



Jonathon Morrison |  
Senior Partner – Frazer  
Ryan Goldberg & Arnold



Ben Rainey | Partner



Ryan Barradas | Managing  
Partner

*Welcome to*  
**Mitigating Income  
and Estate Taxes:  
The Optimized  
CLAT with PPLI**

Tuesday, August 20, 2024 | 8:00 - 9:30 am PT

Available Via Video Conference

NASBA CPE Credit: 1 hour for CPAs

CFP Credit: 1 hour

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# *LEARNING OBJECTIVES & AGENDA*

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## Learning Objectives

- Overview of the Optimized Charitable Lead Annuity Trust (OCLAT) and where its use is applicable
- Understand tax advantages of the OCLAT
- Identify how pairing the OCLAT with life insurance, namely Private Placement Life Insurance (PPLI), makes it a particularly compelling tax and investment tool

## Agenda

- Traditional CLAT overview
- What is an OCLAT?
- Case study discussion
- OCLAT with and without PPLI
- Discuss perceived 170(f)(10) issues
- Q&A



# MEETING REMINDERS & CE/CPE CREDIT

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## Q&A

- Please type your questions into the **Q&A** feature in your Zoom toolbar
  - Please **do not** use the chat function

## Polling questions

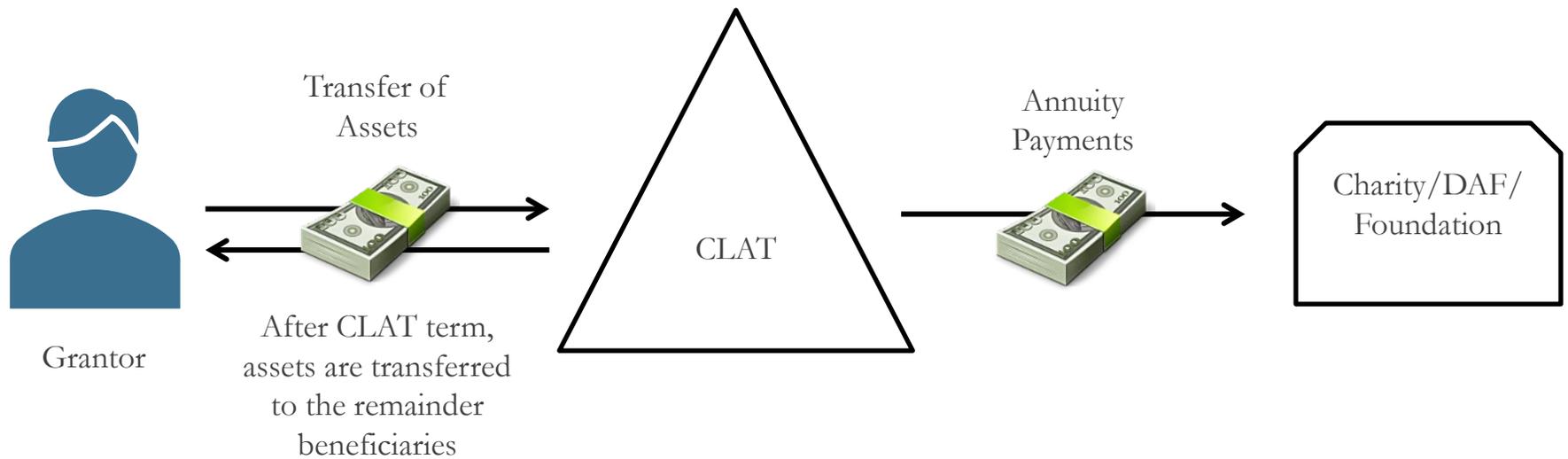
- In order to maintain compliance for CE and/or CPE credit, we must ask at least three polling questions during the webinar
- Each question will allow two minutes to receive your answer

## If you are interested in receiving CE and/or CPE credit for attending this webinar, please look for and complete the survey that will be sent to you

- CE and/or CPE certificates will be emailed to you within 30 days of the webinar and completion of the survey
- For any additional questions, please reach out to [Kristin@wealthpoint.net](mailto:Kristin@wealthpoint.net)



# INTRODUCTION TO CLATS



## TRADITIONAL CLAT SPECIFICS

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- ④ CLAT structure
  - Grantor contributes assets to fund the CLAT
  - Income earned during the CLAT term is taxable to the grantor (if a grantor CLAT)
    - A non-grantor CLAT will result in zero taxes being paid during the CLAT term by the grantor
  - Each year, the CLAT will pay the charitable organization based on the payment schedule
  - At the end of the CLAT term, the remaining assets will revert to the donor
  
- ④ CLATs allow for an immediate income tax deduction on the assets contributed to the CLAT
  - Creates a reduced tax liability for the grantor
  - Tax deduction based on the present value of future donations to the charity
  
- ④ Assets transferred back to donor at end of CLAT term



- ④ The OCLAT is an advanced form of the CLAT and allows for substantial benefits compared to a traditional CLAT structure
  - Grantor trust (allowing upfront deduction)
  - Zeroed out over the duration (dollar-for-dollar deduction upfront)
    - Traditional CLAT does not give you full deduction
  - Immediately removed from 40% federal estate tax if client dies
    - Traditional CLAT triggers estate tax if left to beneficiaries
  - Assets can be transferred without 40% gift tax
    - Traditional CLAT triggers gift tax if left to beneficiaries
  - Assets exempt from creditors/lawsuits
    - Traditional CLAT is unprotected
  - Charitable payments are deferred within tax code guidelines (without being a “shark fin” which carries risks)
    - Traditional CLAT has fixed annuity payments
  - OCLAT uses a longer term – usually 30 years
    - Traditional CLAT is typically <10 years



# Polling Question #1

## *IDEAL CLIENT PROFILE AND FACT PATTERN*

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- ④ Wealthy individual who has gone through a liquidity event or someone with a high annual income
  - Faced with a large income tax problem
  - Charitably inclined
  
- ④ Case study fact pattern
  - Male, age 60
  - Recent sale of privately held business for \$50 million
  - Looking for income tax relief, wealth transfer
  - Willing to allocate a portion of his net worth to charity
    - During life or testamentary upon his passing
  - \$10 million of sale proceeds identified for allocation to OCLAT
    - Net after-tax value of \$5.67 million



# OCLAT PROJECTION

## 2024 OCLAT Illustrations

<i>Assumptions</i>	Contribution to Optimized CLAT	\$10,000,000	Taxes Saved This Year: \$4,330,000	Jonathon Morrison
	Annual Investment Return	8.00%		Frazer Ryan Goldberg & Arnold LLP
	Combined Fed/State Tax Bracket	43.30%		<a href="mailto:jmorrison@frgalaw.com">jmorrison@frgalaw.com</a>
	IRS-Set Benchmark Rate	5.20%	<--- currently 5.2% in August, but likely to be lower before Dec 2024 funding deadline	Copyright June 2020
	Tax Rate Applicable to Future Ded if no OCLAT	43.30%		
	Estate Tax Rate	40.00%		
	Planned Giving Regardless of Optimized CLAT (PERCENT or Net of Tax Ded Setup Fee (YES or NO))	Percent NO	Dollar (Annual) \$50,000	Percent of OCLAT Pmts 100%

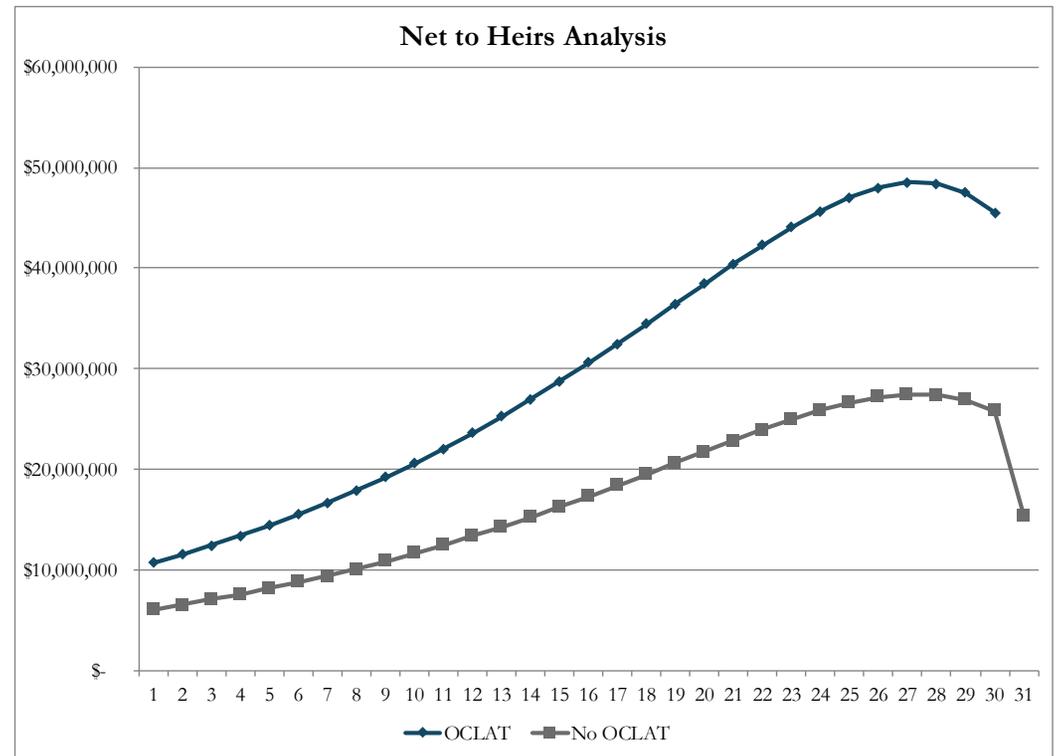
<i>Outputs</i>	No OCLAT	OCLAT						
	A	B	C	D	E	F	G	H
	Ending Value At Term	Ending Value Returned to Client/Family At Term	Add'l Economic Value (B - A)	Estate Tax Avoided In No OCLAT Scenario (Estate Tax % x A)	Extra Wealth Due to OCLAT Planning (C + D)	Extra Wealth With OCLAT vs No OCLAT	Total Donations Received by Charities of Choice	Annual Average Donation
10 Year Lock-Up	\$1,909,465	\$3,367,664	\$1,458,198	\$763,786	\$2,221,984	294%	\$14,074,797	\$1,407,480
15 Year Lock-Up	\$4,192,810	\$7,394,726	\$3,201,916	\$1,677,124	\$4,879,040	294%	\$17,187,577	\$1,145,838
20 Year Lock-Up	\$8,184,274	\$14,434,346	\$6,250,072	\$3,273,710	\$9,523,781	294%	\$21,403,779	\$1,070,189
25 Year Lock-Up	\$14,899,056	\$26,276,995	\$11,377,939	\$5,959,623	\$17,337,561	294%	\$26,997,318	\$1,079,893
30 Year Lock-Up	\$25,810,946	\$45,521,950	\$19,711,004	\$10,324,378	\$30,035,383	294%	\$34,380,935	\$1,146,031
35 Year Lock-Up	\$43,234,886	\$76,252,004	\$33,017,118	\$17,293,955	\$50,311,072	294%	\$43,989,250	\$1,256,836
40 Year Lock-Up	\$70,569,727	\$124,461,600	\$53,891,873	\$28,227,891	\$82,119,764	294%	\$56,466,923	\$1,411,673

\*\*No guarantee of results indicated above which depend on actual investment performance; for simplicity, this model uses a fixed investment return and does not account for annual income taxes in either CLAT or No-CLAT scenario; please refer to September 2020 Estate Planning Journal article for tax-effected stochastic variable return Monte Carlo projections prepared by JP Morgan's Manhattan team (which generally indicate similar comparison



# OCLAT PROJECTION

Year	OCLAT			Pay Tax and Invest Difference	
	OCLAT	Charitable Payments	PV	No OCLAT	Charitable Payments
0	\$10,000,000			\$5,670,000	
1	\$10,770,910	\$29,090	\$27,652	\$6,107,106	\$29,090
2	\$11,597,675	\$34,908	\$31,542	\$6,575,882	\$34,908
3	\$12,483,599	\$41,890	\$35,980	\$7,078,201	\$41,890
4	\$13,432,020	\$50,268	\$41,042	\$7,615,955	\$50,268
5	\$14,446,260	\$60,321	\$46,816	\$8,191,030	\$60,321
6	\$15,529,576	\$72,385	\$53,402	\$8,805,269	\$72,385
7	\$16,685,080	\$86,862	\$60,915	\$9,460,440	\$86,862
8	\$17,915,651	\$104,235	\$69,484	\$10,158,174	\$104,235
9	\$19,223,822	\$125,082	\$79,260	\$10,899,907	\$125,082
10	\$20,611,629	\$150,098	\$90,410	\$11,686,794	\$150,098
11	\$22,080,442	\$180,118	\$103,130	\$12,519,611	\$180,118
12	\$23,630,736	\$216,141	\$117,638	\$13,398,627	\$216,141
13	\$25,261,826	\$259,369	\$134,188	\$14,323,455	\$259,369
14	\$26,971,529	\$311,243	\$153,066	\$15,292,857	\$311,243
15	\$28,755,759	\$373,492	\$174,600	\$16,304,515	\$373,492
16	\$30,608,029	\$448,190	\$199,164	\$17,354,753	\$448,190
17	\$32,518,844	\$537,828	\$227,183	\$18,438,184	\$537,828
18	\$34,474,957	\$645,394	\$259,144	\$19,547,301	\$645,394
19	\$36,458,481	\$774,473	\$295,602	\$20,671,959	\$774,473
20	\$38,445,792	\$929,367	\$337,188	\$21,798,764	\$929,367
21	\$40,406,215	\$1,115,241	\$384,626	\$22,910,324	\$1,115,241
22	\$42,300,423	\$1,338,289	\$438,736	\$23,984,340	\$1,338,289
23	\$44,078,510	\$1,605,947	\$500,460	\$24,992,515	\$1,605,947
24	\$45,677,655	\$1,927,136	\$570,867	\$25,899,230	\$1,927,136
25	\$47,019,304	\$2,312,563	\$651,179	\$26,659,945	\$2,312,563
26	\$48,005,772	\$2,775,076	\$742,789	\$27,219,273	\$2,775,076
27	\$48,516,143	\$3,330,091	\$847,288	\$27,508,653	\$3,330,091
28	\$48,401,325	\$3,996,109	\$966,488	\$27,443,551	\$3,996,109
29	\$47,478,099	\$4,795,331	\$1,102,458	\$26,920,082	\$4,795,331
30	\$45,521,950	\$5,754,397	\$1,257,557	\$25,810,946	\$5,754,397
		\$34,380,935	\$9,999,854		\$34,380,935
Estate tax	\$ -			Estate tax	\$ (10,324,378)
Net to heirs	\$45,521,950			Net to heirs	\$15,486,567
Extra Multiple of Wealth	294%				



# Polling Question #2

# OWNING PPLI INSIDE THE OCLAT

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- ④ Owning life insurance inside an OCLAT can enhance the overall structure and benefits
  - Blocks income tax that grantor would otherwise pay
  - Self completing upon untimely passing
  
- ④ PPLI is particularly well suited for ownership inside an OCLAT
  - Low-cost structure
  - Investment flexibility
  - Low-cost loans



- ④ PPLI is an institutionally priced life insurance product
  - Designed for investment performance, not death benefit
  - No surrender charge
  - Fully disclosed, transparent pricing
  
- ④ Investments managed by your investment advisor
  - Separately managed account
  - Funds custodied at Schwab, Fidelity, Pershing, etc.
  - Potential investments include the same securities used in a taxable account



- ④ Tax benefits
  - Tax-deferred growth
    - Account value growth is tax-deferred
  - Tax-free death benefit
    - Under §101(a)(1) life insurance death benefits are income tax-free
  - Tax-free access to cash value
    - Distributions from insurance policies are assessed on a first-in, first-out (FIFO) basis
  - Step-up in basis equivalence
    - If owned by an irrevocable trust, PPLI will be the only asset to receive a step-up in basis equivalence at death
  
- ④ Complies with multiple IRC sections, including 101, 72, 817 and 7702
  - These code sections govern all life insurance products, not just PPLI
  - 160 years of tax law precedent



# TOTAL TAX PROBLEM

**\$28,648,138**  
Income Tax Paid Over 30 Years

		Tax Projection	
		30 Year OCLAT Period	
Rate of Return		<i>Gross: 8.00%</i>	
EOY	Year	Grantor's Income Tax Liability	Cumulative Tax Paid By Grantor
61	1	(\$258,298)	(\$258,298)
62	2	(\$278,599)	(\$536,897)
63	3	(\$300,466)	(\$837,363)
64	4	(\$324,014)	(\$1,161,377)
65	5	(\$349,367)	(\$1,510,744)
66	6	(\$376,655)	(\$1,887,399)
67	7	(\$406,020)	(\$2,293,419)
68	8	(\$437,611)	(\$2,731,029)
69	9	(\$471,587)	(\$3,202,616)
70	10	(\$508,118)	(\$3,710,734)
71	11	(\$547,386)	(\$4,258,120)
72	12	(\$589,587)	(\$4,847,707)
73	13	(\$634,929)	(\$5,482,636)
74	14	(\$683,641)	(\$6,166,277)
75	15	(\$735,972)	(\$6,902,249)
76	16	(\$792,198)	(\$7,694,447)
77	17	(\$852,631)	(\$8,547,079)
78	18	(\$917,633)	(\$9,464,712)
79	19	(\$987,630)	(\$10,452,342)
80	20	(\$1,063,148)	(\$11,515,490)
85	25	(\$1,556,869)	(\$18,219,009)
90	30	(\$2,578,734)	(\$28,648,138)
<b>Total at Year 30:</b>			<b>(\$28,648,138)</b>



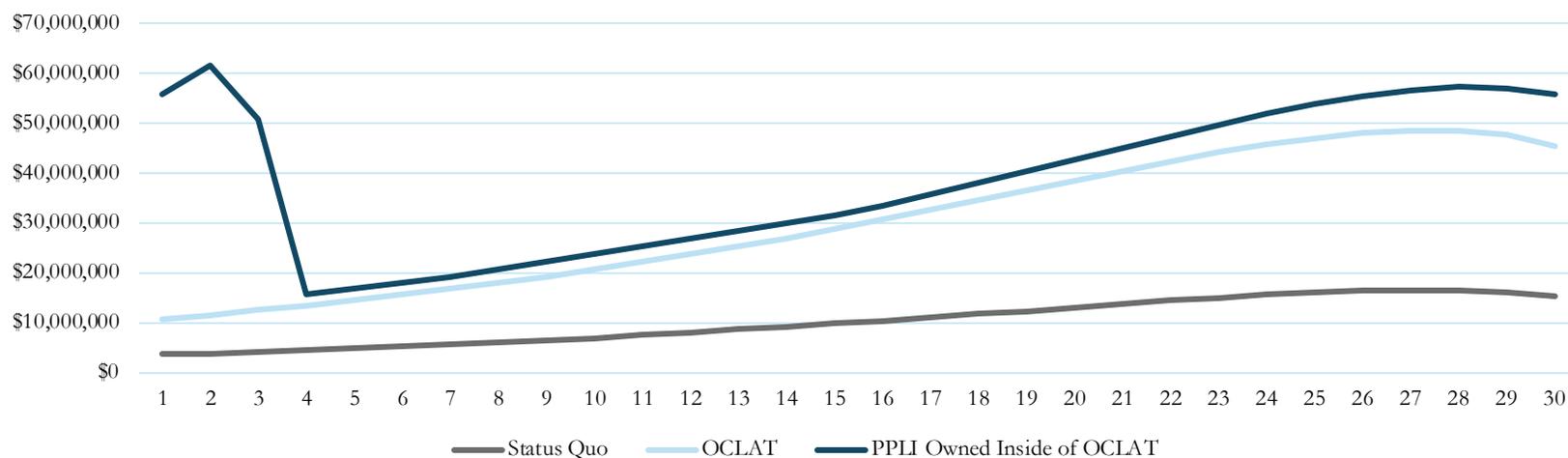
## Planning At End of 30 Year Term

	Ending Value At Term	Taxes and Fees/Charges*	Net To Heirs**	Net Improvement
Status Quo	\$25,810,946	(\$22,761,985)	\$15,486,567	Baseline
OCLAT	\$45,521,950	(\$28,648,138)	\$45,521,950	193.94%
PPLI Owned Inside of OCLAT	\$55,715,865	(\$15,763,566)	\$55,715,865	259.77%

\*Annual income tax liability for grantor in OCLAT scenario and fees/charges for PPLI account, taxes not accounted for in status quo or OCLAT ending value at term

\*\* Represents PPLI account ending value at term plus taxes saved invested annually from OCLAT scenario

### Net to Heirs Analysis



# Polling Question #3

# Analysis Details

		Status Quo					
		Effective Rate Applied to Tax Savings: 43.30%. See Tax Calculation Slide for Breakdown of Assumptions.					
Rate of Return		<i>Gross: 8.00%</i>					
EOY	Year	Investment	Annual Growth	Charitable Payment	Tax Savings	Account Balance	Net To Heirs
61	1	\$5,670,000	\$453,600	\$29,090	\$12,596	\$6,107,106	\$3,664,264
62	2		\$488,568	\$34,908	\$15,115	\$6,575,882	\$3,945,529
63	3		\$526,071	\$41,890	\$18,138	\$7,078,201	\$4,246,920
64	4		\$566,256	\$50,268	\$21,766	\$7,615,955	\$4,569,573
65	5		\$609,276	\$60,321	\$26,119	\$8,191,030	\$4,914,618
66	6		\$655,282	\$72,385	\$31,343	\$8,805,269	\$5,283,162
67	7		\$704,422	\$86,862	\$37,611	\$9,460,440	\$5,676,264
68	8		\$756,835	\$104,235	\$45,134	\$10,158,174	\$6,094,905
69	9		\$812,654	\$125,082	\$54,160	\$10,899,907	\$6,539,944
70	10		\$871,993	\$150,098	\$64,992	\$11,686,794	\$7,012,076
71	11		\$934,944	\$180,118	\$77,991	\$12,519,611	\$7,511,766
72	12		\$1,001,569	\$216,141	\$93,589	\$13,398,627	\$8,039,176
73	13		\$1,071,890	\$259,369	\$112,307	\$14,323,455	\$8,594,073
74	14		\$1,145,876	\$311,243	\$134,768	\$15,292,857	\$9,175,714
75	15		\$1,223,429	\$373,492	\$161,722	\$16,304,515	\$9,782,709
76	16		\$1,304,361	\$448,190	\$194,066	\$17,354,753	\$10,412,852
77	17		\$1,388,380	\$537,828	\$232,880	\$18,438,184	\$11,062,911
78	18		\$1,475,055	\$645,394	\$279,456	\$19,547,301	\$11,728,380
79	19		\$1,563,784	\$774,473	\$335,347	\$20,671,959	\$12,403,175
80	20		\$1,653,757	\$929,367	\$402,416	\$21,798,764	\$13,079,258
85	25		\$2,071,938	\$2,312,563	\$1,001,340	\$26,659,945	\$15,995,967
90	30		\$2,153,607	\$5,754,397	\$2,491,654	\$25,810,946	\$15,486,567
<b>Total at Year 30:</b>		<b>\$5,670,000</b>		<b>\$34,380,935</b>			



		OCLAT					
		30 Year OCLAT Period					
Rate of Return		<i>Gross: 8.00%</i>					
EOY Age	Year	Initial Deposit	Annual Growth	Grantor's Income Tax Liability*	Annual Charitable Payment	Account Balance	Net To Heirs
61	1	\$10,000,000	\$800,000	(\$258,298)	\$29,090	\$10,770,910	\$10,770,910
62	2	\$0	\$861,673	(\$278,599)	\$34,908	\$11,597,675	\$11,597,675
63	3	\$0	\$927,814	(\$300,466)	\$41,890	\$12,483,599	\$12,483,599
64	4	\$0	\$998,688	(\$324,014)	\$50,268	\$13,432,020	\$13,432,020
65	5	\$0	\$1,074,562	(\$349,367)	\$60,321	\$14,446,260	\$14,446,260
66	6	\$0	\$1,155,701	(\$376,655)	\$72,385	\$15,529,576	\$15,529,576
67	7	\$0	\$1,242,366	(\$406,020)	\$86,862	\$16,685,080	\$16,685,080
68	8	\$0	\$1,334,806	(\$437,611)	\$104,235	\$17,915,651	\$17,915,651
69	9	\$0	\$1,433,252	(\$471,587)	\$125,082	\$19,223,822	\$19,223,822
70	10	\$0	\$1,537,906	(\$508,118)	\$150,098	\$20,611,629	\$20,611,629
71	11	\$0	\$1,648,930	(\$547,386)	\$180,118	\$22,080,442	\$22,080,442
72	12	\$0	\$1,766,435	(\$589,587)	\$216,141	\$23,630,736	\$23,630,736
73	13	\$0	\$1,890,459	(\$634,929)	\$259,369	\$25,261,826	\$25,261,826
74	14	\$0	\$2,020,946	(\$683,641)	\$311,243	\$26,971,529	\$26,971,529
75	15	\$0	\$2,157,722	(\$735,972)	\$373,492	\$28,755,759	\$28,755,759
76	16	\$0	\$2,300,461	(\$792,198)	\$448,190	\$30,608,029	\$30,608,029
77	17	\$0	\$2,448,642	(\$852,631)	\$537,828	\$32,518,844	\$32,518,844
78	18	\$0	\$2,601,507	(\$917,633)	\$645,394	\$34,474,957	\$34,474,957
79	19	\$0	\$2,757,997	(\$987,630)	\$774,473	\$36,458,481	\$36,458,481
80	20	\$0	\$2,916,678	(\$1,063,148)	\$929,367	\$38,445,792	\$38,445,792
85	25	\$0	\$3,654,212	(\$1,556,869)	\$2,312,563	\$47,019,304	\$47,019,304
90	30	\$0	\$3,798,248	(\$2,578,734)	\$5,754,397	\$45,521,950	\$45,521,950
<b>Total at Year 30:</b>		<b>\$10,000,000</b>		<b>(\$28,648,138)</b>	<b>\$34,380,935</b>		



# OCLAT WITH PPLI

		PPLI Owned Inside of OCLAT					Taxable Account					Combined PPLI Planning
		Prudential Life Ins. Co. Variable Life Two Pay NonMEC Preferred Non-Tobacco Pre-Informal Gross: 8.00%					Effective Tax Rate: 32.29% See Tax Calculation Slide for Breakdown of Assumptions Gross: 8.00% - Net: 5.42%					
Carrier	Product											
Design	UW Rating											
UW Status	Rate of Return											
EOY Age	Year	Annual Investment	Annual Charitable Payment	Annual Cost	Account Balance	Net to Heirs (Death Benefit)	Annual Investment	Annual Growth	Annual Income Tax	Account Balance	Net To Heirs	Net to Heirs
61	1	\$5,000,000	\$29,090	(\$192,935)	\$5,164,806	\$55,505,982	\$258,298	\$20,664	(\$6,672)	\$272,290	\$162,567	\$55,668,549
62	2	\$5,000,000	\$34,908	(\$249,179)	\$10,677,894	\$61,019,070	\$278,599	\$44,071	(\$14,229)	\$580,731	\$345,911	\$61,364,981
63	3	\$0	\$41,890	(\$180,696)	\$11,298,369	\$50,298,784	\$300,466	\$70,496	(\$22,761)	\$928,931	\$552,079	\$50,850,862
64	4	\$0	\$50,268	(\$57,443)	\$12,087,889	\$15,011,488	\$324,014	\$100,236	(\$32,363)	\$1,320,818	\$783,297	\$15,794,784
65	5	\$0	\$60,321	(\$63,309)	\$12,923,476	\$15,800,947	\$349,367	\$133,615	(\$43,140)	\$1,760,659	\$1,041,984	\$16,842,931
66	6	\$0	\$72,385	(\$69,494)	\$13,806,284	\$16,613,754	\$376,655	\$170,985	(\$55,206)	\$2,253,092	\$1,330,768	\$17,944,521
67	7	\$0	\$86,862	(\$76,785)	\$14,736,302	\$17,597,331	\$406,020	\$212,729	(\$68,684)	\$2,803,157	\$1,652,500	\$19,249,831
68	8	\$0	\$104,235	(\$84,172)	\$15,714,044	\$18,620,168	\$437,611	\$259,261	(\$83,708)	\$3,416,321	\$2,010,275	\$20,630,444
69	9	\$0	\$125,082	(\$91,516)	\$16,739,575	\$19,680,987	\$471,587	\$311,033	(\$100,424)	\$4,098,516	\$2,407,448	\$22,088,435
70	10	\$0	\$150,098	(\$98,873)	\$17,812,149	\$20,777,533	\$508,118	\$368,531	(\$118,988)	\$4,856,177	\$2,847,654	\$23,625,187
71	11	\$0	\$180,118	(\$88,295)	\$18,950,108	\$21,929,287	\$547,386	\$432,285	(\$139,573)	\$5,696,275	\$3,334,834	\$25,264,121
72	12	\$0	\$216,141	(\$92,586)	\$20,135,614	\$22,901,322	\$589,587	\$502,869	(\$162,362)	\$6,626,368	\$3,873,254	\$26,774,576
73	13	\$0	\$259,369	(\$96,373)	\$21,365,190	\$23,870,804	\$634,929	\$580,904	(\$187,558)	\$7,654,644	\$4,467,537	\$28,338,341
74	14	\$0	\$311,243	(\$99,399)	\$22,633,791	\$24,827,654	\$683,641	\$667,063	(\$215,376)	\$8,789,972	\$5,122,687	\$29,950,342
75	15	\$0	\$373,492	(\$100,972)	\$23,934,817	\$25,759,926	\$735,972	\$762,075	(\$246,053)	\$10,041,966	\$5,844,128	\$31,604,054
76	16	\$0	\$448,190	(\$98,825)	\$25,261,477	\$26,632,582	\$792,198	\$866,733	(\$279,844)	\$11,421,053	\$6,637,737	\$33,270,319
77	17	\$0	\$537,828	(\$106,975)	\$26,588,955	\$28,027,569	\$852,631	\$981,895	(\$317,027)	\$12,938,552	\$7,509,897	\$35,537,465
78	18	\$0	\$645,394	(\$116,029)	\$27,897,011	\$29,402,174	\$917,633	\$1,108,495	(\$357,902)	\$14,606,778	\$8,467,549	\$37,869,723
79	19	\$0	\$774,473	(\$125,636)	\$29,160,281	\$30,729,765	\$987,630	\$1,247,553	(\$402,800)	\$16,439,161	\$9,518,266	\$40,248,032
80	20	\$0	\$929,367	(\$135,400)	\$30,347,138	\$31,977,136	\$1,063,148	\$1,400,185	(\$452,081)	\$18,450,413	\$10,670,345	\$42,647,481
85	25	\$0	\$2,312,563	(\$139,991)	\$33,575,631	\$35,458,905	\$1,556,869	\$2,415,596	(\$779,929)	\$31,830,618	\$18,313,456	\$53,772,361
90	30	\$0	\$5,754,397	(\$248,194)	\$22,611,988	\$25,019,580	\$2,578,734	\$4,064,175	(\$1,312,209)	\$53,554,153	\$30,696,284	\$55,715,865
<b>Total at Year 30:</b>		<b>\$10,000,000</b>	<b>\$34,380,934</b>	<b>(\$3,887,723)</b>			<b>\$28,648,138</b>		<b>(\$11,875,843)</b>			
		As Illustrated, Policy Does Not Lapse					Consult Tax Professional					



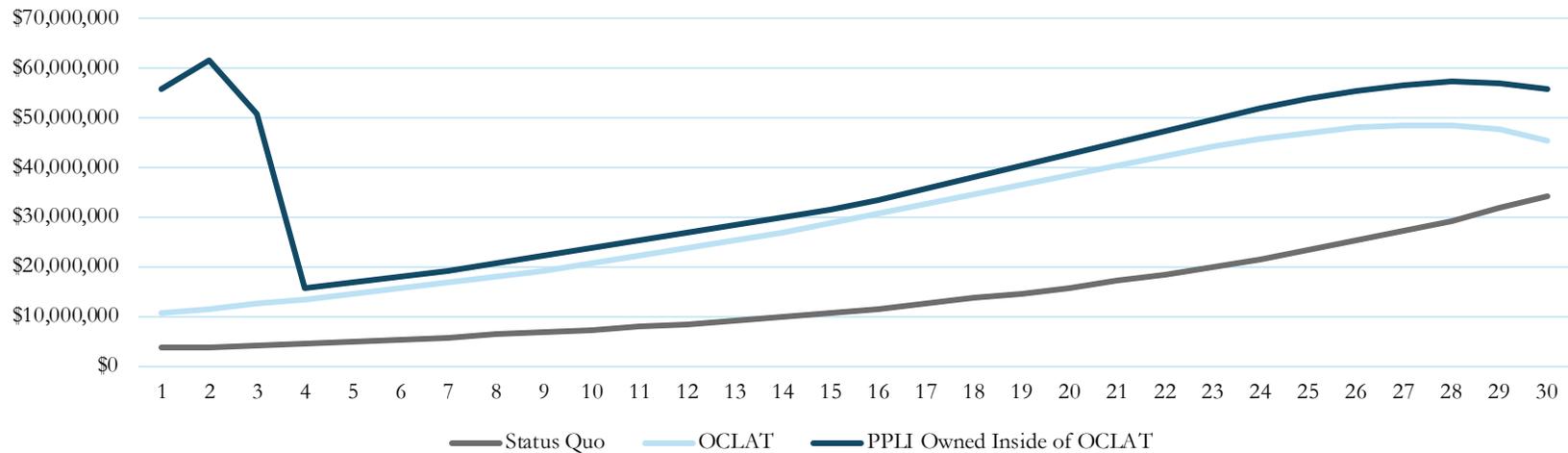
# OCLAT RESULTS – NO CHARITY

Planning At End of 30 Year Term				
	Ending Value At Term	Taxes and Fees/Charges*	Net To Heirs**	Net Improvement
Status Quo	\$57,055,265	(\$20,920,878)	\$34,233,159	Baseline
OCLAT	\$45,521,950	(\$28,648,138)	\$45,521,950	32.98%
PPLI Owned Inside of OCLAT	\$55,715,865	(\$15,763,566)	\$55,715,865	62.75%

\*Annual income tax liability for grantor in OCLAT scenario and fees/charges for PPLI account, taxes not accounted for in status quo or OCLAT ending value at term

\*\* Represents PPLI account ending value at term plus taxes saved invested annually from OCLAT scenario

## Net to Heirs Analysis



## U.S. CODE §170(F)(10) - PERCEIVED ISSUES

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- ④ Just as you can gift other assets in funding a CLAT, it is widely regarded that gifting a life insurance policy to a CLAT is within the tax code
- ④ Due to §170(f)(10) there remains some debate on whether an existing CLAT can purchase life insurance using funds already gifted
- ④ §170(f)(10) Discussion
  - At first glance, 170(f)(10) contains overly-broad language that seems to apply to a CLAT/LI transaction ("indirect"; "for the use of"; "any person"). However, when the plain language of 170(f)(10) is read within the context of the purpose and intent behind its enactment, it seems that the IRS would have a very difficult time convincing a Tax Court that 170(f)(10) was designed to apply to a CLAT holding life insurance. A CLAT is very easily distinguished from the abusive transaction that 170(f)(10) was enacted to prevent: the "charitable split-dollar" transaction where charity receives a cash donation and turns around and buys cash value LI for the donor. With a CLAT, however, there is no collusion between the donor and charity, and the abusive benefits enjoyed in a "charitable split-dollar" transaction (namely, the donor's continued direct access to funds donated to charity) do not apply.



### Ⓢ §170(f)(10) Defenses

- Unlike "charitable split dollar"
  - The charity-beneficiary of an OCLAT never accepts a cash donation with which it turns around to purchase life insurance for the donor
  - The charity-beneficiary never remits any funds to pay premiums
  - The charity-beneficiary of an OCLAT is not participating/colluding to purchase life insurance on behalf of the OCLAT
- Charity is in "first position" to get paid from the life insurance death benefit; plus, using IRS tables, there won't be anything left for the family - it will all go to charity - so the family is not a "direct or indirect beneficiary under the contract"
- OCLAT trustee has fiduciary liability to the charity

### Ⓢ Precedent

- IRS has never audited/challenged a CLAT based on §170(f)(10)
- IRS has never issued Regulations that a CLAT is subject to §170(f)(10)



## *LEARNING OBJECTIVES ACHIEVED*

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### 🕒 Learning objectives achieved:

- ✓ Overview of the OCLAT and where its use is applicable
- ✓ Understand tax advantages of the OCLAT
- ✓ Identify how pairing the OCLAT with life insurance, namely PPLI, makes it a particularly compelling tax and investment tool







Jonathon Morrison | Senior  
Partner – Frazer Ryan  
Goldberg & Arnold  
[jmorrison@frgalaw.com](mailto:jmorrison@frgalaw.com)  
(602) 277-2010



Ben Rainey | Partner –  
WealthPoint  
[ben@wealthpoint.net](mailto:ben@wealthpoint.net)  
(303) 717-6228



Ryan Barradas | Managing  
Partner – WealthPoint  
[ryan@wealthpoint.net](mailto:ryan@wealthpoint.net)  
(602) 559-5388

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# Appendix

# STATUS QUO – NO CHARITY (PG 22)

		Status Quo					
		Effective Rate Applied to Tax Savings: 43.30%. See Tax Calculation Slide for Breakdown of Assumptions.					
Rate of Return		<i>Gross: 8.00%</i>					
EOY Age	Year	Investment	Annual Growth	Charitable Payment	Tax Savings	Account Balance	Net To Heirs
61	1	\$5,670,000	\$453,600	\$0	\$0	\$6,123,600	\$3,674,160
62	2		\$489,888	\$0	\$0	\$6,613,488	\$3,968,093
63	3		\$529,079	\$0	\$0	\$7,142,567	\$4,285,540
64	4		\$571,405	\$0	\$0	\$7,713,972	\$4,628,383
65	5		\$617,118	\$0	\$0	\$8,331,090	\$4,998,654
66	6		\$666,487	\$0	\$0	\$8,997,577	\$5,398,546
67	7		\$719,806	\$0	\$0	\$9,717,384	\$5,830,430
68	8		\$777,391	\$0	\$0	\$10,494,774	\$6,296,865
69	9		\$839,582	\$0	\$0	\$11,334,356	\$6,800,614
70	10		\$906,748	\$0	\$0	\$12,241,105	\$7,344,663
71	11		\$979,288	\$0	\$0	\$13,220,393	\$7,932,236
72	12		\$1,057,631	\$0	\$0	\$14,278,025	\$8,566,815
73	13		\$1,142,242	\$0	\$0	\$15,420,267	\$9,252,160
74	14		\$1,233,621	\$0	\$0	\$16,653,888	\$9,992,333
75	15		\$1,332,311	\$0	\$0	\$17,986,199	\$10,791,719
76	16		\$1,438,896	\$0	\$0	\$19,425,095	\$11,655,057
77	17		\$1,554,008	\$0	\$0	\$20,979,102	\$12,587,461
78	18		\$1,678,328	\$0	\$0	\$22,657,431	\$13,594,458
79	19		\$1,812,594	\$0	\$0	\$24,470,025	\$14,682,015
80	20		\$1,957,602	\$0	\$0	\$26,427,627	\$15,856,576
85	25		\$2,876,360	\$0	\$0	\$38,830,854	\$23,298,513
90	30		\$4,226,316	\$0	\$0	\$57,055,265	\$34,233,159
<b>Total at Year 30:</b>		<b>\$5,670,000</b>		<b>\$0</b>			



# CASE STUDY: TAX ASSUMPTIONS

## Current Assumptions and Tax Treatment

### Assumptions

State	AZ	Federal	State	NIFT	City
OI/STCG Tax Rate*	<b>43.30%</b>	37.00%	2.50%	3.80%	0.00%
LTCG Tax Rate*	<b>26.30%</b>	20.00%	2.50%	3.80%	0.00%

Portfolio Allocation	Investment Allocation	Investment Balance	Investment Assumption	Assumed Tax Treatment	Assumed Turnover	Assumed Tax Rate*
Fund I	25.00%	\$ 2,500,000	<b>8.00%</b>	Blended Rate (100% OI; 0% LTCG)	0.00%	<b>43.30%</b>
Fund II	17.50%	\$ 1,750,000	<b>9.00%</b>	Blended Rate (100% OI; 0% LTCG)	0.00%	<b>43.30%</b>
Fund III	15.00%	\$ 1,500,000	<b>6.50%</b>	Blended Rate (30% OI; 70% LTCG)	10.00%	<b>14.83%</b>
Fund IV	30.00%	\$ 3,000,000	<b>9.00%</b>	Blended Rate (80% OI; 20% LTCG)	15.00%	<b>35.43%</b>
Fund V	12.50%	\$ 1,250,000	<b>6.00%</b>	Blended Rate (20% OI; 80% LTCG)	5.00%	<b>9.71%</b>
<b>Total/Weighted Average</b>	<b>100.00%</b>	<b>\$ 10,000,000</b>	<b>8.00%</b>			<b>32.29%</b>

\*Assumes the tax treatment of each fund, factors in the marginal ordinary and long-term capital gain tax rates and frequency of when they are incurred/realized

### Current Investment Portfolio Return and Tax Rate:

<b>Portfolio Weighted Return</b>	8.00%
<b>Portfolio Weighted Tax Rate</b>	32.29%
<b>Portfolio Net Return</b>	5.42%
<b>Cost of Taxes</b>	2.58%

### OCLAT Deposit and Important Rates:

<b>Contribution to Optimized CLAT</b>	\$10,000,000
<b>Taxes Saved This Year</b>	\$4,330,000
<b>Assumed Rate of Return for OCLAT Assets</b>	8.00%
<b>IRS-Set Benchmark Rate</b>	5.20%
<b>OCLAT Period:</b>	30



# IMPORTANT DISCLOSURES

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This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor, personal investment advisor or retirement plan or employee benefit plan provider. This report is not intended as an offer or solicitation to purchase insurance or any other product. Any discussion of US tax matters contained herein is not intended to be used and cannot be used for purposes of avoiding US tax-related penalties.

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The business advisory services, and possible resulting recommendations (estate planning solutions, need for liquidity planning, etc.) will vary in type and complexity, depending on a client's individual personal and business circumstances and goals. Services and responsibilities are outlined in our Proposal Letter and Relationship and Engagement Agreement. It is important that you provide accurate and complete responses to the questions asked by the WP Partner, that you review the information provided to you in the initial Instinct Verification, Decision Dialogue, financial modeling or other report, as well as any final report, and that you promptly inform the Partner of any subsequent changes to your situation or the information provided. You are solely responsible for the accuracy or completeness of the information you have provided, which may affect the results of any recommendations contained in the report. Information should be kept up to date, as results may vary over time and as assumptions change.

## Methods of Analysis and Projection

Information collected is intended to project future financial scenarios to meet your future goals or liquidity requirements. Financial Projections and other information prepared by WP are based on assumptions provided by and/or reviewed with the client in their final report, are hypothetical in nature, do not reflect actual investment or business results and are not guarantees of future performance. Actual results will vary, perhaps to a significant degree.

- Personal Investments - WP uses simple aggregate growth rates to project personal investments and retirement accounts, and all inputs are either provided by the client or client's financial advisor/provider or are jointly agreed on by WP and the client. Return assumptions do not reflect the deduction of any commissions, fees or product charges that may apply to any particular investment, which may negatively impact returns.
- Insurance Illustrated Performance - All policy values used reflect current policy charges, current cost of insurance rates, current mortality and expense risk charges, average fund expenses and the stated hypothetical gross rate of return. The policy values are hypothetical for illustration purposes only and may not be used to project or predict investment results. Policy values will vary based on the actual performance of sub-account investments selected, actual insurance charges over the life of the plan and the timing of the premium payments. A WP illustration may utilize a supplemental illustration from an insurance provider, that is only part of the basic illustration and must be read in conjunction with the actual basic illustration. Please refer to the actual illustration for more information about the guaranteed elements of the policy and other important details.
- Business Income Statement, Cash Flow Statement and Balance Sheet – Current company financial statement information is provided by the client, as well as revenue and expense growth assumptions for future years. These assumptions are used to project future Net Income, and business valuation based upon an appropriate multiplier disclosed to the client.
- Personal Cash Flow – Cash flows are projected based on information obtained from the client (tax returns, personal financial statements, bank statements, W-2s, 1099s, K-1s, etc.). Future cash inflows and outflows are based on input from the client and the client's advisors.



## *IMPORTANT DISCLOSURES (CONT'D)*

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- Estate/Trust Cash Flow – Cash flows due to and from Trusts will be based on trust documents and financial information (tax returns, financial statements, etc.) obtained from the client.
- Personal Assets – In some situations, WP may project the value of an asset (i.e. real estate, other assets, etc.) based on input from the client and the client's advisors.
- Taxes – Taxes are being calculated in the analysis. However, WP does not provide tax advice and the tax calculations are for illustrative and hypothetical purposes only. The client should consult with their tax advisor to evaluate their tax situation.

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### Insurance Product

An investment in variable life insurance is subject to fluctuating values of the underlying investment options and entails risk, including the possible loss of principal. The performance of your account will vary and you may receive more or less than the amount invested. Product guarantees, including the death benefit, are subject to the claims-paying ability of the issuing insurance company. Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

An insurer's financial strength rating represents an opinion by the issuing agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only, and not a statement of fact or recommendation to purchase, sell or hold any security, policy or contract. These ratings do not apply to the safety or performance of any separate account.

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