

The Wizards of Cause

Local patrons
find giving
while living
doesn't have
to break
the bank

By Sharon Frederick

Trudy Nearn, founding attorney of Sacramento-based Generations, an estate and trust law firm

Most of us are checkbook philanthropists. We open our wallets or our checkbooks in response to pleas from others — charity drives, fundraisers, calls from friends or relatives to support their favorite charities.

But an increasing number of Capital Region patrons are discovering ways to make charitable giving more personal, meaningful and financially beneficial to themselves and their families. They are bypassing simpler, more traditional methods of giving — such as gifts and bequests — and instead turning to plans that reduce tax bills.

Most common are so-called charitable remainder trusts, which allow individuals to transfer debt-free assets, such as stock or property, to an irrevocable trust. As a tax-exempt entity, the trust can then sell the asset without incurring capital gains tax, reinvest the proceeds of the sale and pay out a regular income stream. The income can be paid to the individual who established the trust or another individual. When the beneficiary dies, the remaining assets in the trust pass to the chosen charitable organization.

Estelle Saltzman, president of Runyon, Saltzman and Einhorn, a full-service communications firm in Sacramen-

to, chose to set up a charitable remainder trust with a gift of \$330,000 worth of stock. As trustee, she could then arrange for sale of the stock, with no capital gains tax, and reinvestment of all proceeds. A money manager oversees the trust investments and Saltzman receives quarterly payments, based on a percentage of an annual valuation of the assets. This is known as a charitable remainder unitrust, or CRUT. After Saltzman's death, the Crocker Art Museum will receive the remaining trust assets.

Saltzman's decision came at the end of a financial and tax planning process with Chuck Ebersole, a partner in Foord, Van Bruggen, Ebersole and Pajak Financial Services in Sacramento. "The process helped me identify my social and personal values, and prompted me to make a decision about leaving a legacy," Saltzman says. "Once I saw it all laid out on paper, I was clear on what I wanted to do. I focused on the Crocker because of my lifelong interest in art — buying it, preserving it and sharing it with the community. And, I wanted to do something constructive now, not leave things to my heirs to decide."

Ebersole encourages clients like Saltzman to do thorough financial planning before deciding on charitable contributions,

planning that includes individual and family visions, values and goals as well as careful calculations to determine what's needed to provide financial security and also leave a legacy. "Most people don't know for certain whether or not they're OK financially," Ebersole says. "Once they feel confident they are financially secure, they can then think about what they can do to make a meaningful contribution." Something like a charitable remainder trust does not require a huge surplus of funds, adds Ebersole, who encourages clients to consider starting a charitable remainder trust with as little as \$50,000 in assets.

When Jack and Lindann Fleig decided to sell their Sacramento company, Standard Office Systems, after nearly 30 years in business, they first sold 49 percent of the company's stock to employees through an employee stock ownership plan, funded with profit sharing. Then came the question of what to do with their majority share of the company. Fleig had heard about charitable remainder trusts from a friend and decided to do his own research. "After I studied the idea, I took a calculator, kept putting in our numbers and was amazed at the result. If I did no planning and just sold, my family would face a high cost in taxes. But, if we set up a charitable remainder trust, we could do some good for the community and benefit the family as well. It was a win-win situation. And, I'd sure rather put the dollars to use with local charities than give it to the government."

In 1990 the Fleigs set up not one, but two trusts: one like Saltzman's, a unitrust that pays a fixed percent of the annual total value of the trust assets; the other is a charitable remainder annuity trust — or CRAT — that pays a fixed amount annually. The family's stock in the company was gifted to the trusts; the stock was then sold and reinvested. Six years later, Fleig started a third trust, this one structured to give the family greater flexibility, both in adding assets and in changing the charities and the funding each receives. Fleig has arm's length control of the trusts, overseeing money managers for each.

In general, the Fleigs decided they wanted to give back to the community that had been good to them throughout their years in business, so their charities are all based in the greater Sacramento area. The largest share of the trusts, 25 percent of each, will go to the Sacramento Region Community Foundation, an umbrella organization that supports nonprofits in Sacramento, Placer, El Dorado and Yolo counties. As a businessman, Jack Fleig especially likes the fact that the foundation doesn't just give grants, it gives help in running a nonprofit efficiently; for example, an accountant on the staff serves as an adviser.

And, as a businessman, Fleig is amazed at how few business people appear to do charitable remainder trusts. "The conglomerate, which bought our company and plenty of others, said we were the only ones they'd run across who chose to do a CRT. Frankly, I don't understand it. This is no pie-in-the-sky idea. Anybody thinking about selling a business really ought to consider it. You can give a lot to the community and get more for your family too."

John Winters, a wealth adviser at Morgan Stanley in Sacramento, chose a different route to charitable giving, one based on his own financial planning background as well as his father's decades-long commitment as a board member at today's Cedars-Sinai Medical Center in Los Angeles. Ben Winters suffered from amyotrophic lateral sclerosis, or Lou Gehrig's disease, the progressive neurodegenerative disease that affects nerve cells in the brain and the spinal cord. When the elder Winters died, his son helped the family think creatively about how they might endow a chair of regenerative medicine at Cedars-Sinai in his father's name, even though they had no immediate source of the \$1.5 million to \$2 million it would require.

With the help of estate planner Trudy Nearn, head of Sacramento-based Generations, an estate and trust law firm, and the medical center's planned giving office, the Winters family began building an endowment fund with an initial gift of a fractional interest in real estate, followed by a donation from John's mother's individual retirement account. Then came a five-year pledge of additional funds from Ben's family, friends and colleagues; the final piece is a beneficial interest in life insurance policies from John and his sister.

"For anyone, the only prudent approach to charitable contributions," says Winters, is to "do a comprehensive evaluation of your giving capacity, along with your personal and family goals. Ask what is best for you and your family. In most cases, you should be able to find really good ways to fulfill all of your objectives." ●

Are you considering a charitable remainder trust?

Trudy Nearn, founding attorney of Generations, a Sacramento estate and trust law firm, says charitable remainder trusts can be a win-win with careful planning. Some advantages are:

- You receive a substantially larger income stream after the sale of the gifted asset because the entire proceeds — without subtracting capital gains — can be reinvested.
- You receive an income tax deduction in the year you gift property to the trust for the present value of the projected income and assets at your death.
- The asset is removed from your estate, therefore reducing potential estate taxes.
- One or more of your favorite charities receive the trust assets after your death.

There are, however, at least two disadvantages. The first is loss of flexibility because you must choose — at the time you establish the trust — the amount of money or percentage you receive from the trust each year. The second is the removal of the asset from your estate, so it cannot be given to your children at your death. However, Nearn says, you might actually save enough money on the charitable income tax deduction to buy a life insurance policy that would benefit your children. You can take it a step further, and have it owned by a life insurance trust, so it wouldn't be subject to estate tax.

— Sharon Frederick