

Using IRAs with Charitable Remainder Trusts

(Part 1 of 3)

Things are more challenging for our clients than we may think. Consider all of the competing forces they face in their financial and estate planning.

Most importantly, of course, are their *personal planning goals*. Most of our clients want catastrophic illness protection for themselves, remarriage protection for the surviving spouse, creditor and divorce protection for their beneficiaries, and values promotion for future generations.

These important goals are influenced by their professional *advisors* including financial advisors, insurance professionals, attorneys, and accountants. Different advisors may have different goals, different planning processes, and therefore often send confusing signals.

The third force is the client's estate *tax* goals. Of course, they first want to make full use of the unlimited marital deduction (if married) and then want to protect and preserve the maximum amount excluded from estate taxation on the second death.

Finally, all of these things must be balanced with the client's desire to defer income taxes for as long as possible using IRAs and qualified plans during life and "stretch-out" planning for subsequent generations.

These four forces are often on a collision path with one another, and the client is left standing at the center of the crash!

This brief series concerns a specific strategy that can balance these goals in certain counseling situations. For the right client, it can be a solution that all the advisors can appreciate and agree upon.

The strategy involves naming a testamentary (created at the time of death) Charitable Remainder Unitrust (CRUT or CRT) as the beneficiary of an Individual Retirement Account (IRA).

In this first of a series of articles on the subject, we'll introduce the general mechanics of the IRA-to-CRT strategy. In future installments, we'll explore more of

the details and the positive results to be gained.

Here's an overview of the strategy:

1. Client creates an estate plan calling for the creation of a Charitable Remainder Unitrust on death (thus testamentary CRT)
2. Client names CRT as beneficiary of his or her IRA
3. The CRT receives a lump sum distribution of the IRA assets on client's death
4. The beneficiaries of the CRT receive a set annual percentage payout from the CRT for life
5. Upon the death of the final beneficiary, the "remainder" of the CRT principal is paid to the charity or charities named in the CRT

The bottom line is that the transaction is a gift to the end beneficiary (the charity), subject to the retained right to income by other beneficiaries for a number of years. In our next issue, we'll explore the basics of CRT taxation, and demonstrate why this can be such a powerful strategy for your clients.



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