Understanding the common structure of

Charitable Remainder Trusts

The Private Trust Company

AN AFFILIATE OF LPL FINANCIAL

Making Sense of Charitable Remainder Trusts

Do you find the acronyms CRT, CRUT, CRAT, and NIMCRUT confusing? If so, you're not alone. But once you understand the basic structure of a charitable remainder trust (CRT), understanding the other types of charitable trusts becomes easier.

Many charitable trusts begin with the CRT concept: A grantor moves assets to a trust and receives immediate tax benefits and income from the assets during their lifetime. At the grantor's death or at a designated time in the future, the remaining assets of the trust are given to the charity named as the trust's beneficiary.

But why the variety of trusts and acronyms?

Charitable remainder annuity trusts (CRATs), charitable remainder unitrusts (CRUTs), and net income charitable remainder unitrusts (NIMCRUTs) with makeup provisions are all types of CRTs. The differences among them are in the form of the income stream and how that income may best serve the grantor's needs.

Potential client benefits of CRTs

1. Clients can diversify highly appreciated assets without triggering capital gains taxes.
2. Clients may receive an immediate income tax deduction.
3. Clients may receive income from the CRT during their lifetime.
4. Clients can benefit the charity of their choice.

How Charitable Remainder Trusts Work

Grantor (client)

The grantor holds a highly appreciated asset or concentrated asset position. Selling the position outside of a trust would trigger significant capital gains taxes.

1. Transfer assets: The grantor transfers assets into a CRT and receives an immediate tax deduction.

2. Convert assets: The trust sells the assets and diversifies the position without incurring capital gains taxes.

Charity

4. Remaining assets: At the grantor's death, the charity receives the assets from the CRT.

3. Key distinctions

Charitable remainder trust (CRT)

Income: The grantor has the right to receive an income distribution of at least 5% per year during their lifetime.

Charitable remainder annuity trust (CRAT)

Income: The trust pays the grantor a set dollar amount annually. This is based on a percentage of the initial fair market value of the trust assets (the annuity amount).

KEY BENEFIT: May provide a stable income flow and potential growth of principal.

Charitable remainder unitrust (CRUT)

Income: The trust pays the grantor an annual amount based on the fair market value of assets in the trust, determined each year. The grantor's set percentage distribution must be no less than 5% of current assets (the unitrust amount).

KEY BENEFIT: May increase net-income potential and help income keep pace with inflation.

Net income charitable remainder unitrust with makeup provisions (NIMCRUT)

Income: The NIMCRUT works like a CRUT, but the trust pays the grantor the lesser of the trust's annual income or the unitrust amount. Any shortfalls are made up in years when income exceeds the unitrust amount.

KEY BENEFIT: By investing the portfolio in non-income-producing securities, the grantor may delay the trust income until after peak earning years.

Grantor

Roles of Your Professional Advisors

Your financial advisor's role is to support everyone, not to replace anyone. Your financial advisor will work with you and your tax and legal advisors, helping to coordinate and communicate your complete financial picture. The drafting of your trust document will be done by your estate planning attorney. The Private Trust Company, N.A. (PTC) is available to administer your trust once it's properly drafted. You can continue to benefit from the judgment of your trusted financial advisor, while your family's wealth is managed by a knowledgeable trustee.

The Trustee: A CEO for Your Estate

The trustee's role is to administer and distribute the assets in the trust according to your wishes, as expressed in the trust document. There are three primary elements to the trustee's role:

Custody of assets

The custodial role is that of a financial secretary and security guard. The trustee must identify and then take title to the trust's assets, keep accurate records, report to the current beneficiaries, execute and settle all transactions, protect and insure the property, and defend the trust against claimants. The trustee oversees the preparation of appropriate tax returns and all of the trust accounting in compliance with complex state and federal laws.

Asset management

The trustee is ultimately responsible for the preservation and investment of assets in the trust, ensuring that invested assets are productive and managed appropriately given the trust's objectives. The trustee has the legal responsibility to reassess the objectives of the trust and current market conditions at least annually, and to be sure that the investments match those objectives. Trustees will often hire professional managers to handle day-to-day specialized activities, such as real estate management. The day-to-day investment management is delegated to your trusted financial advisor.

Administration

The administrative role is central to carrying out your wishes regarding the use of assets in the trust. The trustee carries out your directions and follows your guidelines in handling the specific circumstances of each request for funds from trust beneficiaries. This involves legal interpretation of the language in the document and appropriate input from family members. Experienced and objective trust administration and recordkeeping are vital components to implementing your plan. The day-to-day relationship management is also handled by your trusted financial advisor.

All trusts, revocable and irrevocable, have three parties involved:

1. The person who creates the trust (grantor)
2. The person or firm that is responsible for the trust (trustee)
3. The people or charities that benefit from the trust (beneficiaries)

It's important to consider who you want to manage your assets and who will benefit from the trust, both now and in the future.

Why Use a Professional Trustee?

Trustees may have to make tough decisions that might not be popular with all your beneficiaries. After all, the trustee is carrying out your instructions, not your beneficiaries' wishes. This can be a difficult role to fulfill for a family member, who may not be unbiased or may wish to act in a manner that avoids hard feelings within the family, rather than carrying out your instructions. Also, few family members have investment management skills or expertise in fiduciary law and practice. Family members can be given important advisory roles, such as in approving disbursements or other exercises of discretion.

Benefits of naming a professional trustee:

- Objective loyalty and independence to carry out your wishes
- Knowledgeable management and defense of trust assets
- Experienced oversight of the investment process to be carried out by your financial advisor
- Timely and accurate statements of the account to keep you and all current beneficiaries informed
- Consistent annual reviews
- Accountable collection and prudent distribution of income and assets
- Tax reporting, filing, and comprehensive regulatory compliance on behalf of the trust

The Private Trust Company offers administrative services for the following types of accounts:

- Revocable or living trusts
- Irrevocable trusts
- Charitable remainder trusts
- Charitable lead trusts
- Special needs trusts
- Life insurance trusts
- Agency
- Custodial
- Private foundations
- Guardianships
- Family office group

Why Use PTC?

PTC partners with you and the professional advisors you rely upon to assist you in carrying out your wealth management and legacy planning goals at every stage of your life. While your financial advisor generally cannot serve as your trustee, with our unique model, your financial advisor can continue to provide advice and manage trust assets, allowing you to benefit from checks and balances and a consistent approach across your wealth management and investment strategies.

Advantages of choosing PTC

- PTC provides maximum flexibility for working with clients and their financial advisors. Clients can choose to work exclusively with their financial advisor or work collaboratively with the full expertise of the PTC team.
- PTC seamlessly integrates into your wealth management team, keeping the process of delivering key communication and statements running smoothly between clients and professional advisors.
- PTC helps clients develop written investment policy statements so all parties have a clear and consistent understanding of goals, objectives, and guidelines for the trust.
- Accounts are reviewed regularly and investment policies revised to reflect changes to the portfolio, client circumstances, and financial markets.
- Experienced and knowledgeable trust officers bring backgrounds in law, accounting, banking, investment management, tax, and business.
- Trust officers are friendly, discreet, and sensitive to family dynamics.
- A team of trust officers and trust specialists are available to you and your financial advisor when you need them.
- Chartered as a national bank, PTC is devoted solely to trust services for families.
- PTC provides trust services in all 50 states.
- As a subsidiary of LPL Financial Holdings, Inc., PTC is backed by substantial resources and a long-term commitment to independent financial advisors and their clients.

How do I get started?

- First, discuss your goals with your financial advisor, who can help determine whether a trust may be right for you.
- Have the trust document drafted by your attorney, incorporating sample language PTC provides to ensure flexibility in using your choice of financial and family advisors to the trustee.
- Name PTC as trustee or successor to the trustee.
- Work with your financial advisor to set up a trust account at LPL and transfer appropriate assets into it.
- Enjoy the comfort of knowing your wishes will be carried out.

Comparing Trustee Choices

Your choices of a trustee or successor trustee may include a family member or friend, a professional advisor such as an attorney or CPA, or a corporate trustee. Each choice offers specific advantages and disadvantages. It may be helpful for you to consider these choices in the context of the duties of the trustee and the desired qualities outlined below.

	Family member	Professional advisors (attorney or CPA)	Corporate trustee
Duties Trustees must either perform or contract for services required by the trust.	Contracts for legal, accounting, investment, and other services.	Administers own area of discipline; contracts for other services.	Most services bundled in turnkey package; contracts others.
Ability and willingness to serve Trustees cannot foresee their personal situations in the future. A trustee's duties may extend for many years.	Risk of personal conflicts or preceding you in death.	Risk of personal conflicts, retirement, or preceding you in death.	Established specifically to provide continuous service; potential for some organizational risk.
Commitment Varies according to each trust relationship but may be demanding.	Generally high level of commitment, but risk of conflict.	Retirement or change in professional relationship may dilute level of commitment.	High level of commitment, core business function.
Competence Varies in fiduciary expertise.	Not usually area of expertise.	May not be area of expertise.	Core business function; professionally trained.
Cost May span a wide range based on expertise and fees of trustee.	Generally no cost for administration; high cost for contracted services on an "à la carte" basis (reporting, legal, tax).	Trustee may charge fee for administration and own area of discipline; contract other services on an "à la carte" basis.	Most services bundled in cost-effective turnkey package; others contracted in volume to lower costs.
Experience May span a wide range based on specific trustee.	Varies by individual background.	Typically significant experience in own area of discipline; administrative skills less certain.	Provides professional staff that possesses trust, experience, and skills.
Objectivity Trustee's interests may conflict with beneficiaries'.	A common source of discord among siblings; may have conflicts if also named a beneficiary.	May make decisions involving payments for own professional services and have other family roles.	Objective interpretation of trust document and administration.

A Charitable Remainder Trust (the Trust) is an irrevocable arrangement that requires a material transfer of property. Property transferred to the Trust is no longer controlled by the grantor/transferring party.

Distributions to beneficiaries may be subject to taxation.

Final distribution to charitable remainder beneficiaries will vary based on investment performance and could result in no charitable distribution.

Contact your LPL Financial advisor and your attorney to help you determine whether charitable trusts are right for you.

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