Asset Max & Charitable Giving
SALES KIT

In this kit:
Sales ideas | Client profiles | Producer guides | Client guides

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John Hancock
LIFE INSURANCE

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

Income Maximization

Repositioning Income-Producing Assets with Life Insurance

Planning Concerns

You may have income-producing assets such as certificates of deposit (CDs), corporate bonds, or money market funds. You like the conservative nature of these vehicles, but the reality is that you are limited in the amount of income you can receive with these assets. You are also giving up returns that you could achieve with other assets. Additionally, if you plan to transfer the principal to heirs, there may be tax issues associated with this transfer, and you may end up passing more to the IRS than to family. Using an Income Maximization planning approach may help increase your income *and* allow you to transfer more wealth to heirs.

The Solution

Income Maximization is simply a repositioning strategy in which you use your low income-producing asset to purchase life insurance, thus providing a larger legacy for your heirs.

How It Works

You can exchange your non-guaranteed, low income-producing asset, such as a CD, money market fund, corporate bonds or stock, for a Single Premium Immediate Annuity (SPIA). This way, you can secure a guaranteed income for life. The income generated from the SPIA can then be used to fund a life insurance policy. You could use all (or part) of the SPIA income to pay the life insurance premiums. (Alternatively, you could use your existing income from the asset to fund life insurance.) It is important to note that if you have an estate tax issue, you should have an Irrevocable Life Insurance Trust[1] (ILIT) own the policy, so that the life insurance proceeds are received income and estate tax free.[2]

Benefits

- Life insurance can increase the amount of money left for heirs.
- Life insurance provides an income tax free death benefit.
- Life insurance cash values grow tax deferred.
- Life insurance, depending on the state, can offer creditor protection.
- If life insurance is owned in an ILIT, the proceeds can help reduce estate taxes.

Considerations

- If using the SPIA approach, the asset will be permanently exchanged for a guaranteed income stream and the exchange may be taxable.
- The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.
- The purchase of life insurance has costs and risks associated with it, including the cost of insurance.
- There may be costs associated with creating an ILIT. Once you make gifts to the trust, they become irrevocable and they may not be returned to you without adverse tax consequences.

1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or registered representatives. Prospective purchasers should consult their professional tax advisor for details.

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IRA Legacy Plan

Using Distributions from an IRA to Fund a Life Insurance Policy

Planning Concerns

Throughout your working years, saving for retirement was your number one priority. As such, you contributed the yearly maximum amounts to your IRA. Now that you are approaching retirement, you realize that you have other assets to draw from. You want to leave your retirement account intact for your children and grandchildren. Unfortunately, this may not be possible. First, once you reach age 70½, you are required to take Required Minimum Distributions (RMDs) from your plan, even if you do not need the money. Moreover, your plan will be subject to estate and income taxes at your death. Using a Stretch IRA approach can help.

The Solution

Use distributions from your IRA to fund a life insurance policy on your life, then have your grandchildren listed as the beneficiaries on your IRA. Doing so can increase the legacy for your heirs.

How It Works

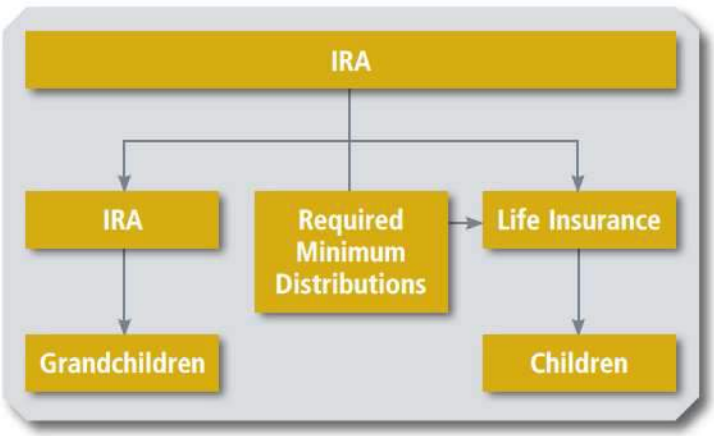
First, you can create an income stream by taking the required withdrawals (or more) from your qualified plan. You pay income tax on the withdrawals, but then can use the after-tax money to fund a life insurance policy. Your children will receive a lump sum tax-free death benefit upon your death.[1]

Next, change the beneficiary designation on your IRA to your grandchildren so they can stretch the payments over their longer life expectancy.

Benefits

- Life insurance can increase the amount of money left for heirs.
- Life insurance provides an income tax-free death benefit.
- Life insurance cash values grow tax deferred.
- Life insurance, depending on the state, can offer creditor protection.
- IRA rules permit beneficiaries to continue tax deferral over a maximum deferred period based on their life expectancy.

What It Looks Like



Considerations

- You must pay income tax on the withdrawals as you take them from the qualified plan. Should you take withdrawals greater than your RMDs, you may reduce the value of your qualified plan.
- The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.
- The purchase of life insurance has costs and risks associated with it, including the cost of insurance.
- Stretch IRA distributions from the IRA are taxable to the recipient.
- You may want to consider establishing an Irrevocable Life Insurance Trust (ILIT) to hold the life insurance to remove the policy from your taxable estate.[2] You may also want to consider establishing separate "See Through" Trusts for each grandchild's portion of the IRA in order to guarantee the payments will be made annually to each grandchild.
- Income and estate tax laws are subject to change at any time. You should seek qualified tax and legal counsel to discuss Generation-Skipping Transfer Tax and estate taxes with this approach.

1. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or registered representatives. Prospective purchasers should consult their professional tax advisor for details.
2. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

IRA Charitable Maximizer Strategy

Making a Difference With Your IRA

Transamerica®

You and your IRA can make a difference

You have done a good job planning and saving for your retirement throughout the years. You now find yourself in the enviable position of not needing your IRA to fund your retirement income needs.

You also want to leave your mark on the world by supporting the charitable organizations you believe in. Giving to a charity whose cause you feel strongly about is appealing, you also want to leave a significant legacy for your loved ones.

Did you know that federal estate and income taxes could significantly reduce the value of the IRA when it is passed on to your beneficiaries? Because of this double taxation, an IRA is not a tax-efficient way to pass on wealth to your loved ones.

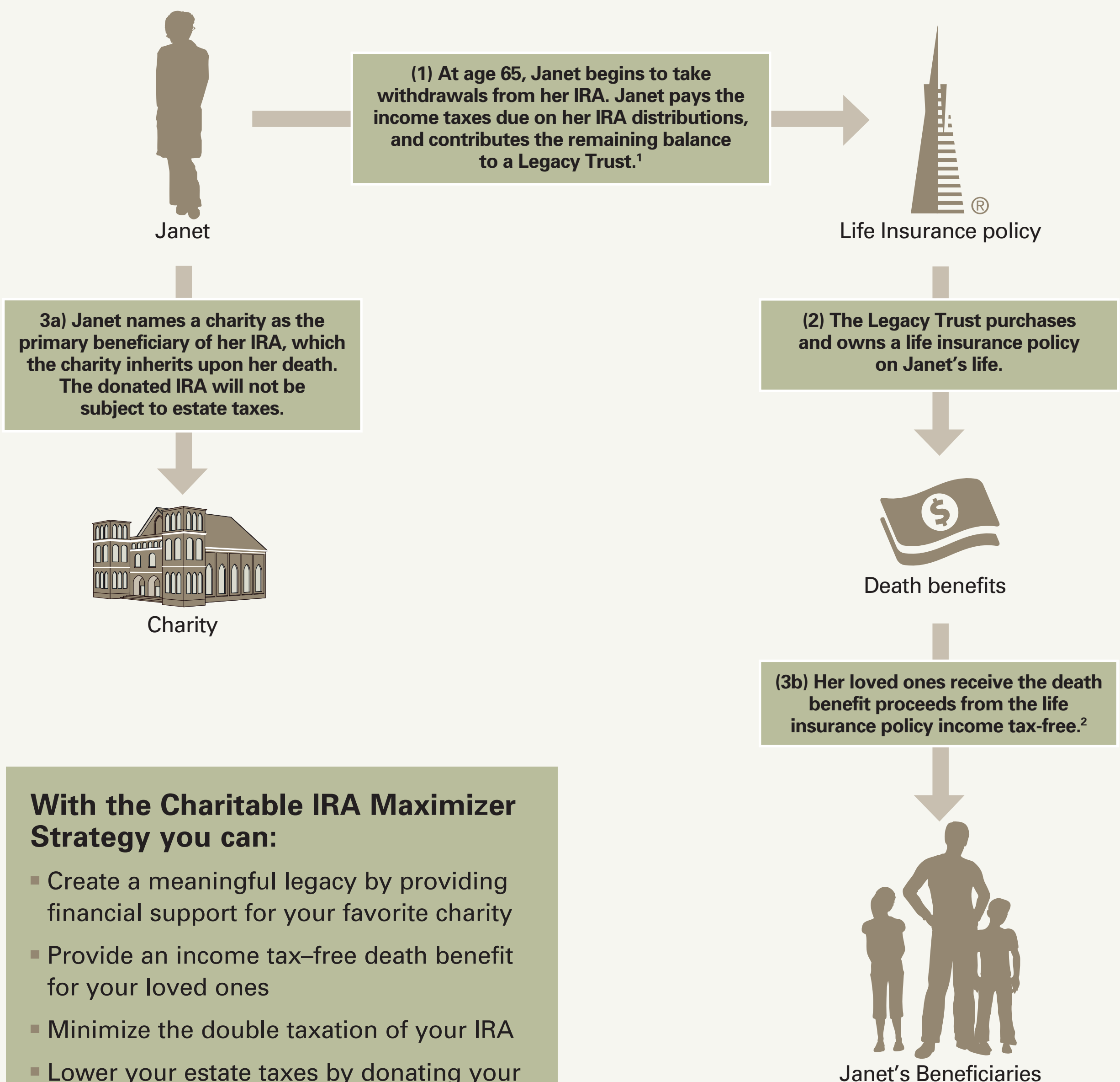
Meet Janet

- Janet is age 65
- Janet is recently retired
- Her current estate value is $5 million
- The value of her IRA is $1.5 million

Janet has enough assets outside of her IRA to enable her to live comfortably during her retirement.

Her goal is to leave a significant contribution to a charitable organization she believes in as well as leave a meaningful legacy to her loved ones.

How can Janet use her IRA to maximize the legacy she leaves to her loved ones *and* benefit her chosen charity?



With the Charitable IRA Maximizer Strategy you can:

- Create a meaningful legacy by providing financial support for your favorite charity
- Provide an income tax–free death benefit for your loved ones
- Minimize the double taxation of your IRA
- Lower your estate taxes by donating your IRA to charity
- Pass on greater wealth to your loved ones

[1] Gift taxes may also be due when making gifts to the Legacy Trust.

[2] Trust language cannot mandate trust assets be used to pay estate tax liability. Trust beneficiaries would have the option to utilize trust assets for tax liquidity purposes.

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SUCCESS STRATEGY

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Qualified Plan Maximization

Life Insurance Funding with Qualified Plans

Planning Concerns

You made saving for retirement a priority, putting as much money into your 401(k) and traditional IRAs as the law allowed. As you near retirement, you realize that you do not need additional retirement income. Although you would like to leave your retirement asset intact for your heirs, it may not be possible due to tax issues associated with this transfer. You may actually end up passing more to the IRS than to family. Moreover, once you reach age 70½, you will be required to start taking Required Minimum Distributions (RMDs) from your plan, whether you need the money or not. In this scenario, using a Qualified Maximization planning approach may allow you to transfer more wealth to heirs.

The Solution

Qualified Plan (QPlan) Maximization is a way to move assets from your qualified plan and use them to fund life insurance, potentially increasing the legacy for your heirs.

How It Works

First, you can create an income stream by taking the required withdrawals (or more) from your qualified plan. You pay income tax on the withdrawals, but then can use the after-tax money to fund a life insurance policy. If you have an estate tax issue, you should have an Irrevocable Life Insurance Trust[1] (ILIT) own the policy, so that the life insurance proceeds are received income and estate tax-free.[2]

Benefits

- Life insurance can increase the amount of money left for heirs.
- Life insurance provides an income tax free death benefit.
- Life insurance cash values grow tax deferred.
- Life insurance, depending on the state, can offer creditor protection.
- If life insurance is owned in an ILIT, the proceeds can help reduce estate taxes.

Considerations

- You must pay income tax on the withdrawals as you take them from the qualified plan. Should you take withdrawals greater than your RMDs, you may reduce the value of your qualified plan.
- The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.
- The purchase of life insurance has costs and risks associated with it, including the cost of insurance.
- There may be costs associated with creating an ILIT. Once you make gifts to the trust, they become irrevocable and they may not be returned to you without adverse tax consequences.

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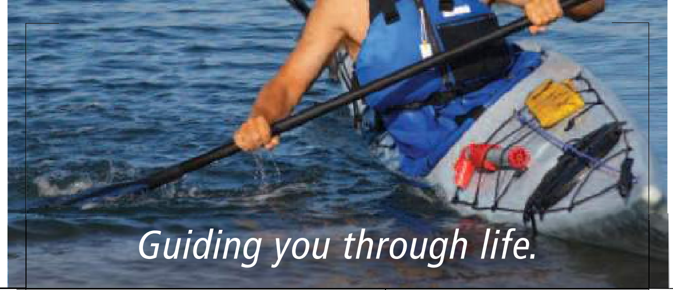

SUCCESS STRATEGY

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Municipal Bond Maximization

Repositioning Municipal Bonds By Using Life Insurance

You may have municipal bond holdings and enjoy the security of the tax-free income that they generate. However, you may be giving up potentially higher returns that you might achieve by using other assets. Also, if you plan to transfer the bond principal to your heirs at your death there may be tax issues[1] associated with this transfer, and you will end up passing more to the IRS than to heirs. By using a Municipal Bond Maximization planning approach, you may be able to increase your income *and* transfer more wealth to heirs.

The Solution

Municipal Bond Maximization is simply an asset repositioning strategy in which you use your low income producing municipal bonds to purchase life insurance, thus providing a larger legacy for your heirs.

How It Works

You can exchange your municipal bond portfolio for a Single Premium Immediate Annuity (SPIA)[2] and by doing this, you can secure guaranteed income for life. Then, some (or all) of the SPIA income can be used to purchase a life insurance policy. The result? Potentially higher guaranteed net spendable income during your lifetime, and a tax free death benefit for your heirs. Alternatively, you could use the income from your bonds and fund life insurance with that amount. If you have an estate tax issue, you may want to have the life insurance owned by an Irrevocable Life Insurance Trust (ILIT). If the life insurance is owned by an ILIT, the trust will receive the life insurance proceeds free of estate and income tax.[3]

Benefits

- Life insurance can increase the amount of money left for heirs.
- Life insurance provides an income tax free death benefit.
- Life insurance cash values grow tax deferred.
- Life insurance, depending on the state, can offer creditor protection.
- If life insurance is owned in an ILIT, the proceeds can help reduce estate taxes.

Considerations

- If using the SPIA approach, the asset will be permanently exchanged for a guaranteed income stream and the exchange may be taxable.
- The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.
- The purchase of life insurance has costs and risks associated with it, including the cost of insurance.
- There may be costs associated with creating an ILIT. Once you make gifts to the trust, they become irrevocable and they may not be returned to you without adverse tax consequences.

By exchanging all (or part) of your municipal bond portfolio and using it to fund a life insurance policy, you can provide a larger legacy for heirs.

1. Not all municipal bonds are exempt from federal and state income tax. Consult your tax advisor(s) to determine taxation.
2. A SPIA is a Single Premium Immediate Annuity that provides an income stream for a chosen number of years based on a single deposit made to purchase the annuity. The annuity income stream is calculated based on a Life-Only No-Refund basis so that the income will last for your lifetime, or the joint lifetime of you and your spouse, if applicable, and no balance will remain in the taxable estate at death. The SPIA guarantee is based on the claims-paying ability of the insurer issuing the SPIA and John Hancock does not issue such contracts.
3. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or registered representatives. Prospective purchasers should consult their professional tax advisor for details.

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SALES STRATEGY

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Annuity Maximization

Maximizing the Value of an Annuity By Using Life Insurance

The Concerns

Clients who have purchased a deferred annuity may find that they no longer need the annuity for retirement income purposes. Often, these clients intend to "leave it for the kids." Although a deferred annuity is a great vehicle to accumulate funds for retirement, it is not an efficient vehicle to transfer wealth since it may be taxed twice at death. How can your client protect the value of the annuity for heirs? By reducing or replacing the annuity with more tax-efficient vehicles.

Depending on ownership structure, a deferred annuity may be subject to both ordinary income and estate taxes at death (the gain on an annuity is subject to ordinary income tax and the annuity is part of a client's taxable estate). This could potentially erode the annuity up to 70%. The result is that your client's heirs will receive a fraction of the intended amount. To solve this problem, clients can reposition, or maximize, the deferred annuity.

The Solution

Annuity Maximization is simply an asset repositioning strategy.

The first step is to utilize the annuity to fund the life insurance. The client has two choices. They can:

1. **Convert the annuity to a Single Premium Immediate Annuity (SPIA).** A SPIA provides an income stream for a number of years based on a single deposit as well as the client's age and health status. Choosing this method can provide a consistent, predictable stream of income to fund a life insurance policy. Since the income stream is based on a life-only annuity, your client will not outlive the income. A portion of each payout is excluded from income tax until this equals cost basis in the annuity. Your client may make gifts of the after-tax income generated from the SPIA to an Irrevocable Life Insurance Trust (ILIT) if estate taxes are a concern.[1]
2. **Take withdrawals.** Clients who are unwilling to give up their annuity may instead take withdrawals from it to fund a life insurance policy. This way, the client can still maintain control of the asset and taxes can still be minimized since the value of the annuity in the estate will be reduced by the withdrawals. However, depending on the specific annuity contract, withdrawals may be subject to surrender charges or penalty taxes if taken prior to age 59½.

Determining which method is best depends entirely on your client's preference. The risks, benefits, and cost of conversion or withdrawals from an annuity should be considered before making a decision.

Either way, potentially more can be transferred to heirs estate and income tax-free when an Annuity Maximization approach is used.[2]

THE PROBLEM	THE SOLUTION	THE RESULT
Annuities are taxed at death; up to 70% of the annuity may be taxed.	▮ Convert deferred annuity to SPIA, or take annuity withdrawals. ▮ Leverage distributions of SPIA to fund life insurance.	Increase the amount transferred to heirs, as life insurance is a more tax-efficient vehicle.

Considerations (if estate taxes are a concern)

Your client may make gifts of the after-tax income generated from the annuity to an Irrevocable Life Insurance Trust (ILIT). The ILIT then has the funds to purchase a life insurance policy on your client's life for an amount that replaces (or exceeds) the value of the deferred annuity to benefit heirs.

Annual Exclusion Gifts. An annual exclusion gift is the amount of annual gifts that each individual can make to an unlimited number of people without federal gift tax. In 2017, the amount is $14,000 per individual per year, indexed annually for inflation and subject to specific qualifying rules. Making annual exclusion gifts of the SPIA income, or the distributions from the deferred annuity, can be a tax-efficient way to leverage and transfer wealth.

Lifetime Exemption Gifts. In addition to the annual exclusion gifts, each individual has a lifetime exemption amount (also referred to as applicable gift tax exclusion) to use during lifetime before gift taxes apply ($5.49M in 2017).

CASE STUDY: SAM AND MAGGIE MALONE

CLIENTS: **Sam and Maggie Malone**

STATUS: Ages 65 and 62, Preferred Non Smokers, 30% Tax Bracket. They own a deferred annuity of $750,000 growing at 5% annually (cost basis of $400,000). The Malones take annual withdrawals of $21,600 after taxes.

PRODUCT: They purchase a Current Assumption Survivorship Universal Life policy, which buys approximately $2.2M of death benefit using a $21,600 premium.

COMPARISON OF VALUES IN YEAR 30

		CURRENT STRATEGY	PROPOSED STRATEGY
Annuity Today		$750,000	$750,000
Annuity Cost Basis		$400,000	$400,000
Total Premiums Paid by Year 30			$648,000
Annuity in Year 30		$3,241,457	$1,088,848
Income in Respect of a Decedent Taxes	–	$852,437	$206,654
Death Benefit in Year 30	+		$2,200,000
Net to Heirs in Year 30	=	$2,389,020	$3,082,194
Potential Gain Due from Planning			$693,174

The figures used in this case study are hypothetical, for discussion purposes only, are not guaranteed and may not be used to project or predict results. Actual results may be more or less favorable. Specific product and policy elements would be found in a policy illustration provided by an insurer. With any decision regarding the purchase of life insurance, a client would need to determine which type of life insurance product is most suitable for their specific needs.

SUMMARY

Using JH Solutions, show your client how repositioning a deferred annuity to fund life insurance is a great way to maximize the amount passed on to heirs. Since an annuity may be subject to both income and estate taxes at death, replacing it with a Single Premium Immediate Annuity or reducing it through withdrawals can help your client create a larger legacy for future generations.

For more information on Annuity Maximization with deferred annuities, please contact your local John Hancock Representative or call the Advanced Markets Group at 888-266-7498, option 3

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Annuity Maximization

Maximizing the Value of an Annuity By Using Life Insurance

Client Information (Client A)

First Name: ____________________

Last Name: ____________________

Gender: __________ DOB/Age: __________

Underwriting Risk Class* (Legend below): ____________________

Tax Information

Client's Income Tax Bracket: __________ %

Beneficiaries Tax Bracket (IRD Tax): __________ %

Annuity Information

Current Annuity Value: $ ____________________

Cost Basis: $ __________ Rate of Return: __________ %

Client Information (Client B)

First Name: ____________________

Last Name: ____________________

Gender: __________ DOB/Age: __________

Underwriting Risk Class* (Legend below): ____________________

Estate Information (only needed if concerned about estate taxes)

Name of Heir(s): ____________________

Total Estate Value: $ __________ A/T Growth Rate: __________ %

Number of Annual Exclusions (Beneficiaries): ____________________

Previous Lifetime Exemption Gifts Made (if any): $ ____________________

Existing Assets in ILIT: $ __________ A/T Growth Rate: __________ %

Choose **EITHER** a Withdrawals Approach **OR** an Annuitize Approach:

1) Withdrawals Approach

☐ Schedule: ____________________
(You can chose a specific amount to be withdrawn, make it equal to premium, annual exclusions amount or you can chose to amortize the annuity).

2) Annuitize Approach with a SPIA

☐ **Calculate Generic Single Premium Immediate Annuity:**

☐ **Input Annuitization Information:**

Annual SPIA Gross Income: $ __________ Exclusion Ratio: __________ %

Product

Do you want? ☐ Single Life ☐ Survivorship

What Product? ☐ UL ☐ VUL ☐ Specify: __________

Premium: Solve or Specified $ ____________________

Death Benefit: Solve or Specified $ ____________________

Advisor Contact Information

Name: ____________________

Company: ____________________

Address: ____________________

Phone/Email: ____________________

* **Underwriting Legend:** Super Preferred Non Smoker, Preferred Non Smoker, Standard Plus Non Smoker, Standard Non Smoker, Preferred Smoker, Standard Smoker, Uninsurable

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SUCCESS STRATEGY

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Social Security Maximization

Wealth Transfer Planning with Social Security

Planning Concerns

You have worked hard to accumulate wealth and have diligently saved for retirement with tax-favored assets, such as 401(k)s, IRAs and annuities. You have also contributed portions of your paychecks to social security. Now that you are near retirement, you realize that you will not need your social security income. Instead, you would like to know if there is some way to use this money to create an inheritance for your heirs.

The Solution

If you do not need your social security benefit, you can either save it or you can use it to fund a life insurance policy. By purchasing a life insurance policy, you can potentially increase the amount of money left to your heirs.

How It Works

You purchase a life insurance policy on your life. You can then use your social security income (or a portion of that income) to pay premiums on a life insurance policy.

Should you have an estate tax issue, you may want to have the life insurance owned by an Irrevocable Life Insurance Trust[1] (that way the life insurance does not compound your estate tax problem). The trust will receive the life insurance proceeds free of estate and income tax.[2]

Benefits

- Life insurance can increase the amount of money left for your heirs.
- Life insurance provides an income tax free death benefit.
- Life insurance cash values grow tax deferred.
- Life insurance, depending on the state, can offer creditor protection.
- If life insurance is owned in an ILIT, the proceeds can help reduce estate taxes.

Considerations

- The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.
- The purchase of life insurance has costs and risks associated with it, including the cost of insurance.
- There may be costs associated with creating an ILIT. Once you make gifts to the trust, they become irrevocable and they may not be returned to you without adverse tax consequences.

Would you like to leave a legacy for your children and grandchildren? What kind of social security will they have available to them? If you do not need your social security, you could use this money to purchase life insurance and create an inheritance for your heirs.

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FACT FINDER

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Social Security Maximization

Wealth Transfer Planning with Social Security

Client Information (Client A)

First Name:

Last Name:

Gender: DOB/Age:

Underwriting Risk Class* (Legend below):

Social Security Income (SSI) Information

Estimated Monthly SSI Benefit: $

Will the SSI Benefit be taxable? ☐ Yes ☐ No

Tax Bracket: %

CPI (i.e. Benefit Inflation Rate): %

A/T Growth Rate of SSI Side Fund: %

Product

Do you want? ☐ Single Life ☐ Survivorship

What Product? ☐ UL ☐ VUL ☐ Specify:

Premium: Solve or Specified $

Death Benefit: Solve or Specified $

Client Information (Client B)

First Name:

Last Name:

Gender: DOB/Age:

Underwriting Risk Class* (Legend below):

Estate Information (if concerned about estate taxes)

Name of Heir(s):

Total Estate Value: $ A/T Growth Rate: %

Number of Annual Exclusions (Beneficiaries):

Previous Lifetime Exemption Gifts Made (if any): $

Existing Assets in ILIT: $ A/T Growth Rate: %

Advisor Contact Information

Name:

Company:

Address:

Phone/Email:

*** Underwriting Legend:** Super Preferred Non Smoker, Preferred Non Smoker, Standard Plus Non Smoker, Standard Non Smoker, Preferred Smoker, Standard Smoker, Uninsurable

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MLINY03041318254 03/13

Legislative Update | Tax Cuts and Jobs Act

Estate and gift tax provision highlights

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (P.L. 115-97). Highlights of the key provisions are outlined below. We'll continue to provide additional information and analysis as we move forward in 2018.

When will these provisions go into effect? Unless noted, **January 1, 2018**. However, most changes will **sunset after 2025** (as noted by footnote 1) and revert to their 2017 numbers, adjusted for inflation.

2018 Federal estate and trust income tax brackets and rates

Under the new law, the top federal marginal rate is 37%.

Income tax rates[1, 2]	Estates and trusts	
10%	$0 to $2,550	10% of the taxable income
24%	$2,551 to $9,150	$255 plus 24% of the excess over $2,550
35%	$9,151 to $12,500	$1,839 plus 35% of the excess over $9,150
37%	Over $12,500	$3,011.50 plus 37% of the excess over $12,500

Estate and gift tax:

Provision	2017 Law	New Law	Analysis
Estate and Gift Tax Exemption[1] IRC Section 2010(c)(3)	Exemption for both estate and gift taxes $5.49 million per person, indexed to the traditional consumer price index (CPI) measure of inflation	Exemption for both estate and gift taxes $11.2 million per person, indexed to the Chained CPI (C-CPI) measure of inflation	With higher exemption, fewer will be impacted by the estate and gift tax. Opportunity to make additional gifts.
Generation-Skipping Transfer Tax Exemption[1] IRC Section 2631(c)	Exemption for both estate and gift taxes $5.49 million per person, indexed to the traditional CPI measure of inflation	Exemption for both estate and gift taxes $11.2 million per person, indexed to the Chained CPI (C-CPI) measure of inflation	Opportunity to fund dynasty trusts for future generations.

Provision	2017 Law	New Law	Analysis
Annual Exclusion IRC Section 2503	$14,000 per donee, indexed to the traditional CPI measure of inflation	$15,000 per donee, indexed to the Chained CPI (C-CPI) measure of inflation	Opportunity for increased annual gifting.
Portability IRC Section 2010(c)	Allows surviving spouse to use deceased spouse's unused federal estate tax exemption (DSUE)	Retained	Consider filing for DSUE in anticipation of sunset of current estate tax exemption amounts at the end of 2025.
Basis adjustment at death IRC Section 1014	Original basis in property adjusted to fair market value at death of owner	Retained	Consider holding appreciated basis assets until death to receive step up.

[1] Change will sunset after 2025 and revert to its 2017 numbers, adjusted for inflation.
[2] These rates are imposed on *taxable income*, meaning income remaining after applicable exclusions, deductions and exemptions are claimed. Note that each rate applies only to income falling within that bracket.

Planning opportunities

Life insurance

Estate planning involves more than just planning for federal estate taxes. Even though the exemption is set at a relatively high level, many needs often addressed by estate planning remain. Life insurance, owned inside or outside of the estate (depending on your situation), may help solve these needs:

- Creating liquidity for the payment of state estate and inheritance taxes
- Providing for spouses, children and other loved ones
- Addressing special needs planning
- Protecting multi-generational planning
- Providing liquidity planning for income taxes
- Equalizing inheritances
- Protecting assets in an estate
- Navigating second marriages
- Planning for same-sex couples
- Protecting non-citizen spouses
- Augmenting supplemental retirement income
- Increasing charitable giving
- Planning for education
- Supporting healthcare planning (e.g., chronic illness)
- Funding business protection and business succession planning

Outright gifts

A current gift removes both the asset and any future appreciation from the taxable estate and may "lock in" the current $11.2 million exemption against future changes in the law. The higher gift exemption presents a substantial opportunity to transfer wealth and reduce long-term estate tax exposure for individuals willing and able to make lifetime gifts.

Of course, lifetime gifts carry over the basis of the asset gifted, instead of adjusting the basis to the fair market value, as happens when an asset is inherited. Individuals should consider the potential advantages and disadvantages of making lifetime gifts.

Irrevocable life insurance trusts (ILITs)

ILITs are trusts designed to hold life insurance policies and to make policy proceeds available for estate liquidity needs, while excluding policy death benefits from the insured's estate. The higher gift exemption provides clients the opportunity for increased funding of current policies, as well as the ability to potentially unwind existing private split dollar arrangements.

Even if federal estate taxes are not a concern, properly drafted ILITs may provide:

- Income tax-free death benefits upon the death of the insured(s)
- Potential protection from the claims of the grantor's future creditors, including ex-spouse or spendthrifts
- Distribution flexibility to provide for blended families or protection for beneficiaries who may need help handling money
- Protection from state estate and inheritance taxes
- Spousal support
- Inheritance equalization
- Generation-skipping transfer tax planning
- Management of insurance and assets
- Financial support for loved ones with special needs

Given that the current estate tax rules are scheduled to sunset after 2025, and the uncertainty of estate taxes in the future, you may wish to retain existing ILITs.

Reposition existing insurance

The increased gift tax exemption can be used to correct existing estate planning concerns. For example, if an existing life insurance policy is owned by the insured, the policy death benefit will generally be included in the taxable estate of the insured. The increased gift tax exemption may be used to transfer the policy from the insured or to fund an underfunded policy without incurring gift taxes.

It's important to consider the estate inclusion rule when policies are transferred within three years of death. Also remember that transfers of a policy, even if not subject to gift taxes, can trigger income tax recognition or a transfer for value, particularly when an outstanding loan exists or the policy is currently owned by a business.

In light of the higher federal tax exemption, some may desire to modify or unwind ILITs. ILITs are irrevocable and generally can't be amended. However, court actions, trust mergers, decanting, powers of appointment and sales of insurance policies may provide methods of modifying current arrangements.

Dynasty trusts

Dynasty trusts permit wealth to be excluded from transfer taxes over multiple generations by making use of the generation-skipping transfer tax (GSTT) exclusion. With the larger exemption, dynasty trusts can be funded with lifetime gifts equal to the full $11.2 million GSTT exemption without incurring gift taxes. These trusts can own life insurance, as well as other assets.

With proper allocation of the GSTT exemption, assets in the dynasty trust and appreciation of these assets may be exempt from future estate, gift and GSTT taxes.

Valuation discounts

Some may consider taking advantage of valuation discounts (e.g., minority interest discounts) in transferring interests in a business or closely held entity. Using this strategy, you gift minority interests of closely held entities subject to transfer restrictions. “Lack of control” and “lack of marketability” discounts may be applied to decrease the fair market value of the gift. Along with the increased lifetime gift and exemption amounts, valuation discounts may allow you to transfer more of the interest while reducing gift taxes.

Sale of assets to an intentionally defective grantor trust (IDGT)

Another strategy is a sale of assets to an IDGT. With an IDGT, property is sold to the trust by the grantor. Based on a special provision in the trust, the trust grantor continues to be treated as the “owner” of the trust property for income tax purposes. Yet, the trust property is kept outside of the grantor’s estate for federal estate tax purposes.

With the current low Applicable Federal Rates, the income generated by the asset sold to the IDGT may exceed that needed to service the note, leaving cash flow to pay life insurance premiums. The higher gift exemption can be used to help fund the initial down payment of the note. If the IDGT is designed as a dynasty trust and the GSTT exclusion is allocated, the trust assets can potentially be shielded from future transfer taxes.

Inheritance equalization

Business, farm or ranch assets may comprise the majority of your estate. When some children participate in the business or operations and others do not, life insurance may offer an opportunity to provide a fair division of assets, while making sure that control and ownership remain with the children working in the business. The increased exemption may simplify premium funding and minimize estate tax considerations.

Grantor retained annuity trusts (GRATs)

GRATs are popular wealth-transfer tools that are often used to provide funding for exit strategies from premium financing and split dollar life insurance programs. You may want to consider GRATs with durations of 2-8 years. Terminating the GRAT before the current estate tax changes sunset at the end of 2025, may allow you to take advantage of the potential higher estate tax exemption if you should die during the GRAT term.

Summary

The changing tax environment is a great opportunity to review your estate plans. While many of the benefits of the Tax Cuts and Jobs Act are scheduled to sunset after 2025, the basics and benefits of planning never expire. As with all estate planning strategies, it’s vital that you consult local counsel about your individual situations.

Legacy Planning

Fact Finding Questions

Potential Prospects

- Age 50+
- Net worth of at least $2 Million
- Has multi-generational family
  – Children from a previous marriage
  – Grandchildren
- Family member with special needs
- Family business or privately held company
- Charitable inclination
- Unmarried couples
- Same sex couples
- Blended families

Shift client thinking from estate taxes to Legacy Planning

- Talk about goals and values instead of just taxes
- Take time to know the client; more fact finding
- Use products that offer flexibility and options

Starting the Conversation

- Know the Client
  – Hot points
    - Family/Children/Grandchildren
    - Church/Religion
    - Ties to Alma Mater/Organization
  – Values
    - How important is charitable giving?
    - Ties to the community?
    - Do they have a family business?
- Ask open-ended questions

Sample Questions

- What is important to them about their wealth?
- What kind of life do they want for their children?
- What values do they want their grandchildren to have?
- If time and means were not an issue, what would they provide for their grandchildren?
- How do they want a specific charity to remember them?

Life insurance products issued by
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LEVERAGED GIFTING

THE PRUDENTIAL PARTNERSHIP PROGRAM

For clients who are concerned about estate tax issues, gifting provides an effective strategy to reduce the sizes of their estates, leaving more for heirs. They may want to consider a leveraged gifting strategy that includes creating a lifetime legacy using annual gifting exclusions.

The annual exclusion gifts would be gifted to an Irrevocable Life Insurance Trust (ILIT). An ILIT is a trust specially drafted to own life insurance for the benefit of the beneficiaries of the trust who have an insurable interest in the person being insured. The trustee can then use the annual gifts to pay the premiums on life insurance covering either the client or the client and his or her spouse jointly.

The benefits of such a strategy include:

- Reducing the taxable estate, potentially increasing the assets transferred to heirs.
- Providing the tax advantages of life insurance.

REVIEW YOUR BOOK OF BUSINESS FOR CLIENTS WHO:

LEVERAGED GIFTING

Currently Have a Gifting Strategy

- Are already gifting to children, grandchildren, or a charity on a regular basis.
- Have an Irrevocable B Trust set up to benefit their children and do not need the income from the trust themselves.

Tax Considerations

- Live in a state with a low state estate tax exemption.
- Fall under the current federal estate tax exemption with assets that may rapidly appreciate.

Citizenship

- Have a non-citizen spouse that may not qualify to take the unlimited marital deduction.
- Are non-resident aliens/non-citizens with very low estate tax exclusions at death, or domiciled outside of the U.S. and visit the U.S. for short periods of time.

Family Business

- Have an estate equalization need between children in a closely held family business.

PRUDENTIAL OFFERS THE RESOURCES AND SUPPORT YOU NEED TO BE SUCCESSFUL

Your Prudential representative can help you to identify clients who can potentially benefit from this strategy and can provide you with guidance and sales materials. Contact your representative to learn more.

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Prudential
Bring Your Challenges®

Creating a Lifetime Legacy by Using Annual Gifting Exclusions for Life Insurance

Life Insurance

PRUDENTIAL
ADVANCED MARKETS TEAM
EXPERIENCED GUIDANCE FOR COMPLEX CHALLENGES®

Prudential
Bring Your Challenges®

The Prudential Insurance Company of America

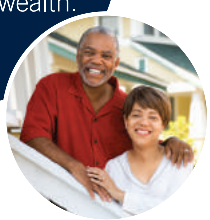
1000362-00001-00 Ed. 06/2018 Exp. 12/30/2019

Creating a lifetime legacy.

If your hard work and careful preparation have brought you financial rewards beyond what you need to live comfortably, lifetime gifting may make sense. By using annual gifting exclusions, you can:

- Enjoy seeing beneficiaries receive some of your wealth during your lifetime.
- Give money to your recipients of choice without gift tax consequences.
- Reduce the value of your estate, eliminating or reducing your potential estate tax exposure.

You have several options available to you for passing along your wealth.



KNOWING IF THIS STRATEGY IS RIGHT FOR YOU.

You have several options available to you for passing along your wealth. Certain criteria can help you determine whether to consider the strategy presented here.

This gifting strategy may benefit you and your family if you:

- Are single or married and age 55 or older.
- Have children or grandchildren.
- Have assets that you want to gift and do not intend to use during your lifetime and that are not needed for support in retirement.
- Have a minimum net worth of $5,000,000 and sufficient liquid assets to support the strategy.
- Desire to provide for and leave more to your children or grandchildren.
- Would like to minimize taxes.

WHAT YOU CAN GIFT.

Under current federal law, U.S. citizens and resident aliens can make gifts of “present interest” up to the annual gifting exclusion amount without incurring federal gift tax. “Present interest” means that the recipient must be able to enjoy the gift immediately with no strings attached.

For 2018, the annual gifting exclusion is $15,000[1] per individual, per recipient. So by using a unified gifting strategy, married couples can double this amount to $30,000 per recipient since each spouse is allowed the exclusion amount.

[1]The gift tax exclusion amount is indexed annually.

Step 1: Using Annual Exclusions

A wealthy married couple with three children can reduce their taxable estate by $90,000 in 2018 just by making annual exclusion gifts to each of their children.

HUSBAND	+	WIFE	=	TOTAL
$15,000 annual exclusion		$15,000 annual exclusion		$30,000 per recipient

It is important to remember that unused annual gifting exclusions do not carry over and accumulate. From year to year, you either make use of the exclusion amount or lose it.

Making your exclusions work harder.

Irrevocable Life Insurance Trust (ILIT)

One way to help make your gifting exclusions work even harder for you and your beneficiaries is through annual gifting to an **Irrevocable Life Insurance Trust (ILIT)**. This is a trust specially drafted to own life insurance for the benefit of the beneficiaries of the trust. These beneficiaries have an insurable interest in the person being insured. The trustee can then use your annual gifts to pay the premiums on life insurance covering either you or you and your spouse jointly.

ANNUAL GIFTING TO AN IRREVOCABLE LIFE INSURANCE TRUST (ILIT).

This strategy may:

- Deliver value to beneficiaries through a death benefit that could be significantly greater than the sum of gifts made to the trust for premium outlay, depending on your health and age upon purchase.
- Reduce your taxable estate.
- Provide an income and estate tax-free death benefit that can be used to help offset any estate settlement costs, including potential estate taxes.

The irrevocable nature of an ILIT prevents it from being changed in the future and helps ensure that contributions are completed gifts for gift tax purposes. However, most well-drafted trusts can be flexible enough to adjust for future changes to circumstances, despite their irrevocable nature. Please consult with your attorney for specific information.

BENEFITS OF USING AN ILIT.

When an ILIT is properly drafted and administered, it can help you:

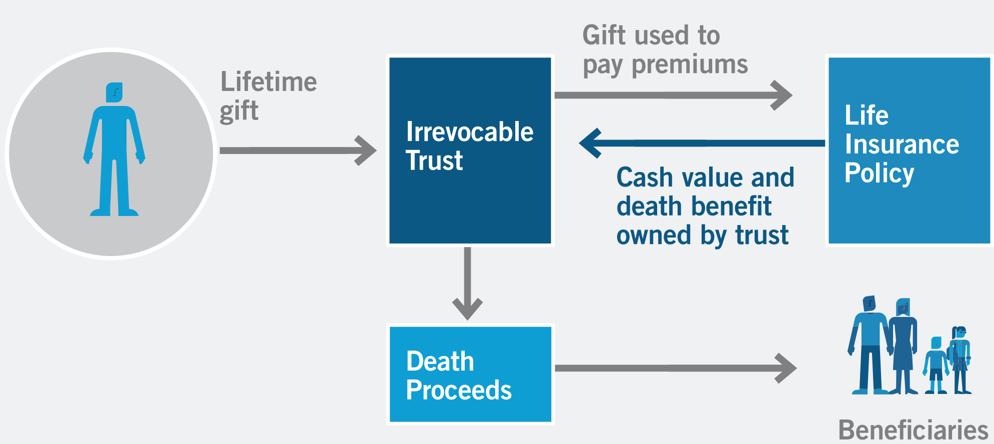
- Protect assets from creditors of trust beneficiaries.
- Provide for beneficiaries who may lack the maturity and/or responsibility to effectively manage large amounts of wealth.
- Establish controls around how the trust assets are managed, distributed, and ultimately received by your beneficiaries.
- Reinforce your value system by establishing additional controls such as incentive provisions, which can influence beneficiaries to behave in certain ways and live out or avoid certain kinds of lifestyles.
- Benefit multiple generations including a first-generation spouse, children, and grandchildren.

HOW AN ILIT WORKS

To implement this strategy, you would work with your attorney to draft the trust document. Once that's created, you would then make a gift to the trust. The trustee, whom you select, is then responsible for managing trust assets and distributing them to the beneficiaries according to the terms of the trust.

To accomplish its purpose, the ILIT must be both the owner and beneficiary of a life insurance policy. The premiums are typically paid with gifts made to the ILIT from the grantor of the trust.

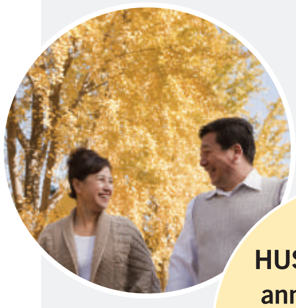
Upon the grantor's death, the proceeds are paid to the ILIT and the trustee may distribute the proceeds to the trust's beneficiaries in accordance with the ILIT's terms. The life insurance proceeds are generally received income tax-free[2] by the ILIT and, assuming the trust is properly drafted and administered, the life insurance proceeds will also be excluded from the insured's estate.



[2]Pursuant to U.S. IRC §101(a).

Step 2: Funding an ILIT Using Life Insurance

Consider a 65-year-old husband and 60-year-old wife living in Connecticut. The couple has one adult son. They decide to combine their exclusions to gift $30,000 annually for 10 years to fund an ILIT for the benefit of their son. The trustee can use the gifts to purchase a survivorship (second-to-die) life insurance policy insuring the parents. Husband and wife are both underwritten as preferred non-tobacco risks.



HUSBAND + WIFE annual exclusions combined = $30,000 annually for 10 years to fund an ILIT

→

ILIT purchases life insurance policy with a death benefit of over **$1 million**[3]

→

Son is named as trust beneficiary

The trust will receive the death benefit free of both federal estate and income taxes. The policy pays the death benefit upon the second death, which is when the couple's estate must be settled.

[3]This information is hypothetical and not representative of any particular product.

DISCOVER MORE.

Explore how an annual gifting strategy might benefit you and your beneficiaries by talking to your financial professional today. If you decide to incorporate life insurance, Prudential has the experience, products, and service to help make your strategy a success.

IMPORTANT CONSIDERATIONS

BEFORE IMPLEMENTING THIS STRATEGY

- Any investment that you plan to purchase or pay for during retirement involves the use of your income or other assets. You should be certain you will have sufficient liquid assets to support your current and future income and expenses before considering the purchase of a life insurance policy. Equity in the home should **not** be considered a liquid asset.
- You should consider developing a comprehensive financial strategy to take into account current and future income and expenses in conjunction with implementing the strategy discussed here.
- We recommend that you consult your tax and legal advisors to discuss your situation before implementing the strategy discussed here.

ABOUT THIS CONCEPT

This concept is intended to be used only for assets that will not be needed for living expenses for the expected lifetime of the insured. It is your responsibility to estimate these needs and expenses and it is recommended that you consider developing a comprehensive financial strategy in conjunction with implementing the strategy being considered. The accuracy of determining future needs and expenses is more critical for individuals at older ages and who may have less opportunity to replace assets used for the strategy.

IF YOUR FINANCIAL OR LEGACY SITUATION CHANGES

- If you need to use your assets or income for current or future income needs and you can no longer make premium payments, the life insurance policy may lapse and the results illustrated may not be achieved.
- If the asset or income being repositioned becomes fully exhausted, premiums may have to be paid using other assets or income to keep the life insurance policy in force.

WHEN THIS STRATEGY MAY NOT BE IN YOUR BEST INTEREST

Depending on your life span, it is possible that your beneficiary may receive more by just inheriting the assets being repositioned, rather than by receiving the death benefit of the life insurance policy that was purchased.

TAX AND OTHER FINANCIAL IMPLICATIONS

- There may be tax and other financial implications as a result of liquidating assets within an investment portfolio to purchase life insurance. If contemplating such a strategy, it is important to understand that life insurance is a long-term strategy to meet particular needs.
- The sale or liquidation of any stock, bond, IRA, certificate of deposit, mutual fund, annuity, or other asset may have tax consequences, early withdrawal penalties, or other costs or penalties as a result of the sale or liquidation.

ABOUT LIFE INSURANCE

- The death benefit protection offered by a life insurance policy can be a key component of a sound financial strategy.
- It is important to fully understand the terms and conditions of any financial product before purchasing it.

OTHER NOTES

- You should consider that life insurance policies contain fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges, and other charges or fees that will impact policy values.
- If premiums and/or performance are insufficient over time, the policy could require additional out-of-pocket premiums to keep it in force.

All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. Policy guarantees and benefits are not backed by the broker/dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

Life insurance is issued by The Prudential Insurance Company of America and its affiliates. All are Prudential Financial companies located in Newark, NJ. Each is solely responsible for its own financial condition and contractual obligations. Our policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. A financial professional can provide you with costs and complete details.

We do not provide tax, accounting, or legal advice. Clients should consult their own independent advisors as to any tax, accounting, or legal statements made herein.

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1000362-00001-00 Ed. 06/2018 Exp. 12/30/2019

Gain by Giving

The Art of Gift Tax Planning

Transamerica®

Gain by Giving: The Art of Gift Tax Planning

Did You Know…

That the assets you plan to leave to your loved ones may be subject to estate tax and significantly reduce the legacy you leave to children, grandchildren and future generations?

Estate Taxes Can Significantly Reduce Your Legacy

Under current estate tax law, if the value of your estate exceeds a certain dollar amount, an estate tax return must be filed—and any estate tax due must generally be paid within nine months of your passing.

In 2015, the threshold value of an estate that is subject to estate tax is $5.43 million for a single person and $10.86 million for a married couple. Every asset that you own will be included in determining the value of your estate and the amount of your estate tax bill. So, the larger the estate, the larger the estate tax liability.

A Smart Solution: Implement an Annual Gifting Program

By implementing an annual gifting program, you can transfer assets to your loved ones during your lifetime without incurring transfer taxes—shrinking your estate value and your estate tax bill.

How Does It Work?

An annual gifting program is designed to take advantage of the annual gift tax exclusion, which is the maximum annual gift that can be made to an individual gift tax-free. In 2015, a single donor may make a maximum annual gift of $14,000 to any one person, and married donors may gift up to $28,000 to each person, without being subject to gift tax.

To implement this strategy, you simply make annual gifts to your loved ones, within the limits of the annual gift tax exclusion. These gifts effectively reduce the value of your estate, removing not just the value of the gifted assets, but also any appreciation on those assets after making the gift. The result is a smaller estate value which can translate into a smaller estate tax bill.

In addition to reducing your potential estate tax liability, an annual gifting program offers these advantages:

- By making these gifts now, you have the opportunity to see your loved ones enjoy them.
- When assets are gifted, they are out of your creditors' reach and will ultimately avoid probate (the court-supervised process of administering an estate).

Gifting To a Legacy Trust

Gifting to a Legacy Trust will protect gifted assets from your loved ones' creditors and help ensure prudent and professional financial management of those assets.

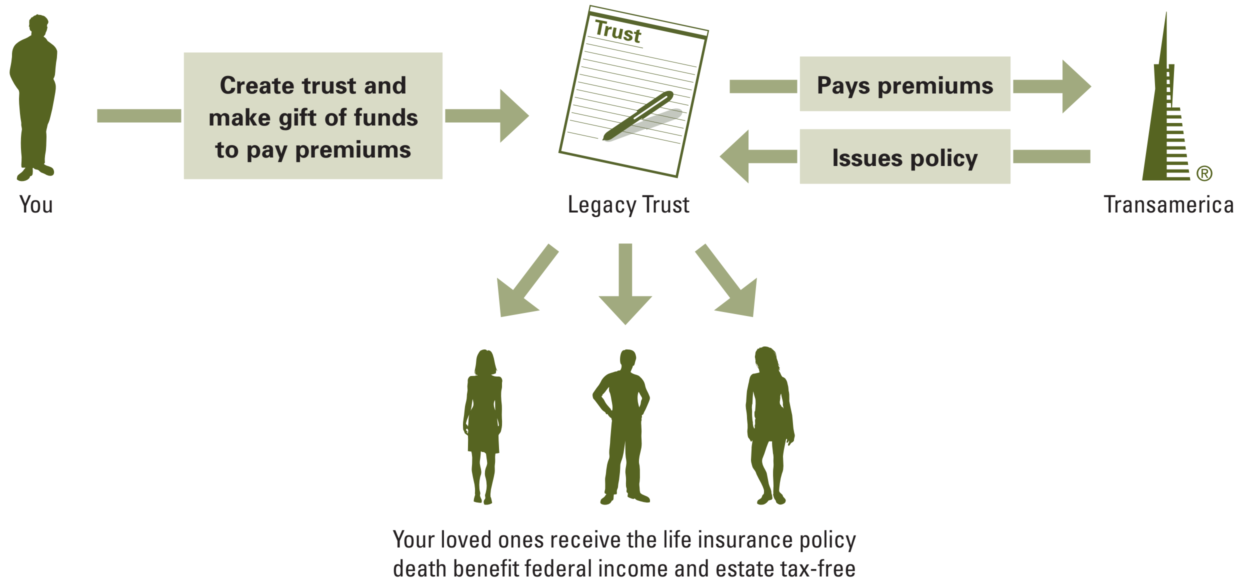
Additionally, a Legacy Trust can protect gifted assets from unintentional transfers. For example, a direct gift of cash—while considered separate property when received by a married person—can become a marital asset by simply being deposited into a couple's joint account. Such a deposit gives the spouse control over the asset and perhaps ultimate ownership in the event of a divorce.

Why Life Insurance Can be a Perfect Fit

By making gifts to a Legacy Trust to pay premiums on a trust-owned life insurance policy (insuring your life), you can further magnify the value of your annual gifts.

Here's why

- The life insurance policy death benefit will ultimately pass federal income and estate tax-free to your beneficiaries.
- Policy cash values grow on a tax-deferred basis, which minimizes any potential income tax liability associated with trust assets.
- The trustee may be able to take tax-free distributions from the policy's cash value (up to the cost-basis amount), allowing loved ones to experience your generosity during your lifetime.



Take the next step

To get started, it's important to work with your insurance professional or financial advisor and have an experienced estate-planning attorney draft the trust documents.

If you establish the trust in a state that allows trusts to exist indefinitely, your trust has the potential to provide a long-lasting legacy benefitting many successive family generations to come.

Our business was built on helping families

For over 100 years, Transamerica has been providing insurance products designed to help families just like yours.

While the world has certainly changed, our objective has always remained the same—to help families and individuals enjoy a more secure financial future.

For more information on how annual gifting programs and Transamerica life insurance used within a Legacy Trust may help you secure your family's future, please contact your financial or insurance professional.

Transamerica Life Insurance Company, Transamerica Financial Life Insurance Company (collectively "Transamerica"), and their representatives do not give tax or legal advice. This material is provided for informational purposes only and should not be construed as tax or legal advice.

Discussions of the various planning strategies and issues are based on our understanding of the applicable federal income, gift, and estate tax laws in effect at the time of publication. However, tax laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, this material does not consider the impact of applicable state laws upon clients and prospects.

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OLA 2042 0115

Help Clients Create a Legacy of Giving

The Charitable Remainder Trust

Transamerica®

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Do you work with clients who would like to donate a significant amount of assets to a charitable organization, but have concerns about losing the income the assets generate?

With a Charitable Remainder Trust (CRT), clients get the benefit of gifting an asset to a chosen charity, enjoying tax advantages and retaining income from that asset during their lifetime.

What is a Charitable Remainder Trust?

A Charitable Remainder Trust is an irrevocable trust that has a specified duration of up to 20 years. It is also authorized by the Internal Revenue Service to receive "split interest" gifts, which makes it possible for clients to make a deferred gift to a charity and still receive periodic payments from the trust during their lifetime. At the end of the trust's term, the charitable organization receives the remaining value of the asset.

The CRT has a non-charitable income beneficiary, usually the donor of the trust assets, and a remainder beneficiary—the charitable organization.

An income stream is payable to the non-charitable beneficiary for their lifetime or for a stipulated period not to exceed 20 years. Upon the death of the income beneficiary or the end of the trust's term, whichever occurs first, the income stream payout ceases and the remainder of the trust is distributed to the qualified charity designated in the CRT.

There are basically two types of CRTs—**Charitable Remainder Annuity Trust (CRAT)** and **Charitable Remainder Unitrust (CRUT)**. The major difference between the two is the manner in which the annuity payout is calculated. When properly structured and maintained, Charitable Remainder Trusts are tax-exempt.

In 2013, the majority of charitable donations came from individual donors - $241.32 billion, or 72%.

—Giving USA 2014, The Annual Report on Philanthropy

Charitable Remainder Trusts Allow Clients to Receive Income:

- During the client's lifetime;
- During the lifetime of both a client and their spouse; or
- For a specified term not to exceed 20 years.

"Most households feel pressured at every economic corner, but the long-standing social contract between Americans and the nonprofits they believe in remains resilient and intact; many see giving as a core budget item."

—Gregg Carlson, chair of Giving USA Foundation

Tax Advantages of a Charitable Remainder Trust

When properly structured and maintained, a CRT offers clients significant tax advantages.

- **It provides a current income tax charitable deduction** equal to the present value of the charity's remainder interest.
- **It can reduce estate tax liability.** Transferring property to a CRT removes this property and its future appreciation from a client's gross estate, which reduces the potential estate taxes due at the client's death.
- **It offers the potential for a tax-free sale of the donated asset.** The trustee can sell the gifted asset in the CRT and invest the proceeds in an income-producing asset to support the annual income payments to the client; this sale is typically tax-free.

Highly appreciated assets are especially advantageous to gift to a CRT since taxes on the sale of the gift are deferred until income is paid out to the income beneficiary. In addition, the individual can receive a charitable income tax deduction in the year that the gift is made to the trust.

When properly structured and maintained, a CRT offers clients significant tax advantages.

Charitable Remainder Trust Prospects

The best CRT prospects are life insurance clients who:

- Have expressed an interest in making charitable donations.
- Own highly appreciated assets.
- Would like an income stream from the donated asset while they are living.
- Want an up-front charitable income tax deduction.
- Would benefit from a deferral of income taxes on the sale of trust assets.

Charitable Remainder Trust Participants

Donor(s): The CRT creator.

Income Beneficiary: Generally, the donor and his or her child(ren).

Trustee(s): The donor(s) may be the Trustee(s) or serve as Co-Trustee(s) with the charity or another party. The trustee is responsible for managing and investing the trust assets for both the income beneficiary and the charity.[1]

Charity: The non-profit entity that will ultimately receive the trust principal (remainder). If more than one charity is named, their respective shares should be expressed as percentages of the remainder interest, instead of specific dollar amounts. This is because the exact value of the trust principal cannot be determined until the end of the payout period.[2]

[1] If the donor is to be a trustee, it is highly recommended that a third party (unrelated person) be named as "Special Trustee" in the CRT document to handle certain trust assets and transactions in order to avoid violating the "self-dealing" prohibition. For example, if real estate or stock of a closely held corporation transferred to the CRT is to be sold, the Special Trustee should manage the asset until its sale and handle the sale's transaction. Similarly, a Special Trustee is needed if trust funds are invested in certain assets, such as an annuity contract. In this regard, the Special Trustee should purchase the annuity contract, be responsible for its administration and handle any distributions from the contract.

[2] Although the CRT is irrevocable, it is possible for the donor to reserve the right to change the charitable beneficiary by making such beneficiary designation(s) revocable rather than irrevocable. However, the remaining trust assets must go to a qualified charity. Alternatively, a class of charitable organizations may be named at the time the CRT is established, with the actual charity to be specified later.

A Charitable Remainder Trust
+ an Irrevocable Life Insurance Trust
= Peace of Mind

Some clients worry that by gifting an asset to a CRT they are, in effect, disinheriting loved ones who would have otherwise received that asset. You can help put clients' and their beneficiaries' minds at ease by showing clients how they can benefit both a charity and their loved ones by using a CRT in conjunction with an Irrevocable Life Insurance Trust (ILIT).

The ILIT will own—and be the beneficiary of—a life insurance policy that insures the client's life. To pay for the life insurance policy, the client can use all or a portion of the income stream created by the CRT to fund gifts to their ILIT.

Upon the death of the insured, the benefits from the policy will be received income—and estate tax-free—for the client's beneficiaries. This death benefit then becomes an effective way to "replace" the asset that was gifted from the estate to charity.

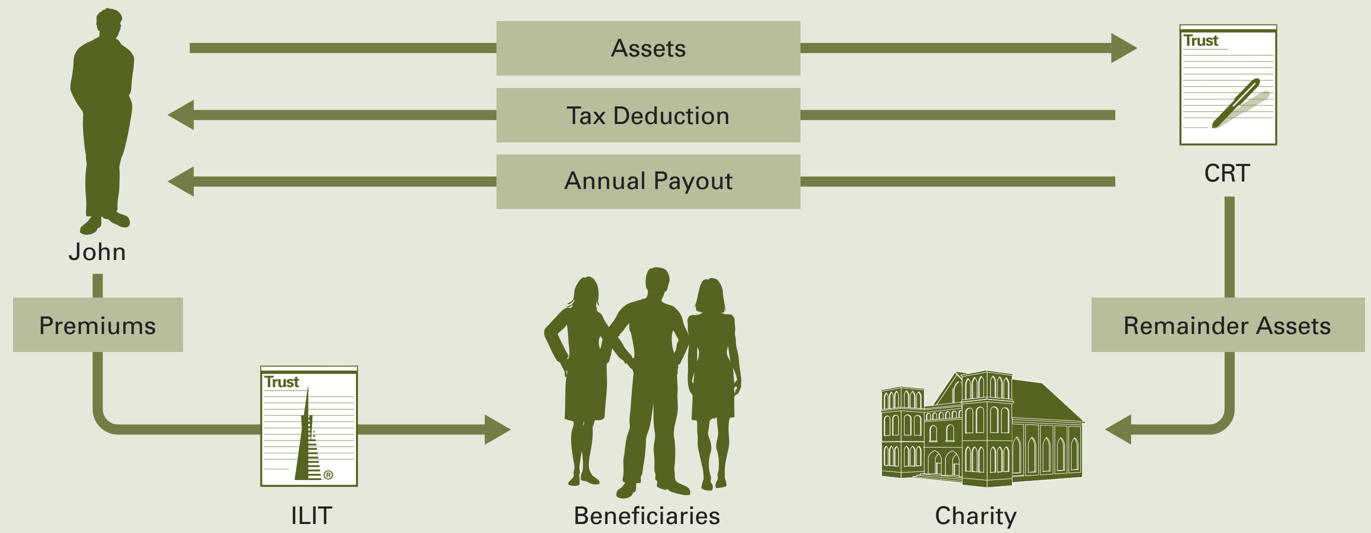
Hypothetical Example: How a CRT Combined with an ILIT Can Benefit Clients

THE DILEMMA

John is 72 and, upon his death, would like to provide for the Sunshine Mission where he has volunteered for more than 40 years. However, John would like to continue to draw income from the donated asset while he is still alive and, if possible, not reduce what he hopes to pass on to his children.

THE SOLUTION

- With the help of a qualified attorney, John establishes a Charitable Remainder Trust.
- John contributes $500,000 of appreciated assets to the CRT.
- He receives a charitable income tax deduction for his gift which is equal to the present value of the future interest in the property that will pass to the charity.
- Each year during his lifetime he will receive an income stream (annual payout) from the CRT.
- For his family, John uses a portion of the annual income to purchase a $500,000 life insurance policy, which will be owned by an Irrevocable Life Insurance Trust (ILIT).
- When John passes away, the Sunshine Mission (charity) receives the remainder interest in the CRT and the beneficiaries of John's ILIT—his children—receive the $500,000 life insurance death benefit.



This diagram helps explain the flow of assets involved in John's Charitable Remainder Trust combined with an Irrevocable Life Insurance Trust.

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Charitable Remainder Trusts and Asset "Replacement"

CRT and ILIT combination creates the ability to "replace" the asset for the benefit of the donor's loved ones—which can become an important planning consideration when dealing with charitable giving. Under certain circumstances, life insurance on the donor may be the ideal replacement asset for a number of reasons:

- The life insurance premiums may be paid with the cash flow from the CRT in excess of what's needed by the income beneficiary.
- An "increasing death benefit" option may be elected for the policy. This would generally provide the beneficiary with an increasing amount of death benefits over a period of time that could match the appreciation of the gifted asset had it remained within the estate of the donor.
- A third party—such as an Irrevocable Life Insurance Trust—can own the policy so that the proceeds are excluded from the estate of the insured CRT donor.
- Proceeds from the life insurance policy are generally received by the beneficiary income tax-free.

Charitable Remainder Trust Tax Implications for Donors and Income Beneficiaries

Donors

Charitable Income Tax Deduction: Contributions to the CRT qualify for an immediate charitable income tax deduction based on the present value of the charity's remainder interest. Several factors are considered in determining this value:

- The term of the trust, either the lifetime of the income beneficiary or a fixed number of years.
- The initial value of the asset/property contributed to the trust.
- The percentage of the income beneficiary's payout and the frequency of the payments.[3]
- The "Section 7520 rate," which is 120% of the applicable federal (midterm) rate (AFR), determined monthly. This rate is used to calculate the value of the income stream that will be paid to the donor. This amount is subtracted from the value of assets transferred to the trust to determine the remainder.

Capital Gains Tax: Donors may defer recognition of capital gains since the donated property, if sold, is sold by a tax-exempt CRT. Therefore, an appreciated asset, such as stock or real estate, may be "converted" without tax into an income-producing asset, such as a bond portfolio, for the donor. Capital gains taxes related to the sale of the contributed property may be due on annual payments from the ILIT received by the income beneficiary.

Gift Tax Consequences: If an income beneficiary is someone other than the donor or his/her spouse, there may be federal gift tax consequences. However, if certain requirements are met, the gift can qualify for the annual gift tax exclusion of $14,000 (2015) per beneficiary.

Proceeds from the life insurance policy are generally received by the beneficiary income tax-free.

Estate Tax Consequences: Gifts to the CRT not only reduce the donor's taxable estate by the value of the gift, but also by any future appreciation. If a donor is an income beneficiary, the date-of-death value of the trust is includible in his/her estate. However, there is an offsetting charitable estate tax deduction since the trust remainder will be distributed to a charity. If there are income beneficiaries other than the donor and his/her spouse, the value of their income interest may be subject to estate tax.

[3]There is a minimum remainder interest that must ultimately pass to the charity. The remainder interest under CRUTs must be at least 10% of the net fair market value of the property as of the date the property was contributed to the trust. For CRATs, this minimum is 10% of the initial net fair market value of all property placed in the trust. Also, CRATs must pass a "5% probability test." This test requires that the annuity amount cannot be so large that there is a greater-than-5% probability that the trust corpus will be exhausted before the (last) non-charitable beneficiary dies, the trust terminates and charity receives its remainder.

Income Beneficiaries

"Tiered" Tax System: Income received by a non-charitable beneficiary is subject to taxation in accordance with the character of the income in the CRT. Distributions from the trust are deemed to be received in the following order: (shown in tiered graphic)

1. Ordinary income.
2. Capital gains.
3. Tax-exempt income.
4. Return of basis.

Charitable Remainder Trusts in Detail

Charitable Remainder Annuity Trust (CRAT)

With a CRAT, the fair market value of trust assets is determined at the time the trust is first established and the annual payout amount is fixed based on that valuation.

The annual annuity amount can be fixed or a percentage of the fair market value of all assets when they are placed in the trust, but not less than 5% nor more than 50% of their initial value. Any increase or decrease in the value of trust assets does not affect the amount or percentage of the income that must be paid annually.

The trustee may deplete the trust principal in making the payout. A CRAT cannot accept subsequent gifts, so new trusts must be established for additional contributions or to change the income payout.

Charitable Remainder Unitrust (CRUT)

Unlike the CRAT, a CRUT may accept multiple contributions. There are three forms of CRUTs based on differences in how the annual payout is calculated and structured.

- A standard unitrust has the same payout requirements as a CRAT. However, the amount of the payout is based on a specified percentage of the annually determined value of the trust assets. If the value of the assets increases, so does the payout, and vice versa. The trustee may deplete the trust principal in making the payout.
- The net income unitrust requires the trustee to make annual distributions of the earnings of the trust or a percentage of the trust value, whichever is less, to the income beneficiary. Since the trustee may not deplete the trust principal when making the distribution, any payout can only be made from current trust income as defined in the trust document and applicable state law.
- A "flip" unitrust allows a net income unitrust to flip or change into a straight or fixed percentage unitrust upon the occurrence of a predetermined triggering event, such as the sale of an unmarketable asset (e.g., real estate or closely held stock). For example, in its initial phase as a net income unitrust, the flip unitrust will not pay any income if there is no actual trust income earned. However, once the trust asset has been sold and the proceeds reinvested, then the trust changes to a standard CRUT and income is paid based on a fixed percentage of the trust's annual fair market value.
- A NIMCRUT is a net income unitrust with a "make-up" provision. The same payout rules under the net income unitrust apply to a NIMCRUT, with the added provision that if income payments equal to the amount set forth in the trust document are not made in any year, the trustee is required to make up the shortfall in later years if income is then available. In other words, the trustee must pay out larger amounts in years when the trust income is higher to make up for smaller distributions in years when the trust had little or no income.

Take the Next Step

Now that you're familiar with Charitable Remainder Trusts, potential prospects, and the tax and income advantages for clients, you're ready to take the next step and start presenting this valuable strategy to your clients.

Transamerica's Advanced Marketing Department can help you get started with our wealth of resources and support from our team of professionals.

Contact us today for more information.

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Charitable Legacy

Making a Difference for Your Charity

Transamerica®

Giving to a charitable cause makes us all feel good.

Creating a legacy through charitable giving allows you to help shape the future of a cause, benefit, or organization that is important to you. It is a legacy that can touch the lives of others.

Generally, when you make a charitable donation, you write a check that may be tax-deductible. However, there is another way you can give that allows your favorite charity to continue to receive your support, even after you're gone.

Charitable Giving Using Life Insurance

There are a number of ways you can use a life insurance policy to benefit your favorite charity. They include:

- **Designating a charity as your policy's beneficiary**
  This is a very simple way to include a charity in your estate planning. You, as the policy owner, name the charity as the beneficiary of a portion of or the entire policy death benefit. Since you—rather than a third party—still own the policy, you can access the cash values or change your charitable designations at any time while your policy is in force. Additionally, your estate will receive an estate tax deduction for the portion of the death benefit given to the charity.
- **Gifting a policy to a charity**
  You can gift an existing policy to a charity. You may receive an income tax deduction in the year of the gift, as well as deductions for future premiums paid. However, if there are loans on the policy, the charitable deduction may not be allowed and the charity may incur a 100% excise tax when it pays future premiums. This transaction would also be subject to the three year rule, if the owner were to die within three years of the transfer, the policy would be included in the taxable estate.
- **Purchasing a life insurance policy for a charity**
  You can make the charity the owner and beneficiary of a life insurance policy. And since the charity owns the policy, the life insurance death benefit will not be included in your estate.

How Does it Work?

EXAMPLE: John Smith

John Smith wants to provide a significant gift to help a charity that he has volunteered much of his time to over the past several years. He has a life insurance policy that he has used to help fund the education of his two children. Now that both of them have their college degrees, John is considering three options in order to provide a gift to his charitable organization.

First, John can make the charity the beneficiary of part of his $500,000 life insurance policy. Since John would continue to be the owner of the policy, he would not receive an income tax deduction but his estate would receive an estate tax deduction for the portion that goes to charity.

On the other hand, John can gift his life insurance policy to the charity and can claim an income tax deduction in the year that the policy is gifted. By transferring ownership of the policy to the charity, John has given up control and any benefits from the policy his children might receive, but the policy proceeds may be excluded from his estate. The three year rule applies*, if John were to die within three years following the gift of the policy, the policy would be included in John's estate.

John can also allow the charity to purchase a new life insurance policy on his life. By allowing the charity to make the initial purchase of the policy, the policy proceeds will be excluded from his estate. In addition, John may receive an income tax deduction for cash gifts to the charity to make premium payments.

Making a Difference

Many people believe that they need to be wealthy in order to leave money to charities and make a difference. This is not true. By using a life insurance policy, you can leverage the amount you have available for charitable giving.

Creating a legacy of giving with life insurance can help you realize your goals of charitable giving today—as well as offer a better future for those who will benefit from your generosity.

*IRC Section 2035(a)

Donor as Owner and Charity as Beneficiary

Donor

Premiums are paid to life insurance company

Life Insurance Policy

Upon donor's death, death benefit is distributed to charity

Charity

- The donor can designate a charity as the beneficiary of a life insurance policy from which he/she may no longer need some or all of the death benefit.
- Due to a retained interest (ownership) and the ability to change the beneficiary at any time, the donor will not receive an income tax deduction.
- As the owner, the policy death benefit will be included in the donor's estate but the estate will receive an estate tax charitable deduction for proceeds paid to the charity.

Gifting a Policy to Charity

Donor

Life Insurance Policy

Charity

- The donor can gift an existing policy to charity.
- The donor may receive an income tax deduction for the gift of the policy and any future premiums paid.
- If there is an outstanding loan on the policy, the charitable deduction may not be allowed.
- The three year rule applies*. The donor must live for three years after the transfer to remove the life insurance policy from their taxable estate.

*IRC Section 2035(a)

Charity as Owner and Beneficiary

Donor

Donor makes cash gift to charity

- The charity can be the owner and beneficiary of a life insurance policy on the donor's life.**
- If the donor makes a cash gift directly "to" a public charity, the donor's income tax deduction will be limited to 50% of Adjusted Gross Income (AGI). The charity could use the donor's gift to pay premiums on the policy.
- Instead, the donor could pay premiums directly to the life insurance company, but as a "gift for the use of" the charity, the income tax deduction is limited to 30% of AGI.

Charity

Premiums: Charity uses cash gift to pay premiums on a life insurance policy

Upon donor's death, death benefit is distributed to charity

Life Insurance Policy

**The donor should check his/her state insurable interest laws which would affect the income, gift, and estate tax deductions.

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