You Can Be a Philanthropist!

Planning for your financial well-being

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What makes Ebeneezer Scrooge such a compelling character in *The Christmas Carol* is that his stinginess is uncharacteristic of most people. Most people genuinely enjoy sharing what they can with their favorite charity.

The problem is most of us believe we can't afford to give nearly as much as we'd like. We may be wrong. Here are some stories that make this point.

Perpetual support

In reviewing a client's coverage, an agent looked over several years of tax records. He noticed that his client consistently gave a generous annual gift to a small church. The client explained that the church had been part of his family for generations. The agent asked, "Why should your lifetime support end with your death?"

Visibly startled, the man said what most of us probably would say. He knew how important his contributions had been to his church. Sure, he'd love to support it after death. But he didn't have that kind of money. The agent explained how he could, indeed, continue to support his boyhood church – even after death.

Here's what the agent suggested to his client . . .
Purchase a $250,000 life insurance policy. At death, death benefit proceeds from the policy will replace the annual contribution.

Here's how to make this happen … The church would own the policy. The man would make tax-deductible donations to the church. The church would then pay the premium. Depending on the premium amount, the policy could be fully paid in ten to twelve years, although there is no guarantee. In many cases, it's possible that the tax-deduction might offset all or part of the cost of the premium, thus making the arrangement very affordable. The client was pleased and surprised to see how his lifelong habit of supporting his family church could continue in perpetuity.

Tax advantages

Consider this case … an elderly couple was concerned about their investments. In a way it was a nice problem, because the couple's stock market investments over the years had appreciated to about $1,000,000. The problem was that the couple didn't want their money tied up in low-yielding, higher-risk common stocks. They wanted conservative investments that would provide more interest income.

Why didn't they just sell their portfolio of stocks and buy less risky, higher yielding investments? Because they'd have to pay an enormous capital gains tax.

Here's one possible way to deal with this situation . . .

- Create a Charitable Remainder Trust (CRT)
- Gift the stock portfolio to the CRT

Gifting the stock to a nonprofit CRT will trigger a tax deduction. In this example, the deduction was more than a third of the $1,000,000. (The amount of a CRT deduction and the ability to take it are variable factors dependent on a taxpayer's financial position, life expectancy, and other factors. Check with your professional tax advisor for the details.)

What happens next? The CRT sells the couple's stock and buys conservative investments with the potential for higher yields. Because the nonprofit CRT executed the sale, no capital gains tax is due. Moreover, the couple may receive income from the CRT for as long as either of them lives (subject to the risk of the investment). Upon the death of the surviving spouse, any remaining CRT assets would be given to a charity or charities chosen by the couple.

Remembering heirs

Wait one minute, you say. What about the couple's children and their inheritance?

There's another financial strategy that can be employed to ensure that the kids are not disinherited. It involves the purchase of a joint survivorship life insurance policy large enough to replace the assets that went into the charitable trust. The cash to pay for the premiums could come from the couple's tax deductions and potential increased yields from investments in the trust.

Personal gifts to favorite institutions

Here's another example of how financial strategies can be applied for charitable giving. A wealthy woman had completed her estate planning carefully. Her family was provided for. Everything seemed to be in order. Except this lady had a passion for her university and a local museum. She already had left money for each, but wanted to do more.

The solution was to have each institution purchase a $1 million insurance policy and name the respective institution as the owner of its policy. In this way, premiums paid by the donor would be tax deductible, and thereby more affordable.

A problem was solved and, in the process, funding was provided for a private institution. The woman felt gratified to be able to express her personal generosity in a very real way.

Consider your options and resources

Sonja Hayes, J.D., L.L.M., advanced marketing attorney for GenAmerica Financial Corporation, St. Louis, Missouri, notes, "There are many insurance-based philanthropic options for charity-minded people to explore. A person does not necessarily have to be wealthy to take advantage of such opportunities for giving, although discretionary income is required. The process works well even for people with modest levels of income.

"The elite wealthy used gifting strategies like these for years," Hayes continues. "Now, these options are available to many more of us. And, if we are charitably inclined, we should at least look into the possibilities."

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