Asset Maximization & Charitable Giving

SALES KIT

In this kit:

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YEAR-END 2021:

5-POINT RETIREMENT ACCOUNT ACTION PLAN

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Year-End 2021:
5-Point Retirement Account Action Plan

It is hard to believe, but 2021 is quickly coming to a close, and the end of the year can be hectic for clients. The last thing on their minds may be their retirement accounts. But missed deadlines and lost opportunities are costly. As such, the final months of the year present a critical planning window. Not only are deadlines looming, but some of the best tax planning options may disappear after December 31. Recent Congressional proposals have put retirement savers on notice: the clock is ticking on some popular planning strategies. Now is the time to identify clients, prospects and referral sources to ensure that no tax deadline is missed and no planning opportunities are lost. Here is a five-point retirement account action plan for year-end 2021.

1. **Ramp up for the Return of RMDs.** The CARES Act waived required minimum distributions (RMDs) for 2020, but they are back in effect for 2021. Are you ready to help your clients comply with the complicated RMD rules? IRA owners age 72 or older must take RMDs. Participants in employer plans who are age 72 or older are also subject to RMDs - assuming they do not qualify for the "still-working exception." Beneficiaries may also be subject to RMDs.

   December 31, 2021 is the deadline for most RMDs. However, there is an exception to this deadline for a person's first RMD. If 2021 is the first year an RMD is required for a retirement account owner, the deadline for that RMD is extended to April 1, 2022. While RMDs are not required from Roth IRAs during the owner's lifetime, do not forget that RMDs must be taken from both inherited IRAs and inherited Roth IRAs. Missing the December 31 deadline can be catastrophic as it can mean a hefty 50% penalty on the amount of the RMD not taken. Advisors can steer clear of this mammoth penalty by closely monitoring client's accounts. Process RMDs early to avoid last-minute errors.

2. **Take Advantage of Conversion Opportunities Now.** Tax rates are historically low, and many believe that rates have nowhere to go but up, possibly as early as next year. Take advantage of today's low tax rates by converting traditional retirement accounts to Roth accounts. For those looking to use back-door Roth strategies, time may be running out as Congress is targeting these transactions in several recent legislative proposals.

   To qualify as a 2021 Roth conversion, the funds must leave the IRA or company plan by December 31, 2021. For clients reluctant to absorb a big tax bill, consider a series of smaller partial conversions over time, using up lower tax brackets. Remember, Roth conversions are permanent, so be certain there are enough funds to pay the taxes before completing the conversion.

3. **Identify Clients Who Are Charitably Inclined.** Do you have clients who are charitably inclined? A QCD (qualified charitable distribution) is a direct transfer of up to $100,000 of IRA funds to a qualifying charity—*the most tax-efficient way to make charitable gifts.* Reduce taxable IRA balances at ZERO tax cost for clients age 70 ½ and older *BEFORE year's end*. The charity gets the full donation, and the client does not have to claim the distribution as income—*it's a win-win!* Note: While the SECURE Act raised the RMD age from age 70 ½ to age 72, QCDs are still available at age 70 ½.

   For clients who are over age 59 ½ but not yet 70 ½, or who are looking to give more than the $100,000 QCD limit for 2021… there is the "Mega-QCD" strategy. Note that this planning opportunity will disappear when 2021 comes to a close. Why? Normally, itemized deductions for charitable contributions can't exceed 60% of adjusted gross income (AGI) in a single tax year. But Congress suspended the 60% charitable deduction limit for 2020 cash donations and extended that suspension to 2021. This means a client could take a withdrawal from an IRA or company plan for any amount during 2021 and donate that same amount to charity. Cash donations of up to 100% of AGI can be deducted. (Note that the client must itemize to take advantage of the Mega-QCD strategy.)

4. **Leverage NUA.** The end of 2021 is the "perfect storm" for the net unrealized appreciation (NUA) strategy. Many workers are leaving jobs, taking early retirement due to the pandemic, and stock prices have reached record highs. Additionally, Congress is threatening to do away with favorable capital gains rates for future years.

   For clients with highly appreciated company stock in a company plan, NUA can allow significant tax savings by utilizing long-term capital gains rates rather than ordinary income tax rates on those shares.

   If a client took a distribution of company stock from her company plan in 2021 and is looking to use the NUA tax break, it is imperative to ensure that proper steps are followed by year end. Double check that a lump sum distribution occurred. Remember, to qualify for the NUA tax break, the entire distribution must be completed in one tax year. Make sure that ALL funds have been withdrawn from the plan and that the company stock has been properly transferred to a taxable (non-IRA) account.

5. **Move Retirement Accounts Strategically.** For clients with after-tax dollars in IRAs, the pro-rata formula can be a huge stumbling block when it comes to distribution planning. The formula hinges on the percentage of pre-tax dollars a person has in all of his IRAs at the end of the year. This can be a pitfall, or an opportunity.

   How so? A sizeable rollover from a plan can add taxable dollars to an IRA, resulting in an unexpected tax bill on a previous back-door Roth conversion. Or, a carefully timed reverse rollover of pre-tax dollars from an IRA to a plan can result in a tax-free conversion.

   As December 31, 2021 approaches, savvy advisors who know these rules can make a significant difference in their clients' lives.

HELP YOUR CLIENTS TAKE FINANCIAL CONTROL, AVOID UNNECESSARY TAXES AND COMBAT THE LATEST THREATS TO THEIR RETIREMENT SAVINGS

Obstacles and volatility facing retirement accounts are constant variables, and going into 2022, they are continuing to snowball with exponential speed and complexity! The stock market, interest rates, tax laws, and the political and regulatory environment surrounding a global pandemic and best interest regulation, just to name a few, are a ticking time bomb! Meanwhile, your clients' retirement savings are waiting in balance.

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As news continues to break, this LIVE training will prepare you to answer the top questions from your clients, prospects and centers of influence. After two days, you will be armed with immediately actionable intel to help your clients maximize their hard-earned retirement savings.

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Disappearing Act: What You Need to Know About the Estate and Gift Tax Provisions of the House Ways and Means Committee Tax Proposals

On September 13, 2021, the House Ways and Means committee released its proposals to raise revenue, including increases to individual, trust and corporate income taxes, changes to retirement plan contributions and distributions, and changes to the estate and gift tax laws. We will continue to monitor this legislation and will provide relevant updates, but wanted to highlight the proposed estate and gift tax changes that may be most crucial to your immediate planning.

Good news first: There is no proposed change to the current system of adjusting the cost basis of property owned at death to the value of the property on the day of death (commonly referred to as basis step-up). This adjustment is useful in eliminating capital gains on the sale of assets held until death. For all who were worried about losing that advantage, we believe we have our answer.

Now for the not so good news: According to the proposals, the unified gift and estate tax exemption (currently $11,700,000) will be cut in half. Those individuals with estates in excess of $6 million (or couples with estates in excess of $12 million) will face significant estate tax due upon death as a result of this reduction. In addition, the proposed legislation includes changes to the taxation of certain irrevocable trusts on death, which if passed would eliminate the effectiveness of some very common advanced planning techniques and for some create tax they did not anticipate. Both of these potential changes require immediate attention.

Disappearing Estate/Gift Tax Exemption

Amounts passing to a spouse or charity during life or at death are and will continue to be free of gift/estate tax. But for all other transfers, the amount that can pass free of federal estate and gift tax is limited by the federal estate/gift tax exemption. This is currently $11,700,000 per person and was scheduled to be reduced January 1, 2026. Under the proposal, the current exemption of $11,700,000 will be reduced on **January 1, 2022** to an exemption that, after adjustment for inflation, will be approximately $6 million. If the proposals are enacted, those wishing to maximize the benefit of the current available exemption levels would need to act before January 1, 2022. Specifically, this means clients who can afford to gift assets in excess of $6 million now, and who desire to avoid or reduce the estate tax that will be due at death, should do so this year. If you fall into this category, and if you have been considering a large gift, time may be running out to utilize the current high exemptions.

Disappearing Trust Techniques

One very common and useful technique to utilize exemption and maximize growth of the gifted assets has been to gift assets into irrevocable trusts called "grantor trusts". These trusts allow the grantor to remove assets from his or her estate by gifting them into irrevocable trusts for the benefit of a spouse, children, or others. In addition, the grantor retains the income tax liability on the gifted assets during his or her lifetime, which allows the trust assets to grow unreduced by the payment of taxes and thereby maximizes the value of the assets transferred. Common examples of these types of trusts include SLATs, IDGTs, GRATs, ILITs, and QPRTs. Under the proposal, assets held in grantor trusts created after the effective date would be includable in the grantor's estate, making these trusts ineffective techniques for utilizing exemptions. If you have been considering establishing one of these trusts, now may be the time.

Taxation on Contributions to Existing Irrevocable Trusts

In addition to taking these techniques off the table moving forward, the proposal also creates concern for some clients who have already created an **irrevocable grantor trust**. This is not an issue that affects the revocable trust that you may have created as part of your estate plan, but a trust that is irrevocable into which you intend to make gifts/contributions after January 1, 2022. While the proposals related to grantor trusts outlined above affect trusts created after the date of enactment of the future legislation, they also affect future contributions to existing irrevocable trusts. If you have created an irrevocable insurance trust and continue to pay premiums due on the insurance policies owned by the trust, or if you have created an irrevocable gift trust and plan to make future gifts to that trust, the trust should be reviewed before legislation is enacted to make sure that the proposals will not affect the taxation of that trust.

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Ways and Means releases list of tax provisions for budget bill

The House Ways and Means Committee on Monday released legislative text for proposed tax changes to be incorporated in the budget reconciliation bill known as the "Build America Back Better" act. The committee plans to mark up the bill on Tuesday and Wednesday. The proposal would raise tax rates for corporations and individuals and make many other changes to the Internal Revenue Code. Here are highlights of the proposed changes.

Corporations and businesses

Tax rate: The proposal would replace the current. at 21% corporate tax rate with a graduated rate, starting at 18% on the first $400,000 of income; 21% on income up to $5 million; and 26.5% on income above $5 million. However, the graduated rate would phase out for corporations making more than $10 million.

Interest deduction limitation: The proposal would add a new Sec. 163(n) that would limit the interest deduction of certain domestic corporations that are members in an international financial reporting group to an allowable percentage of 110% of the net interest expense. The interest limitation would apply only to domestic corporations for which the average excess interest expense over interest includible over a three-year period exceeds $12 million.

GILTI and FDII: The proposal would reduce the Sec. 250 deduction with respect to both foreign-derived intangible income (FDII, to 21.875%) and global low-taxed intangible income (GILTI, to 37.5%). In combination with the proposed 26.5% corporate tax rate, this would result in a 16.5625% GILTI rate and a 20.7% FDII rate. The proposal would also provide for country-by-country application of the GILTI regime.

BEAT: The proposal would make various changes to the base-erosion and anti-abuse tax (BEAT). First, the BEAT rate in Sec. 59A(b)(1)(A) is amended to 10% in tax years beginning after Dec. 31, 2021, and before Jan. 1, 2024; to 12.5% in tax years beginning after Dec. 31, 2023, and before Jan. 1, 2026; and to 15% in any tax year beginning after Dec. 31, 2025. Second, the base-erosion minimum tax amount would be determined taking into account tax credits.

Carried interests and capital gains: The proposal would generally extend from three to five years the holding period required for gain attributable to an applicable partnership interest to qualify for long-term capital gain treatment. The provision would retain the three-year holding period for real property trades or businesses and taxpayers with an adjusted gross income (AGI) less than $400,000. The proposal also would extend Sec. 1061 to all assets eligible for long-term capital gain rates.

Sec. 1202 stock: The proposal would provide that the special 75% and 100% exclusion rates for gains realized from certain qualified small business stock would not apply to taxpayers with AGI equal to or exceeding $400,000. The baseline 50% exclusion in Sec. 1202(a)(1) would remain available for all taxpayers.

Individuals

Tax rates: The proposal would increase the top marginal individual income tax rate to 39.6%. This marginal rate would apply to married individuals filing jointly with taxable income over $450,000; to heads of household with taxable income over $425,000; to unmarried individuals with taxable income over $400,000; to married individuals filing separate returns with taxable income over $225,000; and to estates and trusts with taxable income over $12,500.

Capital gains: The proposal would increase the 20% tax rate on capital gains to 25%. A transition rule would provide that the current statutory rate of 20% would continue to apply to gains and losses for the portion of the tax year prior to Sept. 13, 2021. Gains recognized later in the same tax year that arise from transactions entered into before Sept. 13, 2021, pursuant to a written binding contract would be treated as occurring prior to Sept. 13, 2021.

Net investment income tax: The proposal would expand the Sec. 1411 net investment income tax to cover net investment income derived in the ordinary course of a trade or business for taxpayers with greater than $400,000 in taxable income (single filers) or $500,000 (joint filers), as well as for trusts and estates.

Qualified business income deduction: The proposal would set the maximum allowable deduction under Sec. 199A at $500,000 in the case of a joint return, $400,000 for an individual return, $250,000 for a married individual filing a separate return, and $10,000 for a trust or estate.

Limitation on excess business losses: The proposal would amend Sec. 461(l) to permanently disallow excess business losses (i.e., net business deductions in excess of business income) for noncorporate taxpayers.

High-income surcharge: The proposal would impose a tax equal to 3% of a taxpayer's modified AGI (MAGI) in excess of $5 million (or in excess of $2.5 million for a married individual filing separately). For this purpose, MAGI would mean AGI reduced by any deduction allowed for investment interest (as defined in Sec. 163(d)).

Unified credit: The proposal would revert the unified credit against estate and gift taxes to $5 million per taxpayer, adjusted for inflation.

Retirement plans

Contributions to IRAs: The proposal would prohibit further contributions to a Roth or traditional IRA for a tax year if the total value of an individual's IRA and defined contribution retirement accounts generally exceeds $10 million as of the end of the prior tax year. The limit on contributions would only apply to single taxpayers (or taxpayers married filing separately) with taxable income over $400,000, married taxpayers filing jointly with taxable income over $450,000, and heads of household with taxable income over $425,000 (all indexed for inflation).

RMDs: For high-income taxpayers, as defined in the preceding item, if an individual's combined traditional IRA, Roth IRA, and defined contribution retirement account balances generally exceed $10 million at the end of a tax year, a minimum distribution would be required for the following year. The minimum distribution would generally be 50% of the amount by which the individual's prior-year aggregate traditional IRA, Roth IRA, and defined contribution account balance exceeds the $10 million limit. To the extent that the combined balance amount in traditional IRAs, Roth IRAs, and defined contribution plans exceeds $20 million, that excess would be required to be distributed from Roth IRAs and Roth designated accounts in defined contribution plans up to the lesser of (1) the amount needed to bring the total balance in all accounts down to $20 million or (2) the aggregate balance in the Roth IRAs and designated Roth accounts in defined contribution plans.

Roth conversions: The proposal would eliminate Roth conversions for both IRAs and employer-sponsored plans for single taxpayers (or taxpayers married filing separately) with taxable income over $400,000, married taxpayers filing jointly with taxable income over $450,000, and heads of household with taxable income over $425,000 (all indexed for inflation).

Other provisions

Paid family leave and medical leave: The proposal would end the employer credit for wages paid to employees during family and medical leave to tax years beginning after 2023, instead of the current 2025 expiration date.

S corporation reorganization: The proposal would allow eligible S corporations to reorganize as partnerships without triggering tax. An eligible S corporation would be any corporation that was an S corporation on May 13, 1996 (prior to the publication of current-law check-the-box regulations).

Work opportunity tax credit: The proposal would increase the work opportunity tax credit to 50% for the first $10,000 in wages, through Dec. 31, 2023, for all WOTC targeted groups except for summer youth employees.

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Advanced Markets

2021 Fingertip Tax Guide

This Guide has been updated to reflect 2021 tax changes related to individual income taxes, transfer taxes, business taxes, retirement contribution limits and more. Please note that under the Tax Cuts and Jobs Act (TCJA) of 2017, many of the provisions that affect individual taxpayers are set to expire at the end of 2025, reverting to pre-TCJA law.

Ordinary income taxes 2021

If taxable income is[1]:

	Over	But not over	The tax is	Of the amount over
Married filing jointly	$0	$19,900	$0 + 10%	$0
	$19,990	$81,050	$1,990 + 12%	$19,990
	$81,050	$172,750	$9,328 + 22%	$81,050
	$172,750	$329,850	$29,502 + 24%	$172,750
	$329,850	$418,850	$67,206 + 32%	$329,850
	$418,850	$628,300	$95,686 + 35%	$418,850
	$628,300	—	$167,307.50 + 37%	$628,300
Single	$0	$9,950	$0 + 10%	$0
	$9,950	$40,525	$995 + 12%	$9,950
	$40,525	$86,375	$4,664 + 22%	$40,525
	$86,375	$164,925	$$14,751+ 24%	$86,375
	$164,925	$209,425	$33,603 + 32%	$164,925
	$209,425	$523,600	$47,843+ 35%	$209,425
	$523,600	—	$157,804.25 + 37%	$523,600
Estates and trusts	$0	$2,650	$0 + 10%	$0
	$2,650	$9,550	$265 + 24%	$2,650
	$9,550	$13,050	$1,921 + 35%	$9,550
	$13,050	—	$3,146 + 37%	$13,050

2021 Capital gains tax

Capital gains rate on collectibles	28%	
Long-term capital gains rates (other than collectibles and qualified business stock)	Single	Married filing jointly
0%	$40,400 or below	$80,800 or below
15%	$40,401 - $445,850	$80,801 - $501,600
20%	Over $445,850	Over $501,600

Note: Qualified Dividends are taxed the same as capital gains.

Alternative minimum tax exemption amounts

	2020	2021
Married filing jointly	$113,400	$114,600
Single	$72,900	$73,600
Trusts and estates	$25,400	$25,700

Standard deductions

	2020	2021
Married filing jointly	$24,800	$25,100
Single	$12,400	$12,550

Net investment income (NII) tax thresholds

3.8% Medicare surcharge

	Applicable on NII when taxpayer's income exceeds
Married filing jointly	$250,000
Married filing separately	$125,000
Any other filing status	$200,000

Note: Thresholds are not indexed for inflation.

Medicare tax thresholds

0.9% Additional tax on earned income

	Applicable on earned income amounts over:
Married filing jointly	$250,000
Married filing separately	$125,000
Any other filing status	$200,000

Note: Thresholds are not indexed for inflation.

Social Security benefits

Maximum annual earnings before social security benefits are reduced

	2020	2021
Before full retirement age (lose $1 for every $2 of earnings)	$18,240	$18,960
Year of full retirement age (lose $1 for every $3 of earnings)	$48,600	$50,520
After full retirement age	No limit	No limit

FICA income limits

Maximum compensation subject to FICA taxes

	2020	2021
OASDI (Old-age, survivors and disability insurance; social security maximum)	$137,700	$142,800
HI (Hospital insurance; Medicare maximum)	No limit	No limit

Qualified plans

	2020	2021
Maximum elective deferral to retirement plans (e.g., 401(k), 403(b) & 457(b) plans)[2]	$19,500	$19,500
401(k) age 50+ catch-up contribution limit	$6,500	$6,500
Maximum IRA contribution limit	$6,000	$6,000
IRA age 50+ catch-up contribution limit	$1,000	$1,000
Maximum elective deferral to SIMPLE plan	$13,500	$13,500
SIMPLE plan age 50+ catch-up contribution limit	$3,000	$3,000
Annual includible compensation limit	$285,000	$290,000
Defined contribution plan annual addition limit	$57,000	$58,000
Highly compensated employee compensation limit	$130,000	$130,000
Annual retirement benefit limit under defined benefit plans (not to exceed 100% of compensation)	$230,000	$230,000

Roth IRA income limits for contributions

	2020	2021
Married filing jointly	$196,000 - $206,000	$198,000 - $208,000
Any other filing status	$124,000 - $139,000	$125,000 - $140,000

Corporations

	2020	2021
C corporations	21% flat tax	Same as previous year
Pass-through businesses (s corporations, partnerships) **and sole proprietors**	Tax rate of owner, but up to 20% deduction on "qualified business income" subject to threshold limits (see 199A thresholds)	Same as previous year

Note: Deduction for pass-through businesses is subject to strict rules and testing requirements; deduction unavailable for specified service-oriented businesses where owner's income exceeds certain limits (see below)

199A thresholds

	2020	2021
Married filing jointly	$326,600 - $426,600	$329,800 - $429,800
Married filing separate	$163,300 - $213,300	$164,925 - $214,925
Any other filing status	$163,300 - $213,300	$164,900 - $214,900

Long-Term Care

Periodic payments received under qualified long-term care insurance contracts or under certain life insurance contracts

	2020	2021
Per diem limit	$380	$400

Deduction for Eligible Long-Term Care Premiums per IRC 213(d)(10)

	2020	2021
Age 40 or less	$430	$450
Over age 40 but not more than 50	$810	$850
Over age 50 but not more than 60	$1,630	$1,690
Over age 60 but not more than 70	$4,350	$4,520
More than 70	$5,430	$5,640

2021 Estate & gift taxes

Over	But not over	The tax is	Of the amount over
$0	$10,000	$0 + 18%	$0
$10,000	$20,000	$1,800 + 20%	$10,000
$20,000	$40,000	$3,800 + 22%	$20,000
$40,000	$60,000	$8,200 + 24%	$40,000
$60,000	$80,000	$13,000 + 26%	$60,000
$80,000	$100,000	$18,200 + 28%	$80,000
$100,000	$150,000	$23,800 + 30%	$100,000
$150,000	$250,000	$38,800 + 32%	$150,000
$250,000	$500,000	$70,800 + 34%	$250,000
$500,000	$750,000	$155,800 + 37%	$500,000
$750,000	$1,000,000	$248,300 + 39%	$750,000
$1,000,000	—	$345,800 + 40%	$1,000,000

Tax exemptions for 2021

Annual gift tax exclusion: Individual donor may gift $15,000 per donee

Gift tax exemption: $11,700,000

Estate and generation-skipping transfer tax exemption: $11,700,000

Annual gift tax exclusion for a non-citizen spouse: $159,000

Maximum gift tax rate: 40%

Estate tax rates and exemptions

Year	Top estate tax rate	Estate tax exemption	Applicable credit
2010	0%[3]/35%	$0[3]/$5,000,000	$0[3]/$1,730,800
2011	35%	$5,000,000	$1,730,800
2012	35%	$5,120,000	$1,772,800
2013	40%	$5,250,000	$2,045,800
2014	40%	$5,340,000	$2,081,800
2015	40%	$5,430,000	$2,117,800
2016	40%	$5,450,000	$2,125,800
2017	40%	$5,490,000	$2,141,800
2018	40%	$11,180,000	$4,417,800
2019	40%	$11,400,000	$4,505,800
2020	40%	$11,580,000	$4,577,800
2021	40%	$11,700,000	$4,625,800

Note: The TCJA increased the gift, estate, and GST tax exemptions to $10M (indexed for inflation), but these exemptions are scheduled to expire and revert back to $5M (indexed for inflation) after 12/31/2025. In November 2019, final regulations were issued clarifying that there will be no "clawback" of any unified credit used before 2026 when the exemption reverts to a $5 million exemption (indexed for inflation).

For additional information, please contact your local

John Hancock Representative.

1. The rates listed are for the regular income tax. Some taxpayers may be subject to the Alternative Minimum Tax (AMT) instead; every taxpayer is responsible for paying the higher of the regular income tax or the AMT.
2. The contribution limit is the same for regular and Roth 401(k) plans; a total of $19,500 can be contributed in 2021 to one or both types of 401(k) plans.
3. In 2010, decedents had the choice between full estate tax repeal but with carryover basis or exposure to estate tax with a $5M exemption and a maximum tax rate of 35%.

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ADVANCED PLANNING

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

Prudential

The Prudential Insurance Company of America

1000362-00004-00 Ed. 12/2020

Creating a lifetime legacy.

If your hard work and careful preparation have brought you financial wellness and 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 2021, 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 2021 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:

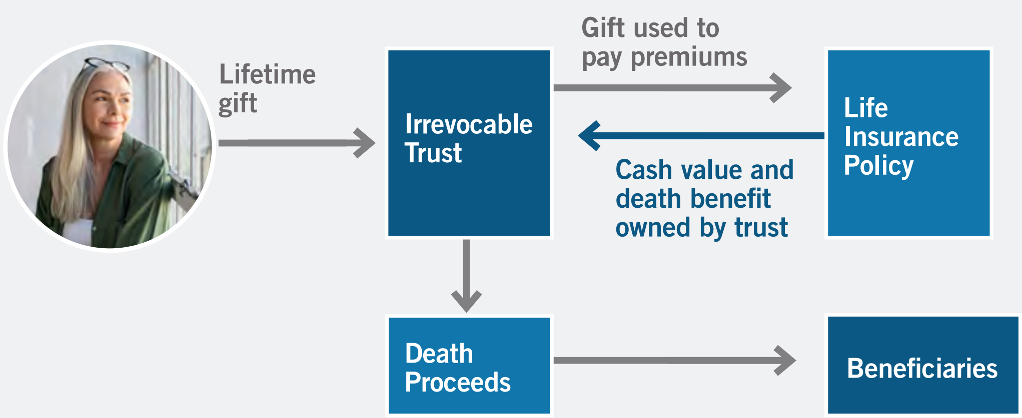
- Protect assets from creditors of trust beneficiaries.
- Provide for beneficiaries who may lack the maturity and/or responsibility to effectively manage large amounts of wealth.
- Establish controls around how the trust assets are managed, distributed, and ultimately received by your beneficiaries.
- 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.

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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.

*IRC Section 2035(a)

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.

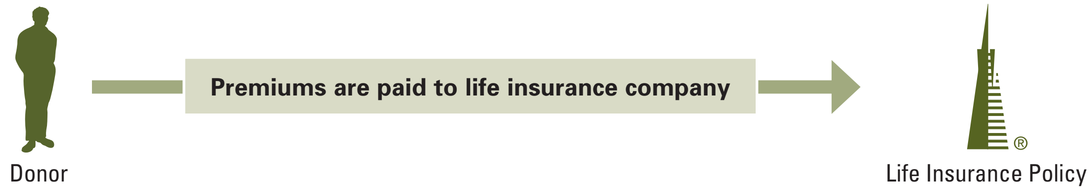
John can also allow the charity to purchase a new life insurance policy on his life. By allowing the charity to make the initial purchase of the policy, the policy proceeds will be excluded from his estate. In addition, John may receive an income tax deduction for cash gifts to the charity to make premium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

Making a Difference

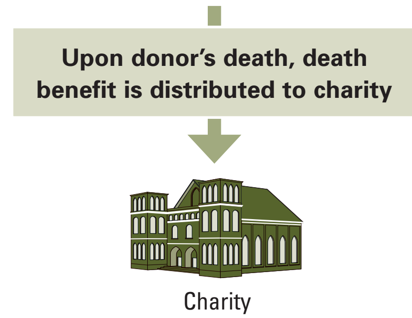
Many people believe that they need to be wealthy in order to leave money to charities and make a difference. This is not true. By using a life insurance policy, you can leverage the amount you have available for charitable giving.

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.

Donor as Owner and Charity as Beneficiary



- 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.

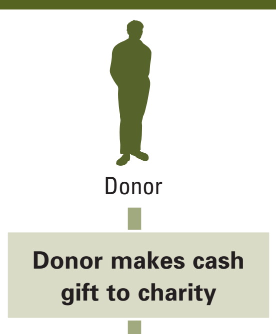


Gifting a Policy to Charity

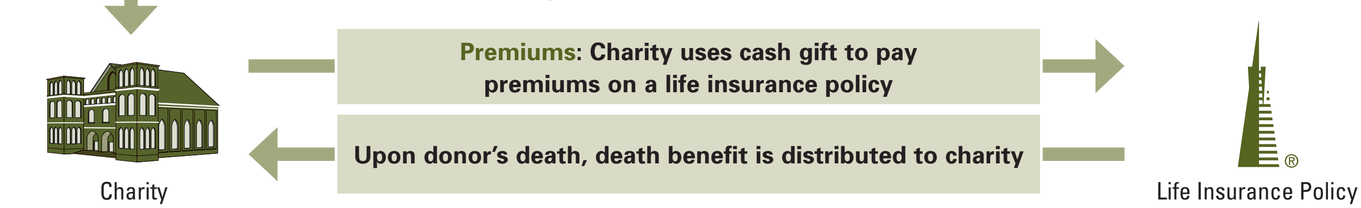
- The donor can gift an existing policy to charity.
- The donor may receive an income tax deduction for the gift of the policy and any future premiums paid.
- If there is an outstanding loan on the policy, the charitable deduction may not be allowed.
- The three year rule applies*. The donor must live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



- 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.



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

Life insurance products are issued in New York by Transamerica Financial Life Insurance Company, Harrison, NY and Transamerica Life Insurance Company, Cedar Rapids, IA in all other jurisdictions.

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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.

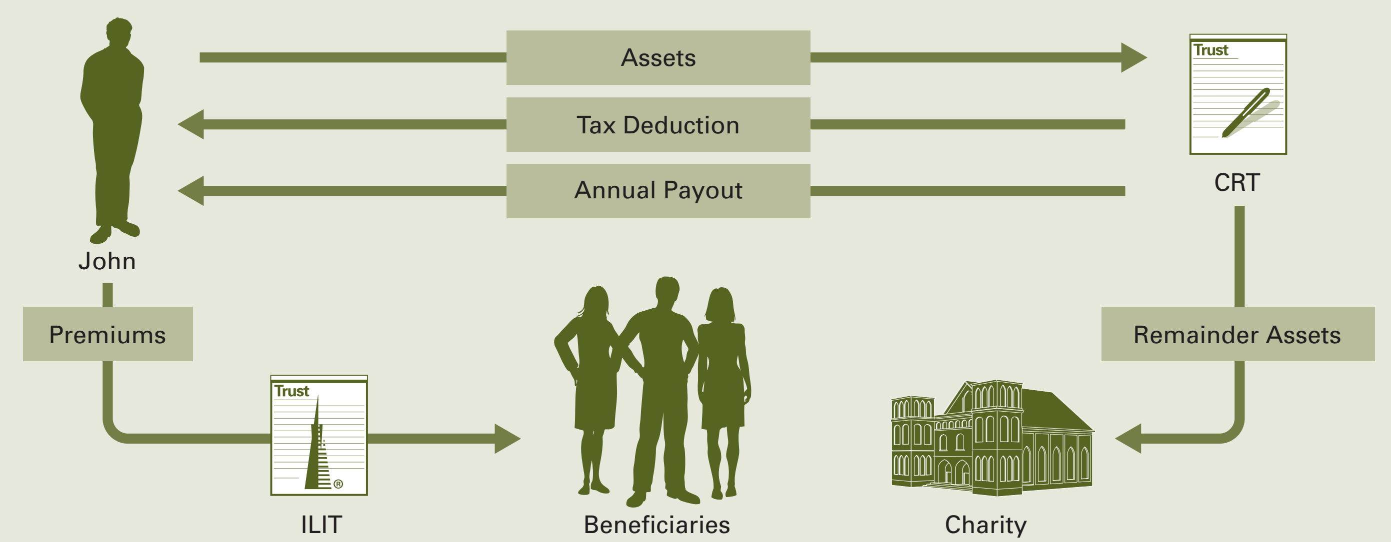
Hypothetical Example: How a CRT Combined with an ILIT Can Benefit Clients

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 Giving

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

The Rationale

- Life insurance can be used to make a substantial, cost-effective gift to charity.
- A life insurance gift allows heirs to inherit other assets.
- Life insurance proceeds are paid to the charity without delay.
- A life insurance gift is private, whereas a gift in a will is a matter of public record.
- An outright gift of a policy to charity creates a current income tax charitable deduction equal to the lesser of the policy's fair market value or the donor's basis in the policy.
- Death proceeds paid to charity from an estate are deductible for federal estate tax purposes.
- Remaining premiums paid by a donor are deductible when a charity owns the policy, or when the donor gifts premium amounts directly to the charity.

The Choices

There are three basic options when making a charitable gift of a life insurance policy:

- The policy owner gives an existing policy to charity, assigning all incidents of ownership to the charity by naming the charity both owner and beneficiary of the policy.
- The donor applies for a new policy on his or her own life with the charity as the policy owner and beneficiary (subject to state insurable interest laws).
- The donor names the charity as a beneficiary of a policy the donor continues to own.

The Tax Impact

- A gift of an **existing life insurance policy** to charity qualifies for an income tax charitable deduction, provided the donor itemizes deductions and assigns all rights to the charity by naming the charity owner and beneficiary.
- The donor's deduction is the lesser of the fair market value of the policy or the donor's tax basis in the policy.
- The deduction is reduced if the policy is subject to a loan.

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

- The donor qualifies for an income tax charitable deduction for premium payments the donor makes after a policy is transferred. If premiums are paid directly to the insurance company, the deduction is limited to 30% of the donor's adjusted gross income. But if the donor makes annual cash gifts to pay the premiums, the donor who itemizes may deduct an amount up to 60% of adjusted gross income that year. Stricter limits apply in the case of gifts to a private foundation.
- When a donor wants to retain ownership and control of an **existing policy**, the donor can simply add the charity as beneficiary. This will not provide an income tax charitable deduction, but it will create an estate tax charitable deduction for the proceeds that go to the charity at the insured donor's death.
- If the gift is a **new life insurance policy**, the donor should transfer funds to the charity to pay premiums. The charity then becomes applicant, owner and beneficiary of the new policy on the donor's life. The initial premium transferred to the charity generally qualifies for a deduction and the policy's death proceeds won't be included in the donor's gross estate at death because the donor never held any incidents of ownership.

Other Considerations

- The laws in most states make it clear that a charitable organization has an insurable interest in a donor. However, the donor's legal counsel should check the state law before the donor chooses to give a new policy to charity.

The Bottom Line

Because death benefits paid to a charity at the donor's death typically far exceed the premiums paid for the policy, life insurance can create a gift that is much larger than might otherwise have been possible. A gift of life insurance permits a donor to make a generous charitable contribution while retaining other assets.

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

SUMMARY

Why Make a Life Insurance Gift?

An insurance policy has the potential to create a substantial, cost-effective gift to charity through the policy's death benefit. The result is a gift that is much larger than the donor may otherwise have been able to make.

Also, unlike a charitable bequest made in a will, a life insurance gift does not become a matter of public record and is made without the delays of probate.

Premiums paid by the donor after a lifetime gift of a policy to charity are deductible for income tax purposes when the donor itemizes. When the charity is named as the policy beneficiary, the death proceeds paid to the charity are deductible for federal estate tax purposes.

How Can a Donor Make a Gift of Life Insurance?

A donor has three basic choices in making a charitable gift of life insurance:

- The donor gives an existing policy to charity. In this case, the donor assigns all incidents of ownership to the charity, making the charity the policy's owner and beneficiary.
- The donor applies for a new life insurance policy and designates the charity as owner and beneficiary. Although a majority of states recognize a charitable organization as having an insurable interest in a donor, an individual considering this gift should have an attorney check the applicable state law pertaining to insurable interest.
- The donor names the charity as the beneficiary of a policy that the donor continues to own.

What Are the Tax Considerations?

A charitable gift of an existing life insurance policy can generate an income tax charitable deduction provided the donor assigns all rights. When considering a charitable gift of an existing policy, the donor has two choices:

- Make an irrevocable gift of the policy to charity. The donor qualifies for an income tax charitable deduction equal to the value of the policy or the donor's cost basis in the policy, whichever is less.
- Name the charity as beneficiary while retaining ownership and control of the policy. No income tax deduction is available for this gift. At the time of the donor's death, the policy proceeds will be included in the donor's estate and the donor will receive an estate tax charitable deduction for the money that goes to charity.

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

If the gift is a new policy, the donor should first transfer funds to the charity. The charity then becomes applicant, owner and beneficiary of the new policy issued on the life of the donor. The donor qualifies for an income tax deduction for the initial premium amount paid by the donor. Also, the death proceeds of the policy won’t be included in the donor’s estate at death because the donor never held any incidents of ownership.

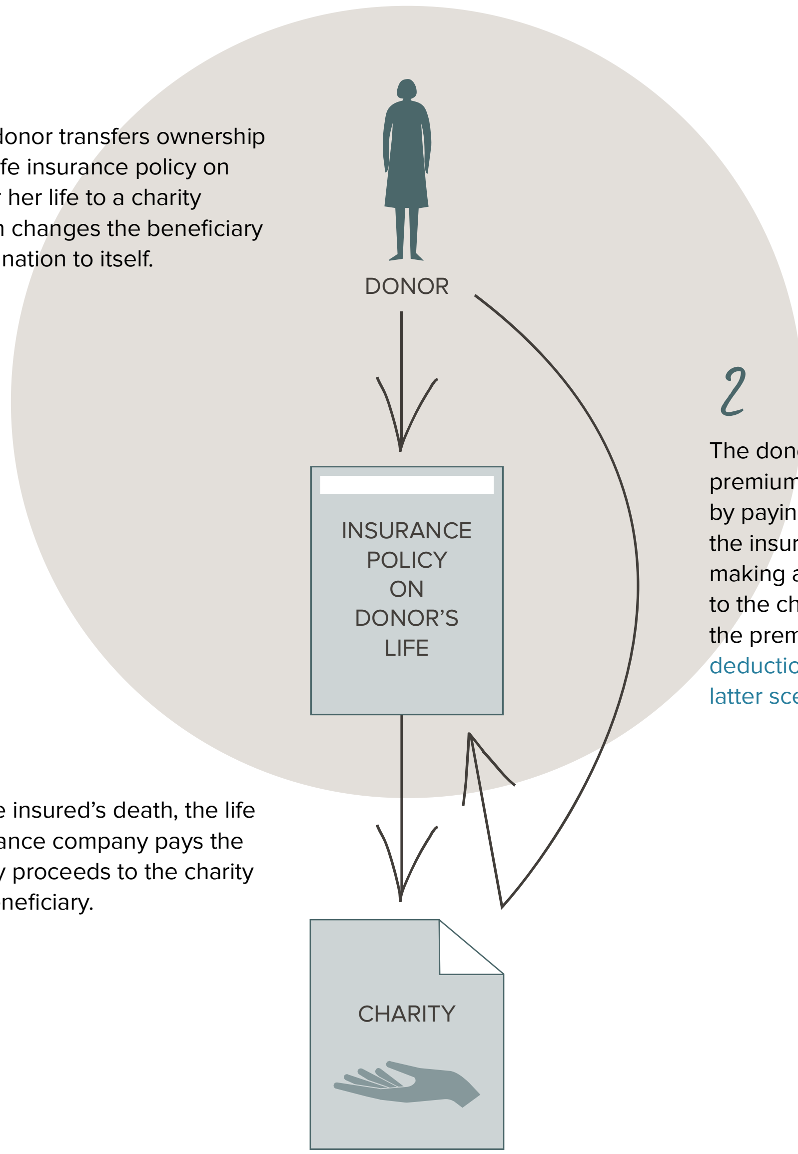
What’s the Conclusion?

Because death benefits paid to a charity at the donor’s death typically far exceed the premiums paid for the policy, life insurance can create a gift that is much larger than might otherwise have been possible. A gift of life insurance permits a donor to make a generous charitable contribution while retaining other assets.

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

1

The donor transfers ownership of a life insurance policy on his or her life to a charity which changes the beneficiary designation to itself.



2

The donor may also pay the premiums on the policy, either by paying them directly to the insurance company or by making annual cash transfers to the charity, which then pays the premiums. More favorable deduction limits apply to the latter scenario.

3

At the insured's death, the life insurance company pays the policy proceeds to the charity as beneficiary.

CHARITABLE GIFT OF A LIFE INSURANCE POLICY

Charitable Giving

INCOME TAX CHARITABLE DEDUCTION

Important Note:

The Consolidated Appropriations Act, 2021 continues the following temporary CARES Act provisions through 2021 to encourage charitable giving by:

- Increasing the deduction limit for cash contributions by individual donors to 100% of AGI (up from 60%)
- Increasing the limit for cash contributions by corporate donors to 25% of AGI (up from 10%)
- Providing non-itemizers an “above-the-line” deduction of $300 ($600 for joint filers) for cash gifts

INCOME TAX CHARITABLE DEDUCTION

The Attraction

- Donors who make lifetime charitable gifts have the pleasure of seeing how their generosity benefits a favorite charity.
- The donor also receives a charitable income tax deduction for the gift, reducing the amount of income subject to tax. The amount of the deduction depends on the donor's adjusted gross income (AGI).
- To take advantage of these deductions, a donor must itemize. Essentially, the government promotes charitable giving by allowing donors to pay less in taxes.

The Deduction

- Not every charitably motivated gift qualifies for a charitable deduction, nor is every gift to a tax-exempt organization deductible.
- Charities must be "qualified" for federal income tax purposes to receive tax-deductible contributions. Qualified charities include churches, hospitals, universities, veterans' organizations and non-profit cemeteries.
- Generally, the deductible amount of a gift to a qualified charity depends on two factors: the type of organization receiving the gift, and the type and value of the property given.
- Tax law distinguishes between two types of qualified charitable organizations: "50% organizations," generally made up of public charities, private operating foundations and certain other private foundations, and "30% organizations" (essentially all the rest, including most types of private foundations).

Cash Gifts

- Cash gifts to 50% organizations—the public charities—can now be deducted up to 60% of the donor's AGI. This category includes organizations receiving much of their support from the government or general public, such as governmental units, religious and educational organizations, hospitals and medical research organizations, community foundations and other organizations meeting the public support test.
- Cash contributions to 30% organizations such as private foundations can be deducted only up to 30% of the donor's AGI.

Gifts of Other Property

- With a gift of property other than cash, the fair market value of the property generally determines the amount of the contribution.
- However, certain property gifts are deductible only to the extent of the donor's cost basis, including ordinary income property, appreciated short-term capital gain property, and certain types of appreciated long-term capital gain property given to a 30% organization. Tangible personal property that's put to a use "not related" to the charity's tax-exempt purpose is also included.
- A gift of an appreciated asset that would have produced long-term capital gain if sold on the date of the contribution is generally only deductible up to 30% of the donor's AGI if it's given to a 50% organization. A similar gift to a 30% organization is only deductible up to 20% of the donor's adjusted gross income.
- Donors contributing property other than cash and publicly traded securities and claiming a value exceeding $5,000 generally must obtain a written appraisal from a qualified appraiser. The appraisal must be done no earlier than 60 days before the date of the gift and no later than the due date of the donor's tax return on which the deduction will be claimed. The donor must attach a special IRS form to the income tax return, signed by the charity and the appraiser.
- Special valuation rules exist for certain donated property such as intellectual property, life insurance, artwork and motor vehicles.
- Any excess deduction above the AGI percentage limitation may be carried over and deducted in up to five succeeding tax years.

The Bottom Line

Lifetime charitable gifts allow donors to witness the impact of their generosity. Lifetime gifts also provide attractive income tax advantages, which often afford donors the opportunity to make even greater contributions to charitable causes.

INCOME TAX CHARITABLE DEDUCTION

SUMMARY

Why Lifetime Charitable Giving?

Donors who make lifetime charitable gifts have the chance to see firsthand how their generosity contributes to a favorite charity's mission.

For donors who itemize deductions, a gift to charity qualifies for an income tax charitable deduction in the year it's made, subject to certain limitations. Less income subject to tax can mean a smaller tax bill.

What Types of Organizations Qualify?

Itemizers can claim a deduction for gifts made to a "qualified charitable organization." That definition includes charities such as educational institutions, churches and hospitals, along with other organizations receiving support from government and private sources.

Tax law distinguishes between two types of qualified charitable organizations. Those identified as "50% organizations" are generally made up of public charities, private operating foundations and certain other private foundations that receive a good portion of their funds from the government or the general public. Those referred to as "30% organizations" include most types of private foundations.

How Is the Deduction Determined?

Generally, the amount a donor may take as an income tax charitable deduction depends on two factors: the type of organization receiving the gift, and the type and value of the gift.

Gifts of cash to 50% organizations can now be deducted up to 60% of the donor's adjusted gross income, while cash gifts to 30% organizations can be deducted up to 30% of the donor's adjusted gross income.

Gifts of property other than cash may get a somewhat different treatment. Generally, the fair market value of the donated property is deductible. But in some cases, the deduction is limited to the donor's cost basis. This exception applies to such gifts as ordinary income property, appreciated short-term capital gain property, and certain appreciated long-term capital gain property given to a 30% organization. Tangible personal property is also included in this exception if it's put to a use unrelated to the charity's tax-exempt purpose.

Special valuation rules also exist for certain donated property, such as intellectual property, life insurance, artwork and motor vehicles.

When Is a Qualified Appraisal Necessary?

Another requirement applies to gifts other than cash and publicly traded securities where the donor claims a value of more than $5,000.

INCOME TAX CHARITABLE DEDUCTION

Donors must generally obtain a written appraisal from a qualified appraiser to support the claimed valuation, and attach a special IRS form to their federal income tax return, signed by the charity and the appraiser. The appraiser must make the appraisal no earlier than 60 days before the date of the gift and no later than the due date of the donor's tax return claiming the deduction.

What Is the End Result?

When a donor makes a charitable gift during life, it allows the donor to see the real-world impact of the gift in action. Charitable giving can also provide tax advantages in the year the gift is made, which can often make an even larger gift possible.

INCOME TAX CHARITABLE DEDUCTION

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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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INSURANCE

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

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

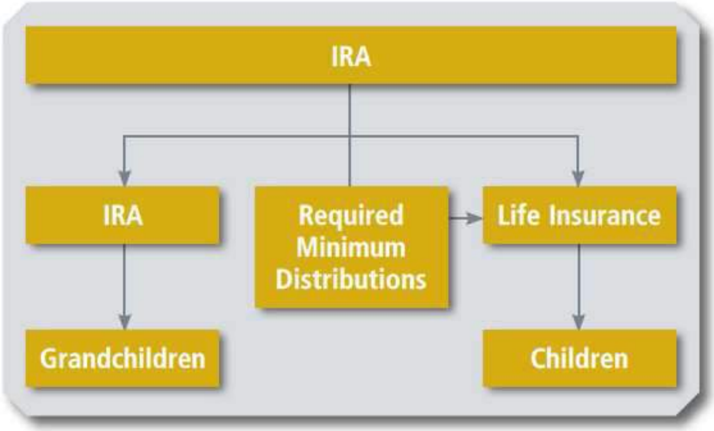
First, you can create an income stream by taking the required withdrawals (or more) from your qualified plan. You pay income tax on the withdrawals, but then can use the after-tax money to fund a life insurance policy. Your children will receive a lump sum tax-free death benefit upon your death.[1]

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.

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

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.

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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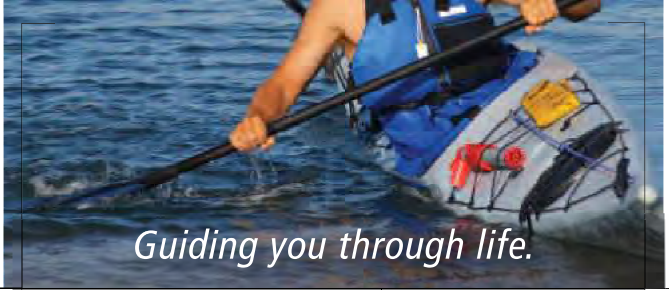

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

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

WEALTH TRANSFER | Advanced Markets

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

1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
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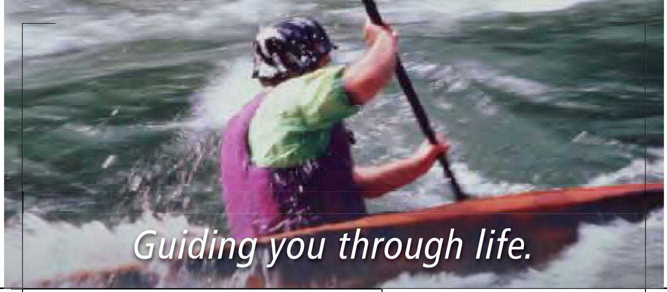

FACT FINDER

WEALTH TRANSFER | Advanced Markets

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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John Hancock
LIFE INSURANCE

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

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.

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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LIFE INSURANCE

FACT FINDER

WEALTH TRANSFER | Advanced Markets

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):

Client Information (Client B)

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: %

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: %

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

Insurance products are issued by: John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

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Advanced Markets

Lifetime Gifting

A simple way to transfer wealth and enhance your legacy

One of the best ways to enhance your legacy and minimize your exposure to transfer taxes is by implementing a gifting strategy combined with an Irrevocable Life Insurance Trust (ILIT). Gifting combined with ILITs also allows you to meet other planning goals such as avoiding probate, increasing creditor protection, and giving you greater control and flexibility over how your assets will be distributed. A lifetime gifting strategy, when combined with life insurance, may also increase the total amount passed on to your heirs.

Understanding US transfer taxes

The United States federal government imposes tax on the transfer of wealth above certain amounts. There are three distinct types of “transfer taxes” that may apply:

Estate tax

Tax on the transfer of property at death.

Gift tax

Tax on the transfer of property during life.

Generation-Skipping Transfer (GST) tax

Tax on the transfer of property (during life or at death) to individuals who are more than one generation removed from the donor – commonly referred to as “skip persons” (e.g., a grandchild).

State estate tax

In addition to federal taxes, a number of states impose a state level estate tax or inheritance tax. Check with your financial professional to determine if you may be subject to one of these taxes based on where you live or own property.

INSURANCE PRODUCTS		
Not FDIC Insured	Not Bank Guaranteed	May Lose Value
Not a Deposit	Not Insured by Any Government Agency	

Transfer taxes are only due when total gifts made during life or at death exceed certain limits.[1]

Lifetime exemption

You can give away a certain amount of money or property during life or at death without incurring any gift or estate tax. This amount is commonly referred to as the "lifetime exemption" and in 2021 is $11,700,000 for individuals and $23,400,000 for married couples. Transfers made in excess of this exemption are taxable at a 40% rate.

GST tax exemption

The GST tax exemption, which applies to gifts and bequests to grandchildren and other "skip persons," is also $11,700,000 per individual. Transfers that exceed this exemption are taxable at a 40% rate.

Annual exclusion gifts

In addition to your lifetime exemption, you can also give up to $15,000 a year (for 2021) to as many individuals as you would like. Spouses have the ability to combine their annual exclusions amounts to give a total of $30,000 per person per year. The total amount you can give on an annual basis without tapping into your lifetime exemption may be significant. For example, if you have six identified trust beneficiaries, you can give $90,000 ($15,000 x 6 individuals).

The clock is ticking

Under current law, the **Lifetime** and **GST Exemptions will be reduced to $5M** (indexed for inflation) in **2026.[2]**

Maximizing your legacy with life insurance

Implementing a gifting plan to fully utilize your available exemptions can help to significantly minimize or eliminate your exposure to estate taxes. One very effective strategy is to make gifts to an ILIT using annual exclusion gifts and/or some of your lifetime exemption and have the ILIT trustee use the gifted funds to purchase life insurance.

Step 1

Your attorney drafts an irrevocable life insurance trust (ILIT).[3]

Step 2

You fund the trust by making annual exclusion gifts of $15,000 for each beneficiary of the trust. You may also decide to use your lifetime exemption to gift larger amounts to the trust.

Step 3

The ILIT trustee purchases a life insurance policy on your life. The ILIT is the owner and the beneficiary of the policy. The policy's premiums will be paid with the gifted funds.

Step 4

At your death, the ILIT receives the death benefit free from estate taxes. By funding the trust with insurance, you not only remove the gifted assets from your estate, but the policy's death benefit creates an income-tax free pool of money, potentially increasing the overall benefit you pass on.

How life insurance can help

Income tax-free death benefit[4]
Death benefit is received income-tax free and can be used to help pay estate taxes (if any) and/or help secure a legacy for your beneficiaries

Access to tax-free income[5]
Cash value that accumulates inside a permanent life insurance policy can be accessed tax-free and distributed to beneficiaries

Competitive rate of return[6]
The death benefit on the life insurance generally provides a competitive rate of return as compared to other investment options through life expectancy

Benefits of trust planning

Gifts may be made directly to beneficiaries or in trust. When gifted to a trust, the assets will be excluded from estate taxes and the trust structure provides additional benefits, including:

1. Enhanced inheritance protection

- **Greater control** over timing of distributions (e.g. at ages 35/40/45, discretionary income/ principal only)
- **Increased flexibility** over distributions (e.g. distributions may be limited to income or for a specific purpose)
- **Ability to preserve funds** for multiple generations
- **Assets may be professionally managed**

2. Flexibility and access

- **Spousal lifetime access provisions** can provide your spouse with access to funds inside of the trust
- **A multigenerational trust** allows trust assets to pass to grandchildren and future generations without paying GST taxes

3. Easy funding

- **Ability to use annual exclusion gifts** ($15k per beneficiary in 2021)
- **Increased lifetime exemptions** ($11,700,000 in 2021) makes it easy to fund larger premium gifts without incurring tax

4. Increased creditor protection

- **Protection of trust assets** from future creditors who may try to go after you or your estate
- **Protection from beneficiaries' creditors**, such as ex-spouses, other third-party creditors, or in a bankruptcy situation
- **Spendthrift language can protect** a beneficiary from reckless spending and preserve trust assets

Gifting can reduce estate taxes, maximize your legacy for loved ones, help avoid the probate process and protect against potential creditors' claims. However, the real power of lifetime giving becomes apparent when it is combined with purchasing life insurance in an ILIT. Life insurance often enhances the value of the gift and provides a lasting legacy to future generations.

Contact your *financial professional* to see how the power of gifting and life insurance can work for you.

1. Note, these numbers are indexed for inflation annually.
2. The IRS has clarified that there will be no "clawback" of exemption used before 2026.
3. 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.
4. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.
5. Loans and withdrawals will reduce the death benefit and the cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2. Withdrawals are available after the first policy year.
6. The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.

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