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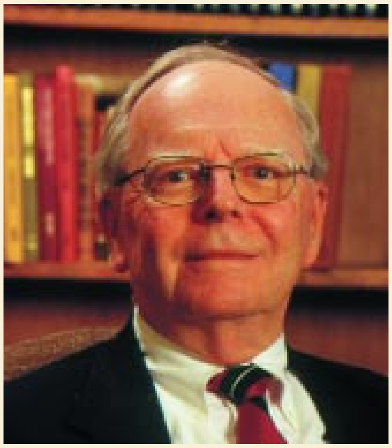
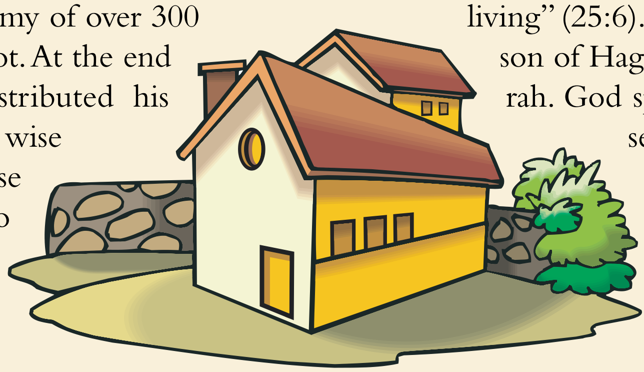

Ken Fleming

Abraham's Principles of Estate Planning

BY KEN FLEMING

Abraham, without doubt, is in the front row of the spiritual giants in Scripture. God called him from post-Babel humanity to be the father of His chosen people and to establish the claim of those people in His chosen land. Well aware of his pivotal place in the entire history of salvation leading to the advent of Messiah (John 8:56), it mattered greatly to him what happened to his wealth, his family, and his adopted land.

Genesis 25:1-11 records the final period of Abraham's long life. He lived 100 of his 175 years in the Promised Land. He had eight sons—the first by Hagar (his wife's maidservant), the second by Sarah his wife, and six more by his second wife Keturah (after Sarah's death). He purchased only one field near the city of Hebron as a burial place for Sarah and himself, but otherwise owned no real estate. He was exceedingly wealthy, with huge herds of domestic animals and hundreds of servants. He mustered an army of over 300 men when he rescued Lot. At the end of his life Abraham distributed his estate under some very wise principles. Consider these carefully as they apply to God's people today.



1. He understood it was God who enriched him.

Before Abraham arrived in the land, God promised to "bless" or prosper him (Gen. 12:2). In Egypt Pharaoh gave him oxen, donkeys, servants, and camels (12:16). When Abraham separated from Lot he was "very rich in livestock, in silver, and in gold" (13:2). The next two verses tell of his worship at Bethel and that he "called on the name of the Lord." After Abraham offered Isaac on Mt. Moriah God confirmed His generosity to him saying, "[I]n blessing I will bless you" (22:17). Abraham's servant told Rebekah's family, "The Lord has blessed my master greatly" (24:35). Abraham's wealth was not so much his doing, but God's provision. Understanding that, he planned his estate more wisely.

2. He made adequate provision for his family.

Before he died he "gave gifts to the sons of the concubines which Abraham had while he was still living" (25:6). These included Ishmael (the son of Hagar) and the six sons of Keturah. God specifically instructed him to send Ishmael away, south to Paran (21:14, 21). And he sent Keturah's sons east to Arabia (25:6). But before

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he died Abraham provided a legacy for them to give them a good start on their flocks and herds and to provide well for their mothers. *He gave to them on the basis of what they needed, not on the basis that all should share equally.*

3. He planned his estate to fulfill the larger purpose of God.

Abraham knew God planned to accomplish His purpose for nationhood through the family of Isaac. On this basis he "gave all that he had to Isaac" (25:5). He saw God's purpose was more important than his emotional attachment to family, and he bequeathed his estate to fulfill those purposes. He provided for the other sons to leave the Promised Land so they would not contend against the revealed will of God. They may have contested the fairness of this arrangement, but God's will was more important to Abraham than their desires.

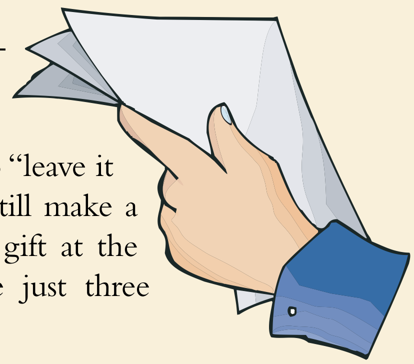
We read that Abraham "breathed his last, and died in a good old age, an old man and full of years" (25:8). Abraham was a spiritual man, a man of tremendous faith, and the "friend of God." When he died, he died "full," or as the NASB has it "satisfied." He lived for God's glory, he distributed his estate for God's glory, and he died a satisfied believer.

Meeting the Needs of Children and Charity

This article addresses a difficult topic for many believers in the Lord Jesus Christ. The issue is how to support faithfully the Lord's work and yet meet the needs of children in estate planning. Christians often are reluctant to make charitable gifts from their estates, feeling that doing so deprives their children of something.

There is no easy answer to this issue, and the proper decision will vary from case to case. Finding the answer, however, begins with honestly asking yourself these difficult questions: "How much is enough to leave to my children?" and "What stewardship statement will I make with my estate plan?" While opinions vary on the subject of inheritance, leaving children "all of it" may not be the best answer. In many cases, however, it is the best answer to leave all or most of an estate to one's children.

Regardless of how you answer these questions, some interesting options can benefit both family and the Lord's work, without "shortchanging" either. In other words, it is sometimes possible to "leave it all to the kids" and still make a significant charitable gift at the same time. Here are just three possibilities:



> *These are just three possible ideas that might help you honor the Lord with your substance by caring for your family and caring for the Lord's work.*

Asset Replacement Insurance.

In a typical arrangement, the donor uses a highly appreciated asset that produces little or no income (like nonproductive real estate) to fund a charitable remainder trust. The trustee sells the asset and invests the proceeds in income-producing securities that provide annual income to the donor. The donor uses the tax savings and the extra income produced by the trust to fund an irrevocable life insurance trust. When the donor dies, the remaining assets of the charitable trust pass to the ministry or ministries named in the trust. At the same time, the life insurance trust pays a death benefit to the children free of estate taxes that might have been due on the original asset. This plan may actually pass proceeds from your estate greater in value than that of the original asset.

Charitable Remainder Trust with Extended Payments.

In this scenario, the donor of a charitable remainder trust adds a term of years to the payout period. After the donor dies, income from the trust continues for a term of years. During these added years, the trust provides the children with income. The accumulated value of this additional income can approximate the value of the asset originally used to fund the trust.

Charitable Lead Trust with Remainder to Children.

This is the reverse of the charitable remainder trust. Instead of the ministry receiving the remainder of the trust, it receives income payments from the trust for a period of time. After the specified term, whatever is left in the trust passes to the children. This technique can be especially useful when the asset involved is expected to appreciate significantly in the future.

These are just three possible ideas that might help you honor the Lord with your substance by caring for your family *and* caring for the Lord's work. We can assist you by explaining how they might work for you. We can also meet your other advisors to assist them in any way. Please call us if you have any questions.

Using Market Declines to Your Advantage

An article in the last issue of the *BSS Bulletin* briefly mentioned that temporary economic declines may actually enhance the usefulness of certain estate planning techniques. Is it really possible for an estate plan to benefit financially when the value of assets in the estate temporarily decline? Not only is it possible, but it may be an ideal time to put one or more of these techniques to use.

Although methods and effects vary for each of these tools, their common thread is "leveraging your unified credit." Your "unified credit" is the amount you may leave to people other than a spouse free of gift or estate tax. This is currently $1,500,000 per person for 2004 and 2005. You "leverage" your unified credit when you use a tool to pass an asset out of your estate while reducing your unified credit by less than 100% of that asset's value. For example, if you give your child an asset worth $100,000 while using only $50,000 of your unified credit, you are leveraging your unified credit.

So what are these methods and how might they work for you? This article briefly describes only two of the possible tools available. Each technique is very technical in its application and implementation, and the consequences of even minor errors can be disastrous. It is critical to receive good counsel on whether they are suitable for you and to have the documents prepared and implemented by someone knowledgeable in the field. The two techniques in this article are known among estate planning professionals by their initials: GRAT and CLT.

Grantor Retained Annuity Trust ("GRAT")

A common scenario might work like this: Joe transfers an asset to an irrevocable trust for the benefit of children, while retaining the right to a fixed payment from the GRAT for a set term of years. At the end of the set term, the property in the GRAT passes to his children, either outright or in trust. If Joe dies during the term of the GRAT, the asset's value remains fully in his estate (with any used unified credit being restored). If Joe survives the term, the asset in the GRAT (plus any appreciation in value) passes tax free to his children. The value of the gift to the GRAT (and the amount of unified credit used) is based on Joe's age, the length of the set term, the amount of the annuity, and an interest rate set by IRS.

Is it really possible for an estate plan to benefit financially when the value of assets in the estate temporarily decline? Not only is it possible, but it may be an ideal time to put one or more of these techniques to use.

A GRAT allows Joe to: (1) reduce the current value of his estate by transferring the asset into a special trust; **(2)** use less of his unified credit in making the transfer than the asset's full current value; **(3)** retain certain income rights in the asset for a specified period of time; and **(4)** keep all future appreciation of the asset out of his estate. An asset with a temporarily depressed value is an ideal candidate for a GRAT.

Charitable Lead Trust ("CLT")

In a CLT, a charity "leads" by receiving an income interest for a certain period of time, after which noncharitable beneficiaries receive the remaining trust principal. Let us assume Jane has stock currently worth $100,000. It was worth much more before recent market declines, and she fully expects the value to rise again in the near future. Let us also assume Jane does not need income from this particular stock, and she has been holding it primarily for growth eventually to pass to her children. If Jane has a taxable estate, the tax will only grow larger as the stock regains its value. A CLT might help.

There are variations on the CLT that yield different results and benefits, and you should seek professional advice on what variation might best meet your needs. If properly structured, however, **Jane would benefit in the following ways: (1)** the value of the income stream to charity constitutes an immediate gift from Jane, giving her a charitable deduction against current income; **(2)** her estate will receive a charitable deduction for the value of the charity's interest, thus using less unified credit to get the same asset to her children; and **(3)** Jane can help the Lord's work and still ultimately leave the stock to her children.

These are just two of several estate planning concepts that can use a temporary decline in an asset's value to your benefit. If you would like to discuss these or any other estate planning ideas as part of your stewardship, please feel free to contact a member of our staff.

Feedback

At the invitation of Atascadero Gospel Chapel (Atascadero, California), BSS presented a seminar on stewardship and estate planning September 6, 2003. David Brooks (an elder at the assembly) writes: *"[We] were very pleased with the services provided . . . and the professional manner in which all activities were conducted. . . . [T]he presentation was clearly unbiased and not slanted toward any beneficiary possibility. Nor was any legal entity suggested as "better" than another. . . . [This] was a needed program for us, and reminded those that attended that there is a need to be prepared to maximize the final distribution to heirs and, perhaps more important, to ensure that the Lord's work is not overlooked. We support His church in life, why not when we're gone?"*

Dick and Judy Woods write: *"It is . . . a tremendous relief to know that all our earthly affairs are properly recorded for appropriate distribution after we go home to be with our Lord. It is a joy knowing that Christian ministries of our choice will receive some benefit from our life-long accumulation of the Lord's provision. But perhaps the biggest benefit to us is the complete peace-of-mind that is ours knowing that we are doing business with those of like precious faith. Do what we did and contact BSS—arrange for a personal consultation, or schedule a seminar for your local assembly or other fellowship group. You will be very glad you did."*

OUR MISSION

Believers Stewardship Services is a ministry designed to glorify God by helping Christians accomplish their financial and estate planning goals in fulfilling biblical stewardship.

"Honour the Lord with thy substance, and with the firstfruits of thine increase…."
—PROVERBS 3:9 (KJV)

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