



CLAT-ILIT

A Way Donors Can Give Both Now and in the Future

Here's how to help donors ensure their heirs' security while making an irrevocable gift to your organization.

By Frank K. Simon, Jr. & Brenda A. Ray



There's no shortage of high-net-worth people who want to make charitable donations. But there's often a shortage of knowledge about the best way to make those contributions, minimize taxes, and also ensure financial security for heirs.

While many products can accomplish these goals, a favored

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How to Market Planned Giving to Donors (Vol. 22, No. 6)

Planned Giving Tips for Every Organization (Vol. 23, No. 6)

Is Planned Giving Right for You? (Vol. 22, No. 5)

How to Obtain More Bequests (Vol. 23, No. 2)

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method is using a Charitable Lead Annuity Trust (CLAT) in combination with an Irrevocable Life Insurance Trust (ILIT). This combination is known as the CLAT-ILIT plan. Donors and advisers working together can create the CLAT-ILIT as a turnkey, tamper-proof process that helps donors benefit their families and favorite charities at the same time.

First, the CLAT

CLATs were first developed in the 1970s—Jacqueline Kennedy Onassis' estate design contained several. At its creation, the donor transfers cash or property to the CLAT. During the CLAT's term, a fixed dollar amount is paid annually to the designated charity. At the end of the trust term, the remaining principal is distributed to the non-charitable beneficiaries (usually the donor's family) designated in the CLAT.

There are tax benefits to take into consideration, too. With a CLAT, the donor may bypass gains on appreciated property and thus save capital gains tax. In addition, donors may receive charitable deductions on their income-tax returns, carrying forward any unused charitable deduction for up to five years. The CLAT, therefore, lets donors carry out lifetime charitable giving in a tax-advantaged way

while providing for family members or other heirs.

Then, the ILIT

The second component of the CLAT-ILIT plan is the ILIT. The ILIT is created by purchasing insurance on the life of the donor or the donor's spouse. The CLAT payment received by the charity can be used to buy the policy. The donor's preferred charitable organization will be named beneficiary.

The CLAT-ILIT as a turnkey, tamper-proof process.

ILITs are a common estate-planning tool typically used by high-net-worth individuals to create value outside their estates, with life insurance proceeds passing estate-tax-free to designated beneficiaries. If the CLAT-ILIT is structured properly, any value generated inside the ILIT will be excluded from the donor's estate for estate-tax purposes. As a result, donors can create a future gift to charity without increasing the value of their estate.

Even More Power Together

The CLAT-ILIT combination lets donors make contributions to charity and gifts to heirs during their lifetime while providing a charitable gift of life insurance proceeds at the time of death. An example of a CLAT-ILIT plan follows:

A donor creates a CLAT with a \$5 million donation. The CLAT distributes to the designated charity an amount equal to 8% of the trust assets (\$400,000) per year for 19 years. At the end of the term, the remaining CLAT principal is distributed to the donor's family.

To combine the CLAT with the ILIT, the charitable organization receiving the annual payments uses a portion of that money to buy, say, a \$5 million life-insurance policy on the donor's life. The policy is held by the ILIT. The charity is named the beneficiary. Upon the donor's death, the life-insurance proceeds are paid from the ILIT to the charity.

The CLAT-ILIT combination thus provides the charity with a current gift of \$400,000 per year from the CLAT and a future gift of the proceeds from the \$5 million life-insurance policy in the ILIT. Any assets remaining in the CLAT at the end of the term are distributed to the donor's family.

What makes the CLAT-ILIT combination turnkey and tamper-proof? Both the CLAT and ILIT are irrevocable trusts. Gifts to such trusts can't be undone by the donor or charity. The charity, therefore, can count on receiving annual earnings from the CLAT as well as a future endowment equal to the death benefit of the life-insurance policy.

CLAT-ILIT helps donors benefit their families and favorite charities at the same time.

To implement a CLAT-ILIT, you need to create legal documents for both the CLAT and ILIT agreements. Once you develop these documents for one donor, you can

use them as turnkey documents for other donors.

You can accomplish the life-insurance purchase in several ways. Depending on the size of the policy desired, the CLAT payment you receive may be sufficient to fund the life-insurance premiums. If the annual premiums exceed the CLAT distribution, you may use premium financing to fund those payments. If you use premium financing, the loan is collateralized by the ILIT, and the CLAT may be a secondary guarantor. Upon the death of the insured, any loan is paid first—before the death benefit goes to your organization.

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Once the CLAT and ILIT are in place, and the life insurance has been bought, current and future gifts to your organization are set. The split-interest nature of the CLAT allows the gift to your organization while providing the rest of the CLAT assets to the donor's family. Thus, the CLAT-ILIT combination is a win-win for your organization and your donors alike. ■

Frank K. Simon is president of P.R.O.F.I.T. Financial, LLC, of Findlay, Ohio. Brenda A. Ray is an attorney with Lyden, Liebenthal & Chappell, Ltd., of Toledo, Ohio, and a strategic partner of P.R.O.F.I.T. Financial. They may be reached at 877-425-1806.

Creative Fundraising Ideas

Boost End-of-Year Giving

Suggest that people give donations to your organization as gifts this holiday season. Publish the idea in your newsletter, and hand out postcards to your board members, visitors to your organization, and other supporters, explaining how easy it is to give a donation in a friend's name. Board and staff members may especially appreciate this option, as it gives them a way to support your organization, give their friends something memorable, and increase your organization's sphere of influence. For more fundraising ideas, see "DR Charity News," www.drcharity.com.

Create Custom Ornaments

Consider selling holiday ornaments customized to your organization. You might include your organization's name or logo and a personal message to create a keepsake. See www.fundraisingornaments.com, an online supplier of custom ornaments. Also see "Special Events Galore!," published monthly for \$79 per year by Stevenson, Inc., www.stevensoninc.com.

Plan Holiday Projects

While people are in a holiday giving mood, try some of these ideas for generating extra resources:

- **Arrange** a holiday lights bus tour.
- **Organize** a gift-wrapping group of volunteers headquartered at a local mall.
- **Sell** poinsettias.
- **Coordinate** a caroling group to deliver carols for a donation.

