NCPP 2014 National Conference on Philanthropic Planning
CONFERENCE PAPER

Case Study: Three Generations of Hurleys

Phil Cubeta, CLU®, ChFC®, MSFS, CAP®
The American College of Financial Services

Partnership for Philanthropic Planning
Charitable giving made most meaningful

Case Study: Three Generations of Hurleys

Phil Cubeta, CLU®, ChFC®, MSFS, CAP®
The Sallie B. and William B. Wallace Chair in Philanthropy
The American College of Financial Services

Introduction

This case study, “Three generations of Hurleys,” is meant to be presented to an audience of both nonproft gift planners and professional advisors who learn in the process how much we need each other, if we are to successfully serve the high capacity people that some of us call “donors” and some call “clients.” Often, gift planning and financial or estate planning case studies emphasize “getting the right answers.” Equally important, however, is having the right process. This case study suggests that advisors and fundraisers, having engaged in discovery of relevant goals and financial facts, go on to create not a recommendation, a “close,” or an “ask,” but an open-ended “Talking Points Memo” to advance the process one step. Often, when larger gifts are at stake, the best “next step” is to convene the planning table where the relevant disciplines can collaborate to achieve inspired outcomes.

In tax and financial planning success is often defined as maximizing returns, protecting assets, transferring assets to heirs, and reducing taxes. We tend to plan for “max net to heirs,” as if more was always better. What these two cases show is that goals cannot be assumed, nor can we rely on our own preferences, or on the defaults in our planning software and boilerplate. As we shall see, these cases revolve around the clients’ desire to make the world better, in specific ways. Both the elder and the younger generation of decision makers do not wish to leave the most possible to heirs. So, we must listen, reflect, and try to achieve their goals – for themselves, for heirs and for society. This kind of planning is like three-dimensional chess. No matter how good we are at two-dimensional tax reduction and wealth optimzation, we will not succeed in gift planning unless we also plan for the other dimension – positive impact on heirs and on community. To help heirs we must give them the right amount, at the right time, in the right form. To have specific positive impact on a given cause, the money must not only enter various charitable tools, it must also exit those tools, in the right amount, at the right time, into the right charity, and through its programs into the community to achieve the specific impact that the donor intends. To achieve such impact, we need nonprofit professionals at the table when the big gifts are planned.

Likewise, if we are nonprofit gift planners we cannot succeed for our highest capacity donors, the ones with complex situaitons, if we cut advisors out of the conversation, or treat them as adversaries. The advisors know the financial facts and are masters of the tools, both charitable and non-charitable. The case studies show the bare minimum “facts” that an advisor would have before hazaarding even a tentative suggestion as to tools. What the nonprofit has to offer is not prmarily the tools or knowledge of the tools – the advisor has that already. What the nonprofit uniquely has to offer is a match with the donor as to mission, and desired impact. The nonprofit (its mission, programs, and projects) is the ultimate “delivery vehicle” through which the donor can go beyond tools to social impact. Without that, planning stops short of what the donor dreams to accomplish.

So, as you work to help the Hurleys, from your own seat at the planning table, ask not just what should we recommend and why, but also, who else should be involved in the process, and how will that multi-step process be managed.

Meet William and Victoria Hurley

Background

William (82) attended Old Ivy and taught for his entire career at New Ivy, where as a professor of engineerng he pioneered advances in just in inventory control. He and his wife of 60 years, Victoria (79) live on a beautiful 25 acre estate in Pennsylvania. They have no children, but do have a nephew, John, who has been successful in business using techniques pioneered by William. William and Victoria are the god-parents of John's two grown children, Maria and Albert.

William and Victoria are loyal givers to their house of worship, Salvation Army, and Old Ivy and New Ivy.

Goals

Living on a fixed income and paying taxes on their home and a vacation home, and with rising medical insurance costs, and falling interest rates, it has become more difficult for William and Victoria to meet their regular expenses. They want to be generous to their charities and to set a good example for their god-children. They do not want to leave John anything, other than momentoes, since he has been so successful himself. Likewise, they intend to leave their values rather than their valuables to the god-children.

Current Documents

Either leaves all to the other through will and beneficiary designations. Then all to John. The documents have not been updated for 20 years.

Charitable Giving

They give about 5% of their annual income. Salvation Army have offered to buy their residence at a bargain price. They have a tie to his old Collge, Old Ivy, and to New Ivy where he spent his career. He has heard rumors (from a competing fundraiser) that New Ivy may discontinue the engineering department so important to William. New Ivy denies this.

Financial Situation

They own a residence on a lovely 25 acre estate worth $550,000 including the land. The residence was purchased for $225,000 and has no mortgage. (Salvation Army has offered to buy the home for $250,000, as a bargain sale.) They have a vacation home worth $205,000 with a mortgage balance of $18,000 and basis of $86,000. They have a portfolio of $600,000 with $300,000 of basis. They have an IRA of $500,000. And, William collects old engineering instruments worth $100,000 with basis of $10,000. Net worth is around $1.9 million.

They have income about equal to expenses. Porfolio income is $18,000 and dropping. They have a defined benefit plan from Old Ivy, paying $48,000 a year. Their IRA's required minimum distribution this year is $29,000. They have $25,000 in Social Security. Total income is $120,000

Total expenses are $118,000.

Their Long Term Care policies provide $200 a day each. Both own paid-up life policies on each other with death benefits of $100,000 and cash values of $45,000.

Overall, they can just about pay their bills, but are concerned about declining income from their portfolio and rising expenses.

Planning and Fee Tolerance

Both are in good health, though neither is likely to be insurable. They prefer to keep their affairs simple and easy to manage.

Their Planning Team

No one, really. They sometimes ask John for advice.

Tools to Consider

For income

- Gift annuity

- Charitable remainder trust
    - CRAT
    - CRUT
- Single premium immediate annuity

	CRAT	CRUT	Gift Ann	SPIA
Income	$6,280	$6,500	$6,500	$10,333
Deduction	$40,118	$50,996	$37,434	0
Tax Savings @33%	$13,238	$16,828	$12,353	0
Remainder for charity	$100,000?	$100,000?	$100,000?	0

Other Possible Gifts

- Bargain sale
    - Sell home or vacation home to charity at less than full value?
- Gift of vacation home?
- Life Estate in residence
    - "Give away the house and keep the keys" – for home of $550,000 nets a deduction of $392,000
- Gift of engineering tools
    - To which charity? For what purpose?
- Gift of life insurance

Timing

- Legacy at death?
- Start now and set an example to god-children?

Create your own Talking Points Memo

The one below is just for your reference as you create your own.

For William and Victoria Hurley

DRAFT

Your Goals

- To remain secure
- Set example for god-children
- Help Old Ivy, New Ivy, and Salvation Army

Financials

- Net worth around $1.9 million
- Income equal to expenses
- Big assets are retirement plan, home, vacation home, and portfolio

Issues and Considerations

- No need to leave financial inheritance to John, Maria, or Albert
- Wills currently leave all to John at second death
- Would prefer to set example to god-children while alive?

Suggestions

1. Gift annuity funded with appreciated assets to increase income and benefit a charity
2. Gift collection to charity that will display it
3. Consider sale of vacation house or trade for gift annuity

Next Steps

- See attorney about updating wills
- Meet with any other advisor or family member to make decisions?
- Move ahead with suggestions 1 and 2 above?

What they Decide

- See attorney to update wills and discuss deduction limitations
- Increase income from IRA via a life income annuity
- Set up a CRT with certain appreciated investments
- Gift collection to Old Ivy for use for exempt purpose (displayed to students)
- Create life estate in residence to get tax deduction
- Set example for god-children

Any Surprises?

- Advice you would give them?

Meet John Hurley and his Children

		
John (57)	**Maria (23)**	**Albert (27)**

Background

John, who is widowed, started Hurley Toy Company (C-Corpration) using engineering principles learned from his uncle, William. He built the company, of which he is the sole owner, into a powerhouse, by exporting all manufacturing to China. He feels uneasy that he has done so well, while his home town is in economic decline. He is considering selling his company and doing something more idealistic. He would like to bring jobs back to his town, if he can. He does not have buyers for Hurley Toy Company lined up, but anticipates no difficulty in selling to an outside buyer for, say, $15,000,000. It could be much more.

Maria (23) is a Park Ranger. She lives in the Park with her partner, Anita. Albert (27) is an MIT graduate who has become a Wall Street investor. He is single, and so busy he has little time for a social life.

Goals

Sell Hurley Toys, and get active in the community. Pay as little income tax as possible, and no estate tax if possible. Do something to bring jobs back to his home town. And do what is right, whatever that may be for his children. Do something to honor Uncle Bill on whose ideas John's business relied.

Financial Situation

John has home and land with no debt, $750,000. He has an IRA and 401(k) of $1,250,000. He has a portfolio of $600,000 with basis of $350,000. But his real wealth is in Hurley Toy Co (C-corp) worth $15,000,0000. Net Worth: Approximately $18 million

His income is ample ($400,000), and he saves $100,000. He has good health care insurance and he has a permanent life policy of $500,000 with $39,000 cash value, paid to his estate. His current giving is modest. He would rather give strategically and get a result. He has not yet made what he calls, "my big charitable play," but when he does, he says, "it will be significant."

Documents

John has not revised his documents for many years. He currently leaves all in equal shares to his children in trust, with half to them at his death and the other half five years later. His insurance and IRA are paid to his estate.

Fee and Planning Tolerance

John has reasonable tolerance for fees and planning complexity.

His Team and Their Prior Recommendations

He has a good tax attorney he has used for many years, and has a life insurance agent, a CPA, and an investment advisor, that he has assembled over the years. The plans they propose all yeild "max net to the heirs." He has been advised to engage in a number of complex transactions that will reduce his estate tax exposure by maximizing his annual gifts to his children and transferring about $2.5 million to each of them, in recapitalized Hurley Toy stock prior to the sale. Several plans have been drawn over the last few years, but never signed. No one on his team has yet asked about his philanthropic ideas.

Maria's Point of View

Maria is working the Park with Anita, her partner. She loves her career and is happy in her relationship. However, she is concerned about the effect of her father's money on her relationship with her partner. She once lent Anita money and was never repaid, since, Anita said, "You don't need the money, you are from a rich family." Maria plans to give whatever she might receive from her father to a number of progressive charities.

Albert's Point of View

Albert is a "quant" from MIT who has created sysgem to predict the market. He bets on the makret heavily with considerable leverage and has been very wealthy at certain moments and completely broke at other moments. He feels his father did pretty well in an old fashioned, brick and mortar business. He anticipates needing no inheritance, unless the stock market in Japan opens lower this morning.

John's Perspective as a Father

He loves both children and wants them to set their own course in life, on their own terms. He wants to be sure that whatever they receive from him will have a good effect on them.

Tools to Consider

- Update planning documents
- Consider gift annuity for Uncle Bill or outright gift in his honor
- CRT for Business Transter
  - Gift corporate stock to CRT
  - Have stock purchased by outside buyer, or redeemed by company
  - John gets partial deduction and income.
- Donor Advised Fund for Business Transfer
  - Gift of stock to DAF
  - Purchase by outside buyer or redeemed by corporation
- Sell some stock outside of any charitable tool, with charitable gifts to offset gain upon sale of the stock to outside buyer
- Use net cash to fund foundation at some point?
- Consider "zeroing out" estate with a testamentary foundation
- Considering zeroing out estate with an inter vivos (living) or testamentary charitable lead trust. (At a 6% payout a CLAT would reduce transfer tax to zero at today's low AFR. The balance could go to children at end of trust term.)
- To address jobs, consider starting a new business, a social venture
- Consider public policy advocacy, perhaps with after tax dollars, a way to address job issues.

Talking Points for John Hurley

Goals

- Exit business
- Live well, but not lavishly
- Honor Uncle Bill
- Bring jobs back to the community
- Minimize income tax and estate tax
- Provide "enough" for Maria and Albert

Financials

- Closely held C Corp is biggest asset ($15-22 million)
- Legal documents are out of date

Issues and Considerations

- Philanthropic goal (jobs for home town) is very ambitious
- Maria and Albert are "still finding themselves"
- How much should be communicated to Maria and Albert? When?

Suggestions

7. Groom business for sale (beware "buyer in the wings")
8. Create a "stand by CRT" to facilitate sale if needed
9. Consider DAF for business sale
10. Consider part sale and part gift for business transition
11. Keep plans fluid to test Albert and Maria's financial maturity
12. Consider a gift annuity for Uncle Bill to honor him and provide income

Next Steps

- Convene a team: attorney, CPA, business exit specialist, and a philanthropic coach
- Consider a family meeting with a professional facilitator
- Approve gift annuity concept for Uncle Bill

What John Decides

- Convene capable planning team
- Sell business to outside buyer with some sold via CRT
- Update legal documents
- Use DAF as “training wheels” in philanthropy
- Consider a foundation later, depending on how things go with the children
- Consider a CLT later, depending on how things go with the children

Any Surprises?

How would you counsel him at this point?

Our Two Case Studies: Conclusion

The first case is ideal for gift planning by a nonprofit professional. (The donors are excellent “planned gift” prospects, since they are older, and planned gifts will “mature” soon, and because they have no heirs to whom they want the money to go. They are loyal donors with reasonable capacity.) The second case is right in the wheelhouse of financial advisors who do estate planning, investment planning, financial planning, or business exit planning. The second case draws attention to a category of very high capacity entrepreneurs who are not ideal prospects for traditional “planned giving,” perhaps, but are excellent candidates for sophisticated cross-disciplinary advanced gift planning, using a variety of charitable and non-charitable tools to accomplish personal, familial, and social goals now, later, at death and beyond death. But both case studies show how we as advisors and we as gift planners, need each other if we are to get the full job done. Ideally, in working through the issues with other professionals, you have concluded that collaboration across the sectors (on appropriate cases) trumps competition. We can, should, and will collaborate on appropriate situations going forward.

CAP
Chartered Advisor in Philanthropy

Three Generations of Hurleys

Phil Cubeta, CLU®, ChFC®, MSFS, CAP®
Sallie B. and William B. Wallace Chair in Philanthropy
The American College
Last edit: 9/2/14

Agenda

- Three Generations of Hurleys
- Planning for William and Victoria
- Planning for John, and his children
- The Thanksgiving Table

THREE GENERATIONS OF THE HURLEY FAMILY

WILLIAM AND VICTORIA

WILLIAM AND VICTORIA

Net Worth: $3 million

- William: 82
- Victoria: 79
- Both are in good health
- Live on 25 acre estate in central Pennsylvania.
- Are godparents to Maria and Albert
- No children of their own

JOHN

- 57
- Nephew of William
- Net worth of $17 million
- About to sell the business
- Widowed
- Wants to do what is right for his children

MARIA AND ALBERT

- 23, Park Ranger
- 27, Wall Street wizard

WILLIAM AND VICTORIA

PROCESS

- Meet William and Victoria
- Run illustrations and cover our desk with ideas
- Meet with expert
- Write talking points
- See what they decide

ASSETS AND LIABILITIES

- **Residence:**
  - $550,000 including land.
  - Was purchased for $225,000.
  - No mortgage.
- **Vacation home:**
  - $205,000.
  - Purchased for $86,000
  - Mortgage balance: $18,000.
- **Portfolio:**
  - $600,000 with basis of 50%
- **IRA**
  - $500,000

ASSETS AND LIABILITIES

- Antique Engineering Instruments
  - $100,000 with basis of $10,000

INCOME AND EXPENSES

- Income of $120,000
- Expenses almost equal to income and rising

- **Portfolio Income:**
  - $18,000 this year; and dropping fast.
- **Defined Benefit Retirement Plan**
  - $48,000 a year with 75% continuing to Victoria
- **IRA**
  - $29,000 required minimum distribution
- **Social Security**
  - $25,000

INSURANCE

- **Health Care**
  - Excellent health care through New Ivy; they also qualify for Medicare.
- **Long-Term Care**
  - $200 a day each.
- **Life Insurance**
  - Both own a paid up $100,000 life policy on the other's life.
  - Both are paid to the estate.
  - Both have cash values of $45,000.

13 Phil Cubeta for The American College

CURRENT DOCUMENTS

- **Documents last updated in 1999.**

- Leave all to the other, then to nephew John.

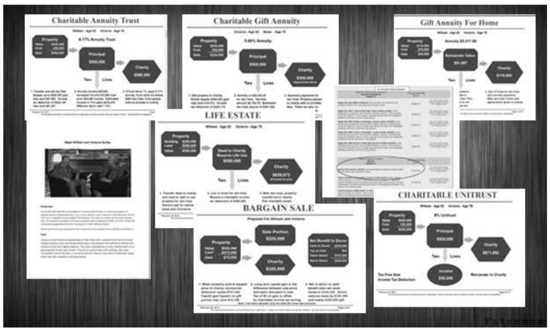
14 Phil Cubeta for The American College

GOALS

Self & Spouse	Heirs	Community
☐ Preserve lifestyle	☐ Mementoes	☐ Now? Later? At Death?
☐ Manage taxes	☐ No financial inheritances	☐ New Ivy
☐ Feel secure	☐ Pass on values	☐ Old Ivy
		☐ Salvation Army

15 Phil Cubeta for The American College

DESK TOP



16 Phil Cubeta for The American College

TOOLS TO CONSIDER FOR WILLIAM AND VICTORIA

17 Phil Cubeta for The American College

FOR INCOME ENHANCEMENT AND PRESERVATION

18 Phil Cubeta for The American College

INCOME ENHANCEMENT

- Gift annuity
- Charitable remainder trust
  - CRAT
  - CRUT
- Single premium immediate annuity

COMPARISON

	CRAT	CRUT	Gift Ann	SPIA
Income	$6,280	$6,500	$6,500	$10,333
Deduction	$40,118	$50,996	$37,434	0
Tax Savings	$13,238	$16,828	$12,353	0
Remainder for charity	$100,000?	$100,000?	$100,000?	0

Ages for joint life income
33% income tax bracket
AFR 2%
Remainder = original gift

OTHER POSSIBLE GIFTS

OTHER GIFTS

- Bargain sale
- Gift of vacation home
- Life estate
- Gift of collection
- Gift of insurance

BARGAIN SALE

- Salvation Army has offered to purchase all of the 25 acres surrounding the Hurley residence, and the residence itself, for a total of $250,000.
- Since it is worth $550,000 this amounts to making a $300,000 gift.
- No capital gain on the sale element since this is their primary residence and they have a $500,000 home sale capital gain exclusion.

MAYBE GIVE VACATION HOUSE?

- $205,000 fair market value
- $86,000 basis
- $18,000 mortgage

NET RESULTS

- Gift to charity of $205,000-$18,000 = $187,000
- Income of $18,000, treated as capital gain
- With basis allocated proportional to the part retained versus the part given
- Capital gains tax = $1,567

LIFE ESTATE

- What if… the Hurleys give their $550,000 home and the land around it, while retaining the right to live there?

LIFE ESTATE

Give away the $550,000 house

Keep the keys

$392,215 income tax deduction

GIFT OF COLLECTION

- To Salvation Army?
- To New Ivy or Old Ivy?
  - If school sells the collection?
  - If they display it for engineering students?

GIFT OF INSURANCE

- Give outright?
- Change beneficiary?

TIMING OF GIFTS

LEGACY AT DEATH?

- Qualified plan to pass to charity by beneficiary arrangement?
- Insurance paid via beneficiary designation?
- Remaining estate to pass to charity via wills?

NOW, LATER, AT DEATH?

- Pros of "giving while living"
  - Income tax benefits
  - Joy of giving
  - Set example for the godchildren
  - Get godchildren involved?

NOW, LATER, AT DEATH?

- Cons of giving too soon:
  - Could outlive income?
  - Lose the attention of the charity once giving capacity is "tapped out"?

OTHER IDEAS?

Gift of insurance

- Give policy to get FMV deduction up to basis
- Or change beneficiary and get no deduction

Gift of collection

- Get FMV deduction if org uses for exempt purpose
- Get only basis deduction if to be sold by org not used for exempt purpose

34 Phil Cubeta for The American College

YOUR TALKING POINTS

For William and Victoria Hurley

DRAFT

Your Goals

- To remain secure
- Set example for god-children
- Help Old Ivy, New Ivy, and Salvation Army

Financials

- Net worth around $1.9 million
- Income equal to expenses
- Big assets are retirement plan, home, vacation home, and portfolio

Issues and Considerations

- No need to leave financial inheritance to John, Maria, or Albert
- Wills currently leave all to John at second death
- Would prefer to set example to god-children while alive?

Suggestions

1. Gift annuity funded with appreciated assets to increase income and benefit a charity
2. Gift collection to charity that will display it
3. Consider sale of vacation house or trade for gift annuity

Next Steps

- See attorney about updating wills
- Meet with any other advisor or family member to make decisions?
- Move ahead with suggestions 1 and 2 above?

35 Phil Cubeta for The American College

WHAT THEY DECIDE

- Create life estate in home.
- Give engineering tools to Old Ivy for display.
- Draw more income from IRA
- CRT for income too
- Set an example for god-children

36 Phil Cubeta for The American College

Any Surprises?

37 Phil Cubeta for The American College

JOHN HURLEY

And his two Children: Maria and Albert

38 Phil Cubeta for The American College

Aspirations

- Grew wealthy by founding Hurley Toy company, using Uncle Bill's ideas.
- Feels uncomfortable that he has taken jobs to China.
- Hopes to sell the company soon for $15 million or more, depending on the buyer

GOALS

- Wants to exit the business
- Minimize tax on sale
- Minimize potential estate tax
- Do something to bring jobs to his home town
- Be actively engaged in civic work
- Honor Uncle Bill in some way
- Do what is right for his children

FOCUS

- John dearly loves both children and wants only for them to live fulfilled lives
- How, though, will wealth play into that?
- How much? When? For what purpose? Via what tools?

HIS CHILDREN'S PERSPECTIVE

MARIA	Albert
23, is concerned about impact Dad's money will have on her life with her partner. She does not want to be loved for her money. She plans to give any inheritance to charity	27, he is either rich or broke depending on this last trade. He may not need Dad's money or may need it desperately – it all depends on how the market opens tomorrow

Financials

- Residence $750,000, no mortgage.
- IRA and 401(k): $1,250,000.
- Portfolio: $600,000 with basis of $350,000.
- Hurley Toy Co (C-corp) worth $15,000,0000, or more
- Net Worth: $18 million
- Income of $400,000
- Saves $100,000.
- Good health insurance
- Permanent life policy of $500,000 with $39,000 cash value, paid to his estate.
- Current giving is modest.

Current plans

- Leaves all to children in equal amounts
- Half at death, the other half five years later

Planning and Fee tolerance

- Willing to engage in planning and pay appropriate fees

Current Team

- Has capable tax and legal advisors

Recommendations not acted on

- To minimize ultimate transfer taxes, the team recommended that John engage in a complex transaction that would involve gifting heavily discounted interests in the rapidly appreciating Hurley Toy Company to the children as soon as possible, using both annual gifting and unified credit amount.
- The net result is that each child would have $2.5 – 3.5 million upon sale of the business.

Process

- Brainstorm ideas
- Write talking points
- See what he decides

48 Phil Cubeta for The American College

TOOLS TO CONSIDER

STRATEGIES FOR JOHN HURLEY

TAX FAVORED

ASSIST UNCLE WITH INCOME

- Say John feels grateful to his uncle whose ideas he has used in his company.
- What tools or strategies might he consider?

ASSIST UNCLE?

- To honor and benefit his uncle, John could use a CRT, payable to his uncle and aunt.
- In establishing a CRT payable to his uncle and aunt, John will have done two things:
  - made a tax deductible charitable gift
  - and also a personal gift, subject to transfer tax, to his aunt and uncle.

52 Phil Cubeta for The American College

STOCK BAILOUT?

- Gift corporate stock to CRT
- Use retained earning in the company to buy the stock back out
- Now we have cash in CRT
- John gets partial deduction and income.

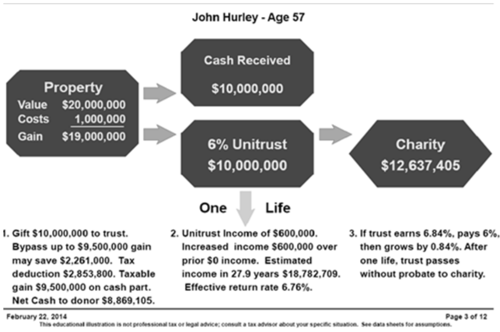
53 Phil Cubeta for The American College

CRT FOR CORP

- Sell the company inside a CRT?
- Use a Flip Trust to defer payout until business is sold?
- Be sure to avoid a pre-arranged sale to buyer waiting in the wings, or this will be considered a step transaction and taxed as if the business had been sold prior to being gifted to the trust.

54 Phil Cubeta for The American College

SALE AND UNITRUST



55 Phil Cubeta for The American College

FOUNDATION

Private foundation
- With gift of closely held stock, deduction only for basis and may trigger excess business holdings

Supporting org
- Partner with public charity, do not get control, but treated as public charity for deduction limits so could give business interests

Private operating foundation
- Provide services directly rather than through grants, considered a public charity.

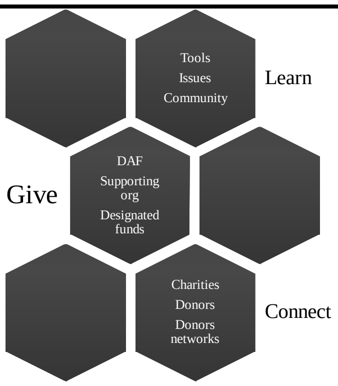
56 Phil Cubeta for The American College

DONOR-ADVISED FUND?

- A donor-advised fund might work since the donor-advised fund is considered a public charity for purposes of the deduction.
- John could give the stock, get a deduction for fair market value
- Then when stock is sold, have the cash in the donor-advised fund from which to make gifts
- Beware: Buyer waiting in the wings!
- Beware: Foundation rules on excess business holdings

57 Phil Cubeta for The American College

Community Foundation



No deduction but with control

Social Venture?

- Let's say John starts a new local business that makes a small profit, but employs many people.
- This is not a "gift," in the tax code, but it could be a way to achieve his social objectives.
- If the business succeeds it could do more and more good without John having to pour money into it

LOBBYING?

PF Private Foundation	501(c)(3) Public Charity	501(c)(4) Social Welfare Org
• May not lobby or grant to lobbying orgs • May fund nonpartisan research • Finances are transparent • Contributions are deductible	• Lobbying is strictly regulated and limited • Donor lists are confidential • Contributions are deductible	• Can and do engage in political advocacy • Contributions not deductible • Donors are confidential ("Dark Money")

61 Phil Cubeta for The American College

OTHER IDEAS?

62 Phil Cubeta for The American College

QUALIFIED PLAN ASSETS

- With $1,250,000 in qualified assets, John might want to think about making his charities the beneficiary of those accounts, rather than leaving them in his estate to be taxed for both estate tax and income with respect to a decedent.

63 Phil Cubeta for The American College

EXISTING INSURANCE

- Life insurance with a low cash value might make a good gift, either to charity, or to a life insurance trust for children.
- Leaving it in his estate will incur estate tax on the proceeds.
- May want to gift current insurance to an irrevocable life insurance trust so death benefit will not be in taxable estate

64 Phil Cubeta for The American College

NEW INSURANCE?

- Whether John has enough insurance may depend on his overall estate tax plan.
- If he leaves the bulk of his estate to charity, either directly or via charitable tools, he may not have significant estate tax.
- But if he wishes to get significant wealth to heirs, a life insurance policy outside his estate in an irrevocable life insurance trust can transfer money to them with minimal transfer tax.

65 Phil Cubeta for The American College

GIVING NOW OR LATER? OF IMPACT

66 Phil Cubeta for The American College

TIMING OF IMPACT?

- If John wants to do something to have social impact during his life, which techniques would do that?

ZERO ESTATE TAX

ROLL TAXABLE ESTATE TO…

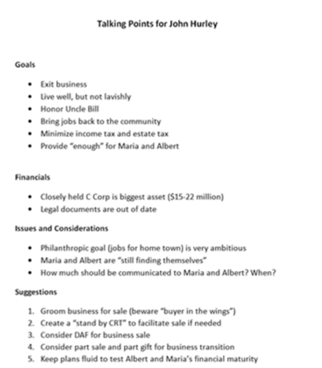
- Charity
- Foundation
- DAF
- Charitable Lead Trust

"DEFERRED INHERITANCE TRUST"

- Roll taxable estate to CLAT
- 6% to charity for 20 years
- Balance to children with zero estate tax

70 Phil Cubeta for The American College

TALKING POINTS FOR JOHN



Talking Points for John Hurley

Goals

- Exit business
- Live well, but not lavishly
- Honor Uncle Bill
- Bring jobs back to the community
- Minimize income tax and estate tax
- Provide "enough" for Maria and Albert

Financials

- Closely held C Corp is biggest asset ($15-22 million)
- Legal documents are out of date

Issues and Considerations

- Philanthropic goal (jobs for home town) is very ambitious
- Maria and Albert are "still finding themselves"
- How much should be communicated to Maria and Albert? When?

Suggestions

1. Groom business for sale (beware "buyer in the wings")
2. Create a "stand by CRT" to facilitate sale if needed
3. Consider DAF for business sale
4. Consider part sale and part gift for business transition
5. Keep plans fluid to test Albert and Maria's financial maturity

71 Phil Cubeta for The American College

NEXT STEP: CONVENE THE TEAM

Attorney
CPA
Investment advisor
Insurance professional
Business exit specialist
Appraiser
Philanthropic advisor
Family dynamics consultant?

Inspire?
Give Expert Advice?
Sell? Solicit?

Via Scott and Todd Fithian, *The Right Side of the Table: Where do you Sit in the Minds of the Affluent?*

WHAT JOHN DECIDES

JOHN'S DECISION

- Donor advised fund as "training wheels"
- Then foundation later or CLT?
- Sell some stock outside and some inside CRT
- Sell stock outside to fund giving

ANY SURPRISES?

THANKSGIVING TABLE

THANKSGIVING

- How plans play at the Thanksgiving Table is as important as how they work at the planning table.