

Around the Market	C1	DJ Industry Groups	C6
Amerx Stocks	C9	Earnings Digest	A5,6
Bond Market Data Bank	C18	Fed Reserve Data	C15
CBOE Interest Options	C15	Financing Business	C15,17
CD Rates	C19	Foreign Exchange	C13
Commodities	C12	Heard on the Street	C2
Credit Markets	C17	High Yield Bonds	C17
Currency Cross Rates	C18	Index Trading	C16
Dividend News	B8	Listed Options	C11

MONEY & INVESTING

Money Rates	C17	NYSE Stocks	C3
Municipal Bond Index	C17	Odd-Lot Trading	C3
Mutual Funds	C19	OTC Focus	C3
Nasdaq Stocks, ADRs	C6,7	Program Trading	C3
New Securities Issues	B12	Treasury/Agency Issues	C14
NYSE/Amerx Bonds	C14	U.S. Regional Markets	C3
NYSE Rights & Laws	C5	World Markets	C18

JOURNALPHONESM FOR UPDATES AND CURRENT QUOTES SEE GUIDE ON PAGE 58 FOR DETAILS 1-900-JOURNAL

Giving It All Away Might Be Best for Some Retirees

YOUR MONEY MATTERS

By EARL C. GOTTSCHALK JR.

Staff Reporter of THE WALL STREET JOURNAL

It's a problem faced to one degree or another by many retirees.

Although the value of their stocks, real estate or other investments has grown over the years, what they are earning on those investments doesn't provide them with enough income. They'd love to sell and put the money into higher-yielding investments, but capital gains taxes would seriously cut into their principal.

One answer to that dilemma is an old estate-planning tool that's being dusted off these days by many insurance agents, stock brokers and financial consultants: the charitable remainder trust. The retiree donates the investment property to the charitable trust, takes a tax deduction based on an age-related Internal Revenue Service formula and gets income for life.

"For someone who has highly appreciated assets, it's a great way to improve cash flow during retirement and pursue a charitable interest at the same time," says Stanford T. Young, vice president at P.R. Taylor Inc., a Palo Alto, Calif., investment banking and financial planning firm.

'The Full Picture'

But while charitable remainder trusts work well for some people, some financial advisers worry that the trusts are being overpromoted. "The motivation or impetus to do this shouldn't come from a commissioned salesman who won't give you the

Should You Sell or Donate?

Comparing two alternatives for a retiree with an investment bought years ago for \$25,000 that is now valued at \$250,000 but is yielding only 2%. The alternatives compared are selling the investment and paying the capital-gains tax, or donating it to a charitable remainder trust and receiving lifetime income from the trust.

	Sell	Donate to Trust
Market value of investment	\$250,000	\$250,000
LESS: Capital-gains tax (28%)	-63,000	—
EQUALS: Capital available for new investment	187,000	250,000
Income (6% yield)	\$11,200	\$15,000
Charitable tax deduction	—	\$107,412*
Funds to heirs after federal estate tax of 55%	\$84,150	—
Funds to favorite charity	—	\$250,000

*Deduction for 65-year-old with a charitable remainder unitrust. Ignores any impact of alternative minimum tax.
Sources: P.R. Taylor Inc., Occidental College

full picture," says Peter Katt, a fee-only insurance adviser in West Bloomfield, Mich.

The biggest drawback is that you have to give away the asset irrevocably. "If something happens [and] you need the money later, you can't get at the principal," says William L. Hoisington, partner in Orrick, Herrington & Sutcliffe, a San Francisco law firm.

Still, for some people, charitable remainder trusts seem to work out well.

Take Mary Louise Young of Pasadena, Calif. She and her late husband, John Parke Young, both retired State Department officials, set up seven different charitable remainder trusts with Occidental College, Mr. Young's alma mater, as the

ultimate beneficiary. The assets they donated were several pieces of Southern California property and some stock in which they had big paper profits.

As trustee, the Los Angeles college sold the real estate and stocks, reinvested the proceeds, and paid out a yearly 6% distribution to the couple. After Mr. Young died in 1988, the trusts began paying out a yearly income stream to their three children. When Mrs. Young and the children die, Occidental, a private liberal arts college, will get the remainder of the trusts to endow a chair in international economics.

"I'm sold on the benefits of charitable remainder trusts," says Mrs. Young. "They solved several problems for us all at one time."

Charitable remainder trusts aren't usually for the very wealthy person, says Richard T. Cooper, director for planned giving at Occidental College. "They often don't need the income stream and can donate to the college outright. It's most useful for someone who has acquired a lot during their lifetime but they don't have enough income coming in for retirement. They are rich on paper but need income."

The trusts do have some drawbacks, however. The fact that you are irrevocably giving away the assets means that when you die, the charity will get your money. Your children will be left out — unless you've named the children as lifetime income beneficiaries for the trust as the Youngs did.

Some insurance agents suggest that an answer to this problem is to take the money you would have paid in capital-gains taxes if you had sold the assets and buy life insurance, with your children or other heirs as beneficiaries. It's possible that you can come out ahead this way — even if you don't have charitable intent as a motivating purpose.

'Be Very Careful'

But you need an independent adviser, such as a tax attorney or an accountant, to compare the value of the payout stream from the trust with the value of the payout stream from the property your children would have inherited if you hadn't made the gift, says Mr. Hoisington, the San Francisco lawyer.

"Be very careful when someone proposes this to you when they also want to sell you life insurance," says Elliot Lipson,

Please Turn to Page C17, Column 3

Giving It All Away Might Just Be Best For Some Retirees

YOUR MONEY MATTERS

Continued From Page C1

financial adviser at Horizons Financial Advisors in Atlanta. "Generally, when you give something away, you don't make money on it. But if you have a charitable intent, you can get more bang for your buck with this approach."

There are some other things to watch for. For certain high-income persons, the gift can be included as a "preference item" in the alternative minimum tax, and some of the income tax deduction for the gift may be reduced or eliminated, says Stephan R. Leimberg, professor of taxation and estate planning at the American College, Bryn Mawr, Pa.

That's why it's important you find an attorney who specializes in estates and trusts to draft the trust, Mr. Leimberg says. A one-word mistake in the document can upset the tax deduction, he says.

It costs about \$1,500 to \$2,500 in attorney's fees to set up a charitable remainder trust.

Some charitable institutions experienced in this area like Occidental College hire attorneys to do the trust drafting and legal compliance without charge to the donor. In addition, Occidental College manages the trust for the lifetime of the income beneficiary and prepares the annual tax returns for the trust without charge.