Wealth Replacement Trust

Successful individuals who use certain estate planning techniques to transfer substantial assets to charitable organizations often remain concerned about their families, and how the loss of those assets could affect them. But there is a solution that can be considered: using life insurance in a Wealth Replacement Trust (WRT) to replace the wealth that was donated and to make the children's inheritance whole. With the help of an estate planning attorney, the donor sets up a WRT for the benefit of his or her family — and funds it with cash gifts. With the proper planning, the WRT can replace the donated assets, while helping the donor address other issues, such as estate erosion from estate and/or income taxes.

Creating a Wealth Replacement Trust

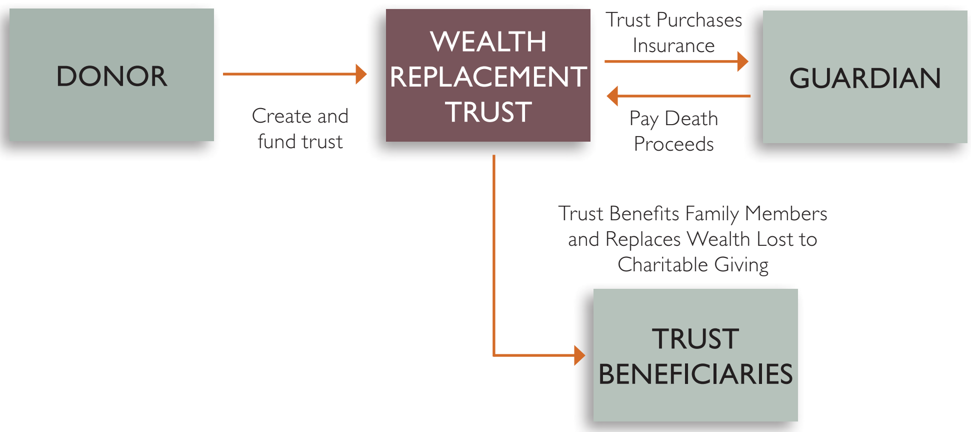
Mark Jefferson is a wealthy philanthropist who credits much of his business success to the university that he and his late wife attended — and the town where that school is located. As a way of giving back to the university and their community, Mark wants to gift to the university $1.5 million. Mark struggles with this plan, however, since he doesn't want his three children to have to pay the price for his philanthropy. After discussing the situation with his financial professional, Mark decides to implement the following recommendation — which would help him make his generous gift, help with potential estate tax liabilities, and ultimately provide the same inheritance for his children:

- Mark donates $1.5 million to the university, which removes the donated funds from his taxable estate.
- Mark and his attorney create a Wealth Replacement Trust (WRT).
- The WRT uses cash that Mark gifts to the WRT each year to purchase a life insurance policy with a face amount of at least $1.5 million, with Mark as the insured.
- Upon Mark's death, the insurance carrier pays the tax-free death benefit to the trust.
- The death benefit replaces the money donated to the university. The trust can now use that money on behalf of Mark's children, the beneficiaries of the trust.

With this planning technique, Mark receives favorable income, gift, and estate tax benefits by making the charitable gift — and he is able to replace the value of the donated cash with the strategic use of the WRT and life insurance. (Note that individuals may create a Wealth Replacement Trust to replace other types of donated assets, such as land, a building, securities, collectibles, etc. — or even retirement plan assets.)

Continued…

How It Works



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