire proceeds from the sale of her stock, receive a lifetime cash flow that is level and dependable and, as an added benefit, create a legacy by leaving money to the hospital in the memory of her nephew.

Key Features of CRATs

- CRATs provide a level cash flow to the income beneficiary so they are well-suited for clients desiring a continuous, predictable cash flow.
- Although the trust document often lists a dollar payout, the payout rate must be between 5% and 50% of the initial FMV of the CRAT's initial funding.
- Unlike most other CRTs, CRATs can never accept an additional contribution after the initial funding.
- CRATs must make a payment to the noncharitable beneficiary each year.



*Sum of the inflation-adjusted cash flows. Inflation assumed to be 3%.

Assumptions:

- Combined Federal and state income tax rate of 38.25%.
- Combined Federal and state capital gain tax rate of 19.25%.
- 2% dividend yield and 6% capital appreciation. CRT payout rate = 5%.
- AFR=3.4%. Deduction may be limited. Consult a tax advisor.

For more details about this strategy or any other charitable or trust case, please call Renaissance at 800.843.0050.

Renaissance

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability of this plan before proceeding.

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