

## MAKING PHILANTHROPIC DONATIONS WITHOUT CAUSING IMPAIRMENT IN THE VALUE OF THE FINANCIAL LEGACY TO THE FAMILY

Case study prepared in March 2023 by Benito Búa to serve as a basis for discussion and not as a demonstration of the appropriate or inappropriate management of a given situation.

*During the last week of February 2023, Benito and Miguel met in Bogota, each having travelled on their own from their respective residences in Mexico and the USA. Miguel asked Benito to join him for lunch with an old friend of his in Bogota with whom he has a deep bond of friendship forged during Miguel's years as CEO of a major transnational company with premises in Colombia. The meeting of the three of them over lunch was very pleasant indeed, including an interesting conversation regarding a recent philanthropic donation that a well-known Colombian businessman, and somehow close to Miguel's friend, had made to contribute to the university education of young people of scarce economic resources, but with academic merit. Benito was thrilled to hear the story since he had been trying for years to introduce the subject of philanthropy in some business circles in Mexico without success, despite the enormous benefits that this type of practice brings to society.*

At the conclusion of lunch with Miguel's friend at a well-known restaurant in Usaquén, Miguel and Benito decided to walk back to the hotel where they were staying and chat while enjoying the beautiful city of Bogotá that they both love so much. As expected, the conversation turned to the important philanthropic donation that they had learned about just a few minutes before. Miguel and Benito then, revisited what they have discussed many times before about how this type of donation would help alleviate many of the ills that nowadays affect Latin American societies.

Miguel had told Benito that during his time in Trinidad and Tobago he had seen how students from that country, when they get an offer to study at one of the best universities in the world, the government of Trinidad and Tobago itself grants a very generous scholarship so that they can go to study without worrying about how to comfortably pay not only their tuition fees, but also their living and food expenses.

Both concluded that, in countries like Mexico, where the ruling political class has focused on generating a class struggle and is characterized by an enormous deficiency in the management of the national budget, it is, pragmatically speaking, literally impossible to think of adopting models such as that of Trinidad and Tobago. However, it would be feasible to support talented young people through substantial philanthropic donations, that would not detract from the amount of financial wealth that the donor in question would bequeath to his or her family and beneficiaries at the time of death, had the donations not been made.

In other words, by doing the appropriate financial modelling and having access to negotiate contracts with world-class counterparties, **it is possible for a donor to substantially increase his moral legacy to society and his family without diminishing the real value of the financial wealth he would like to inherit to his family, the result of a lifetime of dedicated work.**

Taking the numbers of the philanthropic donation made by the Colombian businessman as an example, a first financial model looks like this:



FIRST FINANCIAL MODELING

MALE 70 YEARS OLD

USD\$ 15 Mio

MAIN LOAN COLLATERAL: IUL

VARIABLE INTEREST RATE (FIXABLE IN 2024)

USCY

IUL GROWTH RATE: 5.18%

MARCH 3RD 2023

Loan		10 installments of		\$ 1,783,905							
Current interest rate		6.8580%									
		Loans from insurer		Disbursements							
year	age	Loan amount	Interest	Surrender value	On surrender value	Philanthropic Donation	Collateral 2 LTV @90%	Death benefit		cash Flows	INTERNAL RATE OF RETURN
								Gross	Net of loan		
2023	70	\$ 1,783,905	\$ 122,341	\$ 1,294,841		\$ 2,750,000	\$ 618,549	\$ 16,544,870	\$ 14,760,965	\$ 2,872,341	n/a
2024	71	\$ 3,567,810	\$ 244,682	\$ 2,948,804			\$ 913,887	\$ 18,170,987	\$ 14,603,177	\$ 244,682	408.4%
2025	72	\$ 5,351,715	\$ 367,023	\$ 4,685,046			\$ 1,135,174	\$ 19,879,500	\$ 14,527,785	\$ 367,023	120.7%
2026	73	\$ 7,135,620	\$ 489,364	\$ 6,509,121			\$ 1,277,411	\$ 21,675,729	\$ 14,540,109	\$ 489,364	66.5%
2027	74	\$ 8,919,525	\$ 611,705	\$ 8,428,859			\$ 1,333,552	\$ 23,567,738	\$ 14,648,213	\$ 611,705	44.3%
2028	75	\$ 10,703,430	\$ 734,046	\$ 10,452,218			\$ 1,296,434	\$ 25,563,251	\$ 14,859,821	\$ 734,046	32.2%
2029	76	\$ 12,487,335	\$ 856,386	\$ 12,587,651			\$ 1,158,450	\$ 27,670,955	\$ 15,183,620	\$ 856,386	24.6%
2030	77	\$ 14,271,240	\$ 978,727	\$ 14,843,868			\$ 911,759	\$ 29,899,326	\$ 15,628,086	\$ 978,727	19.4%
2031	78	\$ 16,055,145	\$ 1,101,068	\$ 17,228,715			\$ 549,302	\$ 32,256,444	\$ 16,201,299	\$ 1,101,068	15.6%
2032	79	\$ 17,839,050	\$ 1,223,409	\$ 19,748,816			\$ 65,116	\$ 34,748,816	\$ 16,909,766	\$ 1,223,409	12.7%
2033	80	\$ 17,839,050	\$ 1,223,409	\$ 20,772,590				\$ 35,772,590	\$ 17,933,540	\$ 1,223,409	10.6%
2034	81	\$ 17,839,050	\$ 1,223,409	\$ 21,807,840	\$ 17,839,050			\$ 36,807,840	\$ 18,968,790	\$ 1,223,409	9.0%
2035	82	\$ -	\$ -	\$ 4,674,588				\$ 15,024,588	\$ 15,024,588	\$ -	3.5%
2036	83	\$ -	\$ -	\$ 5,007,303				\$ 15,357,303	\$ 15,357,303	\$ -	3.3%
2037	84	\$ -	\$ -	\$ 5,351,570				\$ 15,101,570	\$ 15,101,570	\$ -	2.8%
2038	85	\$ -	\$ -	\$ 5,689,865				\$ 15,439,865	\$ 15,439,865	\$ -	2.7%
2039	86	\$ -	\$ -	\$ 6,018,945				\$ 15,768,945	\$ 15,768,945	\$ -	2.7%
2040	87	\$ -	\$ -	\$ 6,333,941				\$ 16,083,941	\$ 16,083,941	\$ -	2.6%
2041	88	\$ -	\$ -	\$ 6,629,135				\$ 16,379,135	\$ 16,379,135	\$ -	2.5%
2042	89	\$ -	\$ -	\$ 7,002,156				\$ 15,102,156	\$ 15,102,156	\$ -	1.8%
2043	90	\$ -	\$ -	\$ 7,305,135				\$ 15,405,135	\$ 15,405,135	\$ -	1.8%
2044	91	\$ -	\$ -	\$ 7,507,491				\$ 15,607,491	\$ 15,607,491	\$ -	1.7%
2045	92	\$ -	\$ -	\$ 7,639,866				\$ 15,139,866	\$ 15,139,866	\$ -	1.5%
2046	93	\$ -	\$ -	\$ 7,629,849				\$ 15,129,849	\$ 15,129,849	\$ -	1.4%
2047	94	\$ -	\$ -	\$ 7,458,104				\$ 14,958,104	\$ 14,958,104	\$ -	1.2%
2048	95	\$ -	\$ -	\$ 7,146,656				\$ 14,646,656	\$ 14,646,656	\$ -	1.1%
2049	96	\$ -	\$ -	\$ 6,679,580				\$ 14,179,580	\$ 14,179,580	\$ -	0.8%
2050	97	\$ -	\$ -	\$ 6,329,264				\$ 12,329,264	\$ 12,329,264	\$ -	0.2%
2051	98	\$ -	\$ -	\$ 5,824,346				\$ 11,824,346	\$ 11,824,346	\$ -	0.0%
2052	99	\$ -	\$ -	\$ 5,134,347				\$ 11,134,347	\$ 11,134,347	\$ -	-0.3%
2053	100	\$ -	\$ -	\$ 4,249,002				\$ 10,249,002	\$ 10,249,002	\$ -	-0.6%
										\$ 9,478,751	

Note: The IUL growth rate can be higher or lower than the one considered. The 5.18% considered is within a confidence interval of 99.7% based on a sample size equal to the 96-year history of the S&P 500. Both, the financial model and the IUL are designed to cover the risk of death up to 120 years of life.

### **Conclusion in financial terms**

In this model, it can be seen that with a donation of USD 2.75 million and a USD 15 million IUL (Indexed Universal Life) where the premiums are financed by a commercial bank with the guarantee of the IUL itself, the internal rate of return becomes negative only in the event of death at age 99 or older. Given that today's life expectancy is around 87 years, a 70-year-old donor could rest easy in the knowledge that, in addition to having contributed to social mobility through higher education for deserving young people, he or she would not undermine the financial legacy for his or her family.

Obviously, a financial model of this nature contains many variables and by the real value they assume, the results in terms of internal rate of return can be radically better than those shown here, which are already extraordinarily interesting.