

# CHARITABLE REMAINDER UNITRUSTS (CRUTs)

as IRA Beneficiaries

## A Primer:

A charitable remainder trust is an irrevocable trust to which a person or couple (“donor(s)”) give property (often stock). Then, the donors designate one or two people (often themselves, children, or a combination) as the income beneficiary. The donors designate charity(ies) to receive whatever is left at the end of the life of the final beneficiary.

### Why an IRA?

Starting in 2020, non-spousal beneficiaries of IRAs must withdraw the whole balance of the IRA over a maximum of 10 years. The ability to “stretch” the IRA distributions over the life expectancy of the beneficiary is gone, and with it, the benefits of tax deferral.

If the owner of an IRA leaves her IRA to a CRUT, instead of paying it out over 10 years, payments can be made for a lifetime. In many situations the value of this tax deferral can effectively double the amount being received by the beneficiary.

### Example:

Mary has a \$1,000,000 IRA she would like to leave to her grandson (GS) who is 30 years old. She does not want to leave it outright to GS.

If Mary leaves her IRA to a CRUT that GS is lifetime beneficiary of, instead of receiving \$1,000,000 over the next 10 years, he will receive lifetime distributions starting at \$53K per year, and if the growth rate is 7%, distributions will grow to \$75K by age 50 and \$100K by age 70. By the time GS reaches his life expectancy of 78, he could have received an extra \$1.5 million dollars versus taking the \$1 million and paying taxes and reinvesting, and there will be \$2.2 million left for charity.

#### Pros:

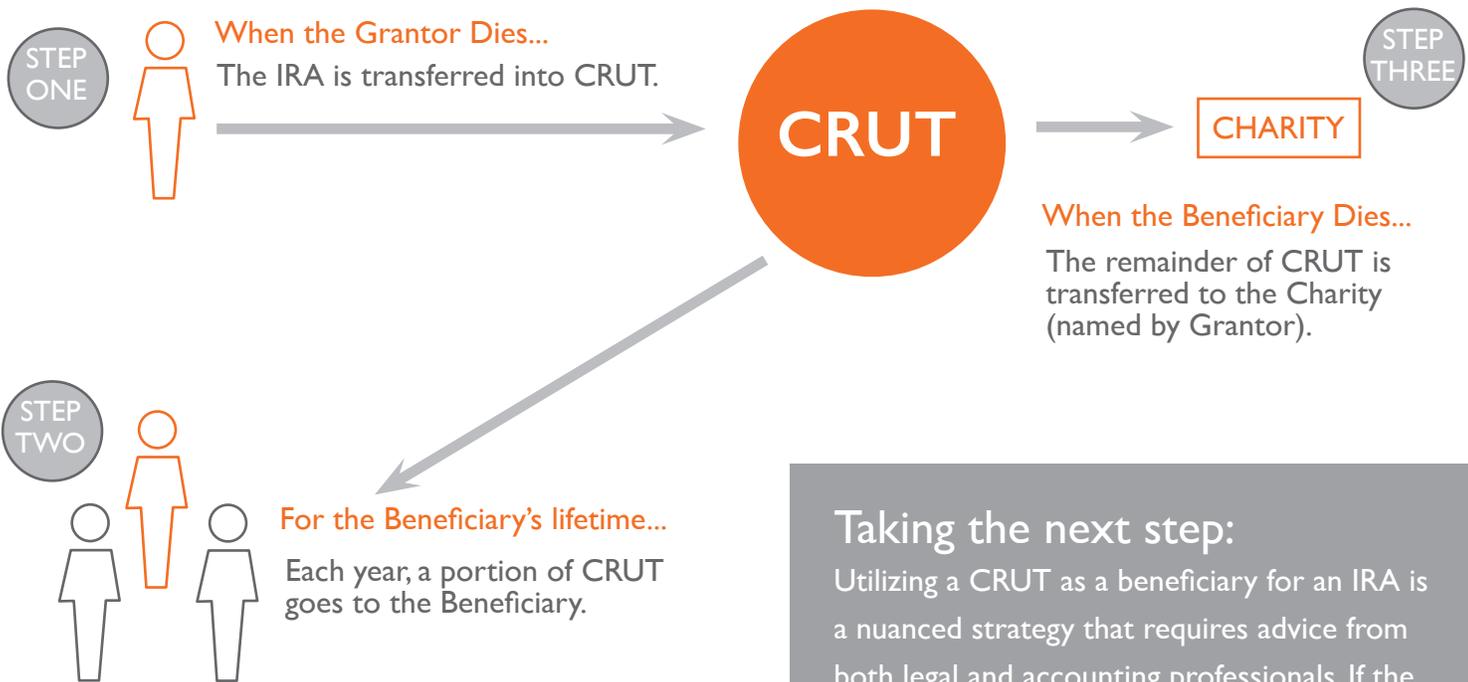
- Creates a tax advantage by spreading out the number of years taxes are paid.
- Protects spendthrift heirs from themselves.
- Creates a charitable legacy.

#### Cons:

- Access to principal is foregone.
- Administrative costs and complexity limit use to large accounts.
- Less suitable for beneficiaries with shorter life expectancies.

# CRUT as Beneficiary

Here's how it works: The Grantor is a person who plans to leave their IRA to an heir. That heir becomes Beneficiary of the CRUT.



## Optimal Use Case: B.A.S.I.C.

### Beneficiary:

The beneficiary or contingent beneficiary is young and healthy, age 27-50.

### Access:

Access to principal is either not needed or not wanted. This is a natural fit if a trust with third party trustees is desired.

### Size:

The IRA is large, over \$500K at the time of designating the CRUT beneficiary and preferably over \$1MM.

### Investments:

The account is and will be invested aggressively, taking maximum advantage of the stretch in distributions.

### Charitable:

If the owner of the IRA wants to leave money to charity, this will accomplish that goal, but only after the beneficiary is taken care of for life.

