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Market Musings

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The table to the right presents a partial comparison of the attributes of Charitable Remainder Unitrusts and Fixed Income Annuities. There are other important features that could be part of a decision to choose one over the other. In some cases, owning both makes sense.

	CRUT	ANNUITY
Contract Maturity	Death/Never	Death/Varies
Disposition at Death	Charity/Private Foundation	Insurance Company
Distributions	Donor Determined	Insurance Company Determined
Fees	% of Assets	Hidden Embedded Charges
Investment Objective	Growth of Income	Flat Income
Risks	Stock Market Volatility	Interest Rate Risk
Tax Deductible Contribution	Yes	No
Tax Favored Income	Yes	No
Withdrawal Penalties	Yes with Flexible Options	Yes with No Options

Charitable Remainder Unitrust vs. Fixed Income Annuity

Some individuals have chosen to invest in fixed income annuities as a source of retirement income. These vehicles provide for a stated level of income over the life of an investor. The initial contribution to create such an annuity becomes the property of the insurance company but that sum can be reclaimed over time with specific withdrawal penalties. Other characteristics are that the payment from the annuity is fixed. There are various options to modify the contract provisions but each of these provisions are likely to cost additional premiums. Also, the contract can mature within one to ten years and the renewal may be at interest rates that are lower than the initial rate.

A charitable remainder unitrust (CRUT) is a viable alternative to a fixed income annuity. The initial contribution to a CRUT offers certain tax deductions that can reduce taxable income. The payment from the CRUT to the beneficiary is flexible and has a range of a minimum of 5% to a maximum percent that is determined by an IRS formula. The older the annuitant the greater the payout can be from the CRUT. Comparing the annuity to a CRUT, the principal of the annuity becomes the property of the insurance company upon the death of the annuitant. When the beneficiary of a CRUT dies, the value of the trust goes on to a designated charity. If a CRUT is managed to produce growth in principal and is successful, then the payment to the beneficiary rises over time and the value contributed to the charity increases as well. When the value of the tax deduction is combined with the growth in the annual distributions from the CRUT that can increase by using a growth equity strategy, then the repayment of the initial contribution can be within ten years.

This comparison is a simplistic and brief overview of these two options that can provide income in retirement. An interested investor should carefully review the options and risks of these two investments to make a well-informed decision about saving for retirement.

"The secret of getting ahead is getting started."

- Mark Twain

Market Commentary

Despite the COVID-19 pandemic and the uncertainty of an election year, U.S. equities recovered from their March lows to end the year in the green, with the S&P 500 posting a gain of 18%. Smaller caps reversed course by outperforming in Q4, with the S&P MidCap 400 and the S&P SmallCap 600 indices ending the year up 14% and 11%, respectively. As vaccinations are deployed and we reach herd immunity, financial markets, especially equities, should continue to do well. Bonds that yield less than 1% and less than 0% after inflation are not a viable investment option for those seeking to grow their wealth. The outperformance of growth versus value stocks last year could be corrected in this new year and we are likely to see increased volatility among these classes as institutional investors reposition their portfolios.

The most lethal health epidemic in the last 500 years was the worldwide flu outbreak that occurred in the fall of 1918 that killed 50 million people globally, including 675,000 Americans.

(source: CDC)