

# The Advisor

For financial professionals dedicated to tax-wise planning involving charitable gifts.

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## A Tale of Two Charitable Lead Trusts

by Dan Rice

What's inside

*Advisor's Life-Changing Experience Brings Hope to Abandoned Children in El Salvador*

DELAYED CLATIFICATION VERSUS INSTANT GRATIFICATION: PART 2 OF A 2 PART TALE

*This article is mainly for readers already familiar with Charitable Lead Trusts. You can also find excellent information about these trusts at [www.worldvision.org/giftplanning](http://www.worldvision.org/giftplanning).*



Imagine children as expectant heirs, way up in the crow's nest, looking through their telescopes for any sign of their parent's estate on the horizon. Think of the children's disappointment when they discover that their parent's estate will be shipped off to a testamentary Charitable Lead Annuity Trust (CLAT), whose voyage will last a decade before the children finally get the treasure. Is there a way to turn their delayed CLATification into instant gratification? Aye! Consider the following steps:

### STEP 1.

Create a Testamentary CLAT now. Upon the death of the surviving parent, when the CLAT is funded, the Trustee can then decide the CLAT term and payout rate to the Charity (public charity, donor advised fund, foundation, etc.). Depending upon the CLAT Trust term and payout rate, estate taxes can be significantly reduced or eliminated. After the CLAT term, the trust assets pass to the children.

### STEP 2.

The parents grant an option for, say, \$2,500 to each child. Each child now owns an option to purchase an equal share of the selected assets (option assets) from the surviving parent's estate. The options are exercisable for nine months from the date of the death (the option period). The option can be exercised during the option period to purchase an option asset at its fair market value. In certain situations, there is no need to sell options to the children because they will have similar arrangements under customary business succession plans (i.e., pursuant to buy/sale agreements for closely-held businesses, partnerships and limited liability companies).

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### STEP 3.

Each child may exercise their option and purchase option assets with cash (perhaps from insurance proceeds), or an installment note (a balloon payment type), or a combination of the two. Notes used to purchase option assets must bear interest at the “applicable federal rate” for such notes and should be secured by an amount acceptable to the seller.

### STEP 4.

The CLAT term will end before the Promissory Note balloon payment is due. The Promissory Note will pass to the children and no balloon payment will have to be made.

### PLANNING OPPORTUNITIES

You could fill an ocean with all the uses for this type of testamentary CLAT, and remember, it’s child-friendly with its instant gratification characteristics. Let’s take a life insurance example, since life insurance is a common asset in many estates.

Suppose your client previously

bought life insurance years ago to cover future estate taxes, however, since the insurance purchase, the client’s estate is much larger today and the insurance coverage needed now is unavailable because it’s too expensive or the client is uninsurable. The client’s estate can sell the children all of the assets, which will have a step up in basis, in exchange for an interest only promissory note. The children can pay the interest payments to the CLAT using the insurance proceeds and/or the investments earned on the insurance proceeds, rather than using the insurance to pay estate taxes.

Another life insurance option would be to buy enough life insurance to cover the promissory note interest payments, rather than to buy enough life insurance to pay higher estate taxes.

### CONCLUSION

What better time and place to lower our nets and catch our limit of CLATs? Not since CLATs came

into existence have we experienced this historical confluence of 1) low-priced, high value stocks, 2) applicable federal rates, and 3) the largest intergenerational wealth transfer ever witnessed. We have a perfect storm that can unleash a tsunami of CLATs for families and charitable organizations.

Hopefully you will soon have your own tale to tell! 🌿

*Dan Rice is the National Director of Gift Planning for World Vision. Dan designs philanthropic estate plans, offers charitable gift planning consulting, and conducts philanthropy coaching. He also co-authored the Family Philanthropy Guidebook.*



## Advisor-Managed Donor Advised Fund: A Flexible Alternative

World Vision’s Advisor-Managed Donor Advised Fund (AMDAF) is a unique planning tool for advisors and their clients. World Vision is one of the few operating charities in the U.S. that allows advisors to manage their client’s donor advised fund investments. It is an inexpensive and flexible alternative for clients who might otherwise be interested in setting up a private foundation or supporting organization (SO).

“World Vision’s Advisor-Managed DAF provides an optimal vehicle for financial advisors to work together with their clients and their clients’ families to make a positive impact upon society,” says Dan Rice, World Vision’s Gift Planning National Director. “It’s a true win-win-win situation for all involved.”

World Vision seeks collaborative relationships with donors, their families and professional advisors. To learn more about this innovative planning tool visit the FAN website at [www.wvfan.org](http://www.wvfan.org) or contact the World Vision Financial Advisors Network at (888) 701-4438.

# Advisor's Life-Changing Experience Brings Hope to Abandoned Children in El Salvador



Doug Twohill with two girls from Deborah House, the girls' dorm at the orphanage that he and World Vision helped to establish in El Salvador.

A little lunch meeting can change your life. Just ask Doug Twohill, Wealth Management Advisor for Merrill Lynch. Almost two and a half years ago, he sat down for lunch with John Clause, a member of his church, and said, "Wouldn't it be great if we could create something new to help kids and just run with it?"

At age 45, Doug is no stranger to philanthropic impulses. Ever since his first backyard carnival at age 11 to raise money for charity, he has nurtured a desire to help those less fortunate than himself. The fact that John was serving as Director of World Vision Metro New York played no small part in the direction of their lunch conversation. To hear Doug tell it, "We were having one of those Bob Buford mid-life-crisis, what-are-you-going-to-do-with-the-rest-of-your-life kinds of discussions. We started talking about different ways we could really make a difference." Still, it wasn't enough just to make a difference. They wanted to develop something that could be reproduced once it was successful.

After establishing criteria, specifically a project that could have a natural interface with their church, and located in the western hemisphere so people wouldn't be reluctant to send their kids on work trips, they began evaluating different options available through the World Vision area projects. Their research turned up a situation in the capital city of El Salvador, San Salvador, which has about 50,000 orphans and abandoned children, or "abandonmentes" as they are called locally, out of a population of 4 million. That would be equivalent to 2.5 million abandoned children in the U.S. Having a six-year-old daughter, Sarah, from Korea, and a 4-year-old daughter, Destiny, from China, along with two biological children, the plight of those children in San Salvador really struck a chord with Doug. "Once we learned of the crying need for orphanages down there, we knew we had found our project. World Vision had a solid program in place in San Salvador, which solved a lot of administrative headaches up front. It would be prohibitive on so many fronts to try to do something like this from scratch."

John went on his own to meet with the people on the ground in El Salvador, and came back extremely impressed and convinced this was the place for their vision to be birthed. Not only was World Vision well positioned in the area, but there was a local foundation, The Exodo Foundation, which could offer additional impetus and local support to the project. What John found in San Salvador were kids being housed in groups of 1 to 3, spread out around the city, which made it very hard to manage any program to meet their needs. John and Doug knew they were going to need land to build an orphanage, but the price down there was surprisingly steep—about \$10,000 per acre. Doug remained optimistic, "We were confident from the beginning this was something God wanted us to do. Sometimes you just have to sit back and watch Him work."

As Doug and John were working out the details of their affiliation with the Exodo Foundation, a local paper ran a story about the orphanage and the need for

land. A local woman saw the article and reminded her husband that they had a large tract out in the countryside going unused, and asked him if it wouldn't be a perfect spot for the orphanage. The husband agreed and they called the foundation, explaining they had a large piece of land and wanted to donate it for the project. What amazed everyone at the foundation was the fact that the local woman was the mother of the woman who had created the foundation, and neither of them knew the other was involved!

Fundraising was the next hurdle. Anyone who has undertaken a project like this knows how difficult it can be to fund it. Doug tells an amazing story here as well: "Fund raising was really a matter of just telling a few people. We were very up front about it, urging them to give according to their ability. We had members of our wealth management team at Merrill Lynch who were a natural fit, and we also approached a foundation with which one of my clients is affiliated. John was also able to come up with some money from other World Vision donors. In 12-18 months from our first lunch, we were able to come up with \$150,000, which was enough to begin the project."

They acquired the land, which had to be excavated and prepared for construction. Rights of way had to be secured, and water and electricity brought in. Ultimately, the site will hold 10 dorms, housing 24 children each, but with the money they had they were able to purchase an easement, put in all the infrastructure, administrative offices, and 2 dorms housing a total of 48 kids. "Setting up a ministry in a foreign country is a monumental undertaking," Doug observes, "The people we were privileged to work with at World Vision had such an amazing drive, attitude and commitment. Without the presence of an organization like that for support, financial security and oversight, we wouldn't even attempt it."

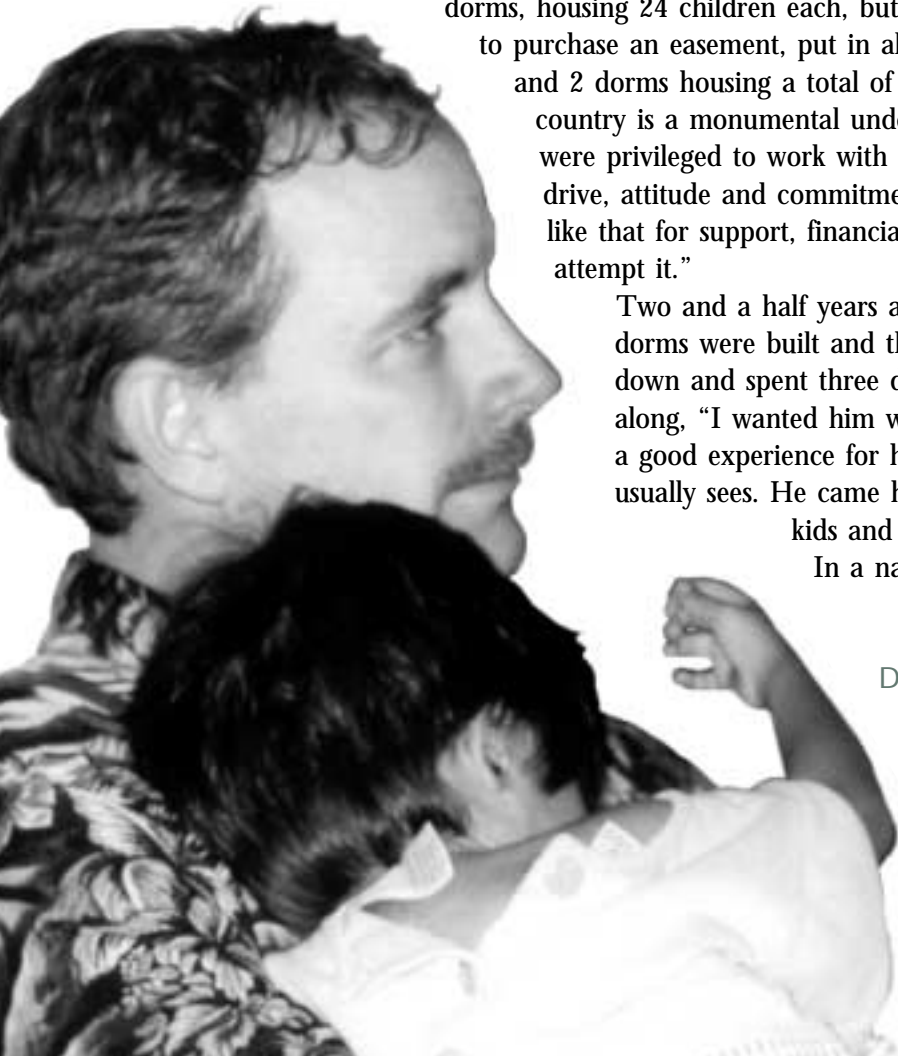
Two and a half years after that watershed lunch meeting, the dorms were built and the kids moved in. Doug and John went down and spent three days at the orphanage. Doug's son came along, "I wanted him with me. He's eleven. I thought it would be a good experience for him to get a counterbalance to the world he usually sees. He came home changed. I saw him connect with the kids and something important happened in his life.

In a nation where our children can't imagine



Doug's son, Christian, and his new amigo, Brian.

During chapel service, 3 year old Lupita climbed onto Doug's lap and whispered, "Tu es mi papa?" (Are you my father?) It broke his heart! Arrangements were made for little Lupita to come to the U.S. in early December for needed medical care.



going to bed hungry, can't imagine not having clothes to wear or a roof over their heads, a trip like this is an invaluable reality check."

For Jose Antonio Corado, a 14-year-old boy who has lived at the shelter for 3 years, the impact is even more immediate. "Before coming to live here, I used to stay on the streets, because my mother did not care about me. Now I am in this place, and I am happy because I have clothing, shoes, education, food and shelter. I feel God has changed my life, taking away the bitterness and rebellion I had inside."

Anyone who has ever been involved in a project like this will tell you it changes you forever, and Doug is no exception. "It is complex, yet simple. Being told, 'I love you' 24 times in a row, hugged by 48 arms, blessed by 24 voices can change a person. Looking at dozens of heads which once slept on dirt or concrete and now have pillows is like staring at the awesome results of a chisel in the hands of the Great Sculptor. Holding close and feeling the warm embrace of these young ones who have been beaten

*"I'm no one special...I can't stop people from flying planes into buildings. I can't stop abortions. I can't catch a sniper, but I can do this."*

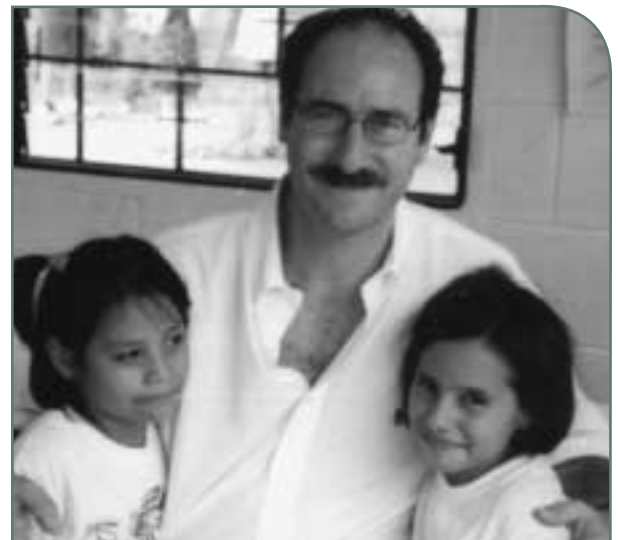
and abused, some even raped and burned, yet who despite all have retained a great capacity for love, has caused me to re-evaluate my own capacity to love as we are commanded to by Jesus...the inevitable answer comes not so much with a sting of condemnation, but with the wonder of

a gift from Heaven itself. With each passing day, the trip became less and less about us and our efforts, and so much more about what God was doing...ultimately, the greatest gift that has occurred is the opportunity to experience profoundly the simple truths—that in giving we receive, in weakness we are strong, to lose our life is to gain it."

And the work continues today. Two of the buildings are up, and there are eight more to go. Funds are being raised even now to build the next two. Building teams are being assembled from Doug and John's church.

Everyone involved is working together to create a living, breathing, thriving organism of life across racial, cultural and physical boundaries; all made possible because a handful of men and women made themselves available to the work of God. Because of the human tendency to praise altruistic efforts, Doug is quick to note, "I'm no one special. I simply decided to do something, and then did it. There are a lot of discouraging things in the news. A lot of life is tough to swallow. Sometimes when you look at the battle between good and evil for dominion here on Earth, it looks like evil is giving us a run for our money. That can be so discouraging that it becomes paralyzing, because you can't solve everything. I can't stop people from flying planes into buildings. I can't stop abortions. I can't catch a sniper, but I can do this. It doesn't have to be rational, or safe, or mainstream, as long as it is a work from God. For someone else it might be digging wells in Africa. Any person reading this can do what I have done, or something

greater. In fact, that is the only reason I'm willing to share such a deeply personal experience—to encourage others to step out in some new directions. If you follow and trust and don't limit what God can do and be in your life, he will honor the effort and accomplish astonishing things through you, and you will sit back and marvel." ✨



World Vision's John Clause with two Deborah House girls at mealtime.

## PHILANTHROPY RESOURCES

# Legacy Group: Guidance for Giving

Imagine the impact of your client's charitable giving if you had a team of professionals with a combined sixty years of nonprofit experience working for you. The Legacy Group of Milwaukee and Chicago is just that organization, and focuses on advising individuals, families and corporations on giving well. The mission of the Legacy Group is to help its donors match their intent with the best leaders of nonprofit organizations.

According to John Stanley, President, "There are three qualities that can never be compromised when assessing a charity before making a major charitable gift: Leadership, Leadership, Leadership. Nice office furniture, a compelling mission, and a well-fashioned plan all pale in comparison to the first three qualities. Legacy donors do as Bob Buford, author of *Halftime*, suggests when deciding on a major charitable gift; consider 'backing the jockey and not the horse.'"

In answer to a need for expert advice in the growing philanthropic services area, Stanley brought together a group of professionals three years ago to provide complete customized philanthropic services. These services include management and staffing of private foundations, managing innovative grantmaking projects, navigating the charity world for individuals before making major gifts from current income, and administration of corporate giving programs. The Legacy Group has significant experience in facilitating board and grantee relationships, and can provide assistance in clarifying a mission, monitoring compliance and investment issues, preparing budgets, and handling all administrative and record keeping duties for private foundations and giving programs. In addition, Legacy



has created an online, password-protected area on its website known as Legacy-giving, in which donors, foundation board members, or advisors can access information about their private foundation or charitable giving at any time from any location and can use their site as a private communication platform.

"Legacy Donors will tell you they are relieved of the day-to-day details in grantmaking but are able to participate as much or as little as they wish. They are able to access their giving information when convenient for them, and this has resulted in high donor satisfaction and effective charitable giving," said Stanley.

The Legacy Group's website is located at [www.philanthropyatwork.com](http://www.philanthropyatwork.com) and can provide an introduction to the organization as well as a means to contact them. Alternatively, you can contact John Stanley at the Legacy Group at 262-789-3160. 🌿

## World Vision FINANCIAL ADVISORS NETWORK

World Vision Financial Advisors Network is a network of leading financial professionals from across the United States, who are interested in utilizing charitable giving opportunities for their clients, as well as in World Vision's mission of hope to children and families across our world.

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