FINANCIAL PLANNING STRATGIES

Legacy, Saving and Security

Helping Your Heirs While Helping Others

A c**haritable remainder trust (CRT)** can be a highly effective financial and estate planning tool. The CRT can allow you to: avoid capital gains taxes on highly appreciated assets, however when income is distributed to the income beneficiaries it is taxable; receive an income stream based on the full, fair market value (FMV) of those assets; receive an immediate charitable deduction; and ultimately benefit the charity(ies) of your choice.

Some individuals may be reluctant to transfer significant assets to a CRT because they would rather see their children be the ultimate recipients of the property. However, transferring property to a CRT doesn't necessarily mean your children cannot benefit as well.

Under the appropriate circumstances, and over time, you (the donor) can apply the money you saved in taxes available from your charitable deduction, along with a portion of the CRT's income stream (if necessary), to purchase a life insurance policy inside an **irrevocable life insurance trust (ILIT)**.

After the death of the last income beneficiary, the charity receives the remaining assets in the CRT, while your children generally receive the proceeds of the life insurance policy, *free from income and estate taxes*, upon the death of the insured in accordance with the terms of the ILIT. In some instances, policy proceeds may be equal to, or even exceed, the value of the transferred property.

General Guidelines

A CRT starts with a contribution of assets—preferably highly appreciated—into an **irrevocable trust**. Once the trust is funded, the **trustee** pays the non-charitable **beneficiaries** (selected by the donor upon establishment) an income each year for their lifetimes, a term of years, or a combination of the two.

If a term of years is involved, the maximum term is 20 years. Income beneficiaries must receive a minimum percentage payout each year equal to at least 5% of the trust's assets, not to exceed 50%. The present value of the **charitable remainder** interest cannot be less than 10% of the fair market value of the contributed asset's value at inception. Within these broad guidelines, you can select a number of flexible payment options designed to help meet your specific financial, estate, and charitable giving objectives.

Additional Benefits

Because a CRT is **tax exempt**, the trustee can sell highly appreciated assets on a tax-free basis and reinvest the full proceeds in other assets more likely to meet the growth and income objectives of the trust. Assets donated to the trust are removed from your taxable estate, potentially avoiding significant future estate taxation and likely reducing future **probate** costs. Donated assets are also protected from the claims of creditors. This feature may be particularly attractive to business owners concerned about their personal liability or to those who are sensitive about issues related to the division of assets in a divorce.

The charitable deduction available to a donor may be limited according to the type of property donated, the kind of organization(s) ultimately receiving the gift, the donor's overall tax status, the age(s) of the income beneficiary(ies), and the trust's income payout provisions. If a deduction is limited for the current year's tax return, Internal Revenue Service (IRS) rules allow unused amounts to carry forward for up to five additional, consecutive tax years.

Moreover, since donations of appreciated property are no longer preference items for the **alternative minimum tax (AMT)**, donating such property may now be much more advantageous. (Under prior law, the AMT could, in many cases, have significantly trimmed the potential income tax deduction available for donations of appreciated property.)

The Choice is Yours

While most people may be resigned one way or another to the inevitability of taxation, many may be unaware that they have a choice regarding the *form* in which their contribution to society is fulfilled. When viewed from the perspective of a choice to channel funds *directly* to select charities rather than through the government, charitable giving takes on a new meaning. The CRT may then become a valuable tool to facilitate your choice. As with all complex financial transactions, you may wish to seek the assistance of your estate planning team, which should include your attorney and financial services professional, to help ensure your wishes are properly met.

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Progress in Retirement Saving Varies According to Worker Characteristics

While American workers are making progress in reaching their income replacement goals for retirement, large differences remain between those workers who are planning and saving effectively for retirement, and those who are not, according to the findings of a study of how financially prepared Americans are for retirement published in April by the Empower Institute, the research arm of retirement plan record-keeping firm Empower Retirement.

The findings of the study, "Scoring the Progress of Retirement Savers," are based on the results of a survey of 4,038 working adults aged 18-65 conducted between December 18, 2017, and January 21, 2018. When asked to identify the sources they expect to provide income to their household during the first five years of retirement, 71% of respondents mentioned Social Security, 56% cited a workplace-provided defined contribution plan, 38% said personal savings, 29% said employment or self-employment, and 19% cited a traditional pension.

More than two-thirds (67%) of the workers surveyed reported that at least one earner in their household has access to a defined contribution plan at work. The median projected income replacement percentage among all survey participants was found to be 64%; meaning that the median respondent is on track to replace 64% of his or her current income in retirement. However, the results also showed that the median income replacement percentage is 79% for respondents who indicated they have access to a defined contribution plan and are actively contributing to it, compared to 45% for those without access.

Looking at the impact of deferral rates, the analysis estimated that those respondents who are contributing under 3% of pay have a median lifetime income replacement percentage of 59%, while those who are contributing 10% or more have a median lifetime income replacement percentage of 128%. Focusing on the effects of automatic features, the analysis showed that respondents who were auto-enrolled in a retirement plan have a median lifetime income replacement percentage of 95%, compared to 84% for those who opted in; and that respondents in a plan with auto-escalation have a median retirement income replacement percentage of 107%, compared to 84% for those in a plan without this feature.

To explore the factors that might inhibit retirement plan participation, respondents were asked which circumstances would likely prompt them to start contributing to or to increase their contributions to a plan. Nearly one-third (32%) of the workers surveyed cited paying down debt, 22% said receiving a raise, and 12% said reducing their overall spending.

The analysis also revealed that respondents closest to retirement have the lowest projected replacement percentages, while those furthest from retirement have the highest projected replacement percentages: the millennials surveyed were found to be on track to replace 75% of their income, while the median projected income replacement percentage for the early boomers was shown to be just 55%.

The study additionally uncovered large differences in projected income at retirement based on gender, as the median projected income replacement percentage was 71% for the male respondents, but just 59% for the female respondents. Researchers attributed this gender gap in part to the somewhat higher retirement plan participation rates among men (69%) than among women (66%), as well as to the lower average contribution rates among women than among men.

The findings further indicated that there are important differences in projected income replacement based on the industry in which respondents are employed: the median scores were found to be highest among respondents in the financial services industry; and lowest among those in health care, social assistance, trade, transportation, and utilities.

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Assigning Your Life Insurance Policy

Getting approval for a loan can sometimes depend on, for example, a lender asking a borrower, “How will this loan be repaid in the event of your death?” Your answer may be to **assign** your **life insurance** policy, a useful feature that can help provide necessary security for a lender.

You can freely assign your life insurance policy unless some limitation is specified in your contract (your insurance company can furnish the required assignment forms). Through an assignment, you can transfer your rights to all or a portion of the policy proceeds to an **assignee**. The extent to which these rights are transferable depends on the assignment provisions in the policy, the intention of the parties as expressed in the assignment form, and the actual circumstances of the assignment.

Types of Assignments

There are two types of conventional insurance policy assignments:

- *An **absolute assignment** is typically intended to transfer all your interests, rights and ownership in the policy to an assignee. When the transaction is completed, you have no further financial interest in the policy. The terminology of absolute assignments differs from contract to contract. It may state that you transfer all rights, title, and interest in the policy to the assignee. Some insurance companies use an "ownership clause" to accomplish this transfer.*
- *A **collateral assignment** is a more limited type of transfer. It is a security arrangement to protect the assignee (lender) by using the policy as security for repayment. After the debt is repaid, the assignee releases his or her interest in the policy, and all rights to the policy revert to the owner. Under the usual procedure, if the collateral assignment is still in force at the time of your death, the assignee informs the insurance company of the remaining debt, including interest, and receives that amount in a lump sum. Any excess proceeds are then payable to your named **beneficiary** in accordance with the beneficiary designation in your policy.*

To fully protect the assignee, notice must be given to the life insurance company that the assignment has been made. If a company without notice of assignment pays the proceeds to another assignee or to a named beneficiary, the insurance company cannot be forced to pay a second time.

Policy Provisions

Some typical policy provisions regarding assignments may include the following:

1. *The assignment will not be binding until the original, or a duplicate thereof, is filed at the insurance company's home office.*
2. *The insurance company assumes no obligation as to the effect, sufficiency, or validity of the assignment.*
3. *The assignment is subject to any indebtedness to the insurance company on the policy.*

Therefore, it is important to ensure that an assignment is made properly, regardless of whether it is absolute or collateral. Be sure to consult your qualified insurance professional for specific guidance about your unique circumstances.

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Your Vacation—An Invitation to Burglars?

Coming home to a burglarized home can be a shocking surprise after a relaxing vacation. Unfortunately, an empty home may be an easy target for burglars, and peak vacation times show the highest number of break-ins. However, there is good news. Taking the time to make *your* home less inviting to potential burglars may help prevent theft or damage while you are away.

Making your house look occupied while you're away is a key factor in helping to deter burglary. One way to do this is to stop mail and newspaper deliveries. You might also leave shades, blinds, or curtains in their normal positions. Consider connecting your lights and a radio to an automatic timer. Ask a neighbor to put out your garbage and mow your lawn. Finally, and most importantly, make sure all windows and doors are locked.

Before you leave for vacation, try to make your home as burglar-proof as possible. You may feel more confident coming home by taking the right precautions before you leave. Your trip will be much more relaxing and enjoyable if your home is safe while you're away.

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