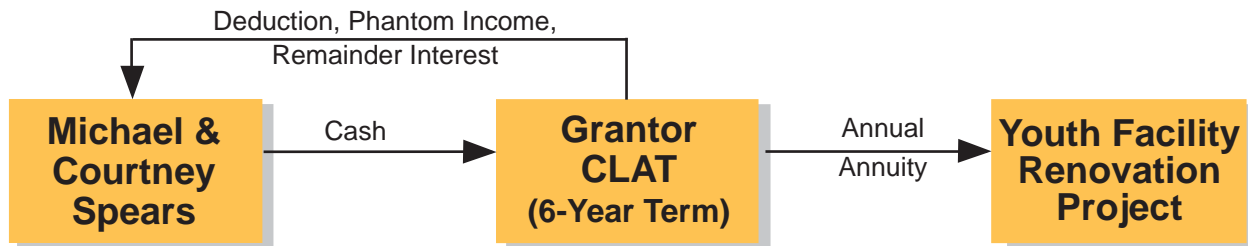


Case Strategy:

Funding a Charitable Pledge using a CLT

SPEARS



Michael and Courtney Spears were recently approached by a charity (on whose board Courtney serves) with a request for a pledge of a major gift towards the renovation of a youth facility. The charity asked for a commitment of \$60,000 to be paid over a six-year period. As a board member, Courtney has witnessed first-hand the positive role the charity plays in the Spears' community and wants to partner in funding this much needed building.

The Spearses, in their late 60s, are enjoying their retirement years spending time with their grandchildren and traveling. Having invested well over the years, they live comfortably from retirement plan distributions and other investment income. In order to ensure fulfillment of their pledge, they would like to create a funding strategy that will guarantee payment of their pledge in the event of a premature death.

Prior to making the pledge, Michael and Courtney meet with their financial advisor to determine how best to fund their pledge. Their advisor describes an interesting strategy utilizing a Grantor Charitable Lead Annuity Trust (GCLAT). Combining a \$250,000 cash transfer to a 6-year term-certain GCLAT with a 4% payout rate, the Spearses can provide for an annual payment of \$10,000 to the charity. At the end of the trust's 6-year term, the principal of the trust will revert to the Spearses to continue funding their retirement.

By selecting a grantor variety charitable lead trust, the Spearses will create a current \$53,000 income tax deduction. However, they will also be required to report all trust income on their individual income tax return each year of the trust's term. In order to minimize the impact of this "phantom income," their financial advisor recommends an investment strategy utilizing tax-free municipal bonds.

This strategy effectively loans cash to the GCLAT creating a fund from which the Spears' charitable objective can be met¹. In addition, they obtain a charitable income tax deduction and ultimately retain the use of the trust's assets to meet their future financial objectives.

¹ An important element of this case is that the Spearses consulted with their advisor before signing a pledge card. The lead interest of a charitable lead trust may not be used to satisfy a pre-existing, legally enforceable pledge.

Assumptions

CMFR = 3.2%.

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.

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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