Guardian Wealth Advanced Markets

The Wealth Replacement Trust

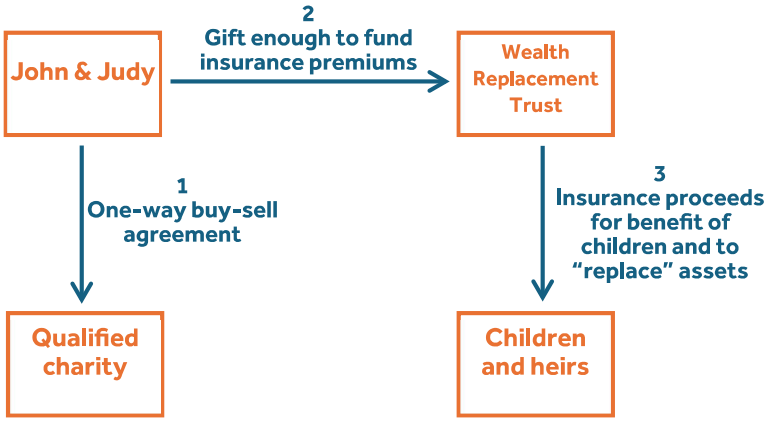
Giving to charity without reducing your legacy to your family

Philanthropy is oftentimes a moral, emotional or social event that many people are passionate about, deeply involved in, or wish they could be more engaged in. Of course, there are also significant financial and tax benefits that may be realized with financial charitable giving (as opposed to volunteerism). If, however, you have reservations about transferring assets or money to your favorite charity because those assets might otherwise be passed on to your heirs, there may be a simple solution to this problem.

One Solution: The Wealth Replacement Trust

John Smith and his wife Judy are well known in the community as philanthropists. John made his fortune as a closely held business owner and sold his business at the height of the market. As a result of his good fortune, he has always felt an obligation to give back to those organizations that have made him successful. Judy is also very active in the community through her volunteer efforts. Among their assets is a highly-appreciated piece of real estate currently worth $1,000,000. They know that their alma mater would love to have that land and decide to gift it to the university. Working with their financial advisor, they know that this will also be good for their estate and tax strategy issues. The problem, however, is that while they don't need the land, this asset will no longer be available for their children and they've always wanted their children to have as much as possible to make their lives easier. Their advisor recommends a Wealth Replacement Trust (WRT) which seems to be an ideal solution for them.

How does it work?



1. The Smiths make the donation of the real estate to their alma mater.
2. At the same time, they create the Wealth Replacement Trust with the help of their attorney and financial advisor. Using excess cash flow from other sources of income or using other sources of funds, the trust purchases a life insurance policy insuring either John, Judy or both, depending upon how the WRT is structured. In addition, depending upon the size of the gifts to the WRT and other estate and wealth transfer planning that the Smiths have implemented, the gifts may be eligible for the annual gift tax exclusion or shielded rom current gift taxes by their lifetime estate and gift tax exemption.
3. Upon John's (and/or Judy's, depending upon the situation) death, the insurance proceeds will be paid to the trust and "replace" the assets that went to charity. The trust will use the insurance proceeds for the benefit of the children depending upon the terms of the trust as dictated by John and Judy.

Advantages

- You can make a significant contribution to charity without sacrificing your own need to leave a generous legacy to your children and heirs.
- Gifts of money by the donor to the WRT, to fund premium payments for life insurance owned by the trust, allow the donor to leverage the power of life insurance to provide a death benefit significantly greater than the premium amount.
- The insurance proceeds in the WRT can "replace" the value of the assets donated to charity.
- Properly designed, the WRT can be fairly flexible in how trust assets are used for the beneficiaries while maintaining a level of creditor protection over the trust assets.
- Gifts of money to the Wealth Replacement Trust allow the donor to leverage their annual gift tax exclusion, lifetime estate and gift tax exemption, unified credit and generation skipping transfer tax exemption.
- The life insurance purchased, owned and held in a properly designed WRT, will not be included in the donor's taxable estate.
- The insurance proceeds in the WRT can also be used for estate tax liquidity and other estate planning purposes.
- The donated property is no longer included in the donor's taxable estate.
- The donor may receive favorable income, gift, estate and generation skipping transfer tax benefits by making the charitable gift and replacing the asset values with the WRT.

Please consult with your Guardian financial advisor if you have any questions concerning this document.

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