



BERNSTEIN

When the Stars Align

Optimal Conditions for
Charitable Remainder Trusts

Most philanthropists tend to reassess their giving strategies somewhere along the way. For some, fluctuating market and economic cycles serve as a catalyst. For others, the transition into retirement or a marked change in income prompts a moment of introspection. Either way, their thinking typically revolves around a common question: *Should I favor my personal balance sheet...or my long-term charitable goals?*

Fortunately, they needn't choose. A Charitable Remainder Trust (CRT) provides a tax-efficient way to diversify low-basis assets, while generating an income stream for the donor and making a charitable impact. Additionally, unlike other "split-interest" charitable trusts, CRTs are not adversely impacted by a rising interest rate environment and typically prevail in a wide range of economic climates.

However, the intricacy of these trusts—paired with a lack of clarity around their long-term impact on personal and charitable wealth—often dissuades donors from using them. With this paper, we seek to demystify CRTs and analyze six key factors potential donors should consider before funding this type of trust:

- Type of funding asset
- Trust term
- Annual payout rate
- Cost basis of the funding asset
- State income tax rates
- Asset allocation

How Do CRTs Work?

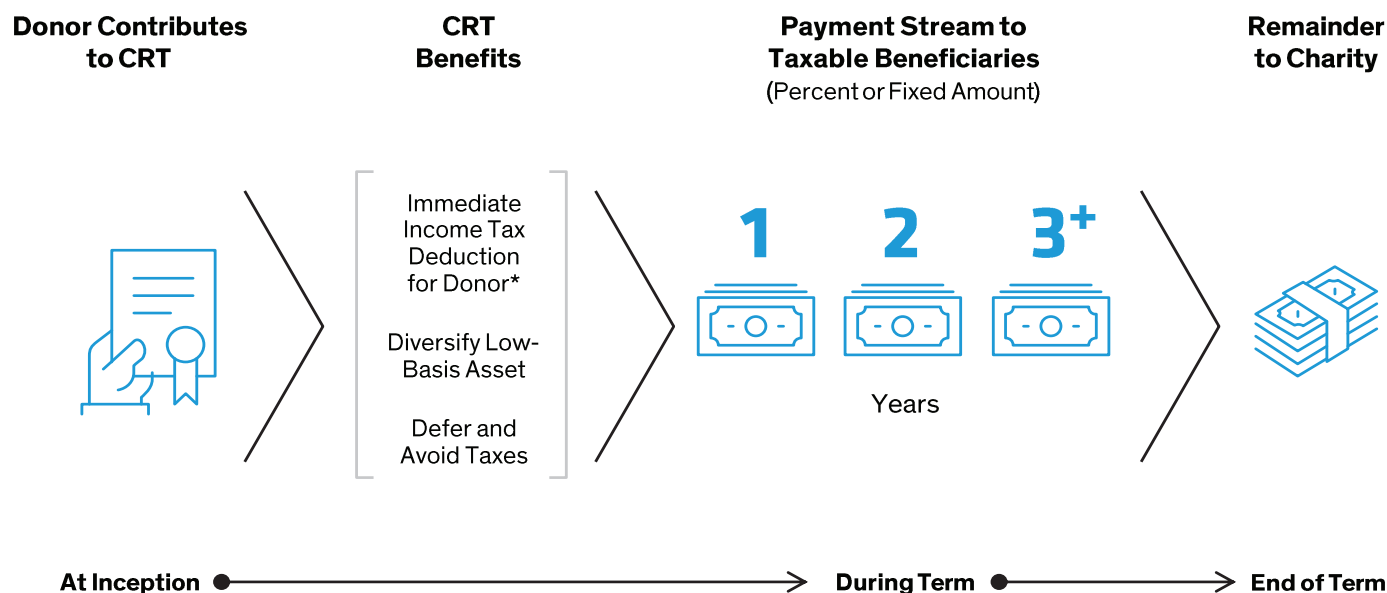
When creating a CRT, a donor funds an irrevocable trust that makes annual distributions to one or more noncharitable beneficiaries—which may include the donor and the donor's spouse—for a period of years or the life of one or more individuals. Any assets remaining at the end of the trust's term pass to charity (**Display 1**, next page).

The trust will function as either: (i) a Charitable Remainder Unitrust (a "CRUT") that distributes a percentage of the trust's asset value determined each year; or (ii) a Charitable Remainder Annuity Trust (a "CRAT") that distributes an annuity based on the trust's original funding amount. In each case, the donor must select a payout rate of at least 5%, but no more than 50%, of the trust's value at payment or funding, respectively. Additionally, the donor must be mindful of the "10% remainder test," which requires that the remainder charity receive at least 10% of the trust's initial funding amount.¹

Upon funding the trust, the donor will receive an immediate charitable income tax deduction for the present value of the trust's remainder interest. Additionally, federal tax law treats a CRT as a tax-exempt entity, which allows the trust to sell appreciated assets without triggering an immediate capital gains tax. Instead, capital gains recognized on the sale will pass to the trust's noncharitable beneficiaries over time as they receive annual trust distributions, thereby producing a tax deferral benefit.

¹ This remainder test must be satisfied at the time of contribution to the CRT, with the value of the projected remainder determined by an actuarial calculation that considers the federal Section 7520 rate (120% of the prevailing mid-term applicable federal rate) at the time of funding.

DISPLAY 1: HOW A CHARITABLE REMAINDER TRUST WORKS



*The income tax deduction is not the total amount contributed, but rather the present value of what is expected to pass to charity (subject to AGI limitations). The calculation of the present value takes into account the value of the contributed assets, the discount rate (based on the Section 7520 rate), and the term of the trust (for lifetime trusts, a life expectancy table is used). See Sections 7520 and 664 of the Internal Revenue Code of 1986, as amended, and the Treasury regulations thereunder.

Source: IRS and Bernstein

A Small Audience for CRATs

In addition to the requirements listed previously, a lifetime CRAT must satisfy a “5% probability test,” which tends to limit its utility for most donors.² Consider that a CRAT’s fixed payout protects the noncharitable beneficiary from declining distributions in bear markets. However, this feature also increases the likelihood of depleting the trust during a downturn, leaving the remainder charity with nothing.

To avoid such a scenario, the IRS imposes this additional probability test at the creation of a lifetime CRAT. The provision is designed to ensure that the remainder charity ultimately receives property in exchange for the donor’s charitable income tax deduction. Yet in practice, this restriction—when paired with a low interest rate environment—makes lifetime CRATs accessible only to a limited pool of donors who are typically well past retirement age. *Given these limitations, the rest of this paper will focus on CRUTs and related considerations.*

Case Study: A Charitable Pair

Let’s consider a 65-year-old philanthropic couple, Ava and Jorge, who live in a state that imposes a 5.0% tax rate on income and capital gains. As they near retirement, the pair is interested in converting an asset originally purchased for \$1.25 million (with a current value of \$5.0 million) into an income stream, while supporting one of their favorite charities. There are several ways to achieve their goals, including:

- selling the asset outright, paying the associated taxes, investing the remaining proceeds, and then addressing their charitable aspirations separately; or
- contributing the asset to a CRUT that will sell the asset, invest the proceeds, and benefit Ava and Jorge today while helping their designated charity down the road.

Ava and Jorge view the CRUT as a win-win: the strategy allows them to defer capital gains on the asset’s sale and leave a potentially sizable gift to charity at the end of the trust’s term. The balance of this paper will explore the planning options Ava and Jorge should consider as they further refine their CRUT.

Type of Funding Asset

When creating a CRUT, donors often start by selecting a funding asset. As previously mentioned, CRUTs provide meaningful tax benefits when funded with low-basis assets due to the ability to defer capital gains tax over the trust's term. Those low-basis assets often consist of concentrated or illiquid positions, allowing CRUTs to offer a compelling diversification benefit. For example, donors with large holdings of low-basis stock in a single company often wish to diversify but resist doing so for fear of the resulting tax hit. Here, a CRUT offers mobility, as the dreaded tax liability can be deferred while the donor benefits from the CRUT's reinvestment of the sale proceeds in a diversified portfolio.

CRUTs provide meaningful tax benefits when funded with low-basis assets due to the ability to defer capital gains tax.

Yet, with a wide spectrum of potential funding candidates comes a host of operational, tax, and legal complexities—particularly for donors contributing illiquid assets like private business interests, real estate, and artwork. If these assets are contributed to a traditional CRUT, the trust may fail to make the required unitrust payments due to a lack of liquidity. To address this, donors considering contributing illiquid assets to a CRUT frequently utilize an alternate payout structure (called a “NICRUT” or “NIMCRUT”). In this case, a CRUT pays out the lesser of net income and a set unitrust amount, with or without the ability to undertake later “makeup” distributions for years in which the trust paid less than the unitrust amount. Further, a donor may structure such trust as a “flip” trust that starts as a NICRUT or NIMCRUT and then converts to a traditional CRUT at a certain date or following an event—such as the sale of an illiquid asset.

Common CRUT funding candidates and related considerations include:

- **Publicly Traded Stock:** Public equities are relatively straightforward funding options. The donor will receive a charitable income tax deduction based on the stock's fair market value, provided the donor has held the shares for at least a year.³ The CRUT's ability to quickly liquidate the stock generates immediate diversification benefits for the donor.
- **Private Business Interests:** Business owners may consider funding with shares of a private company (well) ahead of a liquidity event, so that future capital gains can occur inside the CRUT. Yet while the tax deferral can be powerful, this pre-transaction strategy does not work in all scenarios:

- Typically, a donor should not contribute shares of an S corporation—a corporation that has elected to be treated as a pass-through entity for income tax purposes. Since a CRUT will not qualify as a permissible shareholder, the trust's receipt of S corporation stock will immediately terminate the corporation's pass-through treatment, with potentially dire tax consequences.
- As income from a partnership flows through to its owners, contributing a partnership interest may generate unrelated business taxable income (“UBTI”).⁴ The bite from UBTI can be significant; CRTs are subject to a federal excise tax equal to 100% of UBTI.⁵
- C corporation shares typically make attractive funding candidates, but even they carry some complexity. A donor must obtain a qualified independent appraisal to value the stock at contribution, and any discount for lack of marketability and control may reduce the donor's upfront charitable income tax deduction.
- **Real Estate:** Donors with appreciated real estate may consider NICRUT, NIMCRUT, or flip structures to ease payout pressures prior to selling a property while retaining the CRUT's tax deferral benefit upon sale. As with private stock, donors must obtain a qualified independent appraisal of the property at funding. They must also consider how the trust will support the property's maintenance costs. The donor may fund the trust upfront with cash or marketable assets for this purpose or rely on post-creation contributions. Further, the existence of a mortgage introduces a host of additional planning considerations.
- **Artwork:** This asset presents an interesting case. The donor's initial contribution of artwork will not generate an income tax deduction. Rather, the deduction will apply in the year of the artwork's sale. What's more, the resulting deduction is based on the property's cost basis, rather than its fair market value. However, the collectibles tax rate of 28% applied to the sale of artwork—versus the long-term capital gains tax rate of 20%—makes the tax deferral from an artwork-funded CRUT more valuable. As with real estate, the donor must fund the CRUT with cash or marketable securities to cover any maintenance and insurance expenses and must obtain a qualified appraisal upon contribution. Additionally, the donor must restrict their continued use and enjoyment of the artwork to avoid running afoul of self-dealing issues.

While donors should always implement CRUTs in concert with their estate planning professionals, sophisticated practitioners play a crucial role in constructing a CRUT strategy involving a complex funding asset. In this paper, we'll assume that our philanthropic couple is evaluating a CRUT for the sale of low-basis public stock, and therefore avoids many of the planning issues related to illiquidity.

³ IRC § 170(e)(5).

⁴ UBTI represents income generated by a trade or business not substantially related to the trust's exempt purpose or income produced by assets acquired with borrowed funds. See IRC Publication 598; IRC § 514.

⁵ IRC § 664(c)(2).

DISPLAY 2: COMMON CRUT FUNDING CANDIDATES



Publicly Traded Stock

- Most straightforward
- Potential diversification benefits



Private Business Interests

- Powerful for pre-transaction planning
- Only suitable for certain types of entities



Real Estate

- Like other illiquid assets, best paired with a “flip” CRUT unless sold immediately
- Debt on a property adds meaningful complexity



Artwork

- Trade-off between tax deferral and unique tax treatment for deduction
- Must restrict enjoyment

Trust Term

After selecting an appropriate funding asset, donors typically address the trust's term. A CRUT term may last for up to 20 years or the life of one or more individuals. Generally, a fixed-term CRUT may appeal to donors facing one of the following situations:

- **Young donors prioritizing income:** A CRUT's 10% charitable remainder requirement would significantly limit the trust's payout rate over a long-projected lifespan. For instance, the payout rate for a joint-lifetime CRUT for a 45-year-old couple could not exceed 6.0% annually.⁶ If this same couple employed a CRUT with a 20-year term, the maximum allowable payout nearly doubles to 11.3%.
- **Donors aiming to match liabilities:** Payments over a fixed term may help align the CRUT's distributions with anticipated expenses over the same period, including education costs for children or grandchildren or the repayment term on a mortgage or other loan obligation.

In most other scenarios, donors will find lifetime CRUTs more attractive due to extended tax deferral. Yet for married couples, should the CRUT term be based on the life expectancy of one spouse or both? Single life expectancy carries risk. If the income beneficiary passes away earlier than expected, it may result in an oversized gift to charity that leaves the surviving spouse with less support than anticipated. While donors can potentially mitigate this risk with term life insurance, premium payments may then erode the efficacy of the strategy overall. On the other hand, by accounting for combined life expectancy, joint-life CRUTs may limit the maximum payout rate. **Display 3** illustrates how this plays out for a 65-year-old couple, such as Ava and Jorge:

DISPLAY 3: HOW LIMITING ARE JOINT-LIFETIME CRUTS ON PAYOUT RATES?

Ultimately, donors should carefully weigh their priorities—beneficiary protection versus current income requirements—when selecting a lifetime CRUT's term.

Maximum CRUT Payout Rate:*



Single-Life
CRUT

19.9%



Joint-Life
CRUT

11.5%

*Assumes that all individuals are 65 years of age, and a Section 7520 rate of 4.0%. Percentages have been rounded for purposes of this illustration.

⁶ Based on a Section 7520 rate of 4.0%.

What About Non-Spouse Beneficiaries?

Married donors may name their spouses as beneficiaries of a CRUT without gift tax implications due to the unlimited gift tax marital deduction.⁷ However, donors may be deemed to have made a taxable gift when naming someone other than their spouse—even if the non-spouse beneficiary waits until after the donor's death to receive CRUT distributions. The donor must then allocate some of their lifetime exclusion from federal gift tax⁸ or, if the donor has no remaining exclusion, pay gift tax on the transfer.⁹

To prevent (or at least delay) this, donors considering naming a non-spouse as a CRUT beneficiary may wish to add a trust provision allowing the donor to terminate the non-spouse beneficiary's interest under the donor's last will and testament. This reserved right makes any gift to the non-spouse beneficiary incomplete until the earlier of trust distributions to such beneficiary or the donor's death.

Given the potential tax implications of benefiting a non-spouse through a CRUT, donors should carefully work through these issues with estate planning counsel prior to finalizing the trust's terms.

Annual Payout Rate

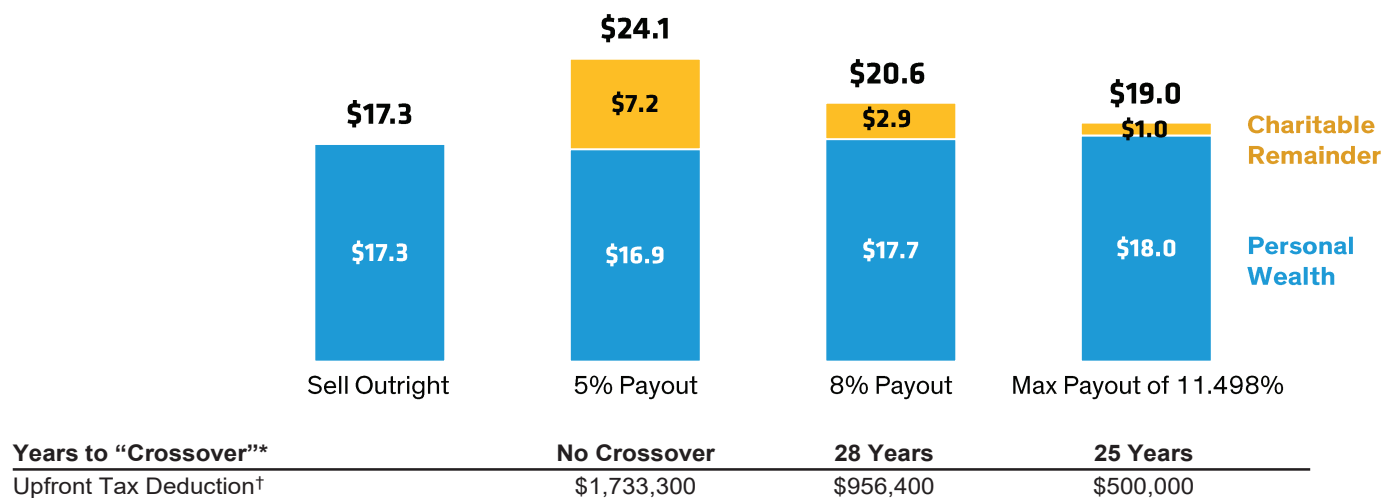
Let's return to Ava and Jorge as they select the unitrust percentage for the trust. Here, we evaluated both personal and charitable wealth over 30 years using three different payout rates: the minimum 5% rate, an 8% rate, and the maximum allowable rate of nearly 11.5% (**Display 4**).

Both the 8% and the maximum payout rate CRUT scenarios generate more personal wealth for Ava and Jorge when compared to selling their stocks, paying the capital gains tax, and reinvesting the proceeds. We refer to the point at which the CRUT outperforms as the "crossover"—the moment when the donors' personal wealth from the CRUT surpasses that from an outright sale.

Notably, the 5% payout scenario does not achieve crossover during this 30-year period. Yet it does manage to generate substantially more funding for charity with very little cost to Ava and Jorge—a \$7.2 million charitable benefit versus \$2.9 million or just \$1.0 million in the higher payout scenarios. This underscores a key trade-off for donors: whether to prioritize higher immediate income and an accelerated personal benefit or accept more modest income streams during life to allow for greater charitable support. Of course, donors need not pick one extreme or the other, as the 8% payout scenario demonstrates.

DISPLAY 4: IMPACT OF PAYOUT RATES ON PERSONAL AND CHARITABLE WEALTH

Median Total Wealth in Year 30 (USD Millions, Nominal)



*"Crossover" defined as the point at which more personal wealth is accumulated from the CRUT relative to an outright sale. Results displayed are based on the median case (50% probability). Assumes an asset allocation of 70% global stocks and 30% bonds for trust and personal assets.

†Charitable deduction is based upon a joint-lifetime CRUT, assuming donors are both 65 years of age, and a Section 7520 rate of 4.0%. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 30 years. Data does not represent past performance and is not a promise of actual or the analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on the Bernstein Wealth Forecasting System for further details. Bernstein is not a tax or legal advisor. Investors should consult these professionals as appropriate before making any decisions.

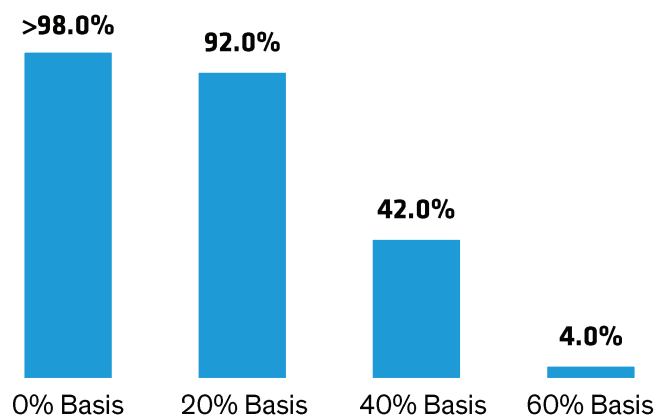
⁷ The marital deduction only applies to transfers to a US citizen spouse.

⁸ Each US citizen or permanent resident has \$12.92 million of lifetime exclusion from federal gift and estate tax in 2023.

⁹ RenPSG: Charitable Remainder Trust Handbook 6/2020. Gregory W. Baker.

DISPLAY 5: CRUTS ARE MOST EFFECTIVE WHEN CONTRIBUTED ASSETS HAVE VERY LOW BASIS

Probability of More Personal Wealth in Year 30*
(8% CRUT vs. Outright Sale)



Cost Basis/Fair Market Value

*Relative to an outright sale. Charitable deduction is based upon a joint-lifetime CRUT, assuming donors are both 65 years of age, and a Section 7520 rate of 4.0%. Assumes an asset allocation of 70% global stocks and 30% bonds for trust and personal assets. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 30 years. Data does not represent past performance and is not a promise of actual or the analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized. See Notes on the Bernstein Wealth Forecasting System for further details. Bernstein is not a tax or legal advisor. Investors should consult these professionals as appropriate before making any decisions.

Cost Basis

As discussed, a CRUT's ability to provide tax deferral benefits is one of its most useful features, and this ability depends largely on the contributed asset's cost basis. Let's examine this point more closely, asking, "At what basis threshold do CRUTs become less attractive?" To answer this, we first assume that Ava and Jorge select an 8% unitrust payout in all scenarios (**Display 5**). We then analyze a range of cost basis levels for their \$5.0 million stock portfolio, from 0% basis (or \$0) to 60% basis (or \$3.0 million). Our aim is to forecast the likelihood that the CRUT will generate more personal wealth than an outright sale over 30 years.

The very low-basis scenarios (0–20%) both deliver a high probability (over 90%) that the donor will achieve crossover by year 30. However, the likelihood of crossover drops off notably once the funding asset reaches a basis equal to 40% of its fair market value. When the basis increases to 60% of the asset's fair market value, the odds of crossover drop to just 4%. In essence, donors should target assets with the lowest possible basis when funding a CRUT and determine whether the costs of a CRUT outweigh its benefits when lacking a suitable funding asset.

State Income Tax Rates

Thus far, we have assumed that our donors live in a state with moderate (5%) income tax rates. What if this were not the case? Given a CRUT's two-pronged tax advantages (the upfront charitable deduction and the opportunity for long-term tax deferral), residents of states with high effective tax rates on income and capital gains stand to benefit the most. We highlight the relationship between state income taxes and a CRUT's potential tax benefits as we compare Ava and Jorge's moderate rates against states with high income tax rates and those with none at all (**Display 6**).¹⁰

Notably, a CRUT funded by those in high state income tax jurisdictions achieves crossover after 29 years with a 5% unitrust payout. That's an outcome that donors living in moderate-to-no-income tax states cannot match. High state income taxes reduce the time until crossover by one to two years in the higher payout scenarios, too. Put simply, donors seeking a diversification strategy may be particularly well served by a CRUT if they live in a high income tax state.

DISPLAY 6: CRUTS ARE PARTICULARLY EFFECTIVE IN STATES WITH HIGH INCOME TAX

	Years to "Crossover"*		
	5% Payout	8% Payout	11.5% Payout
No State Income Tax (0%)	No Crossover	29	25
Moderate State Income Tax (5%)	No Crossover	28	25
High State Income Tax (10%)	29	26	24

**"Crossover" defined as the point at which more personal wealth is accumulated from the CRUT relative to an outright sale. Results displayed are based on the median case (50% probability). Charitable deduction is based upon a joint-lifetime CRUT, assuming donors are both 65 years of age, and a Section 7520 rate of 4.0%. Assumes an asset allocation of 70% global stocks and 30% bonds for trust and personal assets. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 30 years. Data does not represent past performance and is not a promise of actual or the analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on the Bernstein Wealth Forecasting System for further details. Bernstein is not a tax or legal advisor. Investors should consult these professionals as appropriate before making any decisions.

¹⁰ For this purpose, a high income tax rate is assumed to be 10%.

State Level Restrictions

Bear in mind that not all states offer charitable income tax deductions at the state level—a restriction that may limit the utility of a CRUT's upfront charitable deduction. Further, a small number of states, including New Jersey and Pennsylvania, do not recognize CRUTs as tax-exempt entities at all. In those states, the trust may incur a meaningful state tax bill upon the sale of its funding asset(s). Donors should work closely with tax and legal advisors familiar with their local regulatory environment to determine whether a CRUT will provide the desired state-level tax benefits.

Asset Allocation

Once a donor decides how to structure and fund their CRUT, investing the trust's assets becomes paramount. Before diving into potential allocation options, let's first discuss the taxation of CRT distributions and how this may drive asset allocation decisions.

While a CRT does not pay income tax directly, the trust's noncharitable beneficiaries must pay tax on any capital gains and ordinary income passed to them via the trust's annual distributions. The tax rate applied to these distributions depends on accounting "category and class tier rules", which divide all income into three categories: ordinary, capital gains, and "other" (**Display 7**).¹¹ Within each category, the rules further segregate income based on the applicable federal income tax rate. Generally, a distribution will first pull from any income subject to the highest tax rate in each category and class, often referred to as the "worst in, first out" approach.

¹¹ IRC § 664(b) and Treasury Regulations Section 1.664-1(d)(1).

DISPLAY 7: CRUT DISTRIBUTIONS SUBJECT TO TAXATION BASED ON A 4-TIER SYSTEM

Category	Class	Rate*
Ordinary Income	Interest	40.8%
	Qualified Dividend	23.8%
Capital Gain	Short-Term Gain	40.8%
	Long-Term Gain	23.8%
Other Income	Tax-Exempt Interest	0.0%
Corpus	Basis	N/A

*Includes 3.8% net investment income tax (NIIT).

Given this, donors typically seek to minimize the ordinary income taxes generated within a CRUT. In practice, this means that CRUTs tend to invest in municipal bonds for their fixed income sleeve (despite CRUTs being tax-exempt and municipal bonds usually being reserved for fully taxable portfolios). Additionally, the CRUT may steer clear of UBTI-generating investments, such as certain alternative investments.

Now let's focus on the overall risk profile of a CRUT. Conventional wisdom tells donors to favor a growth-oriented allocation in a CRUT, with considerable allocation to equities. The aim is to maximize the tax deferral benefit while retaining some bond exposure to stabilize annual payouts. Does this advice hold up in today's capital markets?

To answer this, let's explore the impact of asset allocation on Ava and Jorge's personal and trust assets over 30 years (**Display 8**). As before, we'll use an 8% CRUT example but alter the range of CRUT allocations from 100% bonds to 100% stocks. For purposes of the crossover calculation, we assume that personal assets in each example are allocated in the same manner as the trust.

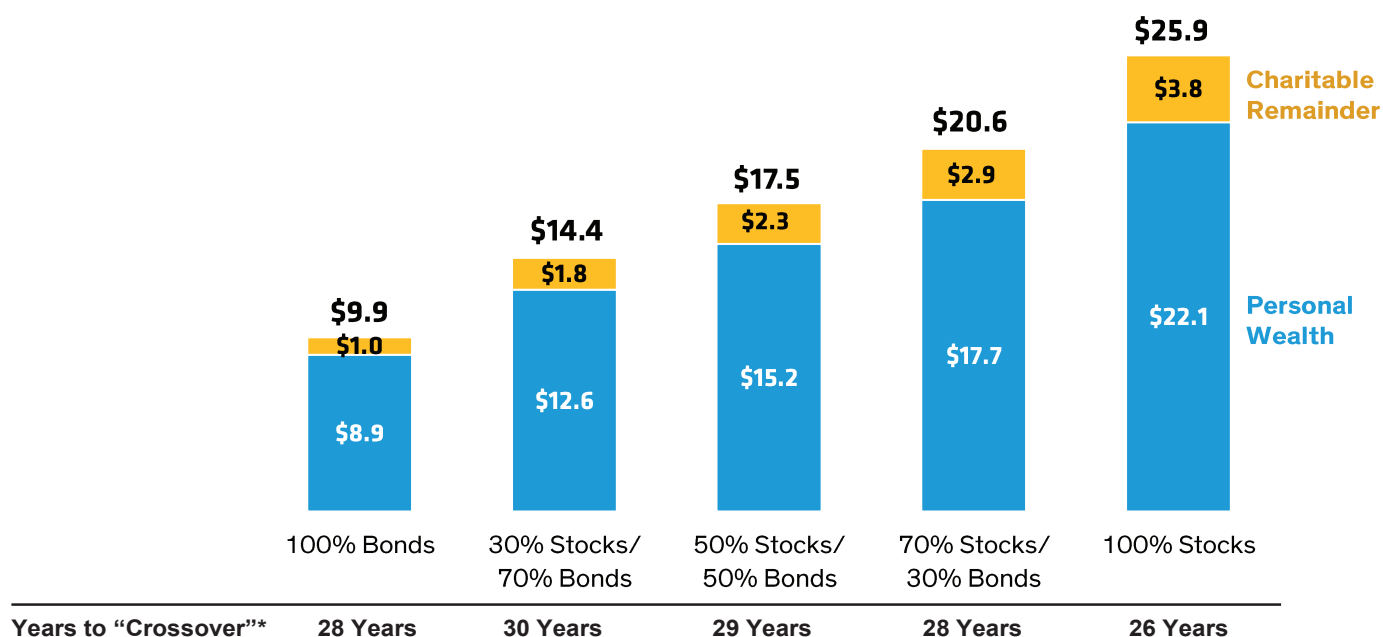
Not surprisingly, the failure to incorporate adequate equity exposure results in dramatically lower wealth over 30 years. In typical markets, an all-bond allocation would cut total wealth by more than half relative to a portfolio with 70% stocks. However, the asset mix makes relatively little difference in terms of crossover—though the all-stock allocation does reduce the crossover point to just 26 years.

Conventional wisdom tells donors to favor a growth-oriented allocation in a CRUT, with considerable allocation to equities.

With that said, low growth alone will likely steer most donors away from bond-heavy scenarios. But as we look toward more moderate to growth-oriented allocations, the picture changes. Here, donors should look beyond the likely long-term results under typical market conditions and consider the potential for a bear market to impact annual unitrust payouts and the noncharitable beneficiary's overall wealth.

DISPLAY 8: ALLOCATION SIGNIFICANTLY IMPACTS OVERALL PERSONAL AND CHARITABLE WEALTH

Median Total Wealth in Year 30 (USD Millions, Nominal)



**"Crossover" defined as the point at which more personal wealth is accumulated from the CRUT relative to an outright sale. Results displayed are based on the median case (50% probability).

Charitable deduction is based upon a joint-lifetime CRUT, assuming donors are both 65 years of age, and a Section 7520 rate of 4.0%. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 30 years. Data does not represent past performance and is not a promise of actual or the analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on the Bernstein Wealth Forecasting System for further details. Bernstein is not a tax or legal advisor. Investors should consult these professionals as appropriate before making any decisions.

For example, consider the range of possible outcomes for three moderate-to-growth-oriented portfolios, as measured by accumulated wealth for the noncharitable beneficiary over 30 years (**Display 9**). Each bar captures most (80%) of the results for each scenario, while the numerical labels denote outcomes in great, typical, and hostile market conditions, respectively.

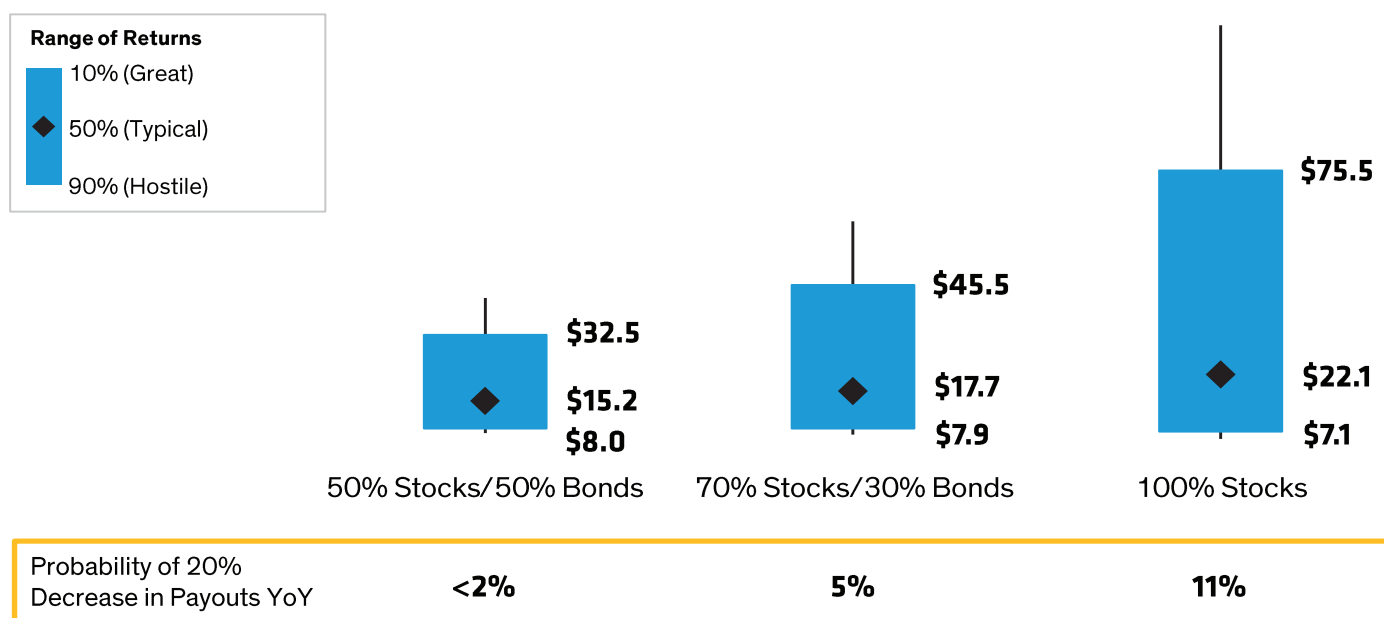
Choosing a 70% stock portfolio over a 50% stock portfolio seems obvious. The more growth-oriented portfolio generates \$2.5 million more wealth in typical markets, while adding very little downside risk (\$100,000 less wealth in hostile market conditions). But what about the trade-offs between 70% and 100% stocks? The all-stock scenario generates \$4.4 million more wealth in typical markets, but nearly \$1.0 million less in hostile ones. Plus, it carries greater risk of volatility in annual unitrust payouts (defined as the probability of a

20% decrease in year-over-year payouts). A donor with an all-stock CRUT has an 11% chance of enduring this decline—far from certain, but still more than double the likelihood of the 70% stock scenario. Essentially, donors must weigh the importance of downside protection and consistency of payouts versus a bumpier ride with greater long-term wealth potential.

Donors must weigh the importance of downside protection and consistency of payouts versus a bumpier ride with greater long-term wealth potential.

DISPLAY 9: AFTER-TAX ACCUMULATED RECIPIENT WEALTH IN YEAR 30

Personal Assets (USD Millions, Nominal)*



*Based on AB's estimates of the range of returns for the applicable capital market over the next 30 years. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on the Bernstein Wealth Forecasting System for further details.

Aligning the Stars

As a whole, our analysis shows that the optimal conditions for a positive CRUT outcome involve a constellation of factors (Display 10):

DISPLAY 10: WHAT MAKES AN IDEAL CRUT CANDIDATE?

Key Factor	Impacts Crossover	Impacts Total Wealth
Low cost basis funding asset	X	
High income tax state	X	
Growth-oriented asset allocation		X
Payouts that meet donor income requirements while satisfying charitable goals	X	X
Term that satisfies donor priorities for income and/or beneficiaries		Varies
Appropriate structure for complex funding assets		Varies

Source: AB analysis

In addition to these key factors, we encourage donors and their trusted professionals to consider the following when implementing a CRUT:

- The appropriate size for the contribution given the donor’s “core capital” requirement. Put another way, will the donor retain sufficient funds to secure his or her own lifelong financial security, without access to trust principal along the way?
- Whether the timing of the trust’s charitable benefit—that is, a distribution that may occur decades in the future—aligns with the donor’s giving patterns and desire to benefit charity during life, at death, or both.

By taking steps to select an optimal funding asset and a structure that prioritizes their personal objectives, a donor can successfully utilize a CRT to amplify their personal and charitable wealth for years to come.





Notes on the Bernstein Wealth Forecasting SystemSM

The Bernstein Wealth Forecasting SystemSM uses a Monte Carlo model that simulates 10,000 plausible paths of return for each asset class and inflation and produces a probability distribution of outcomes. The model does not draw randomly from a set of historical returns to produce estimates for the future. Instead, the forecasts: (1) are based on the building blocks of asset returns, such as inflation, yields, yield spreads, stock earnings, and price multiples; (2) incorporate the linkages that exist among the returns of various asset classes; (3) take into account current market conditions at the beginning of the analysis; and (4) factor in a reasonable degree of randomness and unpredictability. Moreover, actual future results may not meet Bernstein's estimates of the range of market returns, as these results are subject to a variety of economic, market, and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized.

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer of solicitation for the purchase or sale of, any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.

The [A/B] logo is a registered service mark of AllianceBernstein, and AllianceBernstein[®] is a registered service mark, used by permission of the owner, AllianceBernstein L.P., 501 Commerce Street, Nashville, TN 37203.
© 2023 AllianceBernstein L.P.

