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Supplementing Retirement Income With a Charitable Remainder Unitrust

Another Way to Fund Retirement

In many instances, a charitable remainder trust is set up just before retirement, with the donor making a single, large gift to the trust. Such a trust allows an individual who is on the verge of retirement to combine charitable goals with retirement income planning.

A charitable remainder unitrust (CRUT) can be established some years before retirement. The CRUT allows additional annual gifts to the trust. For a person who is a number of years away from retirement, this type of trust can combine charitable objectives with retirement asset accumulation goals.

Who Should Consider a CRUT to Accumulate Retirement Assets?

A person who:

- Has a high level of current income;
- Has at least five to ten years before retirement and desires to put away more for the golden years;
- Has reached the maximum level of contributions to his or her qualified retirement plan, and/or
- Needs to shelter retirement funds from current income taxation.

The “Flip” CRUT – A Typical Example

- The donor establishes a charitable remainder unitrust with income for life or for the lives of the donor and/or spouse. Payouts are set at the annual minimum 5.0% of the net fair market value of assets or the income generated by the trust, whichever is less. The trust document specifies that the trust will convert (“flip”) from its net income format to a standard form of unitrust at some pre-determined date or other triggering event. At that point, the trustee will distribute a full 5% of the trust’s then value using both income and corpus if required.
- The donor makes annual gifts to the trust.
- In the early years, the trustee invests the annual gifts in capital gain assets which generate little or no current income.
- At the death of the last income beneficiary, the trust assets pass directly to the charity.

The result: Due to very small (perhaps zero) payouts in the pre-retirement years, the assets in the trust can grow much larger. When the 5.0% payments begin, the annual income can be substantially higher.

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How It Works – A Hypothetical Example

Assumptions:

Married couple aged 45 and 42. First spouse dies at age 77, second spouse at age 81
Gifts of $25,000 per year are made each year for 20 years.
Net income CRUT for 20 years paying out less than 5% of the trust value, flipping to a standard 5% payout thereafter. 7.0% total return each year.
Years 1 through 20 assume 1% paid as income, with 6.0% as growth
Years 21 through 40 assume 5.0% paid as income, with 2.0% as growth.

Pre-Retirement Period – Maximize Capital Accumulation, Minimized Income and Taxes

Year	Total Contributions to CRUT at $25,000/Year	Cumulative Deduction Allowed	Cumulative Pre-Retirement Income	CRUT Year-End Value
1	$25,000	$3,447	$250	$26,500
5	$125,000	$18,952	$4,064	$149,383
10	$250,000	$42,772	$16,548	$349,291
15	$375,000	$72,460	$40,302	$616,813
20	$500,000	$109,057	$79,135	$974,818

Post-Retirement (“flip”) Period – Maximize Income, Charitable Legacy

Year	Total Contributions to CRUT	Current-Year Income	Cumulative Post-Retirement Income	CRUT Year-End Value
22	$500,000	$49,716	$98,457	$1,014,201
24	$500,000	$51,724	$200,891	$1,055,175
26	$500,000	$53,814	$307,464	$1,097,804
28	$500,000	$55,988	$418,312	$1,142,155
30	$500,000	$58,250	$533,700	$1,188,298
32	$500,000	$60,603	$653,718	$1,236,305
34	$500,000	$63,052	$778,585	$1,286,252
36	$500,000	$65,599	$908,497	$1,338,216
38	$500,000	$68,249	$1,043,657	$1,392,280
40	$500,000	$71,006	$1,184,277	$1,488,529

Total post-retirement income……………………………………..$1,184,277
Charitable legacy (remainder)…………………………………….$1,488,529