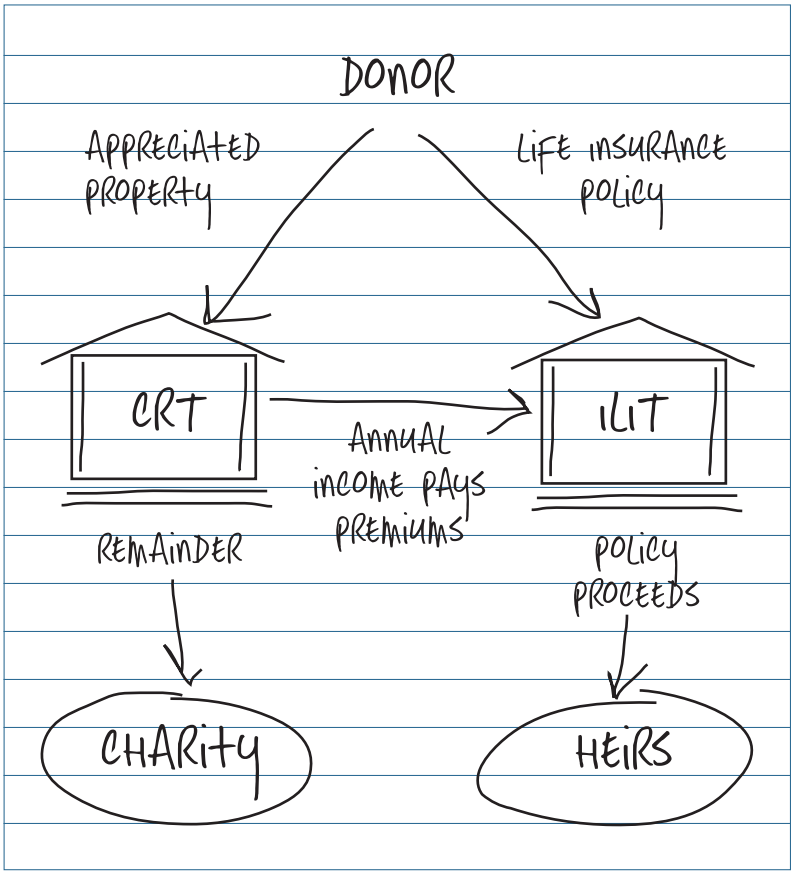
ERS
Episcopal Retirement Services

Wealth Replacement (aka Capital Replacement)

CONCEPT APPLIED:
Wealth replacement is an estate planning technique that lets donors make substantial gifts to charity without compromising the financial security of family members.

HOW IT WORKS:
A donor funds a charitable remainder trust (CRT) with long-term appreciated property and an ILIT with a life insurance policy. The donor uses the annual income from the CRT to make gifts to the ILIT to pay the insurance premiums. At the owner's death, the selected charity receives the remainder amount in the CRT, and the ILIT receives the policy death benefits. The trustee distributes policy proceeds to the donor's heirs.

50 words or less
By combining a charitable remainder trust (CRT), an irrevocable life insurance trust (ILIT) and a life insurance policy, donors can (1) make large charitable gifts and (2) replace the value of the donated assets with life insurance that benefits heirs.

WHY IS IT USEFUL?
The primary advantage is the donor's ability to make a major charitable gift without adversely affecting family inheritances. However, the donor also:

- removes the donated property and the life insurance from the gross estate,
- receives a tax deduction for the charity's remainder interest on the initial transfer, and
- avoids any capital gains tax on appreciated property transferred to the CRT.