

Charitable Remainder Unitrust (With Wealth Replacement Using Life Insurance)

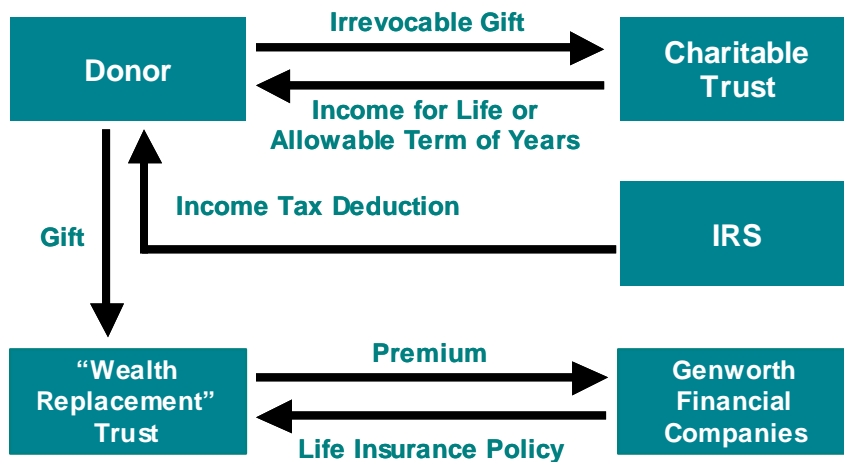
The real face of charitable giving is defined by people like you who care about making a difference in the world around them. You may not see yourself as a “philanthropist.” And you probably don’t expect to ever see your name on a museum or a hospital. However, you may be like many who have discovered satisfaction in helping others, even in little ways. You may also feel that you’d like to make sure that others are able to provide that help after you are no longer able to.

You may want to join those who make large gifts to the charities and causes they care about most. You may feel, however, that you cannot afford to make gifts large enough to “really make a difference.” Doing so would take away assets you rely on for income.

This Financial Strategy shows you one way that others have used to make a future gift to charity, get a current tax deduction and receive income as long as you live.

This strategy is especially attractive if you want to help others, are insurable and have appreciated or under-performing assets that you want to convert into income without paying capital gains tax.

DURING LIFETIME



KEY FEATURES:

- You (or others you name) receive a lifetime income or, if you want, income for a set period up to 20 years. These people are called income beneficiaries. Normally you cannot change the income beneficiaries after you set the trust up.

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Insurance and annuity products:

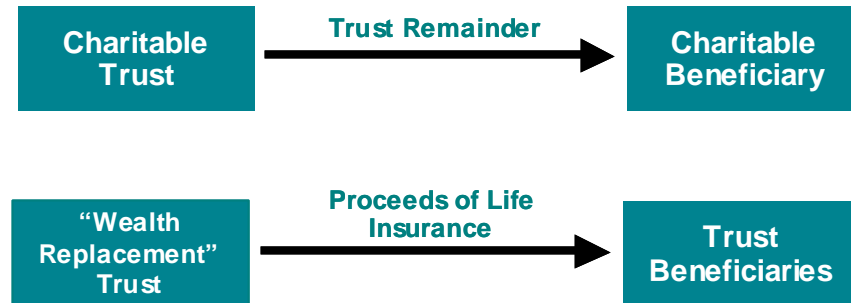
- Are not deposits.
- Are not insured by the FDIC or any other federal government agency.
- Are not guaranteed by the bank or its affiliates.
- May decrease in value.

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- Remaining trust assets go to the charitable beneficiaries only after the income beneficiaries die or at the end of the set period. You may change the charitable beneficiaries. You may also tell them how they should use your gift when they do get it.
- You may be getting little or no income from appreciated property but you may not want to sell because of the capital gains tax you'd have to pay. If you give that property to a charitable trust, the trust does not pay tax when it sells that property. Because the trust then has more to invest, giving the property to a charitable trust and letting the trust sell it may mean you receive more income than you would get if you sold it yourself.
- You may be the trustee of your trust in some circumstances.
- You choose a payout rate when you set up the trust. For example, if you choose a 5% payout rate and the trust is worth \$100,000, the full amount you get will be \$5,000. If the value of the trust goes up next year, your income goes up. If the value goes down, your income goes down.
- When you set it up, you decide what the trust should do if it doesn't earn enough to pay you the full amount.
 1. **Regular Trust.** The trust pays the full amount, even if it does not have enough income. If the trust earns \$3,000 this year, it will use \$2,000 of its principal and you get \$5,000. The trust is now worth only \$98,000. Although the payout rate stays the same, your future income will be less unless the trust value increases more than it must pay you.
 2. **Net Income Trust.** The trust pays the full amount only if it earns enough; you could receive less than you expect. If the trust earns \$3,000, you get only \$3,000 instead of \$5,000.
 3. **Make-up Trust.** The trust pays the full amount only if it earns enough, as in the Net Income Trust. If the trust earns \$3,000 this year, you get only \$3,000. But if the trust earns more than the full amount in the future, it uses the extra to "make up" what you didn't get this year. If the trust earns \$8,000 next year, it pays you \$7,000—\$5,000 for this year and \$2,000 for last year's shortfall. The other \$1,000 increases the trust value; next year you receive 5% of \$101,000.
- You may put cash, appreciated property or other property into the trust. If you give real property, closely held stock or unregistered securities, you must use an independent trustee and must have a qualified appraiser value the trust. If you use property that has a mortgage or other debt, there may be other income tax issues.
- The trust may sell the property you give to it. It will then reinvest the money and this may diversify the investments from which you receive income.
- You may add to the trust. If that makes the trust worth more, your income may go up as well. However, other than taking principal from a regular trust to pay income, you can't take back your gift once it goes into the trust. Additions, like your initial gift, are irrevocable.
- If the trust value grows, your final gift to charity also grows.
- Because the trust goes to charity when it ends, your children or other family members will not receive the property you gave to the trust as they might if they inherited it from you. If this concerns you, you may want to buy life insurance to "replace" what they stand to lose because of your gift. You can use income from the trust to pay the insurance premiums. You may set up another trust to own the life insurance policy. This is often called a "wealth replacement" trust. If leaving the full value of your estate to your family is important to you, you should make sure you qualify for the life insurance before you make your gift to the charitable trust.

- The life insurance policy pays cash when you die. It may be easier to give your family cash rather than trying to split real estate or closely-held stock among family members.

AFTER DEATH



TAX CONSIDERATIONS:

- Your gift entitles you to a federal income tax deduction. Your deduction depends on the value of your gift, your age (or the number of years the trust will pay income), the payout rate and an interest rate the government publishes each month. The higher the payout rate, the lower your deduction. Older donors get a larger deduction than younger ones.
- Your deduction in any given year cannot be more than 50% of your adjusted gross income (30% if you give appreciated property). The IRS allows a five-year carryover for unused deductions.
- The trust must pass several tests to qualify as a charitable trust. These tests, using how long the trust will pay income and the payout rate, try to make sure that after paying the income, the charity gets at least 10% of what you put into the trust. If the trust will pay income for life, the younger you are, the lower your payout rate must be to pass the tests.
- Income from the trust is taxed according to how the trust received that income. It is first taxed as ordinary income to the extent the trust earned ordinary income; then, capital gains to the extent the trust had capital gains; then, undistributed income from earlier years; and, finally, tax-free return of basis.
- If the trust pays you more than it earned as ordinary income that year, you may have to “recapture” capital gains the trust had when it sold appreciated property. This allows you to spread any capital gains income tax liability over future years.
- There is no federal gift tax when you give property to the trust.
- If you are the only person with income from the trust, when you die your estate takes a charitable deduction for 100% of the trust’s value. If your spouse also receives income, his or her income interest may qualify for the unlimited marital deduction. If someone else will receive income after you die, your family may pay an estate tax on the value of his or her income and then takes a charitable deduction for the rest of the trust’s value.
- If you arrange your wealth replacement trust properly or have adult children own the life insurance, your family will not pay estate tax on it. When you die, the life insurance can replace what your family “loses” because of your charitable gift. It can also provide cash to pay estate expenses and create a legacy for your family.

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