

# Charitable Legacy Enhancement with Life Insurance

## Situation

Charles, 71, is a very successful entrepreneur with an IRA currently worth \$6 million, which he does not need for income. Charles is charitably inclined and plans to leave the IRA to his private foundation at his death. He has attained the age where he must begin taking required minimum distributions from the IRA.<sup>1</sup>

## A Recommendation

Utilize one-third of the IRA balance, or \$2 million, to purchase a single premium immediate annuity (SPIA) on a life-only basis on Charles.<sup>2</sup> Monthly SPIA payments of \$15,530.59 begin one month from deposit.<sup>3</sup> Thereafter, Charles gifts each annuity payment to his private foundation. The foundation purchases a \$7,015,111 insurance policy on Charles' life, paying the monthly premiums with the gift of the annuity proceeds. Charles has taxable income on the SPIA, but an offsetting deduction for the gift to his private foundation. The SPIA stabilizes the IRA distributions, guaranteeing the cash flow to pay the life insurance premium in volatile markets.<sup>4</sup> The life insurance is also a no-lapse guarantee policy to Charles' age 100.<sup>5</sup>

### Footnotes

<sup>1</sup> The required beginning date for lifetime distributions from non-Roth IRAs is April 1 of the calendar year following the calendar year in which the individual attains age 70½ (Treas. Reg. §1.408-8, A-3).

<sup>2</sup> Single premium immediate annuities make fixed payments for a contracted timeframe. Payments, which consist of principal and interest, are typically not adjusted for inflation so the buying power of the payments issued may erode over time. Please note the decision to annuitize is irrevocable, and principal cannot be withdrawn at a rate greater than the contracted payout rate.

<sup>3</sup> An annuity contract will be deemed to satisfy the requirements of the regulations with regard to required minimum distributions as to the annuity itself under the temporary regulations. See Rev. Proc. 2003-10, 2003-2 IRB 259; Notice 2003-2, 2003-1 CB 257.

<sup>4</sup> All guarantees are subject to the claims-paying ability of the insurance carriers. This document discusses fixed insurance only.

<sup>5</sup> If he lives past age 100, premiums may increase substantially.



## Potential Benefit

Isolating the \$2 million allocated to the strategy, the projected net increase to the foundation at Charles' life expectancy is \$4,136,291.

|     |                | Hold IRA Assets Until Death                       |   |  | Purchase Life Insurance with SPIA Payments |  |
|-----|----------------|---|---|--|--|--|
| Yr. | Age End of Yr. | [1] <sup>6</sup> Beginning of Year IRA Value @ 8% | [2] Required Minimum Distributions (RMDs) | [3] Value of IRA to Foundation if Death Occurs End of Year | [4] Total Death Benefit                    | [5] Increased Benefit to Charity [4] – [3] |
| 1   | 72             | \$2,000,000                                       | \$75,472                                  | \$2,078,491  | \$7,015,111                                | \$4,936,620                                |
| 5   | 76             | \$2,312,724                                       | \$100,992                                 | \$2,388,670  | \$7,015,111                                | \$4,626,441                                |
| 10  | 81             | \$2,666,009                                       | \$142,567                                 | \$2,725,317  | \$7,015,111                                | \$4,289,794                                |
| 19  | 90 (LE)        | \$2,907,899                                       | \$242,325                                 | \$2,878,820  | \$7,015,111                                | \$4,136,291                                |
| 24  | 95             | \$2,619,722                                       | \$287,882                                 | \$2,518,388  | \$7,015,111                                | \$4,496,723                                |
| 29  | 100            | \$1,980,195                                       | \$295,551                                 | \$1,819,415  | \$7,015,111                                | \$5,195,696                                |

**Footnote**

<sup>6</sup>All numbers in columns [1] – [5] are dollars in U.S. currency. The hypothetical case study assumes: Charles is a preferred nonsmoker; the IRA earns 8 percent; and required minimum distributions in his current arrangement are either consumed or retained in the taxable estate. Life expectancy for a male 71, nonsmoker, is 19 years under the 2001 CSO Mortality Table.

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