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Educating the Grandchildren Using a Charitable Reminder Education Unitrust

Bruce and Mary Beth Bennett are looking for ways to participate in the education of their grandchildren financially. They have two grandchildren, Katie and Joshua, ages 14 and 10 respectively, and would like to begin investing funds that will pay tuition for both of these children while they are in college. They have considered just simply giving the money to their children who would invest the funds until the grandchildren reach college age but fear that placing the money in the hands of the children would jeopardize the ultimate goal. Bruce and Mary Beth are well aware that their children have not been wise managers of their finances. The children always seem to be living from paycheck to paycheck and even though each is married with dual incomes, they just can't seem to be able to "get ahead." Therefore, under these circumstances, Bruce and Mary Beth have thought it best they not relinquish control of any cash to the children for educational purposes for fear that the money would be spent simply on living expenses.

Bruce and Mary Beth reside in a city which is the location of a prestigious Catholic university. Both of them are alumni of this university and so are their two children. There is a long history of family attending this university and it is expected that Katie and Joshua will make the decision to attend there as well. However, even with living at home, the tuition costs of attending the university are projected to be about \$19-20,000 per year for Katie and then about \$24-25,000 per year for Joshua. Bruce and Mary Beth know that Katie and Joshua would not be able to attend unless they receive scholarships and/or end up with substantial school loans by the time they graduate. And, with the parents' financial situation, the grandchildren know that mom and dad cannot be depended upon for financial assistance.

As alumni, Bruce and Mary Beth have made donations to the annual fund of the university for many years. They were recently challenged to make a gift in the range of \$200-250,000 to assist the university in building a new library for its seminary students. They would like to make such a gift, but feel that their maximum contribution they could make would be in the area of \$150,000. They have been holding on to a block of tech stock that they bought for \$50,000 a number of years ago, and it has appreciated nicely to \$150,000. Bruce and Mary Beth have considered giving this stock, but their primary concern is in providing Katie and Joshua the necessary funds to attend the university.

Question:

Is there a method whereby Bruce and Mary Beth can accomplish both of these objectives, i.e., provide the funds for the grandchildren's education and also make the substantial gift to the university?

Solution:

Bruce and Mary Beth decided to pose this question to the Director of Fund Development at the university, Theresa Collins. Upon hearing their question, Theresa was excited to share with them a concept called the 'Education Unitrust' that has worked nicely for a number of grandparents with similar objectives. The way the concept works is as follows:

Bruce and Mary Beth would transfer the tech stock into the Education Unitrust, a net income with makeup charitable remainder trust, which would in turn sell the stock. The trustee of the trust would invest the proceeds from the sale in a growth portfolio of stock or mutual funds producing little or no dividends for the first four years of the trust. When Katie reaches age 18, the investments of the trust would be repositioned and distributions would be made from the trust to her for the four years while she is in school. Upon Katie's graduation, the trust assets would again be invested for growth until Joshua reaches age 18. At that time, the assets are again repositioned and payments are made to Joshua for the next four years.

Based upon an 8% total return within the trust, Theresa was able to show that the objective of providing \$19-20,000 per year for Katie and \$24-25,000 annually for Joshua could easily be realized. Of course, if the investment performance resulted in a greater return, the grandchildren's income would increase. Another nice benefit of this arrangement is that Bruce and Mary Beth would be entitled to a charitable income tax deduction of \$92,000 (based on a payout rate of 6% and a term of 16 years). Lastly, based upon these assumptions, the trust would distribute in excess of \$240,000 to the university at the end of the 16-year period, thus fulfilling their original challenge gift.

For help with this issue, contact the Wordell Law Group at www.WordellLaw.com.

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