

A Win-Win Scenario in Estate Planning

By

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Earning a large salary does not guarantee a financially comfortable retirement. I am always saddened to meet former business owners and professionals who, despite six figures incomes during their working years, find themselves in retirement with limited means.

A secure retirement depends upon a well-crafted plan and the perseverance to see it through.

When I first met Bob, he was at the peak of his career. He was investing the maximum allowed in his qualified retirement plan and an Individual Retirement Account. He wanted to put away more money for his leisure years. He had considered several options but was wary of an investment vehicle that did not offer liquidity.

As Bob was charitably inclined, a suitable option for him was a NIMCRUT. Don't be put off by the strange acronym. It stands for a Net Income with Makeup Charitable Remainder Unitrust.

Here's how it works. The donor(s) irrevocably transfer(s) assets to the trust, which is managed by a trustee of their choice. The trust can accept various types of assets: stocks, annuities, real estate even art or antiques. There is no limit on the contributions that you can make but at the same time you are not required to make regular contributions. The contributions are tax-deductible and accumulate tax-free.

Unlike IRAs, NIMCRUTs have no tax penalties for withdrawals made prior to age 59½ and do not require the donor(s) to start receiving minimum distributions at age 70½.

The trust provides the donor(s) (such as spouse and children) with an income stream for life. If the trust is designed with a "spigot feature", it has the added advantage that the distributions can be controlled by the trustee to meet the beneficiary's current needs. For example, the spigot can be turned on to pay for college education or medical costs and turned-off again until income is required.

As its name implies a NIMCRUT has a makeup feature allowing payout provisions to be carried over from year-to-year. The trust only pays out when the underlying investments produce income. This ensures that the principal remains intact. If in any given year, the payout is less than the agreed upon percentage, the trust provides for the amounts to be made-up in future years depending upon accounting income. The distribution amount is predetermined with a 5% minimum required. Upon the death of the beneficiaries, the principal passes to the designated charity.

NIMCRUTs offer some major advantages: no limit on or required contributions, a controllable income stream, no requirement to take income, protection from creditors and tax-deductible

contributions. Due to its flexibility, it offers an excellent supplement vehicle for retirement savings. The use of charitable trusts such as NIMCRUTs have become a major consideration in tax and estate planning for the charitably inclined, due to their significant federal and estate tax savings.

If this type of program appeals to you, please consult your financial and legal professionals. This is not a do-it-yourself project! The initial establishing of a NIMCRUT can be expensive plus it really is best suited to someone who does not require immediate income. It is also important to consider how donating the assets of the trust to charity will impact your heirs and plan appropriately.

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