Charitable Retirement Planning for High-Capacity Clients

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Charitable Retirement Planning for High-Capacity Clients

by Phil Cubeta, CLU®, ChFC®, MSFS, CAP®

12 strategies for forming your clients’ charitable retirement plan.

YOU ARE SITTING WITH a couple, age 62. She is a successful executive; he teaches high school. Soon, she will exit her job with more than either need for lifetime financial security. Her main concern is what she will do with her life, her time and talents, along with her money, once she stops working. He, too, wants to live a purposeful life. To help such clients, you might ask:

• Where would you like to have a positive impact?
• When would you like to have a positive social impact? Now? Later? At death? Beyond death?
• How active would you like to be in driving that impact? Just give money? Invest time and talent?
• Who joins you in this work? What nonprofits? Your children too?
• What does your ideal day look like in retirement? Are you taking it easy? Playing golf? Or are you active in the community making a difference?

Through charitable strategies within an overall plan, you can help them achieve a fulfilling retirement and a lasting legacy.

CONSIDER THESE 12 STRATEGIES TO ENHANCE YOUR CLIENT’S LIFE AND IMPACT

1. Life insurance
Don’t just think of insurance as a gift. Consider it a tool in an overall plan. Maybe heirs get insurance proceeds and charity gets an asset the kids don’t want. Perhaps insurance in a family trust cherry picks assets from the estate that the children want, leaving cash in the estate to go via bequest to charity. Or insurance replaces gifted assets. Or, maybe the insurance goes to the kids in the right amount, and the rest of the estate goes to charity.

2. Charitable remainder trust (CRT)
The donor gives an appreciated asset or cash and receives an income back. The appreciated asset can be sold without capital gain inside the trust. In addition, with a CRT the donor gets an income tax deduction for the remainder interest. At the end of the trust term, the remainder goes to charity.

3. Gift annuity
These are a promise by the charity to pay the donor an income for life in return for a gift. They work much like CRTs in that the donor can gift cash, securities or other assets, get an income back and have the remainder for charity at the donor’s death. Again, the donor

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gets a deduction upon setup for the actuarial remainder interest. The median size gift annuity is in the range of $50,000. Some go as small as $10,000.

4. Commercial immediate annuity
No, a commercial immediate annuity is not charitable in itself. It is just a great way to guarantee a life income, or income for a term of years. Yet, such annuities, and other security products like long-term care and health insurance, are critical parts of a comprehensive charitable plan. In the case of our affluent couple, the clients might secure their own income with a commercial immediate annuity, secure the children’s inheritance with insurance or a bequest, and then think of the rest as money for social impact.

5. Family foundation
Within limits allowed by law, the donor gets an income tax deduction for gifts during life into the foundation. At death, anything that goes in reduces the taxable estate. Grants from the foundation go to charities in line with donor aspirations. Family foundations can be a great way to teach values to heirs and to pass on a family tradition of informed generosity. Generally, private foundations are funded with cash or gifts of appreciated publicly traded stock.

6. Donor advised funds
These funds are offered by, among others, community foundations and the nonprofit subsidiaries of many for-profit mutual fund complexes. A donor advised fund can accept cash or assets. Some will accept hard-to-value or illiquid assets such as land or closely held stock. In any case, when the asset goes in, the donor gets an income tax deduction and the estate size is reduced. Grants, as with a foundation, are then made from the fund to the donor’s chosen charities.

7. Life estate
Say the donor has a residence, vacation home, farm or ranch. With a life estate, the donor can live on the property until death, at which time the charity takes possession. For setting up this life estate in proper form, the donor gets a hefty income tax deduction. Consider using the tax savings to buy insurance.

8. IRA to charity
IRAs are great assets for retirement income, but are subject to both income tax and estate tax at death. Why not consider sending the IRA to charity at the donor’s death, and replacing it with life insurance for the heirs?

9. Bargain sale
Here the donor sells an asset to charity at a bargain price. The donor has made a gift, then, of the bargain element, and has made a sale of the sale element. If it is an appreciated asset, the basis is spread proportionally across the gift and sale elements. The bargain element creates an income tax deduction. Meanwhile, the charity has the asset to advance its mission, and the donor has cash for whatever purpose he or she wishes.

10. Volunteering and board service
In making a commitment to a charity, donors may consider volunteering, or taking a board seat.

11. Bequest
Most planned gifts to charity are bequests. Gift planning does not have to be complicated.

12. Integrated planning
Get clients going with “giving while living.” Then think about how best to keep it going after they are gone.

YOUR ROLE
By asking good open-ended questions, you can help wealthy clients articulate the life they want to lead. Through charitable strategies within an overall plan, you can help them achieve a fulfilling retirement and a lasting legacy. They will appreciate what you have done and will refer others who need such purpose-driven planning set up.