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Philanthropy Coupled with Wealth Replacement
by Allen Thomas, JD, CAP®

An often mentioned technique for making a philanthropic gift and preserving wealth for distribution is to utilize a charitable remainder unitrust (CRUT), coupled with an irrevocable life insurance trust (ILIT) funded with life insurance. This becomes a win-win situation whereby the donor accomplishes a charitable gift to his or her favorite charity through the remainder interest of the CRUT. The asset value placed in the CRUT is replaced by a new life insurance policy payable to an ILIT for a comparable asset value. The life insurance proceeds payable to the ILIT are not includable in the taxable estate of the donor.

The donor is entitled to an immediate charitable income tax deduction for the remainder value of gift to the CRUT. This charitable income tax deduction can reduce ordinary income taxes payable by the donor in the year the CRUT is established and for a carryover period of an additional five years. The charitable income tax deduction is available up to 50 percent of the donor’s Adjusted Gross Income (AGI) each year for a gift of cash to the CRUT, or 30 percent for a gift of appreciated assets.

The premium(s) due on the new life insurance policy can be paid in a single premium or over several years. The savings that the donor realizes from the reduced income taxes payable and/or the annual income payable by the CRUT can help offset the premiums due on the new life insurance policy.

The combination of the CRUT coupled with the ILIT creates a dynamic method to achieve triple objectives, with benefits to the donor, the donor’s family and to the charity. It also demonstrates the contribution that life insurance can make in a well-designed estate plan.

For example, 76-year-old William Jones has an estate valued at approximately $9.5 million. He is a widower with two adult children. Jones has been a longtime patron of his college and has contributed annually to this college for many years. He would like to make a legacy gift to his college, but he still wants to transfer as much of his estate as possible to his children. He is in an annual income tax bracket of 35 percent and has an estate tax rate estimated at 37 percent.
Jones establishes a charitable remainder trust and transfers $1 million into the CRUT. These are appreciated securities that have a cost basis of $685,000. The CRUT has an annual income payment of 5.2 percent, payable to Jones for his lifetime. In the first year, the CRUT will pay Jones $52,000. The remainder of the CRUT is payable to Jones's college at the time of his death.

An ILIT is also created and a new life insurance policy purchased on Jones for $1 million payable to the ILIT. Jones's children are equal beneficiaries of the ILIT. The life insurance policy has seven annual premium payments of $91,500 each. Jones deposits sufficient funds each year into the ILIT to make the premium payments.

Jones is entitled to an immediate charitable income tax deduction of $605,070. This charitable income tax deduction can be carried over for an additional five years for a total of six years. The after-tax value of the charitable income tax deduction is $211,775, or $35,296 per year.

Between the charitable income tax deduction and the annual income payments to Jones from the CRUT, the premium payments are substantially funded.

Jones has removed $1 million of appreciated assets from his estate that would have been subject to estate taxes of approximately $370,000. He has replaced these assets with the $1 million life insurance policy payable to the ILIT, which will be distributed to his children free of estate taxation.

Lastly, the remainder of the $1 million CRUT will be distributed at Jones's death to his beloved college. Jones is extremely pleased with the result of his dynamic estate plan.

The College would be pleased to discuss a charitable planned gift arrangement with you. Please contact Allen Thomas, JD, CAP®, vice president of Advancement at (610) 526-1422 or at allen.thomas@TheAmericanCollege.edu for further information.

Bud Schiff Awarded Huebner Gold Medal

Albert J. “Bud” Schiff, CLU®, CAP® has earned The American College’s highest honor, which only 64 other individuals among 160,000 alumni have received. Named for the institution’s founder, Dr. Solomon S. Huebner, the Huebner Gold Medal has been awarded annually since 1975. It honors the select individuals whose support of The College and whose dedication to education and professionalism have been of particular meaning to the institution.

Dr. Larry Barton, CAP®, president and CEO of The American College, and Robert Plybon, CLU®, ChFC®, the 2010 Huebner Gold Medal recipient, presented the award to Bud during the annual President's Dinner on December 2, 2011.

“Bud has been an advocate for continuing education and an outstanding industry leader for many years. As a member of our Board of Trustees and the Chair of our Foundation Board of Directors, he has helped us take enormous strides as an evolving institution while staying true to our core values,” said Dr. Barton. “This award is a symbol of the high regard in which Bud is held.”

Bud is the chief consulting officer of New York Life Executive Benefits LLC (NYLEX Benefits). He previously served as the CEO of NYLEX Benefits, the senior executive vice president of the Mutual Life Insurance Company of New York (MONY) and as a member of MONY’s Board of Trustees.

As a member of The American College Board of Trustees, Bud is part of an elite group of leaders who govern the institution and ensure that the highest standards are being met and exceeded. Bud also zealously performed his role as chairman of the Foundation Board, steering the endowment through a turbulent economy and bringing a record number of donors to The College.

The Huebner Gold Medal is just one of many accomplishments Bud has achieved over the course of his career. He earned his Chartered Life Underwriter® (CLU®) designation from The American College in 1968 and his Chartered Advisor in Philanthropy® (CAP®) designation in 2011. In 2010, he was nominated by his colleagues to become the sixth member inducted into The American College’s Alumni Hall of Fame.

In addition, Bud has served in numerous insurance industry leadership roles, including president of the Association for Advanced Life Underwriting (AALU), chairman of the International Million Dollar Round Table (MDRT) Top of the Table, and member of the LIFE Foundation Board of Directors.