Establishing a Charitable Remainder Unitrust with Wellesley’s Endowment Option
Frequently Asked Questions

1. What are the implications of the private letter ruling (PLR) that Wellesley College received from the Internal Revenue Service (IRS)?

Previously, trusts in Wellesley’s charitable trust program could not be invested in Wellesley’s endowment. The PLR that Wellesley received provides that certain eligible charitable remainder unitrusts can now be invested along with Wellesley’s endowment and utilize the same investment strategies. This new charitable remainder trust investment strategy, called the “Wellesley College Endowment Strategy” (WCES), will provide trusts with the benefit of broader diversification through multiple asset classes. It will be included as an additional investment option in Wellesley’s charitable trust program, alongside the Wellesley College Equity and Fixed Income Strategy (WCEFIS), which has been offered in the past.

2. What are the benefits of donating assets into a trust that utilizes the WCES?

Although a gift to Wellesley establishing an endowment trust seems like an investment, it is first and foremost a charitable gift. Donors who transfer assets (our minimum gift to establish a trust is $100,000) that utilizes the WCES often benefit in several ways: (i) the annual 5-6% payout from a Wellesley College trust often compares favorably to the dividend payments from a donor’s current investments; (ii) although history is no guarantee, there is a strong potential for income growth over time; and (iii) donors can avoid capital gains taxes should they use appreciated assets for their donations.

3. What makes a trust eligible to invest in the WCES?

The trust must be a qualified charitable remainder trust (CRUT) that irrevocably names Wellesley as the sole remainder beneficiary and for which Wellesley serves as trustee. Charitable trusts that have already been established outside Wellesley may still be able to benefit from the ruling if the trust is turned over to Wellesley as its sole trustee, and the entire charitable interest is irrevocably designated for the college.
4. **What is the primary advantage of this new investment strategy?**

The payout to the beneficiaries of most CRUTs is calculated annually as a set percentage of the value of the trust’s assets on the first business day of each calendar year. An increased value in the trust assets will result in a larger payment to the beneficiaries. Thus, the primary advantage of a CRUT investing in the WCES is the expected outperformance of the Endowment compared to other investment strategies over a long time horizon. This outperformance could produce higher beneficiary payments over the long run. While such outperformance has occurred in the past, it cannot be relied upon as a predictor for the future. It should be noted, however, that CRUT payments to beneficiaries investing in the WCES may be less favorable than the WCEFIS approach. The WCEFIS approach utilizes four tiers of taxation of trust income; short term and long term capital gain, ordinary income tax, and tax-free income. Whereas with the WCES approach beneficiary payments are taxed primarily as ordinary income.

**Please note:** The overall investment performance for trusts invested in the WCES will not exactly reflect the Endowment’s return, which is published annually based upon a June 30th fiscal year end date. This is due to the fact that (i) each trust must hold some cash in order to make regular quarterly beneficiary payments, and (ii) the Endowment return is based on appraisals and valuations that take many months to gather while an endowment unit is valued monthly based on the best available valuation information at that time. As a result, trust returns may be higher or lower than reported for the Endowment during any given time period.

5. **What is an endowment unit?**

Each trust using the WCES will purchase a set number of endowment units upon entering into the Endowment based upon the current valuation of their trust’s assets at that time. An Endowment Unit is a contract right that allows any trust holding an endowment unit to participate in the endowment’s return, without having any ownership interest in the underlying endowment assets. Each endowment unit will represent a share in the endowment, in much the same way that Wellesley accounts for the annual payout and return earned by all its endowed funds.

6. **What are the additional benefits to establishing a CRUT with Wellesley?**

All trusts established with Wellesley College as trustee and with at least 51% of the remainder coming to Wellesley upon termination will be managed by the College with no legal or management fees assessed against the trust regardless of which investment strategy you choose (WCEFIS or WCES). This allows the trust principal to grow unencumbered by fees.

For more information, or for a personal illustration please contact the Planned Giving Office at 800.253.8916 or via pg@wellesley.edu.