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VOLUME 20 | EDITION 04



San Francisco, CA—Lake Oswego, OR | **Leading Wealth Advisor**

The Pacific Wealth Group at Morgan Stanley Smith Barney

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“What charitable tool will offset a taxable event, but move principal to my heirs?”

By Scot Berryman, The Pacific Wealth Group

Scot Berryman: One planning tool that is attractive due to low interest rates is the charitable lead trust. We have invited Richard Melching, president of the Community Foundation for Southwest Washington, to address this important question. Richard, what is a charitable lead trust?

Richard Melching: It is a split-interest gift to a charity. The donor places cash or other assets, let us say \$1 million, in a trust. Income—and, if necessary, principal—from the trust is paid to one or more charitable organizations. The trust can pay a flat dollar amount (an annuity trust) or a variable amount (a unitrust). A portion of the donation to the trust is tax deductible.

Berryman: How long does the trust last?

Melching: Most charitable lead trusts are for a fixed period, say 15 to 20 years. The term can be linked to the life of the donor or other persons, so some trusts will last even longer.

Berryman: And the principal?

Melching: The original principal is invested and ideally earns more income than it pays out. Over the life of the trust, the principal may remain intact,

decrease in value, or grow larger. The remaining principal can be returned to the donor or distributed to one or more individuals designated by the donor.

Berryman: What do interest rates have to do with it?

Melching: When the trust is established, the current Section 7520 interest rate is used to calculate the income tax deduction in the case of a grantor trust. The lower the interest rate, the greater the tax deduction, especially in the case of annuity trusts.

Berryman: Who should consider setting up a charitable lead annuity trust?

Melching: If a donor has a large, taxable event—for example, the sale of a business—and needs an off-setting charitable tax deduction, a grantor charitable lead annuity trust may be the right tool. This works particularly well for donors who do not want to surrender the ultimate benefit of the assets.

Berryman: Is there a downside?


Melching: During the term of the trust, the income it earns is passed through to the donor and reported on income tax returns, without regard to how much is

paid out to charity. This may be a downside, or it may not be significant.

Berryman: How might the trust work?

Melching: Let me give you an example: Working with the Community Foundation, a client created a charitable lead trust with a 15-year term. The trust pays 5 percent of the original trust amount each year to a preselected charity. At the termination of the trust, the remaining principal, which we anticipate will meet or exceed the original amount, will be paid to the client's children. Over the course of the 15-year trust period, the charity will collect \$750,000. The client received an income tax deduction in the year the gift was made. His children, who are young, will receive a sizable sum of money in 15 years.

Berryman: Is it difficult to establish a charitable lead trust?

Melching: Charitable lead trusts are relatively easy to establish. Trust agreements are generally written by attorneys specializing in the estate and trust field. Care must be exercised in selecting a payout rate and trust duration, as well as in investing trust assets prudently for security, growth, and income. 

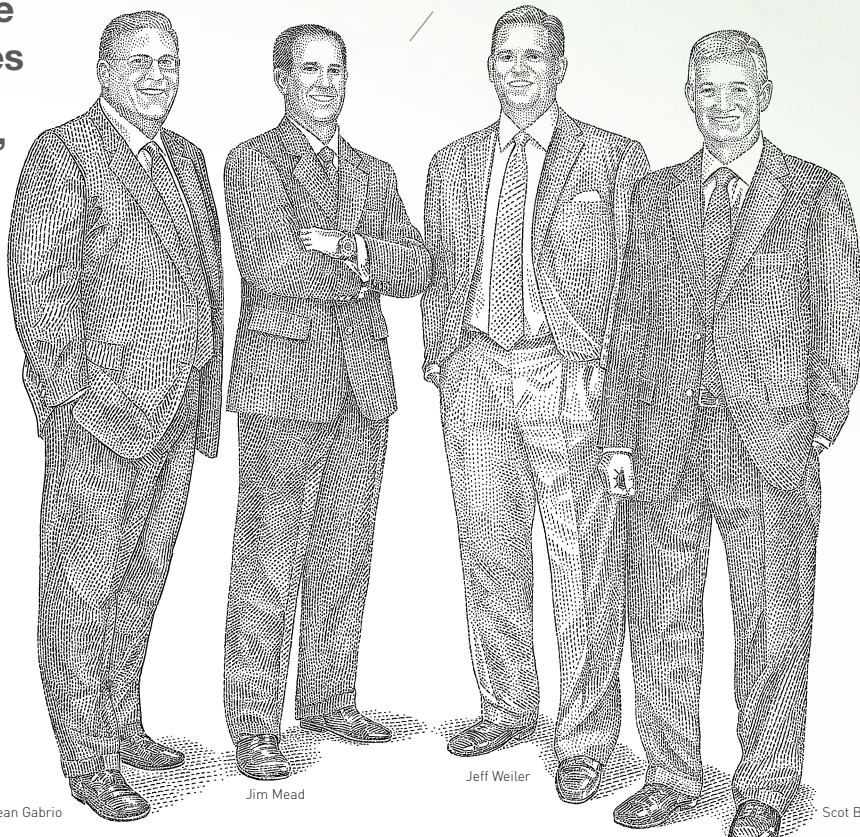
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“With interest rates at historic lows, a charitable lead trust provides attractive estate planning options.”

– Scot Berryman

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About The Pacific Wealth Group

The Pacific Wealth Group consists of four senior partners and portfolio managers and has offices throughout Oregon: Sean Gabrio, CIMA, in Portland; Jim Mead, CFP, CIMA, in Bend; Jeff Weiler, CRPS, managing partner, in Lake Oswego; and Scot Berryman, CFP, CIMA, in Eugene. The professionals of The Pacific Wealth Group help to protect and preserve their clients' wealth by directly managing diversified portfolios with exposure to multiple asset classes, including alternative investments. With their level of achievement at the firm, they have access to Morgan Stanley Smith Barney's investment banking offerings, including IPOs, block trades and secondaries, providing qualified investors the opportunity to consistently participate in offerings that are sometimes not available from other firms. As a boutique-like investment advisory practice, The Pacific Wealth Group aims to offer the highest level of service to a select number of ultra high net worth individuals, families, second- and third-generation businesses and nonprofit foundations. Its clients also have direct access to its portfolio decision makers, differentiating the client experience from other advisors.

Assets Under Management
\$654 million (The Pacific Wealth Group)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$5 million

Largest Client Net Worth
Confidential

Financial Services Experience
70 years (combined)

Compensation Method
Asset-based fees and commissions (investment and insurance products)

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Professional Services Provided
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Association Memberships **Investment Management Consultants Association**

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