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Situation

- Client's health status has changed since creating CRT

Solution

- Sale of CRT income interest generates liquidity to cover medical expenses

Results

- Sale left client with maximum amount of cash
- Proceeds will cover medical expenses for client's remaining lifetime
- What's left of proceeds at client's death will go to her three children

* For a free copy of the case study that Jim was recalling, e-mail CRT@SterlingFoundations.com with "Sale vs. Termination" as the subject.

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SALE OF CRT INCOME INTEREST

Case Study: Change in Health Status

In the 1990s, Becky and Stan created a CRT to defer the capital gains taxes on some appreciated stock. Stan passed away in 2010 and left Becky with what they thought would be plenty of assets to live out the rest of her life in comfort.

Several years later, Becky began showing signs of both mental and physical decline. Her three children suggested she consider assisted living facilities, but Becky was adamant about continuing to live in the home she and Stan had retired to in the early 2000s. Her children wanted to do everything they could to make that happen, but Becky needed around-the-clock care, which isn't cheap. They estimated $100,000 per year, and that didn't include all of the medical expenses Becky was beginning to incur. There was simply no way to cover everything with the CRT distributions (about $70,000 per year) and the income from Becky's remaining assets.

Becky's children were curious to know if there was a way to exchange Becky's future CRT income for cash today.

The three children met with Becky's legal, tax and financial advisors to discuss what could be done. Jim, the family's attorney, said one option was to terminate the CRT. But that would take more time than the family had. Jim said another option was to sell the income interest to a third party buyer. Jim was on Sterling's mailing list and recalled that a client could almost always get more money by selling the income interest than they could from terminating the CRT.* And importantly, a sale (which does not terminate a CRT and should not be confused with a termination) could be completed in 2–4 weeks, just a fraction of the time it would take to terminate.

Brian, the family's financial advisor, reached out to Sterling and asked for a quote. At the same time, Jim ran the numbers to see what Becky would receive in a termination. A few days later, the group met again to discuss the results: *selling the income interest would get Becky nearly 25% more than terminating, in a fraction of the time.*

The decision was an easy one: sell the income interest.

Three weeks later, the family had a lump sum of cash, which Brian immediately invested in a conservative portfolio. Along with the income it generates, Becky will draw on the portfolio's principal to cover her medi-cal costs. She should be able to live out her remaining lifetime where and how she wants.