Distinguishing CRATs From CRUTs[1]

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Charitable remainder trusts are typically categorized into 2 types, each being defined by the structure of the income stream. A charitable remainder annuity trust, or CRAT, provides income as a fixed dollar amount, whereas a charitable remainder unitrust, or CRUT, provides income as a fixed percentage amount. Using a hypothetical example, if the CRAT has an initial value of $100,000 with a 5% payout rate, the income beneficiary will receive $5,000 annually. Payments can also be issued monthly, quarterly, or semiannually for life or for a specified period not to exceed 20 years.

What happens if the CRAT's investment performance is less than 5%? The payout remains at the originally established $5,000, which results in the trust value decreasing. The trust value can also be completely depleted if the investment returns are poor.

A CRUT pays a fixed percentage of the value of the trust assets to the income beneficiary each year. The trust assets are revalued each year to determine the specific payout for that year. For example, if the CRUT has an initial value of $100,000 with a 5% payout rate, the income beneficiary will receive $5,000 in year one. If the trust value on the second anniversary date is $90,000, the income beneficiary will receive $4,500 in year 2. If the trust value on the third anniversary date is $110,000, the income beneficiary will receive $5,500 in year 3.
So as the trust value decreases, the income payment decreases, and as the trust value increases, the income payment will increase. The trust value could be significantly diminished if investment results are poor, resulting in a decreased or absolute loss of the income payment.
–Peter A. Radloff

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[1] https://www.thinkadvisor.com/2006/12/10/distinguishing-crats-from-cruts/#:~:text=A%20charitable%20remainder%20annuity%20trust%2C%20or%20CRAT%2C%20provides%20income%20as,as%20a%20fixed%20percentage%20amount.&text=A%20CRUT%20pays%20a%20fixed,the%20income%20beneficiary%20each%20year.