A Charitable Remainder Trust Strategy For Investment Real Estate

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Truth Concepts

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Part I

Introduction

The Prosperity Economics Movement aims to accomplish two goals:

Learn the whole truth about financial matters

Apply those truths to financial strategies that help clients prosper

Our commitment to financial education is based on Robert Kiyosaki's metaphor of the three-sided coin. Heads is one point of view; tails is another. The third side is the unbiased edge, which allows both sides to be observed so the truth can be determined.

In this paper we explore the retirement "plan" common for real estate investors, and consider an alternate option: the Charitable Remainder Trust. A CRT on its own can be tricky to navigate, but with our proposed strategy, there is a way to optimize real estate gains, be charitable, and put one's dollars to work in multiple ways. Applying Kiyosaki's principle, we see that there is a third way of strategizing retirement income for real estate moguls, neither anchored in the forthright sales of property, nor in a whole life insurance strategy, but a strategy that combines both with the power of a philanthropic goal.

A trust preserves the value of real estate assets and protects them from taxes. The money can be turned into a yearly income, and any remainder is donated to one or more charities of one's choosing. A CRT can begin paying out immediately, which increases retirement income, creates a charitable legacy, and provides estate planning benefits that protect ones heirs. Retirement can be an uncertain time, but being equipped with better strategies, based on your client's specific desires, can help them to maintain prosperity through their lifetime.

The Risk Factor

Modern retirement planning relies heavily on investment portfolios, and individuals entering the retirement phase of life are now dipping into their accounts for income. Those who have spent their lives investing in Real Estate are often in the selling phase—creating an income from the sales of highly appreciated properties. The greater the worth of the property, the greater the taxes are, and the money is delivered in a lump sum that could be tempting to spend quickly. Regardless of how much profit results in the sales of properties, the money must last for the entirety of your client's retirement; a period of time that is unable to be pinpointed. A once astronomical amount of cash can become quite small when a client is expected to live for ten or twenty years more, let alone thirty or forty years.

Retirement can be a stressful time, when to many Americans it is expected to be a time of relaxation and exploration. Many retirees hope to travel, or to fulfill a bucket list—in which case living expenses can often go up instead of down, putting them in an equal or greater tax bracket than they were in during their years in the workforce.

Retirees are now facing several problems

- They are consuming their accounts early on in their retirement, leaving little to live on for an unknown amount of time
- Their year-to-year income fluctuates drastically depending on the stock-market, leaving them with a decreased income when living off of the interest
- They remain burdened with a high cost of living and expenses, and can't keep up with inflation

So how do advisors help their clients maximize their retirement income while building a legacy? Setting up a Charitable Remainder Trust is an excellent way to receive charitable benefits, fulfill philanthropic desires, and minimize withdrawals from a 401K for retirement income, extending the lifetime of the client's account. If established with a good strategy, a CRT can help a client put their dollars to work in the most efficient way.

What is a Charitable Remainder Trust?

Charitable Remainder Trusts, or CRTs, have been used since 1969 as a way to support charitable organizations and convert assets into income. A CRT is a vehicle for giving with split interest, that is eligible for partial tax deductions. The trust is tax exempt, and is designed to reduce taxable income by first dispensing income to the beneficiaries of the trust, and donating the remainder of the trust to a designated charity, or multiple charities.

A trust begins with donations of assets into the trust, the most valuable of which are often real estate assets, that when sold, can provide a lifetime income. There are two main types of charitable remainder trusts: annuity trusts, or CRATs, which distribute a fixed annuity; and unitrusts, CRUTs, which distribute a fixed annual percentage based on the balance of the trust's assets. CRUTs allows for additional contributions, which can make it a more ideal vehicle for investors with a lot of real estate.

Among the assets that can be donated into a CRT are:

- Cash
- Stocks (no S-Corp stock)
- Publicly traded securities
- Non-public assets like real estate
- Private business interests
- Private company stocks

The donor of the trust is eligible for the following partial-tax deductions, which are based on a number of factors. Type of trust, term of the trust, projected income, and IRS interest rates are all contributing factors in the overall deductions. The money from the trust can be reinvested, and the income resulting from this can be taxed as ordinary income depending on investments made within the newly established CRT.

A **CRT** pays out its remaining balance to designated charities upon the termination of the trust, either at the end of a specified time frame up to 20 years, or the death of the beneficiary.

So what makes a CRT so beneficial? For a real estate investor, one of the key benefits is in the preservation of highly appreciated assets, or real estate. For those in ownership of long-term assets of a high appreciation, including properties that don't produce an income, a CRT allows the property to be contributed, and when that property sells it is exempt from capital gains taxes and depreciation recapture taxes.

The trust allows the asset to be used without a large tax payout, which provides more income for the beneficiary and more donated to the designated charity. The partial tax deductions are calculated by the remainder distribution to the charitable beneficiary.

Because of the income provisions of the CRT, it is a valuable tool in retirement planning, providing an assured income over the remainder of the beneficiaries life. The CRT is also excellent in estate planning, as assets moved into the trust are removed from the estate, effectively removing the estate taxes due upon the beneficiaries death.

The Roles of the CRT

There are a few roles involved in the CRT, which can make it seem like a complicated tool. The grantor of the CRT, which can also be the beneficiary of the trust's income, is the person who initially donates assets into the trust. The trustee is the individual who sells the assets, free of capital gains taxes, then reinvests the money into income-producing assets. This income flows back to the grantor, or otherwise designated beneficiary. Upon the death of the grantor, or the end of the trust's term, the remainder of the assets go to the designated charity.

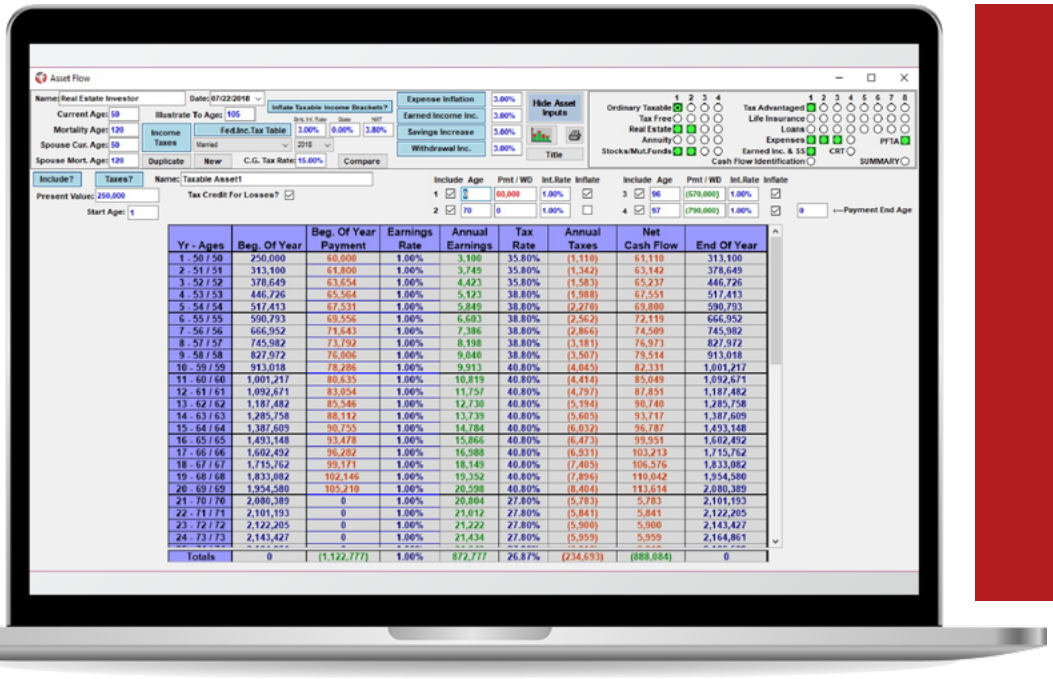
Part II

As stated, the goal of this paper is to examine challenges facing retirees today, and exploring strategies that support Real Estate Investors in solving the age old problem of capital gains taxes. In turn, real estate investors in the field will be able to extend their retirement income, fulfill their philanthropic desires, and leave a legacy. Our aim is to help advisors navigate these strategies with their clients before retirement, to better help those clients live a prosperous life beyond their working days.

The following strategy demonstrates how to create liquid assets from the income of a Charitable Remainder Trust, and examples of how to utilize all of a client's assets to extend their retirement income. Because income from a CRT is partially tax deductible, and free from capital gains taxes completely, the assets are more efficient. Initial liquidity allows assets to be moved to where the money can do the most good. This strategy is a method of shifting assets to create more longevity between all available accounts, in turn allowing money in qualified plans and other, less liquid accounts, to continue growth. Clients can even use the benefits of their CRT to improve the income received from their other assets, like qualified plans. We'll illustrate through a case study that compares profits from regular Real Estate sales to a lifetime income supplied by establishing a Charitable Remainder Trust.

Setting Up the Client's Assets

In this study, we'll compare the client's "plan" to our strategy. The client has it all figured out, and he's going to sell his assets and turn those into an income that he hopes will last through retirement. At the age of 50, he's an investor with about $250,000 of available cash, and he's adding $60,000 a year coming from his real estate.

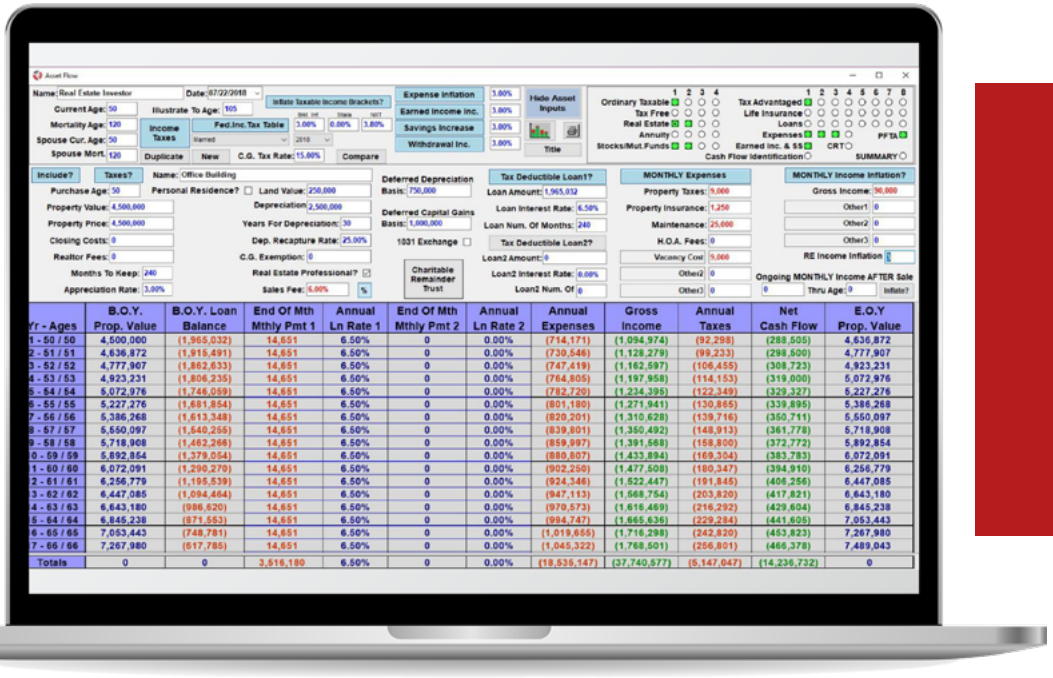


Yr - Ages	Beg. Of Year	Beg. Of Year Payment	Earnings Rate	Annual Earnings	Tax Rate	Annual Taxes	Net Cash Flow	End Of Year
1 - 50 / 50	250,000	60,000	1.00%	3,100	35.80%	(1,110)	61,110	313,100
2 - 51 / 51	313,100	61,800	1.00%	3,749	35.80%	(1,342)	63,142	378,649
3 - 52 / 52	378,649	63,654	1.00%	4,423	35.80%	(1,583)	65,237	446,726
4 - 53 / 53	446,726	65,564	1.00%	5,123	38.80%	(1,988)	67,551	517,413
5 - 54 / 54	517,413	67,531	1.00%	5,849	38.80%	(2,270)	69,800	590,793
6 - 55 / 55	590,793	69,556	1.00%	6,603	38.80%	(2,562)	72,119	666,952
7 - 56 / 56	666,952	71,643	1.00%	7,386	38.80%	(2,866)	74,509	745,982
8 - 57 / 57	745,982	73,792	1.00%	8,198	38.80%	(3,181)	76,973	827,972
9 - 58 / 58	827,972	76,006	1.00%	9,040	38.80%	(3,507)	79,514	913,018
10 - 59 / 59	913,018	78,286	1.00%	9,913	40.80%	(4,045)	82,331	1,001,217
11 - 60 / 60	1,001,217	80,635	1.00%	10,819	40.80%	(4,414)	85,049	1,092,671
12 - 61 / 61	1,092,671	83,054	1.00%	11,757	40.80%	(4,797)	87,851	1,187,482
13 - 62 / 62	1,187,482	85,546	1.00%	12,730	40.80%	(5,194)	90,740	1,285,758
14 - 63 / 63	1,285,758	88,112	1.00%	13,739	40.80%	(5,605)	93,717	1,387,609
15 - 64 / 64	1,387,609	90,755	1.00%	14,784	40.80%	(6,032)	96,787	1,493,148
16 - 65 / 65	1,493,148	93,478	1.00%	15,866	40.80%	(6,473)	99,951	1,602,492
17 - 66 / 66	1,602,492	96,282	1.00%	16,988	40.80%	(6,931)	103,213	1,715,762
18 - 67 / 67	1,715,762	99,171	1.00%	18,149	40.80%	(7,405)	106,576	1,833,082
19 - 68 / 68	1,833,082	102,146	1.00%	19,352	40.80%	(7,896)	110,042	1,954,580
20 - 69 / 69	1,954,580	105,210	1.00%	20,598	40.80%	(8,404)	113,614	2,080,389
21 - 70 / 70	2,080,389	0	1.00%	20,804	27.80%	(5,783)	5,783	2,101,193
22 - 71 / 71	2,101,193	0	1.00%	21,012	27.80%	(5,841)	5,841	2,122,205
23 - 72 / 72	2,122,205	0	1.00%	21,222	27.80%	(5,900)	5,900	2,143,427
24 - 73 / 73	2,143,427	0	1.00%	21,434	27.80%	(5,959)	5,959	2,164,861
Totals	0	(1,122,777)	1.00%	872,777	26.87%	(234,693)	(888,084)	0

Illustration A-1.0: Client's Stored Cash

The illustration below shows our client's cash that, initially, he's putting $60,000 a year toward all the way until retirement. This is cash that isn't doing work anywhere else. This is ordinary taxable money, that he will later use to draw a retirement income from. Inflation is accounted for, both in his payments and in the account as a whole, and he earns a small increase on the stored cash.

Currently, this client owns a $4.5 million building that he's owned for nine years. Since purchasing, it's value has grown by $1 million, which is a 3% growth rate. Overall, his earned income is $100,000 a year.



Yr - Ages	B.O.Y. Prop. Value	B.O.Y. Loan Balance	End Of Mth Mthly Pmt 1	Annual Ln Rate 1	End Of Mth Mthly Pmt 2	Annual Ln Rate 2	Annual Expenses	Gross Income	Annual Taxes	Net Cash Flow	E.O.Y Prop. Value
1 - 50 / 50	4,500,000	(1,965,032)	14,651	6.50%	0	0.00%	(714,171)	(1,094,974)	(92,298)	(288,505)	4,636,872
2 - 51 / 51	4,636,872	(1,915,491)	14,651	6.50%	0	0.00%	(730,546)	(1,128,279)	(99,233)	(298,500)	4,777,907
3 - 52 / 52	4,777,907	(1,862,633)	14,651	6.50%	0	0.00%	(747,419)	(1,162,597)	(106,455)	(308,723)	4,923,231
4 - 53 / 53	4,923,231	(1,806,235)	14,651	6.50%	0	0.00%	(764,805)	(1,197,958)	(114,153)	(319,000)	5,072,976
5 - 54 / 54	5,072,976	(1,746,059)	14,651	6.50%	0	0.00%	(782,720)	(1,234,395)	(122,349)	(329,327)	5,227,276
6 - 55 / 55	5,227,276	(1,681,854)	14,651	6.50%	0	0.00%	(801,180)	(1,271,941)	(130,865)	(339,895)	5,386,268
7 - 56 / 56	5,386,268	(1,613,348)	14,651	6.50%	0	0.00%	(820,201)	(1,310,628)	(139,716)	(350,711)	5,550,097
8 - 57 / 57	5,550,097	(1,540,255)	14,651	6.50%	0	0.00%	(839,801)	(1,350,492)	(148,913)	(361,778)	5,718,908
9 - 58 / 58	5,718,908	(1,462,268)	14,651	6.50%	0	0.00%	(859,997)	(1,391,568)	(158,800)	(372,772)	5,892,854
10 - 59 / 59	5,892,854	(1,379,054)	14,651	6.50%	0	0.00%	(880,807)	(1,433,894)	(169,304)	(383,783)	6,072,091
11 - 60 / 60	6,072,091	(1,290,270)	14,651	6.50%	0	0.00%	(902,250)	(1,477,508)	(180,347)	(394,910)	6,256,779
12 - 61 / 61	6,256,779	(1,195,539)	14,651	6.50%	0	0.00%	(924,346)	(1,522,447)	(191,845)	(406,256)	6,447,085
13 - 62 / 62	6,447,085	(1,094,464)	14,651	6.50%	0	0.00%	(947,113)	(1,568,754)	(203,820)	(417,821)	6,643,180
14 - 63 / 63	6,643,180	(986,620)	14,651	6.50%	0	0.00%	(970,573)	(1,616,489)	(216,292)	(429,604)	6,845,238
15 - 64 / 64	6,845,238	(871,553)	14,651	6.50%	0	0.00%	(994,747)	(1,665,636)	(229,284)	(441,605)	7,053,443
16 - 65 / 65	7,053,443	(748,781)	14,651	6.50%	0	0.00%	(1,019,655)	(1,716,298)	(242,820)	(453,823)	7,267,980
17 - 66 / 66	7,267,980	(617,785)	14,651	6.50%	0	0.00%	(1,045,322)	(1,768,501)	(256,801)	(466,378)	7,489,043
Totals	0	0	3,516,180	6.50%	0	0.00%	(18,535,147)	(37,740,577)	(5,147,047)	(14,236,732)	0

Illustration A-1.1: Client's Real Estate Values

Our client's largest asset is his real estate, which is valued at $4.5 million when he is 50 years old. By the time the client is ready to sell his property at the age of 70, his property is worth $8 million.

In our illustrations, you'll note that we have this salary inflated, taxed, and FICA and Medicare are accounted for. His spouse is a teacher making $63,000, and her salary is also inflating over time. Because our client is filing as self-employed, he pays both ends of the FICA. In addition, the client and his spouse are set to retire at the age of 67. The client's social security benefit is set to pay out at $30,552, and $22,268 for his wife. They'll defer and retire at 70, to add a few extra years of growth.

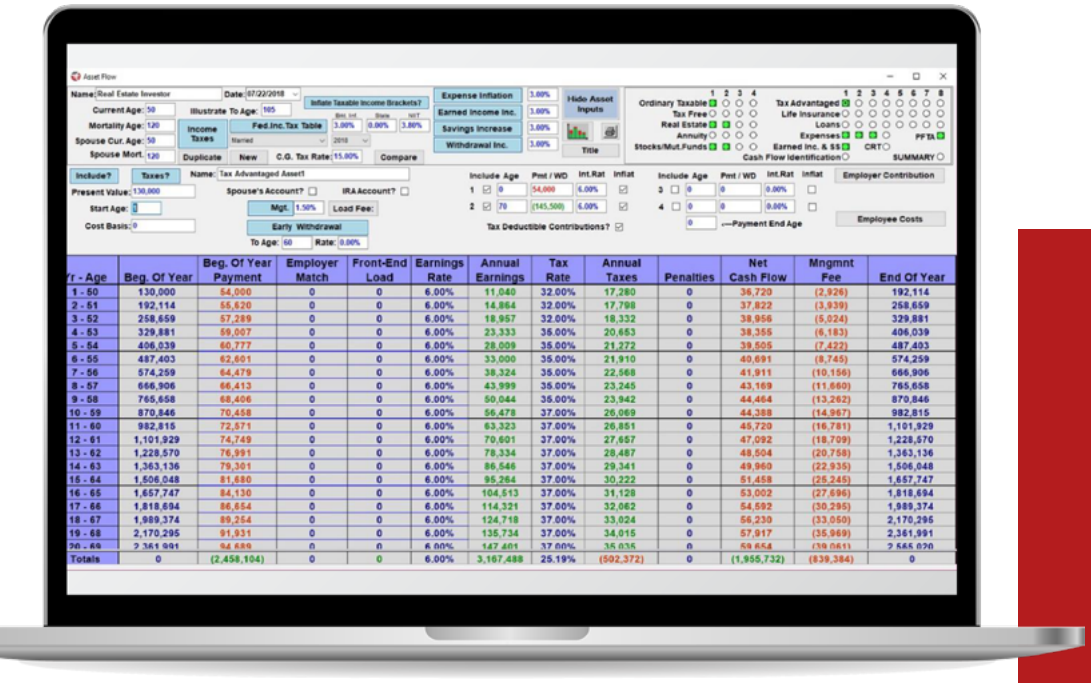
Yr - Ages	Client Income	Spouse Income	Deductible Expenses	Inc. Tax Rate	Income Taxes	FICA Taxes	Medicare Taxes	Inc. Tax Credits	Client Soc. Sec.	Spouse Soc. Sec.	Soc. Sec. Tax Basis	Soc. Sec. Taxes
- 50 / 50	100,000	63,000	37,397	15.53%	(19,512)	(16,306)	(3,814)	0	0	0	0	0
- 51 / 51	103,000	64,890	38,171	15.55%	(20,173)	(16,795)	(3,928)	0	0	0	0	0
- 52 / 52	106,090	66,837	38,966	15.57%	(20,855)	(17,299)	(4,046)	0	0	0	0	0
- 53 / 53	109,273	68,842	39,783	15.58%	(21,559)	(17,818)	(4,167)	0	0	0	0	0
- 54 / 54	112,551	70,907	40,623	15.60%	(22,283)	(18,353)	(4,292)	0	0	0	0	0
- 55 / 55	115,927	73,034	41,485	15.62%	(23,030)	(18,903)	(4,421)	0	0	0	0	0
- 56 / 56	119,405	75,225	42,370	15.63%	(23,800)	(19,470)	(4,554)	0	0	0	0	0
- 57 / 57	122,987	77,482	43,280	15.65%	(24,594)	(20,054)	(4,690)	0	0	0	0	0
- 58 / 58	126,677	79,807	44,214	15.66%	(25,412)	(20,656)	(4,831)	0	0	0	0	0
- 59 / 59	130,477	82,201	45,174	15.67%	(26,255)	(21,018)	(4,976)	0	0	0	0	0
- 60 / 60	134,392	84,667	46,160	15.69%	(27,123)	(21,171)	(5,125)	0	0	0	0	0
- 61 / 61	138,423	87,207	47,173	15.70%	(28,019)	(21,328)	(5,279)	0	0	0	0	0
- 62 / 62	142,576	89,823	48,213	15.71%	(28,942)	(21,491)	(5,437)	0	0	0	0	0
- 63 / 63	146,853	92,518	49,282	15.73%	(29,893)	(21,658)	(5,600)	0	0	0	0	0
- 64 / 64	151,259	95,293	50,380	15.74%	(30,874)	(21,830)	(5,768)	0	0	0	0	0
- 65 / 65	155,797	98,152	51,508	15.75%	(31,884)	(22,007)	(5,941)	0	0	0	0	0
- 66 / 66	160,471	101,097	52,667	15.76%	(32,926)	(22,190)	(6,120)	0	0	0	0	0
- 67 / 67	165,285	104,129	53,857	15.77%	(33,999)	(22,378)	(6,303)	0	0	0	0	0
- 68 / 68	170,243	107,253	55,080	15.78%	(35,106)	(22,571)	(6,492)	0	0	0	0	0
Totals	2,687,037	1,692,834	922,118	12.31%	(542,485)	(406,066)	(102,470)	0	1,969,780	1,500,158	2,093,386	(220,354)

Illustration A-1.2: Client's Income and Social Security Benefits

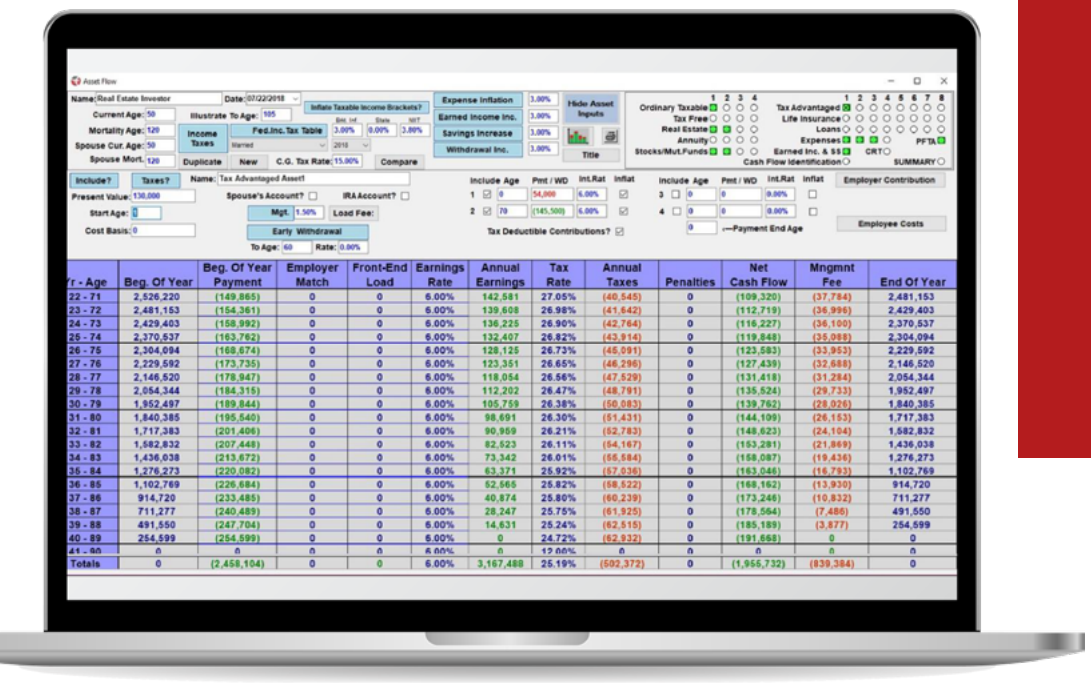
Based off of our client's real estate profits, he brings home an income of $100,000 for his personal expenses a year. His spouse brings home $63,000. These incomes are indicated in the two leftmost columns of the spreadsheet. Both incomes are taxed, and have FICA and Medicare accounted for, as well as being adjusted for inflation each year. Any deductible expenses are noted, based on our client's self-employed status.

On the righthand side of the page, the annual social security benefits are noted for both spouses, including when those benefits will begin paying out. Our client's benefit is set at $30,552, and his spouses at $23,268. Though they can begin receiving their Social Securities at 67, they both have elected to defer until age 70, their desired retirement age.

Our client also puts $54,000 a year into his qualified plan, or tax advantaged account, the maximum he can contribute. The account growth is at a rate of 6%, but the increase is only about 3%.



Yr - Age	Beg. Of Year	Beg. Of Year Payment	Employer Match	Front-End Load	Earnings Rate	Annual Earnings	Tax Rate	Annual Taxes	Penalties	Net Cash Flow	Mngmnt Fee	End Of Year
1 - 50	130,000	54,000	0	0	6.00%	11,040	32.00%	17,280	0	36,720	(2,926)	192,114
2 - 51	192,114	55,620	0	0	6.00%	14,864	32.00%	17,798	0	37,822	(3,939)	258,659
3 - 52	258,659	57,289	0	0	6.00%	18,957	32.00%	18,332	0	38,956	(5,024)	329,881
4 - 53	329,881	59,007	0	0	6.00%	23,333	35.00%	20,653	0	38,355	(6,183)	406,039
5 - 54	406,039	60,777	0	0	6.00%	28,009	35.00%	21,272	0	39,505	(7,422)	487,403
6 - 55	487,403	62,601	0	0	6.00%	33,000	35.00%	21,910	0	40,691	(8,745)	574,259
7 - 56	574,259	64,479	0	0	6.00%	38,324	35.00%	22,568	0	41,911	(10,156)	666,906
8 - 57	666,906	66,413	0	0	6.00%	43,999	35.00%	23,245	0	43,169	(11,660)	765,658
9 - 58	765,658	68,406	0	0	6.00%	50,044	35.00%	23,942	0	44,464	(13,262)	870,846
10 - 59	870,846	70,458	0	0	6.00%	56,478	37.00%	26,069	0	44,388	(14,967)	982,815
11 - 60	982,815	72,571	0	0	6.00%	63,323	37.00%	26,851	0	45,720	(16,781)	1,101,929
12 - 61	1,101,929	74,749	0	0	6.00%	70,601	37.00%	27,657	0	47,092	(18,709)	1,228,570
13 - 62	1,228,570	76,991	0	0	6.00%	78,334	37.00%	28,487	0	48,504	(20,758)	1,363,136
14 - 63	1,363,136	79,301	0	0	6.00%	86,546	37.00%	29,341	0	49,960	(22,935)	1,506,048
15 - 64	1,506,048	81,680	0	0	6.00%	95,264	37.00%	30,222	0	51,458	(25,245)	1,657,747
16 - 65	1,657,747	84,130	0	0	6.00%	104,513	37.00%	31,128	0	53,002	(27,696)	1,818,694
17 - 66	1,818,694	86,654	0	0	6.00%	114,321	37.00%	32,062	0	54,592	(30,295)	1,989,374
18 - 67	1,989,374	89,254	0	0	6.00%	124,718	37.00%	33,024	0	56,230	(33,050)	2,170,295
19 - 68	2,170,295	91,931	0	0	6.00%	135,734	37.00%	34,015	0	57,917	(35,969)	2,361,991
20 - 69	2,361,991	94,689	0	0	6.00%	147,401	37.00%	35,035	0	59,654	(39,061)	2,565,020
Totals	0	(2,458,104)	0	0	6.00%	3,167,488	25.19%	(502,372)	0	(1,955,732)	(839,384)	0



Yr - Age	Beg. Of Year	Beg. Of Year Payment	Employer Match	Front-End Load	Earnings Rate	Annual Earnings	Tax Rate	Annual Taxes	Penalties	Net Cash Flow	Mngmnt Fee	End Of Year
22 - 71	2,526,220	(149,865)	0	0	6.00%	142,581	27.05%	(40,545)	0	(109,320)	(37,794)	2,481,153
23 - 72	2,481,153	(154,361)	0	0	6.00%	139,608	26.98%	(41,642)	0	(112,719)	(36,996)	2,429,403
24 - 73	2,429,403	(158,992)	0	0	6.00%	136,225	26.90%	(42,764)	0	(116,227)	(36,100)	2,370,537
25 - 74	2,370,537	(163,762)	0	0	6.00%	132,407	26.82%	(43,914)	0	(119,848)	(35,089)	2,304,094
26 - 75	2,304,094	(168,674)	0	0	6.00%	128,125	26.73%	(45,091)	0	(123,583)	(33,953)	2,229,592
27 - 76	2,229,592	(173,735)	0	0	6.00%	123,351	26.65%	(46,296)	0	(127,439)	(32,688)	2,146,520
28 - 77	2,146,520	(178,947)	0	0	6.00%	118,054	26.56%	(47,529)	0	(131,418)	(31,284)	2,054,344
29 - 78	2,054,344	(184,315)	0	0	6.00%	112,202	26.47%	(48,791)	0	(135,524)	(29,733)	1,952,497
30 - 79	1,952,497	(189,844)	0	0	6.00%	105,759	26.38%	(50,083)	0	(139,762)	(28,026)	1,840,385
31 - 80	1,840,385	(195,540)	0	0	6.00%	98,691	26.30%	(51,431)	0	(144,109)	(26,153)	1,717,383
32 - 81	1,717,383	(201,406)	0	0	6.00%	90,959	26.21%	(52,783)	0	(148,623)	(24,104)	1,582,832
33 - 82	1,582,832	(207,448)	0	0	6.00%	82,523	26.11%	(54,167)	0	(153,281)	(21,869)	1,436,038
34 - 83	1,436,038	(213,672)	0	0	6.00%	73,342	26.01%	(55,584)	0	(158,087)	(19,436)	1,276,273
35 - 84	1,276,273	(220,082)	0	0	6.00%	63,371	25.92%	(57,036)	0	(163,046)	(16,793)	1,102,769
36 - 85	1,102,769	(226,684)	0	0	6.00%	52,565	25.82%	(58,522)	0	(168,162)	(13,930)	914,720
37 - 86	914,720	(233,485)	0	0	6.00%	40,874	25.80%	(60,239)	0	(173,246)	(10,832)	711,277
38 - 87	711,277	(240,489)	0	0	6.00%	28,247	25.75%	(61,925)	0	(178,564)	(7,486)	491,550
39 - 88	491,550	(247,704)	0	0	6.00%	14,631	25.24%	(62,515)	0	(185,189)	(3,877)	254,599
40 - 89	254,599	(254,599)	0	0	6.00%	0	24.72%	(62,932)	0	(191,668)	0	0
41 - 90	0	0	0	0	6.00%	0	12.00%	0	0	0	0	0
Totals	0	(2,458,104)	0	0	6.00%	3,167,488	25.19%	(502,372)	0	(1,955,732)	(839,384)	0

Illustration A-1.3: Client's Tax Advantaged Account, Qualified Plan Contributions

In the following illustration, we can see our client's contributions to his qualified plan. His payments are maxed out at $54,000, which is indicated in the second column from the left. The account continues to grow until age 70, when our client will begin withdrawing his retirement income. Only a portion of this income will come from his qualified plan, the rest from his other various accounts. Under earnings rate we see a steady 6%, but it ends up coming out closer to 3% after fees and opportunity costs. His payments are adjusted for inflation, like his income and other assets, so we see the amount paid slowly increase. His withdrawals, too, will also adjust for inflation. The lower picture shows the bottom half of the chart, when his withdrawals begin.

The client has a nice setup so far, and he's got his assets spread in a desirable way. Overall, the client's expenses are at $189,890 a year. At a 3% inflation rate, his expenses become

$332,973 a year by his retirement age of 70, and that number will continue to increase over his retirement. That's just how inflation works. This increased cost of living is based only on inflation, and no other expenses have been added or changed.

Illustration A-1.4: Client's Expense Chart, #1

Below we have a filled out chart of all the client's expenses, which can be as thorough as ours or not. At age 50, the client's total expenses are equal to $189,890. This is indicated in red above the charts. At the age of 69, with inflation factored in, these same expenses are $332,973, as indicated on the far right. No new expenses have been added. So at the age of retirement, our client will have to be able to support this increased cost of living, that will continue to increase over his lifetime.

If we throw education into the mix, from our client's age 50 until 57, he pays $40,000 a year to put his two children through four years of college. By the last year of his children's education, education costs have inflated to about $49,000 a year.

Illustration A-1.5: Client's Expense Chart, #2

Below is a similar chart of our client's expenses, yet only shows education costs for his two children. From the age of 50 to the age of 57, our client will have two college aged children. If their college expenses begin at $40,000 each, and they do not overlap, the yearly payment will have inflated to $49,000 a year by the time his second child graduates. College calculations can be tricky, because many students take longer than 4 years to graduate, so these costs could potentially increase. The school's tuition rate also factors in, and depending on where our client's children go to school, the payment could be more or less than $40,000. Scholarships and grants can alleviate some of this cost, or his children may decide a different path completely. Because of the uncertainty of the planning, and because the expense only occurs over a certain timeframe, we made a separate expenses sheet altogether.

If we look at the retirement stage of our client's expenses, he begins retirement with almost $350,000 of expenses. When inflation is factored in, the client's expenses reach $965,000 a year by the age of 120. His living expenses reach almost $1 million at the end of his possible life expectancy. This is even without factoring the possibility of additional bills related to healthcare or other unplanned expenses. That's a huge number for our client to support with little change to his income. His problem will be figuring out how to stretch his income and even increase it to keep up with inflation, and that's if the inflation rate remains at 3%. For this illustration we chose to stay at 3% throughout, when in fact the national average from the last 50 years has been a rate of roughly 3.87%.

Illustration A-1.6: Client's Expense Chart, #3

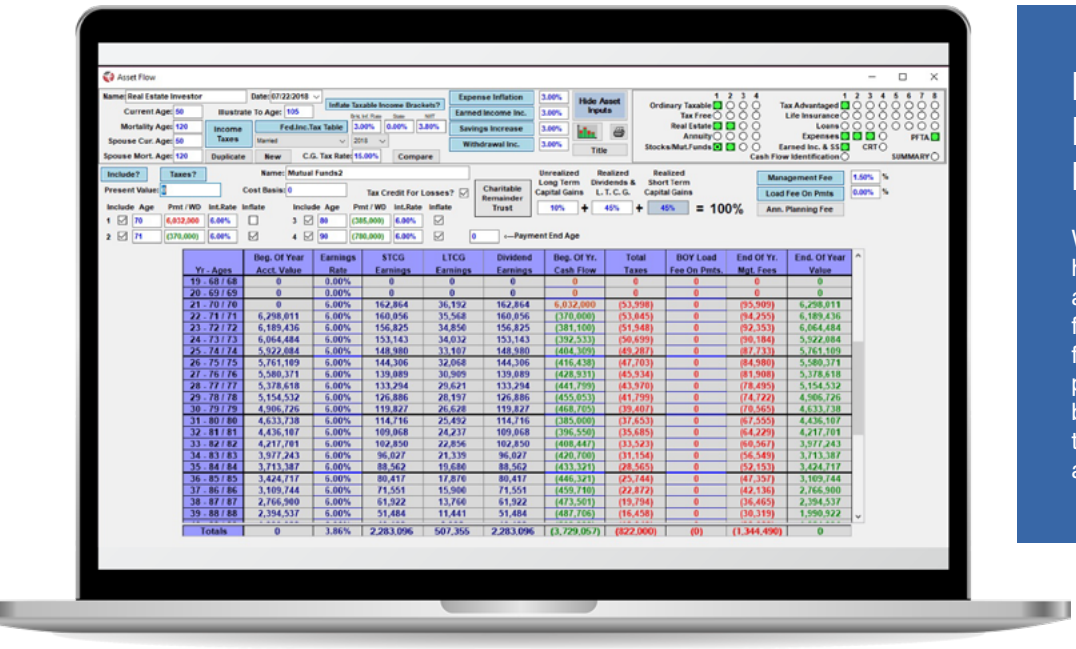
Our final expense sheet shows the inflation rate of our client's expenses during retirement. The timeframe spans from age 70 to age 120, though the expenses themselves have not changed from what they were in the first chart. At the beginning of the client's retirement, his expenses are $342,962 per year, and near the end of the timeframe the same expenses have inflated to $965,049 a year. By the end of the time frame our client's cost of living, if all of his expenses remain as they are, is nearly $1 million.

A Note on FICA

A W-2 employee pays 15% on FICA. Although the actual percentage is about 6.4%, employers hire knowing that they will have an expenditure of whatever the FICA costs. In those terms, it's money that didn't go to the employee because the employer paid that share of the FICA already. The numbers even out, and the employer acts as the collector for the IRS, rather than relying on the employee to pay. Most people are taught to see this as an advantage for W-2 employees and a penalty for those that are self-employed who have to pay 15% "out of pocket." The big picture shows that everyone pays this 15%, whether they realize it or not.

Client A's Plan

Our client's "plan," which is the typical plan for most real estate investors, is to sell property upon retiring. So at age 70, our client is going to sell his property for $8 million. That $8 million, however, has $2 million of taxes in the form of deferred depreciation and capital gains attached. So, although his property has increased by $3.5 million in value from its $4.5 million by retirement, our client only sees about a $1.5 million increase. So the client walks away with a large sum, but with significant cuts off the top. The client chooses to move this $6 million over to his mutual funds. He draws his retirement money from several of his assets, so he understands the importance of diversification.

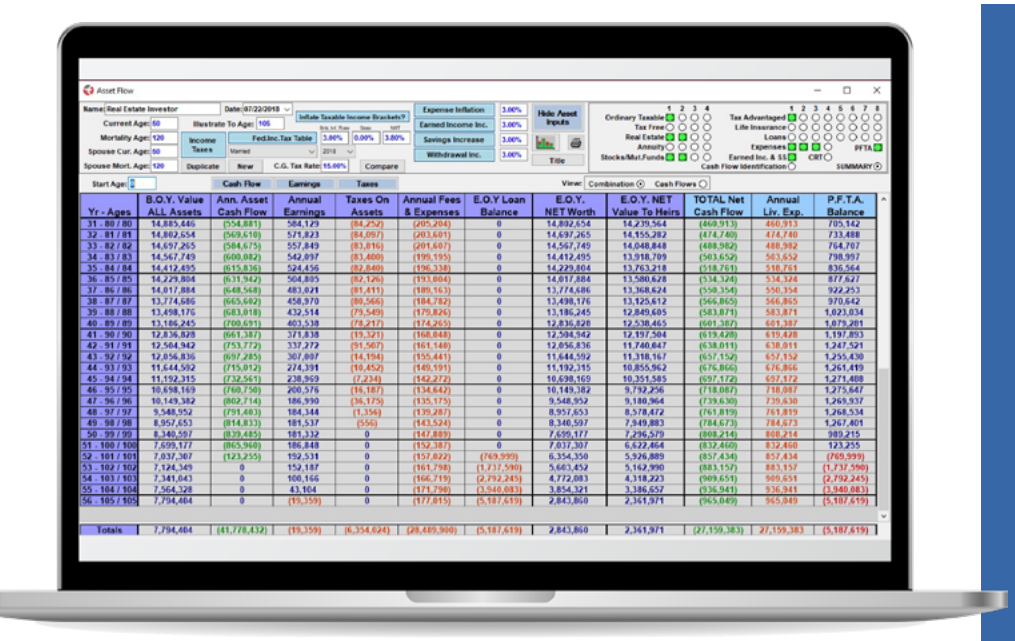


Yr - Ages	Beg. Of Year Acct. Value	Earnings Rate	STCG Earnings	LTCG Earnings	Dividend Earnings	Beg. Of Yr. Cash Flow	Total Taxes	BOY Load Fee On Pmts.	End Of Yr. Mgt. Fees	End. Of Year Value
19 - 68 / 68	0	0.00%	0	0	0	0	0	0	0	0
20 - 69 / 69	0	0.00%	0	0	0	0	0	0	0	0
21 - 70 / 70	0	6.00%	162,864	36,192	162,864	6,032,000	(53,998)	0	(95,909)	6,298,011
22 - 71 / 71	6,298,011	6.00%	160,056	35,568	160,056	(370,000)	(51,845)	0	(94,255)	6,189,436
23 - 72 / 72	6,189,436	6.00%	156,825	34,856	156,825	(381,100)	(51,948)	0	(92,353)	6,064,484
24 - 73 / 73	6,064,484	6.00%	153,143	34,032	153,143	(392,533)	(50,699)	0	(90,184)	5,922,084
25 - 74 / 74	5,922,084	6.00%	148,980	33,107	148,980	(404,309)	(49,287)	0	(87,733)	5,761,109
26 - 75 / 75	5,761,109	6.00%	144,306	32,068	144,306	(416,438)	(47,703)	0	(84,980)	5,580,571
27 - 76 / 76	5,580,371	6.00%	139,089	30,909	139,089	(428,931)	(45,934)	0	(81,908)	5,378,618
28 - 77 / 77	5,378,618	6.00%	133,294	29,621	133,294	(441,799)	(43,970)	0	(78,495)	5,154,532
29 - 78 / 78	5,154,532	6.00%	126,886	28,197	126,886	(455,053)	(41,799)	0	(74,722)	4,906,726
30 - 79 / 79	4,906,726	6.00%	119,827	26,628	119,827	(468,705)	(39,407)	0	(70,565)	4,633,738
31 - 80 / 80	4,633,738	6.00%	114,716	25,492	114,716	(385,000)	(37,653)	0	(67,555)	4,436,107
32 - 81 / 81	4,436,107	6.00%	109,068	24,237	109,068	(396,550)	(35,685)	0	(64,229)	4,217,701
33 - 82 / 82	4,217,701	6.00%	102,850	22,856	102,850	(408,447)	(33,523)	0	(60,567)	3,977,243
34 - 83 / 83	3,977,243	6.00%	96,027	21,339	96,027	(420,700)	(31,154)	0	(56,549)	3,713,387
35 - 84 / 84	3,713,387	6.00%	88,562	19,680	88,562	(433,321)	(28,565)	0	(52,153)	3,424,717
36 - 85 / 85	3,424,717	6.00%	80,417	17,870	80,417	(446,321)	(25,744)	0	(47,357)	3,109,744
37 - 86 / 86	3,109,744	6.00%	71,551	15,900	71,551	(459,710)	(22,872)	0	(42,136)	2,766,900
38 - 87 / 87	2,766,900	6.00%	61,922	13,760	61,922	(473,501)	(19,794)	0	(36,465)	2,394,537
39 - 88 / 88	2,394,537	6.00%	51,484	11,441	51,484	(487,706)	(16,458)	0	(30,319)	1,990,922
Totals	0	3.86%	2,283,096	507,355	2,283,096	(3,729,057)	(822,000)	(0)	(1,344,490)	0

Illustration B-1.0: Mutual Funds Account After Selling Real Estate

When our client retires, he decides to sell his $8 million property for a $6 million value, and has that money stored in his mutual funds. Until this point, he did not have a fund, so he starts this account with only the profit from the sale of his property. He also begins withdrawing part of his income from this account, in increasing amounts as he attempts to keep up with inflation.

By age 100, the client is effectively out of money, and in these last years it takes just shy of $1 million to cover his expenses. While the client's social security income is still providing for him, it's not enough to cover his cost of living.



Yr - Ages	B.O.Y. Value ALL Assets	Ann. Asset Cash Flow	Annual Earnings	Taxes On Assets	Annual Fees & Expenses	E.O.Y Loan Balance	E.O.Y. NET Worth	E.O.Y. NET Value To Heirs	TOTAL Net Cash Flow	Annual Liv. Exp.	P.F.T.A. Balance
31 - 80 / 80	14,885,446	(554,881)	584,129	(84,252)	(205,204)	0	14,892,654	14,239,564	(460,913)	460,913	705,142
32 - 81 / 81	14,802,654	(569,610)	571,823	(84,097)	(203,601)	0	14,697,265	14,155,282	(474,740)	474,740	733,488
33 - 82 / 82	14,697,265	(584,675)	557,849	(83,816)	(201,607)	0	14,567,749	14,048,848	(488,982)	488,982	764,707
34 - 83 / 83	14,567,749	(600,082)	542,037	(83,400)	(199,195)	0	14,412,495	13,918,709	(503,652)	503,652	798,997
35 - 84 / 84	14,412,495	(615,836)	524,456	(82,840)	(196,338)	0	14,229,804	13,763,218	(518,761)	518,761	836,564
36 - 85 / 85	14,229,804	(631,942)	504,805	(82,126)	(193,004)	0	14,017,884	13,580,628	(534,324)	534,324	877,627
37 - 86 / 86	14,017,884	(648,568)	483,021	(81,411)	(189,163)	0	13,774,686	13,368,624	(550,354)	550,354	922,253
38 - 87 / 87	13,774,686	(665,682)	458,970	(80,566)	(184,782)	0	13,498,176	13,125,612	(566,865)	566,865	970,642
39 - 88 / 88	13,498,176	(683,018)	432,514	(79,549)	(179,826)	0	13,186,245	12,849,685	(583,871)	583,871	1,023,034
40 - 89 / 89	13,186,245	(700,691)	403,538	(78,217)	(174,265)	0	12,836,828	12,538,465	(601,387)	601,387	1,079,281
41 - 90 / 90	12,836,828	(661,387)	371,838	(19,321)	(168,048)	0	12,594,942	12,197,504	(619,428)	619,428	1,197,893
42 - 91 / 91	12,594,942	(753,772)	337,272	(91,507)	(161,148)	0	12,056,836	11,740,647	(638,011)	638,011	1,247,521
43 - 92 / 92	12,056,836	(697,285)	307,007	(14,194)	(155,441)	0	11,644,592	11,318,167	(657,152)	657,152	1,255,430
44 - 93 / 93	11,644,592	(715,012)	274,391	(10,452)	(149,191)	0	11,192,315	10,855,962	(676,866)	676,866	1,261,419
45 - 94 / 94	11,192,315	(732,561)	238,969	(7,234)	(142,272)	0	10,698,169	10,351,585	(697,172)	697,172	1,271,488
46 - 95 / 95	10,698,169	(760,750)	200,576	(16,187)	(134,642)	0	10,149,382	9,792,256	(718,087)	718,087	1,275,647
47 - 96 / 96	10,149,382	(802,714)	186,930	(36,175)	(135,175)	0	9,548,952	9,180,964	(739,630)	739,630	1,269,937
48 - 97 / 97	9,548,952	(791,483)	184,344	(1,356)	(135,287)	0	8,957,653	8,578,472	(761,819)	761,819	1,268,534
49 - 98 / 98	8,957,653	(814,833)	181,537	(566)	(143,524)	0	8,340,597	7,949,883	(784,673)	784,673	1,267,401
50 - 99 / 99	8,340,597	(839,485)	181,332	0	(147,889)	0	7,659,177	7,276,579	(808,214)	808,214	989,215
51 - 100 / 100	7,659,177	(865,960)	186,848	0	(152,387)	0	7,037,307	6,622,464	(832,460)	832,460	123,255
52 - 101 / 101	7,037,307	(123,255)	192,531	0	(157,022)	(769,999)	6,354,350	5,926,889	(857,434)	857,434	(769,999)
53 - 102 / 102	7,124,349	0	192,187	0	(161,798)	(1,737,590)	5,683,452	5,162,990	(883,157)	883,157	(1,737,590)
54 - 103 / 103	7,341,043	0	190,166	0	(166,719)	(2,792,245)	4,772,083	4,318,223	(909,651)	909,651	(2,792,245)
55 - 104 / 104	7,564,328	0	43,104	0	(171,790)	(3,940,083)	3,854,321	3,386,657	(936,941)	936,941	(3,940,083)
56 - 105 / 105	7,794,404	0	(19,359)	0	(177,015)	(5,187,619)	2,843,860	2,361,971	(965,049)	965,049	(5,187,619)
Totals	7,794,404	(41,778,432)	(19,359)	(6,354,624)	(28,489,900)	(5,187,619)	2,843,860	2,361,971	(27,159,383)	27,159,383	(5,187,619)

Apart from his social security income, the only remaining asset the client has is his personal residence. This property provides him with a few options, but can only extend his income stream by a few years.

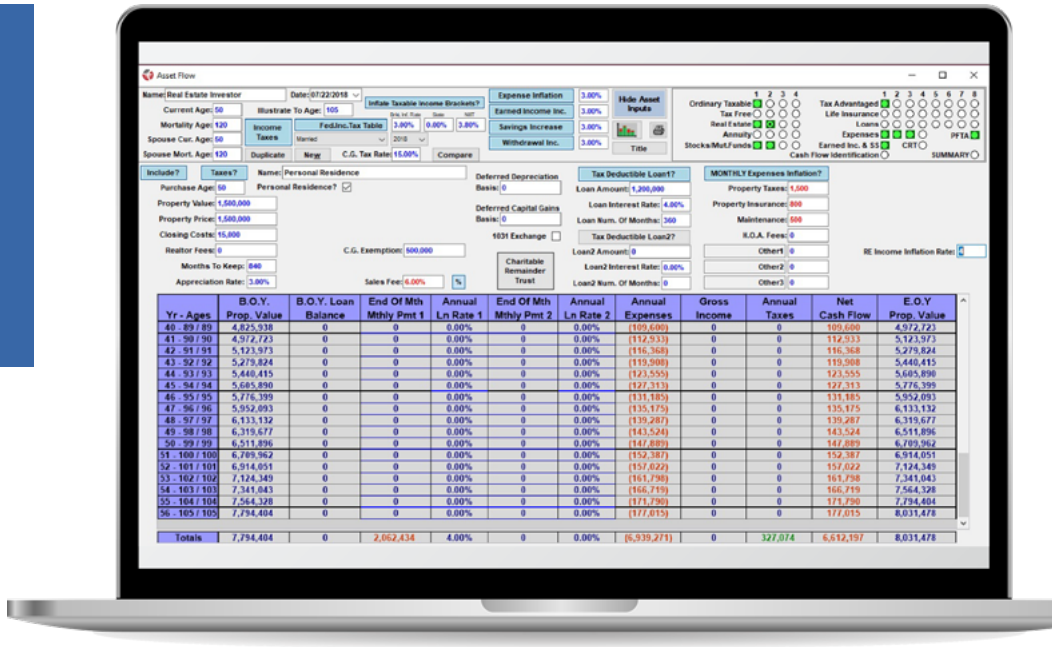
Illustration B-1.1: Client's Retirement Income Depleting Based on His "Plan"

If you look at a summary of the client's Asset Flow information, you can see a clear line of income and his total asset value. The income that our client has remaining is indicated in the second column from the left, or the "Annual Asset Cash Flow." This value runs out at the age of 101, though can only support our client's expenses until the age of 100. In the first column from the left, named "B.O.Y. Value ALL Assets," we can see all of our client's combined assets. The remaining $7 million is the value of our client's personal residence, and is his only real asset remaining at the age of 100, apart from his social security income. He has no life insurance, and therefore no death benefit or cash value to add to his assets.

The "P.F.T.A. Balance" column on the far right indicates the clients Prosperity Flow Through Account, which takes any leftover asset value from the year and redistributes that value. That account, too, becomes unable to distribute assets past age 100.

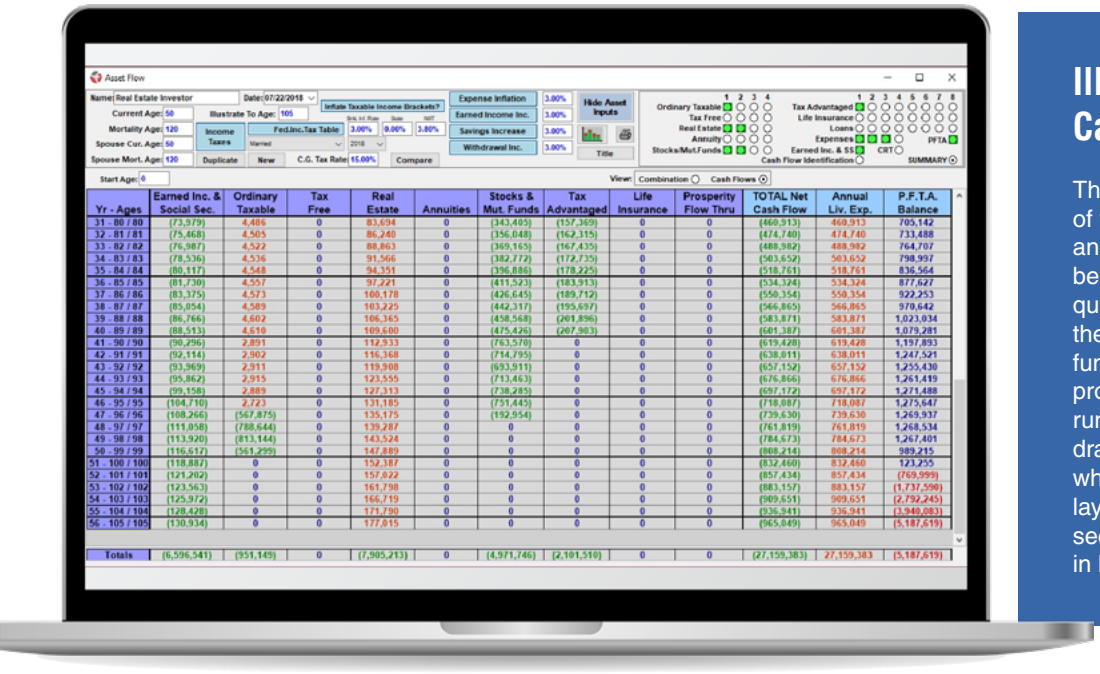
Illustration B-1.2: Client's Last Asset, Personal Residence

Below is the data on our client's last asset at age 100, his personal residence. The net worth of this residence reaches almost $8 million, and is the client's last remaining asset at the age of 100.



Yr - Ages	B.O.Y. Prop. Value	B.O.Y. Loan Balance	End Of Mth Mthly Pmt 1	Annual Ln Rate 1	End Of Mth Mthly Pmt 2	Annual Ln Rate 2	Annual Expenses	Gross Income	Annual Taxes	Net Cash Flow	E.O.Y Prop. Value
40 - 89 / 89	4,825,938	0	0	0.00%	0	0.00%	(109,600)	0	0	109,600	4,972,723
41 - 90 / 90	4,972,723	0	0	0.00%	0	0.00%	(112,933)	0	0	112,933	5,121,973
42 - 91 / 91	5,123,973	0	0	0.00%	0	0.00%	(116,368)	0	0	116,368	5,279,824
43 - 92 / 92	5,279,824	0	0	0.00%	0	0.00%	(119,908)	0	0	119,908	5,440,415
44 - 93 / 93	5,440,415	0	0	0.00%	0	0.00%	(123,555)	0	0	123,555	5,605,890
45 - 94 / 94	5,605,890	0	0	0.00%	0	0.00%	(127,313)	0	0	127,313	5,776,399
46 - 95 / 95	5,776,399	0	0	0.00%	0	0.00%	(131,185)	0	0	131,185	5,952,093
47 - 96 / 96	5,952,093	0	0	0.00%	0	0.00%	(135,175)	0	0	135,175	6,133,132
48 - 97 / 97	6,133,132	0	0	0.00%	0	0.00%	(139,287)	0	0	139,287	6,319,677
49 - 98 / 98	6,319,677	0	0	0.00%	0	0.00%	(143,524)	0	0	143,524	6,511,896
50 - 99 / 99	6,511,896	0	0	0.00%	0	0.00%	(147,889)	0	0	147,889	6,709,962
51 - 100 / 100	6,709,962	0	0	0.00%	0	0.00%	(152,387)	0	0	152,387	6,914,051
52 - 101 / 101	6,914,051	0	0	0.00%	0	0.00%	(157,022)	0	0	157,022	7,124,349
53 - 102 / 102	7,124,349	0	0	0.00%	0	0.00%	(161,798)	0	0	161,798	7,341,043
54 - 103 / 103	7,341,043	0	0	0.00%	0	0.00%	(166,719)	0	0	166,719	7,564,328
55 - 104 / 104	7,564,328	0	0	0.00%	0	0.00%	(171,790)	0	0	171,790	7,794,404
56 - 105 / 105	7,794,404	0	0	0.00%	0	0.00%	(177,015)	0	0	177,015	8,031,478
Totals	7,794,404	0	2,062,434	4.00%	0	0.00%	(6,939,271)	0	327,074	6,612,197	8,031,478

So overall, selling his $8 million property for a $6 million return only provided him with about 30 years of income. And the $250,000 of available cash the client had wasn't being put to good use before retirement.



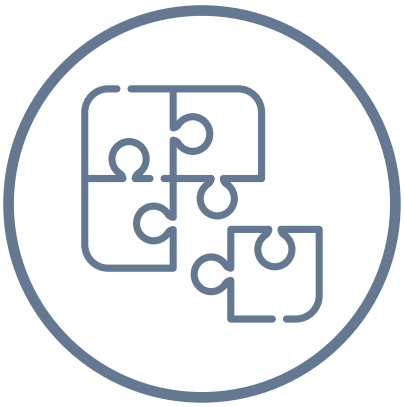
Yr - Ages	Earned Inc. & Social Sec.	Ordinary Taxable	Tax Free	Real Estate	Annuities	Stocks & Mut. Funds	Tax Advantaged	Life Insurance	Prosperity Flow Thru	TOTAL Net Cash Flow	Annual Liv. Exp.	P.F.T.A. Balance
31 - 80 / 80	(73,979)	4,486	0	83,694	0	(343,485)	(157,369)	0	0	(460,913)	460,913	705,142
32 - 81 / 81	(75,468)	4,505	0	86,240	0	(356,048)	(162,315)	0	0	(474,740)	474,740	733,488
33 - 82 / 82	(76,987)	4,522	0	88,863	0	(369,165)	(167,435)	0	0	(488,982)	488,982	764,707
34 - 83 / 83	(78,536)	4,536	0	91,566	0	(382,772)	(172,735)	0	0	(503,652)	503,652	798,997
35 - 84 / 84	(80,117)	4,548	0	94,351	0	(396,886)	(178,225)	0	0	(518,761)	518,761	836,564
36 - 85 / 85	(81,730)	4,557	0	97,221	0	(411,523)	(183,913)	0	0	(534,324)	534,324	877,627
37 - 86 / 86	(83,375)	4,573	0	100,178	0	(426,645)	(189,712)	0	0	(550,354)	550,354	922,253
38 - 87 / 87	(85,054)	4,589	0	103,225	0	(442,317)	(195,697)	0	0	(566,865)	566,865	970,642
39 - 88 / 88	(86,766)	4,602	0	106,365	0	(458,568)	(201,896)	0	0	(583,871)	583,871	1,023,034
40 - 89 / 89	(88,513)	4,610	0	109,600	0	(475,426)	(207,903)	0	0	(601,387)	601,387	1,079,281
41 - 90 / 90	(90,296)	2,891	0	112,933	0	(763,570)	0	0	0	(619,428)	619,428	1,197,893
42 - 91 / 91	(92,114)	2,902	0	116,368	0	(714,795)	0	0	0	(638,011)	638,011	1,247,521
43 - 92 / 92	(93,969)	2,911	0	119,908	0	(693,911)	0	0	0	(657,152)	657,152	1,255,430
44 - 93 / 93	(95,862)	2,915	0	123,555	0	(713,463)	0	0	0	(676,866)	676,866	1,261,419
45 - 94 / 94	(99,158)	2,889	0	127,313	0	(738,285)	0	0	0	(697,172)	697,172	1,271,488
46 - 95 / 95	(104,710)	2,723	0	131,185	0	(751,445)	0	0	0	(718,087)	718,087	1,275,647
47 - 96 / 96	(108,266)	(567,875)	0	135,175	0	(192,954)	0	0	0	(739,630)	739,630	1,269,937
48 - 97 / 97	(111,058)	(788,644)	0	139,287	0	0	0	0	0	(761,819)	761,819	1,268,534
49 - 98 / 98	(113,920)	(813,144)	0	143,524	0	0	0	0	0	(784,673)	784,673	1,267,401
50 - 99 / 99	(116,617)	(561,295)	0	147,889	0	0	0	0	0	(808,214)	808,214	989,215
51 - 100 / 100	(118,887)	0	0	152,387	0	0	0	0	0	(832,460)	832,460	123,255
52 - 101 / 101	(121,202)	0	0	157,022	0	0	0	0	0	(857,434)	857,434	(769,959)
53 - 102 / 102	(123,563)	0	0	161,798	0	0	0	0	0	(883,157)	883,157	(1,737,590)
54 - 103 / 103	(125,972)	0	0	166,719	0	0	0	0	0	(909,651)	909,651	(2,792,245)
55 - 104 / 104	(128,428)	0	0	171,790	0	0	0	0	0	(936,941)	936,941	(3,940,083)
56 - 105 / 105	(130,934)	0	0	177,015	0	0	0	0	0	(965,049)	965,049	(5,187,619)
Totals	(6,596,541)	(951,145)	0	(7,905,213)	0	(4,971,746)	(2,101,510)	0	0	(27,159,383)	27,159,383	(5,187,619)

Illustration B-1.3: Client's Cash Flow Chart

The following illustration is a different way of viewing the client's Asset Flow summary, and demonstrates where his income is being pulled from. Income from the client's qualified plan provides partial income until the age of 89, and money from his mutual funds, which was his real estate income, provides until the age of 96. Once that money runs out, the bulk of our client's income is drawn from his ordinary taxable account, which began as that extra $250,000 of cash laying around. What he's left with is social security income, which barely makes a dent in his living expenses.

So what will our strategy do that Client A's plan does not?

Our Strategy



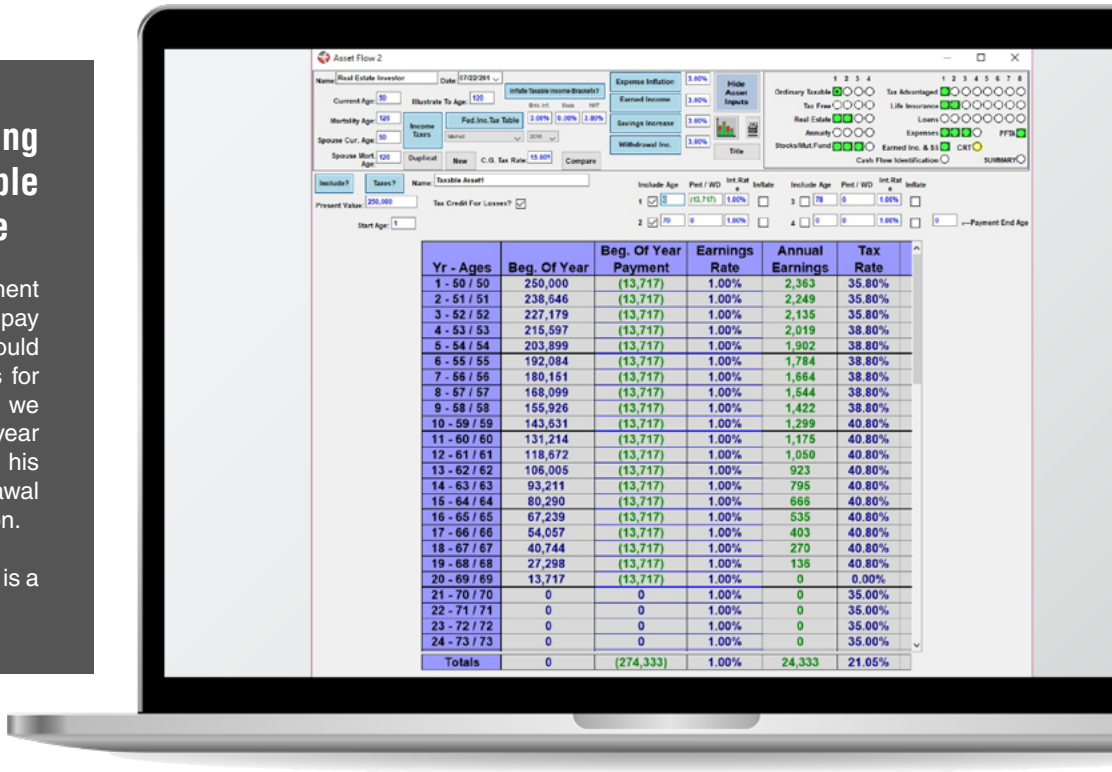
It's important to note that although the tax advantage is a huge benefit, a CRT is also a charitable gift, and should thus be initiated by someone who desires to live a charitable life.

In our setup, we noted that the client has $60,000 a year going into his ordinary taxable account. This is the account which began at $250,000 of cash just laying around. For our strategy, we are instead going to pull $13,000 a year out of the account.

Illustration C-1.0: Moving Funds from Ordinary Taxable Accounts into Life Insurance

The client's plan did not include permanent life insurance, but if he were to slowly pay down his ordinary taxable account, he would have funds available to pay premiums for himself and his wife. With this strategy, we have decided to withdraw $13,717 each year until our client's retirement, consuming his account by age 70. This rate of withdrawal stays even and is not affected by inflation.

You'll notice below that his earnings rate is a low 1%, and is taxable.

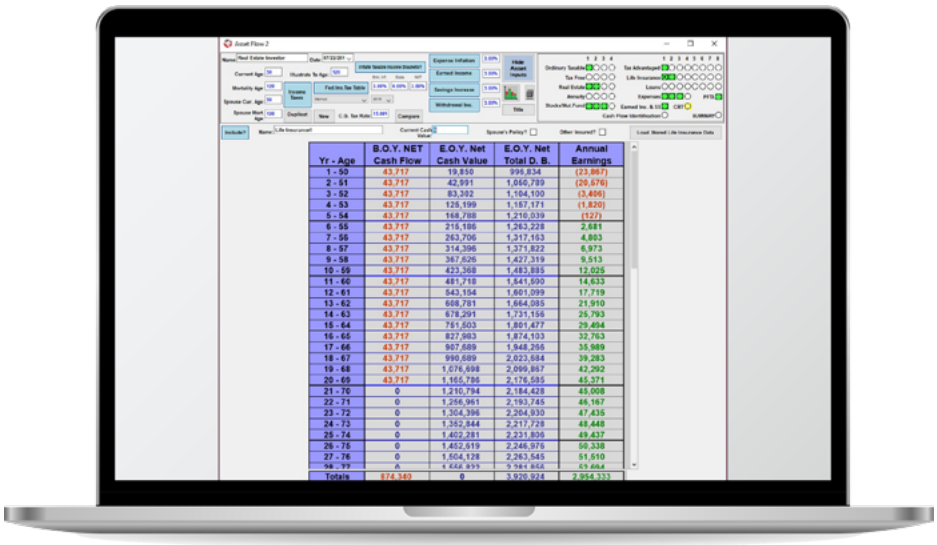


Yr - Ages	Beg. Of Year	Beg. Of Year Payment	Earnings Rate	Annual Earnings	Tax Rate
1 - 50 / 50	250,000	(13,717)	1.00%	2,363	35.80%
2 - 51 / 51	238,646	(13,717)	1.00%	2,249	35.80%
3 - 52 / 52	227,179	(13,717)	1.00%	2,135	35.80%
4 - 53 / 53	215,597	(13,717)	1.00%	2,019	38.80%
5 - 54 / 54	203,899	(13,717)	1.00%	1,902	38.80%
6 - 55 / 55	192,084	(13,717)	1.00%	1,784	38.80%
7 - 56 / 56	180,151	(13,717)	1.00%	1,664	38.80%
8 - 57 / 57	168,099	(13,717)	1.00%	1,544	38.80%
9 - 58 / 58	155,926	(13,717)	1.00%	1,422	38.80%
10 - 59 / 59	143,631	(13,717)	1.00%	1,299	40.80%
11 - 60 / 60	131,214	(13,717)	1.00%	1,175	40.80%
12 - 61 / 61	118,672	(13,717)	1.00%	1,050	40.80%
13 - 62 / 62	106,005	(13,717)	1.00%	923	40.80%
14 - 63 / 63	93,211	(13,717)	1.00%	795	40.80%
15 - 64 / 64	80,290	(13,717)	1.00%	666	40.80%
16 - 65 / 65	67,239	(13,717)	1.00%	535	40.80%
17 - 66 / 66	54,057	(13,717)	1.00%	403	40.80%
18 - 67 / 67	40,744	(13,717)	1.00%	270	40.80%
19 - 68 / 68	27,298	(13,717)	1.00%	136	40.80%
20 - 69 / 69	13,717	(13,717)	1.00%	0	0.00%
21 - 70 / 70	0	0	1.00%	0	35.00%
22 - 71 / 71	0	0	1.00%	0	35.00%
23 - 72 / 72	0	0	1.00%	0	35.00%
24 - 73 / 73	0	0	1.00%	0	35.00%
Totals	0	(274,333)	1.00%	24,333	21.05%

This allows the client to now have a life insurance premium of $43,717, and for his spouse to have a premium of $30,000 created by the paydown on that $250,000 of sitting cash. Now the cash is still liquid, and it's going to have better growth over time, for our client to access as needed. Because the sum is in the form of a cash value, our client has options that include borrowing against the money, directly depleting the account,

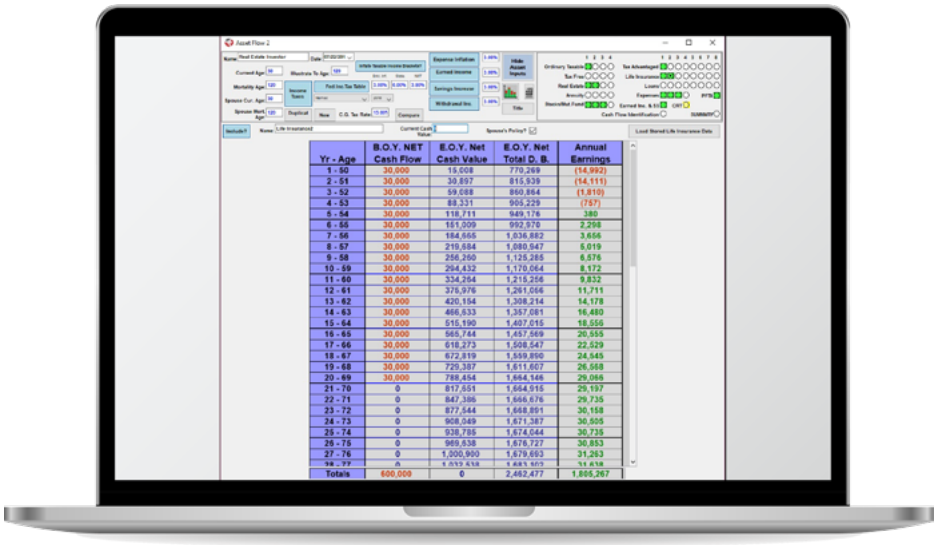
or simply allowing the account to grow untouched. His death benefit and his wife's will also increase over time, providing a better legacy for their children.

Client's Life Insurance



Yr - Age	B.O.Y. NET Cash Flow	E.O.Y. Net Cash Value	E.O.Y. Net Total D. B.	Annual Earnings
1 - 50	43,717	19,850	996,834	(23,867)
2 - 51	43,717	42,991	1,066,789	(20,676)
3 - 52	43,717	83,302	1,104,100	(3,406)
4 - 53	43,717	128,199	1,167,171	(1,820)
5 - 54	43,717	168,788	1,216,039	(127)
6 - 55	43,717	215,186	1,263,228	2,681
7 - 56	43,717	263,706	1,317,153	4,803
8 - 57	43,717	314,396	1,371,822	6,973
9 - 58	43,717	367,626	1,427,319	9,513
10 - 59	43,717	423,368	1,483,895	12,025
11 - 60	43,717	481,718	1,541,590	14,633
12 - 61	43,717	543,154	1,601,099	17,719
13 - 62	43,717	608,781	1,664,085	21,910
14 - 63	43,717	678,291	1,731,156	25,793
15 - 64	43,717	751,503	1,801,477	29,494
16 - 65	43,717	827,983	1,874,103	32,763
17 - 66	43,717	907,689	1,948,256	35,989
18 - 67	43,717	990,689	2,023,684	39,283
19 - 68	43,717	1,076,698	2,099,867	42,292
20 - 69	43,717	1,165,786	2,176,585	45,371
21 - 70	0	1,210,794	2,184,428	45,008
22 - 71	0	1,256,961	2,193,745	46,167
23 - 72	0	1,304,396	2,204,930	47,435
24 - 73	0	1,352,844	2,217,728	48,448
25 - 74	0	1,402,281	2,231,836	49,437
26 - 75	0	1,452,619	2,246,976	50,338
27 - 76	0	1,504,128	2,263,545	51,510
28 - 77	0	1,556,855	2,281,856	52,664
Totals	874,340	0	3,920,924	2,954,333

Spouse's Life Insurance



Yr - Age	B.O.Y. NET Cash Flow	E.O.Y. Net Cash Value	E.O.Y. Net Total D. B.	Annual Earnings
1 - 50	30,000	15,008	770,269	(14,992)
2 - 51	30,000	30,897	815,939	(14,111)
3 - 52	30,000	59,088	860,864	(1,810)
4 - 53	30,000	88,331	905,229	(757)
5 - 54	30,000	118,711	949,176	380
6 - 55	30,000	151,009	992,970	2,298
7 - 56	30,000	184,665	1,036,882	3,656
8 - 57	30,000	219,684	1,080,947	5,019
9 - 58	30,000	256,260	1,125,285	6,576
10 - 59	30,000	294,432	1,170,064	8,172
11 - 60	30,000	334,264	1,215,256	9,832
12 - 61	30,000	375,976	1,261,066	11,711
13 - 62	30,000	420,154	1,308,214	14,178
14 - 63	30,000	466,633	1,357,081	16,480
15 - 64	30,000	515,190	1,407,015	18,556
16 - 65	30,000	565,744	1,457,569	20,555
17 - 66	30,000	618,273	1,508,547	22,529
18 - 67	30,000	672,819	1,559,890	24,545
19 - 68	30,000	729,387	1,611,607	26,568
20 - 69	30,000	788,454	1,664,146	29,066
21 - 70	0	817,651	1,664,915	29,197
22 - 71	0	847,386	1,666,676	29,735
23 - 72	0	877,544	1,668,891	30,158
24 - 73	0	908,049	1,671,387	30,505
25 - 74	0	938,785	1,674,044	30,735
26 - 75	0	969,638	1,676,727	30,853
27 - 76	0	1,000,990	1,679,693	31,263
28 - 77	0	1,032,838	1,683,105	31,638
Totals	600,000	0	2,462,477	1,805,267

Illustration C-1.1: Adding Permanent Life Insurance for Client and Spouse

By withdrawing funds from the client's ordinary taxable account, he is able to purchase life insurance for himself and his wife. His own premium is $43,717 while his wife has a $30,000 premium. By the age of 120 this translates to an almost $4 million death benefit for our client, and a death benefit approaching $2.5 million for his wife. They also have the advantage of a cash value that is useable in a number of ways while living, and has an earnings rate of more than the 1% that same money was earning, and it is not taxed annually.

A Note For Advisors

For many clients the biggest downside to a Charitable Remainder Trust is the disinheritance that often follows. Our strategy promotes whole life insurance because of its ability to not only provide additional income and opportunities, but also the death benefit as a means of inheritance. The client is able to give to charity and have a death benefit to pass along to their heirs. Without a whole life insurance policy in place, there is no legacy to pass on to heirs, and many clients find this to be undesirable. Often, CPAs and lawyers do not understand whole life insurance, or do not know how to implement the policy as part of the financial strategy, but it is a crucial step. We advocate for whole life insurance as a savings vehicle that provides clients with choices.

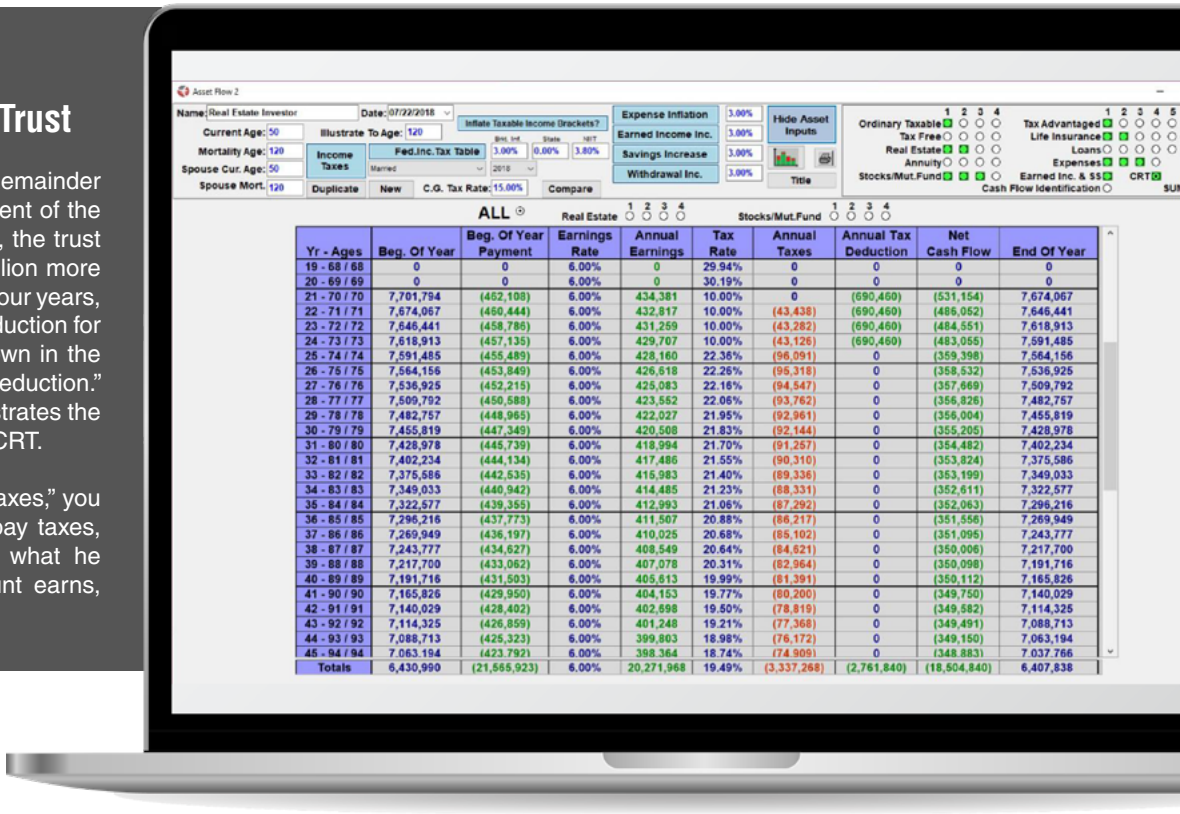
So our client now has a more effective, growing death benefit, and a cash value that's growing at a better rate as well. Other than the higher premium, our client's expenses remain about the same—he still puts his $54,000 into his qualified plan. But, instead of selling his real estate at the age of 70, he's going to use it as an asset in a Charitable Remainder Trust. For this illustration, we have a CRUT, or Charitable Remainder Unitrust. As stated earlier, this means that the client's income will be a percentage of the assets within the trust. This percentage can vary over the years, up to a certain limit. Within the rules in place by the IRS, there must be a calculated amount of

the account the passes on to charity. It's important to have an individual managing the account who understands tax law well.

Illustration C-1.2: The Charitable Remainder Trust

Here we can see the Charitable Remainder Trust in action. Upon the placement of the real estate asset within the trust, the trust accepts nearly $8 million, $2 million more than he had earned. For the first four years, the client receives a large tax deduction for the instatement of the trust, shown in the column marked "Annual Tax Deduction." The "Net Cash Flow" column illustrates the client's income stream from the CRT.

In the column marked "Annual Taxes," you will notice that the client does pay taxes, but those taxes are based on what he withdraws from what the account earns, as explained earlier.



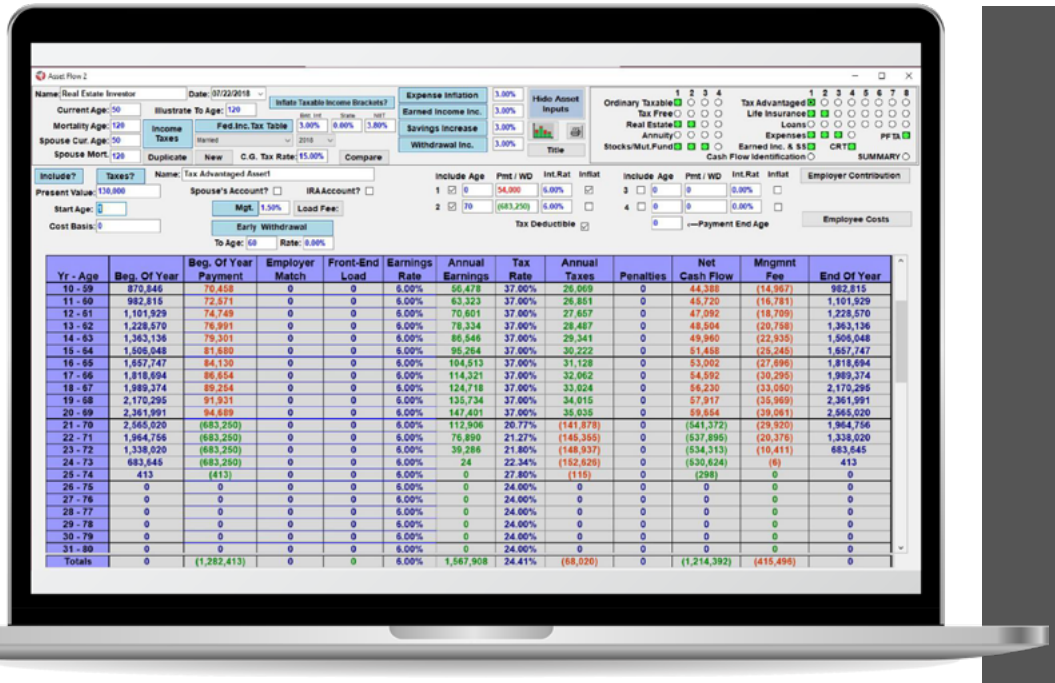
Yr - Ages	Beg. Of Year	Beg. Of Year Payment	Earnings Rate	Annual Earnings	Tax Rate	Annual Taxes	Annual Tax Deduction	Net Cash Flow	End Of Year
19 - 68 / 68	0	0	6.00%	0	29.94%	0	0	0	0
20 - 69 / 69	0	0	6.00%	0	30.19%	0	0	0	0
21 - 70 / 70	7,701,794	(462,108)	6.00%	434,381	10.00%	0	(690,460)	(531,154)	7,674,067
22 - 71 / 71	7,674,067	(460,444)	6.00%	432,817	10.00%	(43,438)	(690,460)	(486,052)	7,646,441
23 - 72 / 72	7,646,441	(458,786)	6.00%	431,259	10.00%	(43,282)	(690,460)	(484,551)	7,618,913
24 - 73 / 73	7,618,913	(457,135)	6.00%	429,707	10.00%	(43,126)	(690,460)	(483,055)	7,591,485
25 - 74 / 74	7,591,485	(455,489)	6.00%	428,160	22.36%	(96,091)	0	(359,398)	7,564,156
26 - 75 / 75	7,564,156	(453,849)	6.00%	426,618	22.26%	(95,318)	0	(358,532)	7,536,925
27 - 76 / 76	7,536,925	(452,215)	6.00%	425,083	22.16%	(94,547)	0	(357,669)	7,509,792
28 - 77 / 77	7,509,792	(450,588)	6.00%	423,552	22.06%	(93,762)	0	(356,826)	7,482,757
29 - 78 / 78	7,482,757	(448,965)	6.00%	422,027	21.95%	(92,961)	0	(356,004)	7,455,819
30 - 79 / 79	7,455,819	(447,349)	6.00%	420,508	21.83%	(92,144)	0	(355,205)	7,428,978
31 - 80 / 80	7,428,978	(445,739)	6.00%	418,994	21.70%	(91,257)	0	(354,482)	7,402,234
32 - 81 / 81	7,402,234	(444,134)	6.00%	417,486	21.55%	(90,310)	0	(353,824)	7,375,586
33 - 82 / 82	7,375,586	(442,535)	6.00%	415,983	21.40%	(89,336)	0	(353,199)	7,349,033
34 - 83 / 83	7,349,033	(440,942)	6.00%	414,485	21.23%	(88,331)	0	(352,611)	7,322,577
35 - 84 / 84	7,322,577	(439,355)	6.00%	412,993	21.06%	(87,292)	0	(352,063)	7,296,216
36 - 85 / 85	7,296,216	(437,773)	6.00%	411,507	20.88%	(86,217)	0	(351,556)	7,269,949
37 - 86 / 86	7,269,949	(436,197)	6.00%	410,025	20.68%	(85,102)	0	(351,095)	7,243,777
38 - 87 / 87	7,243,777	(434,627)	6.00%	408,549	20.64%	(84,621)	0	(350,006)	7,217,700
39 - 88 / 88	7,217,700	(433,062)	6.00%	407,078	20.31%	(82,964)	0	(350,098)	7,191,716
40 - 89 / 89	7,191,716	(431,503)	6.00%	405,613	19.99%	(81,391)	0	(350,112)	7,165,826
41 - 90 / 90	7,165,826	(429,950)	6.00%	404,153	19.77%	(80,200)	0	(349,750)	7,140,029
42 - 91 / 91	7,140,029	(428,402)	6.00%	402,698	19.50%	(78,819)	0	(349,582)	7,114,325
43 - 92 / 92	7,114,325	(426,859)	6.00%	401,248	19.21%	(77,368)	0	(349,491)	7,088,713
44 - 93 / 93	7,088,713	(425,323)	6.00%	399,803	18.98%	(76,172)	0	(349,150)	7,063,194
45 - 94 / 94	7,063,194	(423,792)	6.00%	398,364	18.74%	(74,909)	0	(348,883)	7,037,766
Totals	6,430,990	(21,565,923)	6.00%	20,271,968	19.49%	(3,337,268)	(2,761,840)	(18,504,840)	6,407,838

For the illustration, we have set the income at a distribution over 51 years. Our client also has the opportunity for deductions now, as well, which are calculated by the IRS using the charitable donation and other factors as mentioned earlier. This deduction can be spread over as many as six years, but for our illustration we chose four.

So, what happens when our client puts his real estate into the trust? When it sells for $8 million, the entire value remains within the trust. So the $2 million that would have been lost through taxes, now stays in the account.

With the charitable deduction in play, if the client accelerates the distribution of his qualified plan over a four-year period, the charitable deduction actually offsets the taxes paid on that money as it's pulled out. So now we've empowered a hugely taxable asset. So far we've added $2 million to the value of Client A's real estate by removing capital gains taxes and

deferred depreciation taxes, as well as temporarily making withdrawals from his qualified plan essentially tax free.



Yr - Age	Beg. Of Year	Beg. Of Year Payment	Employer Match	Front-End Load	Earnings Rate	Annual Earnings	Tax Rate	Annual Taxes	Penalties	Net Cash Flow	Mngmnt Fee	End Of Year
10 - 59	870,846	70,458	0	0	6.00%	56,478	37.00%	26,069	0	44,388	(14,967)	982,815
11 - 60	982,815	72,571	0	0	6.00%	63,323	37.00%	26,851	0	45,720	(16,781)	1,101,929
12 - 61	1,101,929	74,749	0	0	6.00%	70,601	37.00%	27,657	0	47,092	(18,709)	1,228,570
13 - 62	1,228,570	76,991	0	0	6.00%	78,334	37.00%	28,487	0	48,504	(20,758)	1,363,136
14 - 63	1,363,136	79,301	0	0	6.00%	86,546	37.00%	29,341	0	49,960	(22,935)	1,506,048
15 - 64	1,506,048	81,680	0	0	6.00%	95,264	37.00%	30,222	0	51,458	(25,245)	1,657,747
16 - 65	1,657,747	84,130	0	0	6.00%	104,513	37.00%	31,128	0	53,002	(27,696)	1,818,694
17 - 66	1,818,694	86,654	0	0	6.00%	114,321	37.00%	32,062	0	54,592	(30,295)	1,989,374
18 - 67	1,989,374	89,254	0	0	6.00%	124,718	37.00%	33,024	0	56,230	(33,050)	2,170,295
19 - 68	2,170,295	91,931	0	0	6.00%	135,734	37.00%	34,015	0	57,917	(35,969)	2,361,991
20 - 69	2,361,991	94,689	0	0	6.00%	147,401	37.00%	35,035	0	59,654	(39,061)	2,565,020
21 - 70	2,565,020	(683,250)	0	0	6.00%	112,906	20.77%	(141,878)	0	(541,372)	(29,920)	1,964,756
22 - 71	1,964,756	(683,250)	0	0	6.00%	76,890	21.27%	(145,355)	0	(537,895)	(20,376)	1,338,020
23 - 72	1,338,020	(683,250)	0	0	6.00%	39,286	21.80%	(148,937)	0	(534,313)	(10,411)	683,645
24 - 73	683,645	(683,250)	0	0	6.00%	24	22.34%	(152,626)	0	(530,624)	(6)	413
25 - 74	413	(413)	0	0	6.00%	0	27.80%	(115)	0	(298)	0	0
26 - 75	0	0	0	0	6.00%	0	24.00%	0	0	0	0	0
27 - 76	0	0	0	0	6.00%	0	24.00%	0	0	0	0	0
28 - 77	0	0	0	0	6.00%	0	24.00%	0	0	0	0	0
29 - 78	0	0	0	0	6.00%	0	24.00%	0	0	0	0	0
30 - 79	0	0	0	0	6.00%	0	24.00%	0	0	0	0	0
31 - 80	0	0	0	0	6.00%	0	24.00%	0	0	0	0	0
Totals	0	(1,282,413)	0	0	6.00%	1,567,908	24.41%	(68,020)	0	(1,214,392)	(415,495)	0

Illustration C-1.3: Sped Up Withdrawals from Client's Qualified Plan

While the client has the benefit of tax deductions in his first four years of establishing his Charitable Remainder Trust, we have him speed up withdrawals from his account. In the "Beg. Of Year Payment" column, the green sums indicate withdrawals during this tax advantaged period. "Annual Taxes" indicates how much the client will pay, which is much lower, and the "Net Cash Flow" indicates his totals. We have decided to take this money and place it into his mutual funds, which is where he had previously placed his earnings from the real estate, to provide an income stream.

So Client A has withdrawn this money over a four year period and parked it in his mutual funds. Although this is not the only strategy, it's what our client was already doing, so that's where we've decided to keep it for this study. Now the client has an income stream from the CRT as well as his qualified plan, and a place to store the money.

Illustration C-1.4: Client Mutual Funds with Qualified Plan Money

The mutual funds below represent the money our client has now withdrawn from his qualified plan during his tax deductible years, and placed into his mutual funds. The account allows for him to pull part of his income stream from this source, where it can also grow. In the column marked "Beg. Of Yr. Cash Flow" you can see his large deposits, and the minimal taxes paid in the column to its right during his tax deductible years.

Yr - Ages	Beg. Of Year Acct. Value	Earnings Rate	STCG Earnings	LTCG Earnings	Dividend Earnings	Beg. Of Yr. Cash Flow	Total Taxes	BOY Load Fee On Pmts.	End Of Yr. Mgt. Fees	End. Of Year Value
19 - 68 / 68	0	0.00%	0	0	0	0	0	0	0	0
20 - 69 / 69	0	0.00%	0	0	0	0	0	0	0	0
21 - 70 / 70	0	6.00%	16,200	3,600	16,200	600,000	(999)	0	(9,540)	626,460
22 - 71 / 71	626,460	6.00%	33,114	7,359	33,114	600,000	(2,042)	0	(19,501)	1,280,547
23 - 72 / 72	1,280,547	6.00%	50,775	11,283	50,775	600,000	(6,781)	0	(29,901)	1,963,479
24 - 73 / 73	1,963,479	6.00%	69,214	15,381	69,214	600,000	(8,028)	0	(40,759)	2,676,528
25 - 74 / 74	2,676,528	6.00%	66,596	14,799	66,596	(210,000)	(22,621)	0	(39,218)	2,575,302
26 - 75 / 75	2,575,302	6.00%	63,693	14,154	63,693	(216,300)	(21,634)	0	(37,508)	2,463,034
27 - 76 / 76	2,463,034	6.00%	60,487	13,441	60,487	(222,789)	(20,545)	0	(35,620)	2,339,040
28 - 77 / 77	2,339,040	6.00%	56,958	12,657	56,958	(229,473)	(19,347)	0	(33,542)	2,202,599
29 - 78 / 78	2,202,599	6.00%	53,089	11,797	53,089	(236,357)	(18,032)	0	(31,263)	2,052,954
30 - 79 / 79	2,052,954	6.00%	48,857	10,857	48,857	(243,448)	(16,595)	0	(28,771)	1,889,306
31 - 80 / 80	1,889,306	6.00%	44,241	9,831	44,241	(250,751)	(15,027)	0	(26,063)	1,710,815
32 - 81 / 81	1,710,815	6.00%	39,219	8,715	39,219	(258,274)	(13,321)	0	(23,095)	1,516,598
33 - 82 / 82	1,516,598	6.00%	33,766	7,503	33,766	(266,022)	(11,469)	0	(19,884)	1,306,727
34 - 83 / 83	1,306,727	6.00%	27,857	6,190	27,857	(274,002)	(9,462)	0	(16,404)	1,077,224
35 - 84 / 84	1,077,224	6.00%	21,465	4,770	21,465	(282,222)	(7,291)	0	(12,641)	830,061
36 - 85 / 85	830,061	6.00%	14,563	3,236	14,563	(290,689)	(4,947)	0	(8,576)	563,158
37 - 86 / 86	563,158	6.00%	7,121	1,582	7,121	(299,410)	(2,419)	0	(4,194)	275,380
38 - 87 / 87	275,380	6.00%	12,836	2,852	12,836	200,000	(4,360)	0	(7,569)	496,344
39 - 88 / 88	496,344	6.00%	0	0	0	(496,344)	(24,002)	0	0	0
40 - 89 / 89	0	6.00%	0	0	0	0	0	0	0	0
Totals	0	4.31%	720,049	160,011	720,049	(1,170,080)	(226,922)	(0)	(424,029)	0

Within the CRT, we see that as the income is going to the client, the account balance is dropping. Our client has decided not to be too aggressive with the income, and could still take out more. He is also paying some taxes on this money. For example, if there was $1 million in the account and the client earns 10%, that's $100,000 of taxable value. So if he pulls out anything up to $100,000 he'll be taxed on that money. If he pulls out over $100,000, he will be taxed on $100,000. It is ordinary income. He only has to pay taxes on what the account earns, if he takes that money, and he will only be taxed on what he takes.

At the end of all this, we see a much different picture in our client's account. Instead of running out at age 100, Client A is having a traditional income to the age of 102. Although the difference appears small, two more years of income is a blessing. Our client has also had the opportunity to be charitable.

Yr - Ages	B.O.Y. Value ALL Assets	Ann. Asset Cash Flow	Annual Earnings	Taxes On Assets	Annual Fees & Expenses	E.O.Y Loan Balance	E.O.Y. NET Worth	E.O.Y. NET Value To Heirs	TOTAL Net Cash Flow	Annual Liv. Exp.	P.F.T.A. Balance
34 - 83 / 83	12,423,194	(636,245)	450,313	(119,564)	(153,194)	0	12,624,379	13,404,087	(503,652)	503,652	1,292,737
35 - 84 / 84	12,624,379	(650,685)	448,863	(117,690)	(154,209)	0	12,810,006	13,529,973	(518,761)	518,761	1,373,834
36 - 85 / 85	12,810,006	(665,478)	446,394	(115,662)	(155,097)	0	12,978,952	13,640,367	(534,324)	534,324	1,447,689
37 - 86 / 86	12,978,952	(680,631)	440,949	(113,474)	(155,845)	0	13,128,140	13,732,458	(550,354)	550,354	1,514,147
38 - 87 / 87	13,128,140	(700,585)	463,753	(115,649)	(164,527)	0	13,273,097	13,822,033	(566,865)	566,865	1,060,106
39 - 88 / 88	13,273,097	(737,814)	440,871	(134,345)	(162,479)	0	13,362,984	13,857,986	(583,871)	583,871	1,260,146
40 - 89 / 89	13,362,984	(762,197)	416,861	(139,723)	(158,333)	0	13,410,299	13,852,398	(601,387)	601,387	1,559,353
41 - 90 / 90	13,410,299	(730,095)	411,148	(88,029)	(158,251)	0	13,485,680	13,873,746	(619,428)	619,428	1,621,717
42 - 91 / 91	13,485,680	(748,603)	403,471	(86,337)	(157,953)	0	13,537,369	13,868,733	(638,011)	638,011	1,675,071
43 - 92 / 92	13,537,369	(767,605)	394,155	(84,515)	(157,422)	0	13,563,614	13,835,963	(657,152)	657,152	1,719,173
44 - 93 / 93	13,563,614	(787,461)	383,754	(82,901)	(156,642)	0	13,562,858	13,773,522	(676,866)	676,866	1,753,417
45 - 94 / 94	13,562,858	(807,849)	373,061	(81,156)	(155,596)	0	13,534,698	13,679,745	(697,172)	697,172	1,777,538
46 - 95 / 95	13,534,698	(826,779)	357,511	(78,625)	(154,265)	0	13,476,206	13,591,265	(718,087)	718,087	1,793,291
47 - 96 / 96	13,476,206	(845,236)	339,234	(75,465)	(152,628)	0	13,385,610	13,471,542	(739,630)	739,630	1,801,469
48 - 97 / 97	13,385,610	(864,007)	321,264	(71,828)	(150,664)	0	13,263,403	13,320,469	(761,819)	761,819	1,802,087
49 - 98 / 98	13,263,403	(882,788)	303,588	(67,589)	(148,353)	0	13,110,401	13,136,863	(784,673)	784,673	1,795,478
50 - 99 / 99	13,110,401	(919,790)	290,638	(80,305)	(147,889)	0	12,911,410	12,907,384	(808,214)	808,214	1,624,213
51 - 100 / 100	12,911,410	(928,097)	294,010	(62,137)	(152,387)	0	12,706,808	12,672,857	(832,460)	832,460	1,124,601
52 - 101 / 101	12,706,808	(952,860)	295,056	(59,606)	(157,022)	0	12,478,325	12,414,213	(857,434)	857,434	594,542
53 - 102 / 102	12,478,325	(978,374)	295,827	(56,982)	(161,798)	0	12,224,965	12,130,577	(883,157)	883,157	32,994
54 - 103 / 103	12,224,965	(443,581)	296,424	(54,263)	(166,719)	(561,127)	11,945,802	11,821,094	(909,651)	909,651	(561,127)
55 - 104 / 104	12,506,929	(408,780)	268,531	(52,853)	(171,790)	(1,219,171)	11,609,394	11,454,583	(936,941)	936,941	(1,219,171)
56 - 105 / 105	12,828,565	(407,308)	235,217	(51,503)	(177,015)	(1,947,647)	11,209,314	11,024,619	(965,049)	965,049	(1,947,647)
57 - 106 / 106	13,156,961	(405,842)	197,676	(50,131)	(182,400)	(2,751,705)	10,740,428	10,526,065	(994,001)	994,001	(2,751,705)
58 - 107 / 107	13,492,133	(404,381)	155,626	(49,501)	(187,947)	(3,637,599)	10,196,528	9,952,578	(1,023,821)	1,023,821	(3,637,599)
59 - 108 / 108	13,834,126	(402,925)	108,642	(49,260)	(193,664)	(4,611,633)	9,571,304	9,297,784	(1,054,535)	1,054,535	(4,611,633)
60 - 109 / 109	14,182,937	(401,475)	56,177	(49,020)	(199,554)	(5,680,134)	8,858,257	8,555,308	(1,086,171)	1,086,171	(5,680,134)
61 - 110 / 110	14,538,391	(400,029)	(2,075)	(48,779)	(205,624)	(6,849,838)	8,050,552	7,718,334	(1,118,757)	1,118,757	(6,849,838)
Totals	18,451,135	(69,024,969)	(1,396,944)	(9,208,208)	(30,867,836)	(8,003,497)	(8,003,497)	(8,003,497)	(44,143,200)	44,143,200	(8,003,497)

Illustration C-1.5: Client's Retirement Income With Charitable Remainder Trust

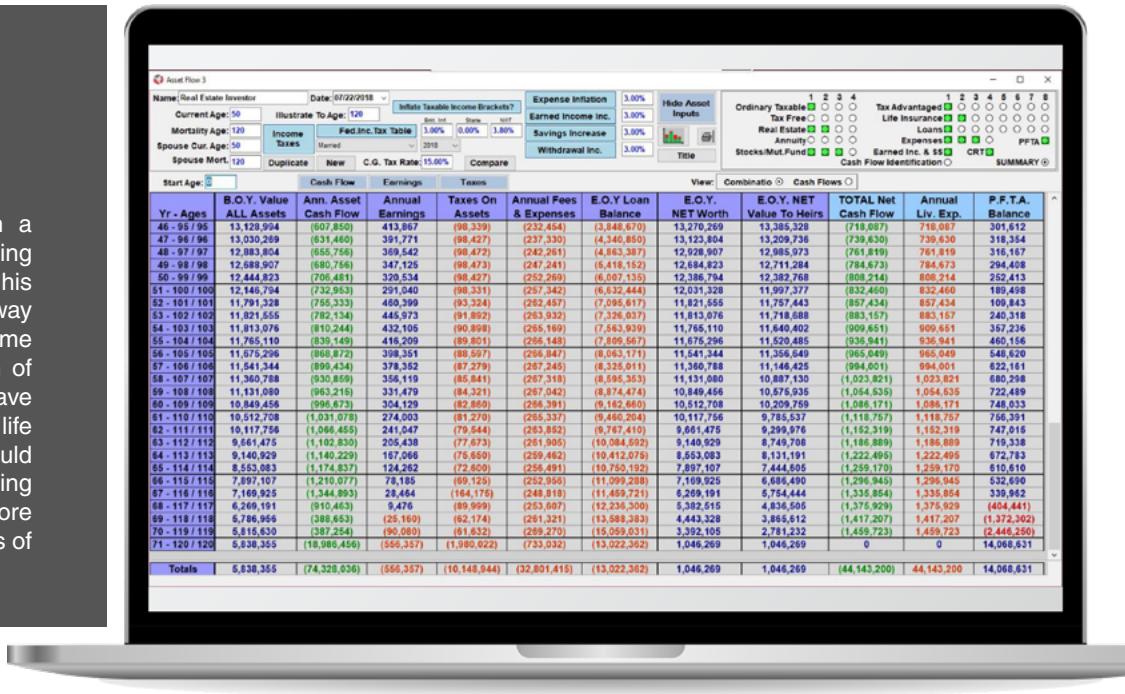
While the client's plan had an income out until the age of 100, our strategy makes it to the age of 102 with an income that fully supports his expenses. Past that age, our client continues to have an income, though not quite enough to cover his inflated expenses. In the "E.O.Y Net Worth" column, however, we see that the client now has a value over $12 million, meaning he has valuable assets apart from his personal residence that is shown earlier. This value comes from the cash value of his life insurance, as well as his wife's policy. This is a flexible savings vehicle that could fill the gaps in our client's income. In addition, roughly $7 million will pass to charity, and our client has a death benefit to pass on to his heirs.

There's one more factor for our client to consider as well—his cash value. Because he put more into his premium with this strategy, he has a greater cash value. $7 million, in fact, that could be used as a supplemental income. His net worth also passes $12 million. Using his own plan, all the client had remaining was his personal home.

Utilizing our strategy, does the client have other options? If he were to do a reverse mortgage on his personal home supported by his life insurance, the house value could pass on to his heirs. That value, combined with the benefit of his heirs not struggling to comply with the IRS on the sale of the estate, is a huge boon to his loved ones. The reverse mortgage allows the kids to have more options, including buying the house back from the reverse mortgage company.

Illustration C-1.6: CRT Strategy Combined with Reverse Mortgage

If our client were to decide upon a reverse mortgage as well, beginning at the age of 85, we would see his retirement income take him all the way out to the age of 116. This is income that is keeping up with the inflation of expenses, and our client will still have $6 million in cash value from his life insurance to withdraw an income should it be necessary. By also implementing this strategy, our client has one more option, and has added 16 more years of income than from his original plan.



Yr - Ages	B.O.Y. Value ALL Assets	Ann. Asset Cash Flow	Annual Earnings	Taxes On Assets	Annual Fees & Expenses	E.O.Y Loan Balance	E.O.Y. NET Worth	E.O.Y. NET Value To Heirs	TOTAL Net Cash Flow	Annual Liv. Exp.	P.F.T.A. Balance
46 - 95 / 95	13,128,904	(607,850)	413,867	(98,339)	(232,454)	(3,848,670)	13,270,269	13,385,328	(718,087)	718,087	301,612
47 - 96 / 96	13,030,269	(631,460)	391,771	(98,427)	(237,330)	(4,340,850)	13,123,804	13,209,736	(739,630)	739,630	318,354
48 - 97 / 97	12,883,804	(655,756)	369,542	(98,472)	(242,261)	(4,863,387)	12,928,907	12,985,973	(761,819)	761,819	316,167
49 - 98 / 98	12,688,907	(680,756)	347,125	(98,473)	(247,241)	(5,418,152)	12,684,823	12,711,284	(784,673)	784,673	294,408
50 - 99 / 99	12,444,823	(706,481)	320,534	(98,427)	(252,269)	(6,007,135)	12,386,794	12,382,768	(808,214)	808,214	252,413
51 - 100 / 100	12,146,794	(732,953)	291,040	(98,331)	(257,342)	(6,632,444)	12,031,328	11,997,377	(832,460)	832,460	189,498
52 - 101 / 101	11,791,328	(755,333)	460,399	(93,324)	(262,457)	(7,095,617)	11,821,555	11,757,443	(857,434)	857,434	109,843
53 - 102 / 102	11,821,555	(782,134)	445,973	(91,892)	(263,932)	(7,326,037)	11,813,076	11,718,688	(883,157)	883,157	240,318
54 - 103 / 103	11,813,076	(810,244)	432,106	(90,898)	(265,169)	(7,563,939)	11,765,110	11,640,402	(909,651)	909,651	357,236
55 - 104 / 104	11,765,110	(839,149)	416,209	(89,801)	(266,148)	(7,809,567)	11,675,296	11,520,485	(936,941)	936,941	460,156
56 - 105 / 105	11,675,296	(868,872)	398,351	(88,597)	(266,847)	(8,063,171)	11,541,344	11,356,649	(965,049)	965,049	548,620
57 - 106 / 106	11,541,344	(899,434)	378,352	(87,279)	(267,245)	(8,325,011)	11,360,788	11,146,425	(994,001)	994,001	622,161
58 - 107 / 107	11,360,788	(930,859)	356,119	(85,841)	(267,318)	(8,595,353)	11,131,080	10,887,130	(1,023,821)	1,023,821	680,298
59 - 108 / 108	11,131,080	(963,215)	331,479	(84,321)	(267,042)	(8,874,474)	10,849,456	10,575,935	(1,054,535)	1,054,535	722,489
60 - 109 / 109	10,849,456	(996,673)	304,129	(82,860)	(266,391)	(9,162,660)	10,512,708	10,209,759	(1,086,171)	1,086,171	748,033
61 - 110 / 110	10,512,708	(1,031,078)	274,003	(81,270)	(265,337)	(9,460,204)	10,117,756	9,785,537	(1,118,757)	1,118,757	756,391
62 - 111 / 111	10,117,756	(1,066,455)	241,047	(79,544)	(263,852)	(9,767,410)	9,661,475	9,299,976	(1,152,319)	1,152,319	747,015
63 - 112 / 112	9,661,475	(1,102,830)	205,438	(77,673)	(261,905)	(10,084,692)	9,140,929	8,749,708	(1,186,889)	1,186,889	719,338
64 - 113 / 113	9,140,929	(1,140,229)	167,066	(75,650)	(259,462)	(10,412,075)	8,553,083	8,131,191	(1,222,495)	1,222,495	672,783
65 - 114 / 114	8,553,083	(1,174,837)	124,262	(72,600)	(256,491)	(10,750,192)	7,897,107	7,444,605	(1,259,170)	1,259,170	610,610
66 - 115 / 115	7,897,107	(1,210,077)	78,185	(69,125)	(252,950)	(11,099,288)	7,169,925	6,686,490	(1,296,945)	1,296,945	532,690
67 - 116 / 116	7,169,925	(1,344,893)	28,464	(164,175)	(248,818)	(11,459,721)	6,269,191	5,754,444	(1,336,854)	1,336,854	339,962
68 - 117 / 117	6,269,191	(910,463)	9,476	(89,999)	(253,607)	(12,236,300)	5,382,515	4,836,505	(1,375,929)	1,375,929	(404,441)
69 - 118 / 118	5,786,956	(388,653)	(25,160)	(62,174)	(261,321)	(13,588,383)	4,443,328	3,865,612	(1,417,207)	1,417,207	(1,372,302)
70 - 119 / 119	5,815,630	(387,254)	(90,080)	(61,632)	(269,270)	(15,059,031)	3,392,105	2,781,232	(1,459,723)	1,459,723	(2,446,250)
71 - 120 / 120	5,838,355	(18,986,456)	(556,357)	(1,980,022)	(733,032)	(13,022,362)	1,046,269	1,046,269	0	0	14,068,631
Totals	5,838,355	(74,328,036)	(556,357)	(10,148,944)	(32,801,415)	(13,022,362)	1,046,269	1,046,269	(44,143,200)	44,143,200	14,068,631

The CRT, along with more strategic use of the extra cash at hand, allowed our client to have more options and extend his income by many more years. Now he and his spouse have liquid cash that keeps up with inflation, they are able to extend the life of their ordinary income by a few years, and they still have ways to care for themselves and their children for years to come with the options provided by life insurance.

One of the pitfalls to a Charitable Remainder Trust is the problem of **disinheritance**. Unless there is a wealth replacement trust in place, the family becomes disinherited from this legacy, so it is vital to have the **wealth replacement trust** in place, properly funded by permanent life insurance.

Illustration Key

Illustration A

Covers the set-up of our client's assets, where he is investing, how his assets are flowing, and his lifetime expenses.

Illustration B

Illustrates the client's personal financial "plan" for retirement; how he will handle his real estate, and provide income through retirement.

Illustration C

Illustrates our Charitable Remainder Trust strategy, and how it can extend the timeframe of our client's retirement income and create a legacy.

Part III

Conclusions for Advisors

The main takeaway from this proof is that the Charitable Remainder Trust offers a viable way to extend the retirement income of real estate investors, and create more available assets for your client. Done properly, the CRT can be a benefit to more than just your client, and put their money where it will do the most work. The key to the CRT is to look for better ways to move a client's liquid assets. The Charitable Remainder Trust is a great way for a client to practice the 7 Principles of Prosperity:

- **THINK:** Owning a prosperity mindset eliminates poverty; scarcity thinking keeps you stuck.
- **SEE:** increase your prosperity by adopting a 'big picture' perspective in which you can see how each one of your economic endeavors affects the others. Avoid financial tunnel 'vision.'
- **MEASURE:** Always measure your opportunity costs—what your dollars could earn if you did not spend or commit them elsewhere. Awareness of opportunity costs enables you to recover them. Ignore this at your peril.
- **FLOW:** The true measure of prosperity is cash flow. Don't focus on net worth alone.
- **CONTROL:** Those with the gold make the rules. Stay in control of your money rather than relinquishing control to others.
- **MOVE:** The velocity of money is the movement of dollars through assets. Movement accelerates prosperity; accumulation slows it down. Avoid stagnation in assets where dollars accumulate but are not put to use.
- **MULTIPLY:** Prosperity comes readily when your money 'multiplies'—meaning that one dollar does many jobs. Your money is disabled when each dollar performs only one or two jobs.

Using only the client's plan, only a few of these principles were at work, but with a few changes, the client was able to restructure his strategy using all 7 Principles.

A Note For Advisors

It's important to understand that the Charitable Remainder Trust is not only for retirement. The CRT can be used in a number of prosperous strategies, and can be established with properties of lower value than what was shown.

The process of establishing a Charitable Remainder Trust can be broken into four parts:

- Working with a tax preparer, one who understands the tax forms and laws involved.
- Drafting documents with an attorney.
- Creating a strategy with an investment advisor. Someone who can figure out the sales, management, and investments of the CRT account.
- Establishing whole life insurance and the Wealth Replacement Trust.

Key Takeaways

Modern retirement planning relies heavily on investment portfolios, and individuals entering the retirement phase of life are now dipping into their accounts for income. Those who have spent their lives investing in Real Estate are often in the selling phase—creating an income from the sales of highly appreciated properties. The greater the worth of the property, the greater the taxes are, and the money is delivered in a lump sum that could be tempting to spend quickly. Regardless of how much profit results in the sales of properties, the money must last for the entirety of your client's retirement; a period of time that is unable to be pinpointed. A once astronomical amount of cash can become quite small when a client is expected to live for ten or twenty years more, let alone thirty or forty years.

At the Prosperity Economics Movement, we are proponents of whole life insurance because of its consistent performance and the proper placement of risk. It is one of the very few financial products that offers uninterrupted compounding growth for the life of the policy and pays the death benefit (which includes the cash value) upon endowment or death. For real estate investors, whole life insurance can be a great place to store cash, as it can be for anyone. Utilized in tandem with a Charitable Remainder Trust, investors can demonstrate control over their finances, and can better achieve prosperity and peace of mind in retirement. It's a tool of many benefits, and ensures better liquidity of assets when they are most needed, such as retirement.

We advocate specifically for well-managed mutual insurance companies, who, like the whole life product they sell, have stood the test of time and place the interest of their policyholders first. When it comes to choosing life insurance, each advisor must determine what is most appropriate for a given client's circumstances.

Two questions are particularly critical

How does a client intend to use their life insurance?

How much exposure to loss, or risk, is the client willing to accept?

Remember, when we are looking this far out into the future, the only guarantee is change. That means that the numbers, available strategies, and lifestyle of your clients will also change. An advisors job, from the philosophy of prosperity economics, is to guide our clients in a way that maximizes their ability to make adjustments to their strategy, rather than in assets that "lock up" their choices. Whole life insurance is an asset that

provides these options, and provides the flexibility to create new strategies throughout one's lifetime.

The Charitable Remainder Trust strategy is one that helps to offset fees and taxes, as well as creating a charitable legacy. While not impossible to rely on retirement income from qualified plans, stock market investments, and the sales of large assets, a CRT helps maintain better financial health across all accounts. "Plans" tied to the stock market can suffer great losses, are heavily taxable, and uncertain. Properly managed CRTs maximize income and reduce the need to pull consistently from a qualified plan or other taxable account. A strategy that diversifies income also minimizes risk. For further diversification in retirement, the Income Optimization Bridge strategy should be considered.

The root of any financial strategy is patience. As Aesop told us in "The Tortoise and The Hare," slow and steady wins the race.

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Be informed, Take Action

If this paper piqued your interest, find out more about the Prosperity Economic Movement on our website: Prosperity Peaks.

If you are a financial or insurance advisor and want to know more about becoming a member of the Prosperity Economics Movement, please contact us at Advisor Information.

The Prosperity Economics Movement is a community of financial advisors and clients who recognize that typical financial planning no longer works for most Americans. They are committed to transparency in all communications with clients and the companies with whom they do business, in putting clients first, and working with tried and true financial products that help build wealth, promote certainty, and provide a secure financial legacy for individuals, families and organizations. For more information, see Prosperity Peaks.

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