The Pyramid of Philanthropy

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A unique way of looking at legacy planning

Becoming a philanthropist isn't easy.

But when you discover that you've set aside enough money to pay for:

Life's necessities – Your food, shelter and clothing; and...

Life's contingencies – The things you don't expect to happen; and...

Life's fun – The things you want to do that bring value to your life...

and you still have money left-over, you may look at that extra money as your "safety net."

Unless something truly tragic happens, there's a possibility that people in this situation will never need to touch this safety net money, and an even lesser chance that they'll spend **all of it.**

That means there's likely to be money left over after they're gone.

If so, congratulations... they may be able to consider themselves philanthropists!

At that point, there are 3 potential types of philanthropy to consider:

1. If they plan to leave their legacy to a charity they care about, they might be considered a **"Charitable Philanthropist."**
2. If part of their legacy is going to their family... typically their children and grandchildren, they might think of themselves as **"Family Philanthropists."**
3. If they haven't done adequate planning, and a portion of their legacy is on-track to go to government in the form of taxes, they might think of themselves as **"Government Philanthropists."**

Invite them to cross-out the kind of philanthropist they would least like to be.

Now let's talk about ideas for legacy planning.

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FAMILY

When the primary focus of a legacy is the children and grandchildren, and a portion of that legacy includes retirement assets like IRAs and 401k's, that IRA or 401k legacy could create an income tax liability for the beneficiaries. In some cases it may make sense for the IRA owners (typically the parents) to purchase a life insurance policy, naming the children and grandchildren as the beneficiaries, so that the children and grandchildren can use the life insurance death benefits to pay taxes on their legacy.

CHARITY

When the primary focus of a legacy is a charity, many people leave step-up-in-basis assets to charity at their death. Why might that not be a good idea? Because there's a tax benefit called **Step-Up In Basis At Death**. (Ask a qualified financial professional for more information about this tax benefit.) When assets that qualify for step-up-in-basis-at-death are left to a charity using a Will or a Trust, the charity doesn't benefit from the **Step-Up In Basis At Death**. That's because a properly structured 501(c)(3) charity typically won't pay taxes on assets left to them at death anyway. Meanwhile, IRA and 401k assets often list the children and grandchildren as the beneficiaries, and the children & grandchildren are often burdened with paying income taxes on those assets upon inheritance. What's an alternative? Name the charity as the beneficiary of the IRA and 401k assets. When properly structured, the charity typically won't pay any taxes on those inherited assets. Children and grandchildren that become beneficiaries of the step-up-in-basis assets as the result of an adjustment to applicable Trusts or Wills can benefit from the **Step-Up In Basis At Death** to potentially reduce or eliminate income taxes on the step-up-in-basis assets they inherit.

FAMILY & CHARITY

When the focus of the legacy is both family and charity, it might make sense to consider (a) leaving the IRA or 401k assets to charity; (b) leaving step-up-in-basis assets to the children and grandchildren; and… (c) purchasing a life insurance policy with a death benefit equal to the estimated value of the IRA or 401k at the time of the parents' death, and make the children and grandchildren the beneficiaries of the life insurance policy. There are three potential benefits to this approach: (1) the charity inherits the IRA or 401k and typically pays no tax; (2) the children and grandchildren inherit the step-up-in-basis assets with income taxes reduced or eliminated by the **Step-Up In Basis At Death**; and… (3) the children and grandchildren receive the income-tax-free life insurance death benefits in place of the value of the IRA or 401k that was donated to charity at the parents' death. When this is all done correctly, it has the potential to result in less taxes and a larger overall legacy.

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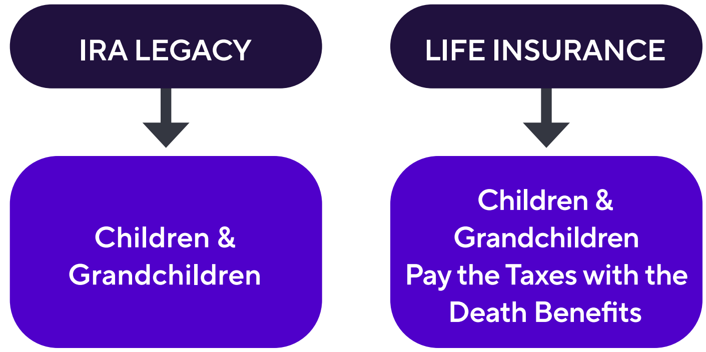
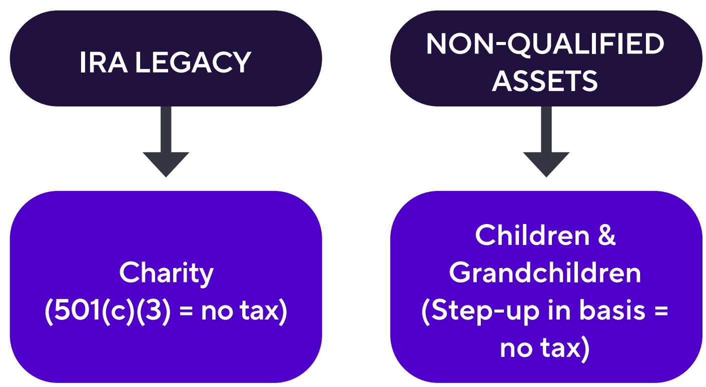
If your legacy focus is your FAMILY

You can purchase life insurance
to pay taxes on your IRA legacy



If your legacy focus is your CHARITY

Consider naming the charity as the beneficiary
of the IRA, and name family as beneficiary
of the on-qualified assets.



If your legacy focus is BOTH FAMILY & CHARITY

IRA Assets to Charity

Non-Qualified Assets and Life Insurance to
Children & Grandchildren