



PLANNING

Sherwood Oaks

CHRISTIAN CHURCH

CHARITABLE CASE IN POINT

ISSUE 3

2700 E. Rogers Road, Bloomington, IN 47401

Sherwood Oaks Christian Church

CHARITABLE CASE IN POINT

In this, our third issue of Charitable Case in Point, we want to discuss with you a very exciting charitable solution to a financial problem which many of your clients may face. We want to share with you a way in which Sherwood Oaks Christian Church can become your client's partner in retirement income planning.

CLIENT'S DESIRE VERSUS BOTTOM LINE

Before we look at our case in point, let's focus on something many of us have had a difficult time learning.

Often a concept is presented to a client, showing a great bottom line benefit, only to have the client choose another plan which did not produce equivalent results.

Have you experienced this too?

The point is this: *To most clients, "Perception is more important than fact."*

Many professionals have a difficult time realizing that their client may have strong charitable interests and will choose a plan with a charitable benefit, even if the bottom line – tax-wise or family-wise – is not quite as competitive.

The charitable case in point illustrated in this issue might fall into this category. While the actual case in point illustrates a plan established in addition to other tax planning, clients with strong charitable interests may consider this plan instead of traditional retirement planning, when it is presented with the other alternatives.

TAX REFORM AND RETIREMENT PLANNING

You already know that there have been limitations placed on the amount which highly paid professionals can contribute to a retirement plan, whether that is an IRA, or a formalized pension program.

And there's another segment of the marketplace which faces problems of a

different nature. That's the person who needs to make retirement deposits, who does not have sufficient cash flow, but owns highly appreciated property. Even with reductions in capital gains tax rates, it is too costly to sell appreciated property to make retirement deposits.

The Charitable Retirement Income Trust can provide an answer to these problems, and should be considered as a viable alternative to traditional retirement planning.

The following charitable case in point will illustrate for you the benefits that one person received from this vehicle.

CHARITABLE CASE IN POINT

Our client was a 37 year old professional who wanted to set aside more for retirement income than traditional planning tools allowed. Our client also wished greater flexibility to receive income from the retirement plan earlier or later than the law requires for traditional retirement planning, without penalties.

Our client also owned stock which was highly appreciated in value, and thought the stock would continue to appreciate, so did not want to liquidate it at this time.

CHARITABLE SOLUTION

Our client established a charitable retirement income trust, transferring \$5,000 of appreciated stock to the trust each year. The annual contributions to the trust can be flexible. More or less can be transferred in any given year, or a year can be skipped altogether. And our client can begin receiving income from the trust when needed.

Because any proceeds remaining in the trust at the death of our client are distributed to a charitable organization, our client receives a charitable deduction for a portion of the contributions made to the trust. In addition, capital gains tax is totally avoided on the appreciation of the stock used to make annual contributions.



Assuming annual contributions are made to the trust until age 65, our client will have contributed a total of \$140,000, generating \$34,625 in income tax deductions. Trust assets will be invested for growth, until the client retires. Then, the trust will be changed to provide retirement income.

Using conservative projections, and assuming standard mortality, the client will receive over \$1 million during retirement years.

USE OF CHARITABLE DEDUCTION

Our client used the tax savings generated by the creation of the charitable retirement income trust, to purchase a life insurance policy which fully replaces the value of the assets transferred to the trust for personal beneficiaries.

The life insurance is purchased in an irrevocable life insurance trust, and therefore avoids estate taxes.

CHARITABLE BENEFIT

The client receives personal retirement income, and substantially increases the estate distribution to personal beneficiaries, free of income and estate taxes. An additional advantage of the charitable retirement income trust is that Sherwood Oaks Christian Church will receive over \$1 million at the time of our client's death, based upon projected market growth.

SUMMARY OF BENEFITS

- **Can be funded with appreciated property.** There will be no capital gains tax at the time of contribution to the trust, nor will there be capital gains tax payable if the trust subsequently sells the appreciated property.
- **Flexibility of contributions.** Lump sum or annual contributions can be made in any amount, in any given year. A year can even be skipped if desirable. This fits an individual's desires and financial abilities.

- **Total flexibility to receive retirement income.** The trust can provide income for early retirement; there is no forced income draw by a certain age.
- **Retirement assets are fully protected from creditors.**
- **Total flexibility of trustee.** The trustee can be the client, the charitable organization, another individual, or a trust department.
- **Contributions provide tax savings.** Tax savings can be used to replace assets to personal beneficiaries, estate-tax free.
- **Creates a substantial charitable gift to a worthy charitable organization.** This brings a sense of satisfaction for the client, as it supports ideals that have eternal worth.

LET US BE OF SERVICE

If this idea intrigues you, allow us to show you how it might apply to one of your client's situations. We would be happy to provide an illustration of this type of transfer for your client, including tax implications, computer printouts, ledger sheets and tax citations, all in a personalized presentation.

It's important to note that you can lead your client in this direction, without detracting from the need for your professional services.

- If you are selling product, this idea creates a need for product.
- If you are managing assets, you can continue to manage the trust assets.
- If you provide trust services, this creates a need for those services.
- If you provide legal services, there is drafting to be done.
- If you are providing tax counsel, review and application of this concept to your client's circumstances is an important service you can provide.



We, at Sherwood Oaks Christian Church, feel that it is important to maintain relationships between client and professional in each of the financial disciplines. This is the basis for our commitment to provide service to and through the professional. I'm sure you will appreciate this fact.

HOW TO PROCEED

For a personalized presentation for your client, follow these steps:

- Provide the necessary personal and financial data for your client, including:
 - Client's birth date,
 - Client's spouse's birth date,
 - Client's tax bracket this year, and projected changes in future years,
 - Client's approximate estate size,
 - Amount of potential initial contribution,
 - Cost basis of contribution,
 - Projected future year contributions,
 - Projected cost basis of future year contributions,
 - Anticipated retirement date, and
 - Client's charitable interest.

- If you wish for the presentation to be on your stationery, you need to provide us with an ample supply.
- We will prepare the presentation and return it to your office for presentation to your client.
- We are also available for further telephone counseling, or can become part of the presentation team, if you desire.

CONCLUSION

It is our desire to be of service to you. If you will provide the information listed above, we will prepare a personalized presentation for your client.

However, if you do not have a client who fits these circumstances at the present time, we would be happy to provide you with a Special Planning Report containing full details of the charitable retirement income trust. Please call our office at 812.234.0206, or use the enclosed response card to make your request.

RESPONSE CARD

- Please send me the Special Planning Report offered in *Issue 3* of *Charitable Case in Point*.
- I have a client whom I believe could benefit from this type of vehicle. Please contact me to further discuss its possibilities.

Name

Address

City *State* *Zip*

Profession *Daytime Phone*

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Note: The information in this newsletter is of a general nature only, and should not be interpreted as legal advice. Illustrations were calculated using a 5% mid-term AFR rate. The rate in effect in the month of a transfer or in either of the two months preceding the transfer will be used to calculate the charitable deduction for a specific gift.

