A Wealth Replacement Trust

A wealth replacement trust is a planning tool in which a donor buys a life insurance policy on themselves to replace the value of the asset that he or she is giving away. For example, if a donor puts $250,000 cash or another asset of the same value, into a Charitable Remainder Trusts, but still wants to leave the value of that gift to their grandchildren, they could create a wealth replacement trust to accomplish this. To do so, they could use the lifetime income proceeds from the CRT to purchase a $250,000 life insurance policy on themselves. When they die, the remaining value in the CRT goes to the charity, and the life insurance proceeds go to their grandchildren.

In another example, if a donor makes an outright gift to charity, they would then pay for the life insurance policy with their own resources.

With proper planning the life insurance policy would be held in an Irrevocable Life Insurance Trust (ILIT) and may not be included in the value of the donor's estate, therefore the death benefit would pass to the heirs' estate tax free. In addition, since it passes as a death benefit from a life insurance policy the proceeds are also income tax-free.

Wealth replacement trusts are often designed for married couples so at the death of the second spouse, the life insurance death benefit then goes to the grandchildren.

- For more on a Charitable Remainder Trusts see article #1 "**A Gift that Gives Back".**
- For more on Life insurance planning for charity see article #4 "**Using Life Insurance to Enhance Your Legacy**".