Planning Strategies for Charitable Remainder Trusts

Using a Deferred Annuity

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CRT Planning with Your Clients

1. **Identify clients and prospects** who are:
   - Charitably inclined.
   - Interested in a tax deduction.
   - Seeking income.
   - Would prefer to save on capital gains tax when planning to sell highly appreciated assets in the near future, such as: appreciated stocks, rental property, privately held business(es), and undeveloped land.

2. **For clients with existing CRTs,** check with the trustee and tax advisor to confirm whether an annuity would be a good fit for the investment objectives of the trust.

3. **Structure the annuity contract** to meet the trust objectives. For example:
   - Owner = CRT
   - Annuitant = Income Beneficiary
   - Beneficiary = CRT

   With this structuring, the contract's death benefit pays out upon the death of the annuitant, which should coincide with the trust provisions that require payout to the trust's remainder beneficiary (the charity) upon the income beneficiary's death.

Using a Charitable Remainder Trust in a Financial Plan

A charitable remainder trust (CRT) is a tax-exempt, irrevocable trust designed to provide your client with a:

- Charitable income tax deduction.
- Income stream for life or just a period of time.
- Gift to a charity at the termination of the trust that avoids estate tax.*

Generally, there are several common challenges that clients encounter when considering a CRT as part of an overall financial plan.

1 Balancing Goals

Managing the financial goals of income and remainder beneficiaries.

2 Deferring Income

Finding an investment that allows the deferral of the trust income stream.

A deferred annuity may be a strategy that can help your clients address these challenges and achieve their objectives.

WHO'S WHO IN A CRT

Income Beneficiary: The beneficiary who receives income from the trust while the donor is living.

Charitable Remainder Beneficiary: The qualifying charity that receives the remaining assets at the termination of the trust, usually following the donor's death.

Special Independent Trustee: A trustee granted exclusive fiduciary powers and given the sole discretion regarding the valuation of assets, the nature of contributed assets, and distribution of income.

Variable annuities are long-term investments designed for retirement. The value of the variable investment options will fluctuate and, when redeemed, may be worth more or less than the original cost.

Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal tax may apply. A withdrawal charge and a market value adjustment (MVA) also may apply. Withdrawals may reduce the value of the death benefit and any optional benefits.

IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

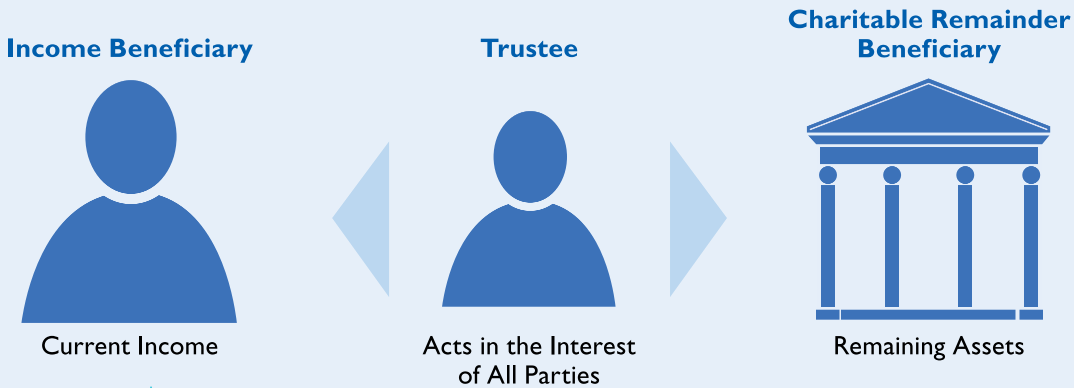
*According to the American Taxpayer Relief Act of 2012, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift, and GST tax rates are 40%.

Objective: Balancing Goals

Managing the financial goals of income and remainder beneficiaries

1

A CRT trustee must act in the best interest of all trust beneficiaries—both the income and remainder beneficiaries. This means preserving and/or growing the CRT asset in order to provide income during the income beneficiaries' lives and leave a charitable gift to the remainder beneficiary. A common way to accomplish this involves finding investment options that will offer diversification and some form of death benefit.



STRATEGY

A deferred annuity owned by a CRT can provide access to a broad array of investment options and asset classes, while avoiding the common transaction expenses found in other investment products when moving between different investments. Annuities also provide guaranteed death benefits that can offer protection from market risk not found in most other equity-based products.

Considerations

- Annuity income is generally taxed at a higher "ordinary income" tax rate, as compared to capital gains tax (when trust assets are invested in capital assets).
- Any distributions may reduce or adjust the annuity's death benefit amount.

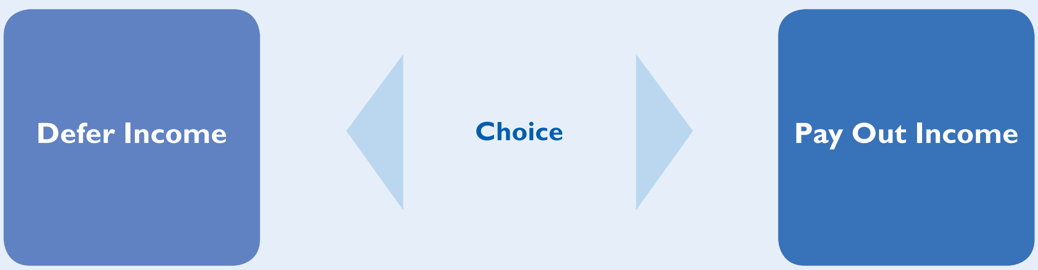
2

Objective: Deferring Income

Finding an investment that allows the deferral of the trust income stream

A common objective is to delay the income stream to a future date by using a net income with makeup charitable remainder trust (NIMCRUT).

Yet, deferring income can be difficult to achieve with investments that automatically distribute interest and dividends. When these types of distributions are received by the NIMCRUT, they must be paid out to the income beneficiaries.



STRATEGY

A deferred annuity is an investment that does not automatically pay out dividends or interest. If the NIMCRUT contains proper language, and as long as there is growth above the initial contribution, a special independent trustee has the ability to defer annuity distributions to the trust and to determine the future payout amounts of this makeup account to the income beneficiary.

Considerations

- Annuity income is generally taxed at a higher "ordinary income" tax rate, as compared to capital gains tax (when trust assets are invested in capital assets).
- Appointment of a special independent trustee is advisable to help ensure that the interests of both the income and remainder beneficiaries are taken into account.

For more information on planning strategies for charitable remainder trusts, contact our Advanced Marketing group at:

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It is advisable that the trustee appointed not be the financial professional. A financial professional who is paid a commission on the sale of an annuity contract represents both his or her personal interest and the interests of the trust, creating a conflict of interest.

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