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in this issue:

How Charitable Giving Can Benefit Donors

Kelly and Bob regularly set aside a small portion of their budget for charitable donations. In addition to feeling good about supporting a number of worthy causes, they've been able to deduct the value of their charitable gifts from their Federal income tax return. Now, the couple thinks it is time to make a larger charitable contribution. Their intention is to donate some stock they purchased years ago for $1,000 that has since increased in value to $50,000.

Before Kelly and Bob move ahead, they realize that there are a couple of issues that need to be resolved. For instance, Bob is reluctant to make the donation because, by doing so, he realizes their children will not reap the benefits of the stock. On the other hand, Kelly wants to make sure the donation is advantageous to both them ***and*** the charity. Upon careful review, the couple has come up with a plan that helps alleviate their concerns. Here's a closer look.

The first step for the couple is to address Bob's concerns. They can do this by purchasing a **life insurance policy** in an amount that is equal to the value of the stock—that is, $50,000. Through the life insurance, they can help ensure that their children ultimately receive a benefit that is generally commensurate with the value of the donated stock. They will increase their expenses because of the policy's premiums, but, as you'll soon see, donating the stock may actually help pay for the policy.

Next, the couple can address Kelly's concern by donating the *actual stock* to the charity, rather than selling the stock and then donating the proceeds. There are two reasons for this decision.

First, if they sold the stock, they'd realize a gain of $49,000 ($50,000 - $1,000), that would, in turn, result in capital gains tax of $7,350 ($49,000 x 15%). Therefore, the couple's donation would be reduced from $50,000 to $42,650, if they choose to pay the tax from the proceeds. Or, they would need to cover the tax with other funds. By donating the stock directly to the charity, any appreciation in the stock's value is not taxed (either to the couple or to the charity).

Second, the income tax benefit generated by a deduction for a charitable gift is based on the **fair market value (FMV)** of the gift and the couple's Federal income tax bracket if the stock being donated is appreciated,

continued on page four

Practical Uses for Practical Trusts

Trusts are valuable tools that can help you meet a variety of financial and estate planning goals. As you plan your long-term strategies, you may find many practical ways to use trusts to manage your investments, retirement, children's education, and your estate. Let's look at several types of trusts that may be helpful to you.

Revocable Trusts. Assets in a revocable trust avoid probate, which is the judicial process that determines the validity of a will and ensures it is faithfully executed. Incorporating a revocable trust into your estate plan may save your heirs time and money, as well as preserve your family's privacy. Furthermore, with advance planning, these trusts can also be used to help married couples minimize estate taxes.

Irrevocable Life Insurance Trusts (ILITs). When properly implemented, the proceeds of an ILIT will not be included in your estate. They will be payable to the ILIT's **beneficiaries** (generally, children and grandchildren) without incurring any estate tax consequences. In more advanced uses, an ILIT can be a useful strategy to help ensure continuity in a closely-held business. Passing a family-owned business of substantial value to heirs may be hampered by potentially large estate taxes. These taxes, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay them. However, an ILIT can purchase a life insurance policy on the owner, with the death benefit providing the cash needed to help meet estate tax obligations and keep the business in the family.

Qualified Residence Trusts. Putting your home in a trust can help reduce the potential estate or gift taxes on your personal residence.

Education Trusts. If you hope to help fund your grandkids' college education, you know how challenging it can be to determine how much each grandchild will need. You could simply give money directly to your children, with instructions for them to use the money for that purpose, but that doesn't guarantee the money will be available when your grandchildren need it. To help ensure this objective is met, consider establishing a trust and give the trustees (possibly your children or a financial institution) discretion to allocate the funds among your grandchildren as appropriate to provide incentives for them to pursue their higher education.

Trusts for Creditor Protection. Many parents have had the unfortunate experience of making large gifts to a married child who subsequently gets divorced and much of those assets go to the former in-law. In other instances, the child may be subject to claims from a lawsuit. A trust can be an excellent vehicle for making gifts to your children in a way that makes the assets available for their use, but prevents them from being depleted to satisfy the claims of potential creditors.

Spendthrift Trusts. You may have a child or relative who needs your financial support, but cannot effectively manage the assets. A trust can be established that will help assure both you and your intended beneficiary that the funds will be available when they are truly needed. The trust can be structured to distribute assets when the beneficiary reaches a certain age or to allow the beneficiary to become a co-trustee. With the latter approach, the beneficiary may participate in, but not have sole responsibility for, management of trust assets.

Trusts for Medicaid/SSI "Supplemental Needs." If your child has disabilities that may qualify for government assistance, the receipt of an inheritance or gift normally will disqualify them from such benefits until the gift is "spent down" and only exempt resources remain. In that situation, it's critical to leave assets in a carefully drafted discretionary trust that permits the trustee to expend needed resources for the child's benefit in a manner that supplements, but does not replace, governmental resource payments.

There are numerous ways for people with different income levels to use a trust in their estate planning and normal life circumstances. For specific guidance, be sure to consult your qualified financial, tax, and legal professionals.

Choosing Your Pension Payout Option

Many couples may find themselves confronted with a dilemma as retirement nears. If you plan to receive your **pension** payout on a monthly basis (rather than in a lump sum), you must decide whether you want to receive a higher payment during your lifetime (the **life option**) or a lower payment that will span the lifetimes of both you and your spouse (the **joint and survivor option**).

As you choose between these options, you will need to consider the current and anticipated health of both you and your spouse, as well as your life expectancies. You will also need to assess your financial situation and income requirements. Here is a brief look at each of these payout options:

Life Option. With this option, let's assume you receive $1,700 per month for your lifetime. This will be higher than the amount you would receive with joint and survivor benefits, say by $475. If you live a long life, this extra $475 per month will undoubtedly come in handy. On the other hand, once you die, payments to your surviving spouse, who may live for many more years, will stop. This could have a significant impact on his or her standard of living.

Joint and Survivor Option. If you were to select the joint and survivor option, suppose you receive $1,225 per month ($475 less than with the life option). If you die before your spouse, payments to your surviving spouse will continue for his or her lifetime. This may help provide critical income for your surviving spouse, especially if he or she outlives you by many years. However, if your spouse dies before you, you cannot change your payout option, even though your reason for choosing the lower monthly benefit to protect your spouse's long-term income is no longer applicable.

The Best of Both Worlds

Deciding between these options may leave you and your spouse feeling as though you are betting on each other's lives. But, you need not be locked into an "either-or" situation. With proper planning, you may be able to have it both ways—a higher monthly benefit now *plus* continuing income for your surviving spouse should you die first.

In structuring this approach, you would select the life option and use a portion of the higher monthly benefit to purchase a permanent **life insurance** policy on yourself. If you should die first, your surviving spouse can manage the insurance proceeds to help create monthly income, as needed. On the other hand, if your spouse should predecease you, you can cancel the policy and continue receiving the higher monthly pension benefit.

This strategy requires *disciplined* money management to achieve the desired results. First, your life insurance policy may lapse if the premiums are not paid. Second, a lump-sum death benefit must be properly managed to yield the anticipated income. Third, by waiving the spousal provision, your spouse may lose other pension-related benefits, such as cost-of-living adjustments or company-sponsored health insurance. Finally, the issuance of a policy at a reasonable premium (which would depend on your age and health) is not guaranteed. Therefore, it is important to apply and verify that you qualify for the appropriate amount of life insurance prior to making the pension payout selection. If the premium consumes too much of your monthly payout, this strategy may not be feasible.

Consider All Your Options

When choosing between the life option or the joint and survivor payout option for your pension, coupling the life option with a life insurance policy may be appropriate. There are many factors to consider, including your age, your spouse's age, your health, your actual pension benefit, and the insurance premium costs. It is always important to analyze your situation carefully with the assistance of your financial professional to help determine which approach may work best for you.

Term Insurance for the Growing Family

today, a young family must be prepared for uncertainty and change. Rising costs in child care, health insurance, and general household expenses often require families to be more proactive in their approach to retirement and education savings. Unfortunately, no matter how well you've planned your family's future, life can be unpredictable. What if you were to die unexpectedly? Have you considered how your spouse would pay

the mortgage and the bills? Further, how would your spouse afford quality education for your children? **Term life insurance** offers both short-term flexibility and affordability, in addition to a relatively high death benefit, which makes it a viable option for a growing family. Be sure to consult a qualified insurance professional for specific guidance according to your unique circumstances.

how charitable giving can benefit donors

continued from page one

qualified, publicly traded stock (if not, the amount eligible for the charitable deduction is limited to the cost basis of the property donated). So, assuming the couple is in the 28% Federal income tax bracket, a gift of $50,000 would result in a decrease in their income taxes of $14,000 ($50,000 x 28%). On the other hand, a gift of $42,650 would only result in an $11,942 decrease in their taxes ($42,650 x 28%). In effect, donating the appreciated stock outright produces a greater current year tax deduction and results in a greater tax savings than selling the stock and donating the proceeds after taxes.

Ultimately, the money saved from the tax deduction can be used to help offset the costs associated with the life insurance policy. The end result truly is a "win-win-win" situation. The charity wins because it receives the full value of the stock, Bob and Kelly win because they get a maximized charitable income tax deduction, and their children win because they eventually receive a life insurance death benefit that replaces some, or all, of the value of the stock.

Making the Most of It

If you would like to maximize the tax benefits of charitable giving, be sure to consult with a qualified tax professional. There are some limitations on charitable giving based on the type of gift, the type of organization receiving the gift, and your **adjusted gross income (AGI)** for Federal income tax purposes. In addition, a charitable deduction is only available to taxpayers who itemize their deductions as opposed to taking a standard deduction. Nevertheless, the ability to receive an income tax deduction and possibly replace some of the donated wealth with life insurance makes charitable giving pay off for you *and* for the organizations you wish to support.