FINANCIAL APPLICATIONS FOR ANNUITIES

CHARITABLE REMAINDER TRUST

WHO — PRIMARY DEMOGRAPHIC

Individuals who wish to make large charitable gifts or those who are charitably inclined that want to provide an income for themselves and/or other beneficiaries during their lifetime or for a defined period of time.

WHAT IS A CHARITABLE REMAINDER TRUST (CRT)?

A CRT is a split interest charitable trust that allows individuals to make a charitable gift to the trust while retaining an income stream for themselves and/or their chosen beneficiaries. At the end of the trust terms, assets remaining in the trust transfer to the charity or charities named in the trust. It provides a means to benefit both individuals or families and the charitable organizations they hold dear.

HOW IT WORKS

An irrevocable trust is created by a grantor/donor wherein those who are to receive income from the trust are identified as income beneficiaries of the trust. One or more qualified charities can be named as the charitable remainder beneficiaries of the trust to receive any remaining assets after the grantor and/or primary beneficiaries' interests have been terminated or satisfied. A CRT is a tax-exempt trust, so any investment earnings retained in the trust are not taxable. Income may be taxable when paid out from the trust.

Two main types of CRT: CRAT and CRUT

Charitable Remainder Annuity Trust (CRAT)

Income payments are defined when the trust is created. This ensures that the payments income beneficiaries receive remain the same. This is useful for donors who prefer a predictable income stream.

Charitable Remainder Unitrust (CRUT)

Income payments are calculated as a percentage of the trusts fair market value, which means payments can vary from year to year depending on the performance of the assets held in the trust. This is useful for donors who may wish to increase their income over time, but this is not guaranteed.

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CONSIDERATIONS

PROS:

- Provides income to the grantor or other income beneficiaries while also allowing for a philanthropic legacy
- May allow for a one-time charitable tax deduction based on the present value of the charities' remainder interest when assets are transferred (consult a qualified tax professional to determine eligibility and amount)
- Because a CRT is a tax-exempt trust, assets that are contributed to the trust, and later liquidated, are not taxed to the trust. However, the capital gain may be taxed in future years when the income from the trust is distributed to the donor or other beneficiaries.

CONS:

- Assets in an irrevocable trust are no longer owned by the trust grantor and the irrevocable nature of the trust disallows changes should income beneficiaries change
- The creation of a CRT may be costly, and expenses vary based on the complexity of the trust
- Assets passing to charity may outweigh the income received from the trust

USE CASE IN CLIENT PORTFOLIO

Frank

Frank, age 60, has purchased shares of Great Company for many decades and the stock has performed exceptionally well. He does not want or need the proceeds from the stock but does not want to sell the shares due to the tax it would trigger. Frank is passionate about many charitable organizations and decides to gift his shares in Great Company to the CRT his attorney set up for him.

Upon creation of the trust, the assets are removed from Frank's estate for gift and estate tax purposes and Frank may be eligible for a partial charitable deduction on his taxes for the present value of the charitable gifts. Also, the sale of stock within the trust does not trigger current capital gains tax on the sale. Instead, Frank is able to reinvest the entire amount of the proceeds. The advice of a qualified tax professional should be sought to answer any tax-related questions and to ensure eligibility.

Frank purchases an annuity inside his CRT to diversify the investment and provide protection for the charity through a death benefit.

Owner	Annuitant	Beneficiary
Charitable Remainder Trust	Anyone with a bona fide relationship to the trust (grantor, trustee, beneficiary, etc.)	Charitable Remainder Trust

During Frank's lifetime he takes annual distributions from the trust to supplement his retirement income. Once Frank passes away, the proceeds remaining in the trust will payout to multiple charities. Before engaging in any strategy, consult a qualified tax and estate planning attorney to ensure this strategy is appropriate.

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Annuities are long-term, tax-deferred vehicles designed for retirement purposes. They offer three main benefits: tax-deferred treatment of earnings, death benefit options, and lifetime payout options.
Variable annuities are subject to investment risk, including possible loss of principal.
Withdrawals of taxable amounts are subject to ordinary income tax and may be subject to a 10% additional federal tax if withdrawn before age 59½.
All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.
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