An Alternative to Your Charitable Bequest

'The $600 Billion Challenge' and the Lifetime CLAT.

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In July 2010, *Fortune* magazine published "The $600 Billion Challenge" article, announcing that Warren Buffett and many others are pledging at least 50 percent of their net worth to charity. Buffett's philanthropic pledge reads, in part:

■ "This pledge will leave my lifestyle untouched and that of my children as well."

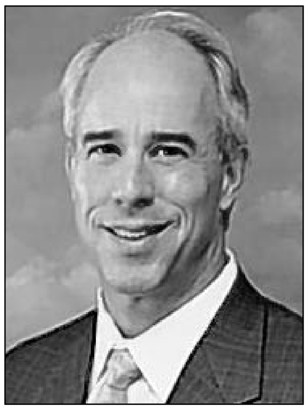
Author's note: This article is intended for the person whose estate plan includes a significant bequest to charity. It discusses the rationale for large charitable bequests and introduces a planning tool to help guarantee your charitable bequest now, receive a large current income tax deduction and transfer wealth estate tax-free to your family.

■ "Too often, a vast collection of possessions ends up possessing its owner. The asset I most value aside from health is interesting, diverse and long-standing friends."

■ "The reaction of my family and me to our extraordinary good fortune is not guilt, but rather gratitude."

■ "[What we are giving] can have a huge effect on the health and welfare of others."

Moving from Success to Significance: If you are financially secure and grateful for the success that resulted from your incredibly hard work and unique circumstances, perhaps now is the time to focus on the legacy you want to leave. As Buffett said of successful people in general: "If they wait until they're making a final will in their 90s, the chance of their brainpower and willpower being better than they are today is nil."



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A Bequest or a Lifetime Gift? Andrew Carnegie reportedly said: "Do your giving while you're living so you're knowing where it's going." Most charities depend on annual giving to fund current programs and services and look for significant lifetime gifts and bequests to fund their dream goals. Major donors typically give annually to charity in addition to making carefully considered large gifts and bequests. With the Lifetime Charitable Lead Annuity Trust (CLAT), you can do both most efficiently.

The Lifetime CLAT: A Lifetime CLAT pays a predetermined charitable annuity payment — for example, $5,000 per year during your life and $1.5 million as a final annuity payment at your death. Your CLAT assets must be used first to provide these lead payments to your charity. If your CLAT has anything left over after your death, the remaining assets will pass estate tax-free to your charity.

There are several factors that make a 2011 Lifetime CLAT particularly attractive:

■ In today's low-interest-rate environment, a Lifetime CLAT can provide a significant estate tax-free remainder interest to your family at your death. Your CLAT assets will be managed according to your objectives for charity during your life and for the benefit of your family after your death.

■ There is no charitable income tax deduction for will bequests. With a CLAT, you can receive a current income tax deduction, if desired, both for your

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planned annual gifts and for the final gift at your death.

■ Many planned bequests never happen, despite everyone's best intentions. A Lifetime CLAT can provide you with funding certainty. You can fulfill both your annual gifting goals and your planned bequest with an endowment-like fund in your CLAT.

A Lifetime CLAT Example: Let's assume you currently give $5,000 annually to your favorite charity and plan to make a $1.5 million bequest at your death.

■ Your attorney prepares a grantor CLAT for you and your designated trustee. You fund the CLAT with $100,000 in municipal bonds to pay $5,000 to charity at the end of each year. In addition, you purchase a $3.5 million paid-up life insurance policy for $900,000 and gift it to the CLAT.

■ You receive an income tax deduction of $900,000 to $1 million. In a 40 percent tax bracket, this will generate $360,000 to $400,000 of tax savings. In addition, if you receive a $1 million income-tax deduction, you will also receive a 100 percent gift-tax deduction.

■ Your trustee pays the CLAT's $5,000 annuity to your charity every year until your death. You have no taxable income, because your CLAT is invested in tax-free and tax-deferred instruments.

■ When you die, the insurance company pays $3.5 million income tax-free to your CLAT. Your trustee makes the final $1.5 million annuity payment to your charity and then distributes the remaining $2 million tax-free and all other CLAT assets either outright to your family or to a family trust for their benefit.

Your Personal Planning: Your actual results will depend upon a number of circumstances, including your age, personal goals and circumstances, and the current IRS Section 7520 interest rate.

In today's economic environment, CLATs work well both with and without life insurance. If you decide that it's time to know more about your planning options, your legal, tax, investment and estate planning advisers can develop a plan to achieve your objectives.

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