CHARITABLE REMAINDER TRUSTS (CRTs)

A Versatile Financial Strategy Tool

Do you have a highly appreciated asset that you're hesitant to sell because of the capital gains taxes you would have to pay?

Do you need to supplement your income today or later on?

Do you have a favorite charitable organization to which you would like to donate?

If you answered "yes" to any of these questions, you may benefit from a financial planning strategy known as a Charitable Remainder Trust (CRT).

The Basics of Charitable Remainder Trusts

A Charitable Remainder Trust is an irrevocable trust that provides for two types of beneficiaries: 1) income beneficiaries (you and your spouse, if married), and 2) the charity(ies) you designate.

Income beneficiaries can elect to receive a stream of income from the trust either for their lifetime or for a specified period of time not to exceed 20 years. Upon the death of the income beneficiaries, the named charity or charities receive the principal of the trust.

The Benefits of Charitable Remainder Trusts

1. Because assets from a CRT are destined for a charity(ies), the IRS does not consider a Charitable Remainder Trust to be part of your estate. Thus, any assets you gift to the trust are not subject to capital gains taxes. This allows you to transfer the full value of your assets to the trust.
2. Your gift(s) can also provide an income tax deduction that you can use in the current year or carry forward for up to five years. The deduction you take is based on the type of asset donated as well as the type of charity you name as beneficiary.
3. If the gifted asset does not generate a sufficient stream of income, then the trustee (which may or may not be you, the grantor) can sell the asset for its full value. You may then re-invest the proceeds to provide for a steady stream of income.

See the chart glossary for a description of the more popular types of CRTs and Figure 1 for an overview.

CHART GLOSSARY

CRUT – Each year a Charitable Remainder Unitrust pays the income beneficiary a fixed percentage (not less than 5%) of the net fair market value of the assets in the trust. Because the trust assets are valued annually, the amount paid out to the income beneficiary may increase or decline. As a result, CRUT grantors may make ongoing contributions to the trust.

NIMCRUT – Grantors who want to defer income to a later date, such as retirement, often use a Net Income Makeup Charitable Remainder Unitrust. During the term of the trust, the trustee (who may or may not be the grantor) invests the assets and pays the income beneficiaries a fixed percentage of the value (not less than 5%), which is revalued on an annual basis. Should the trust earn less income than the pre-determined fixed percentage, it will only distribute what is earned. If, in a later year, the trust earns more than the fixed percentage, it will make up its earlier shortfall to the extent its earned income exceeds its fixed percentage.

CRAT – A Charitable Remainder Annuity Trust pays out to the income beneficiary a fixed dollar amount each year. The trust is not revalued, and additional contributions are prohibited.

FLIP – A Flip CRT is a trust that usually begins as a NIMCRUT until a specific event or trigger, such as retirement or the sale of particular assets. The trust then "flips" and becomes a CRUT and pays the income beneficiary a higher percentage of the value of the trust based on appreciated assets that were gifted to the trust while it was a NIMCRUT.

Please see Figure 1 for an overview of these trusts.

Figure 1 — Overview of Trusts				
	Income from Trust	**Yearly Valuation**	**Income Make-up**	**Use of Principal**
CRUT	Varies Yearly	Yes	No	Yes
NIMCRUT	Varies Yearly	Yes	Yes	No
CRAT	Fixed	No	No	Yes
"FLIP"	If elected, may be minimal or deferred and later "flips" to higher payout percentage amount	After flip	Optional	After flip

Important Points and Limitations to Remember

1. A grantor cannot terminate an irrevocable trust. The gifts the grantor makes to the trust are irrevocable; only the income assets are available to the grantor for personal use.
2. Though Charitable Remainder Trusts are irrevocable, you (the grantor) can designate new and additional charities to which the principal will pass after the death of the income beneficiaries.
3. The trustee—the person who holds legal authority to control the trust assets—controls the investments, which can be modified as circumstances change. Often, the grantor is also the trustee.
4. A NIMCRUT allows the client to control the timing of distributions and to benefit from the tax-free accumulation of income.
5. A NIMCRUT does not allow payouts to income beneficiaries from the principal amount. With a CRAT or CRUT, however, it is possible to drain the trust of all its assets, in which case income payments would cease and the trust might terminate. More likely, the income beneficiary would not receive income from the trust until there are sufficient assets to resume distributions. However, the Tax Reform Act of 1997 requires that trusts pass a one-time minimum value test. The test subtracts the total projected income payout to the income beneficiary(ies) from the original gifted amount and requires that at least 10% of the gifted amount pass to the named charity(ies). This is a safeguard to ensure that the named charity(ies) receives some portion of the gift.

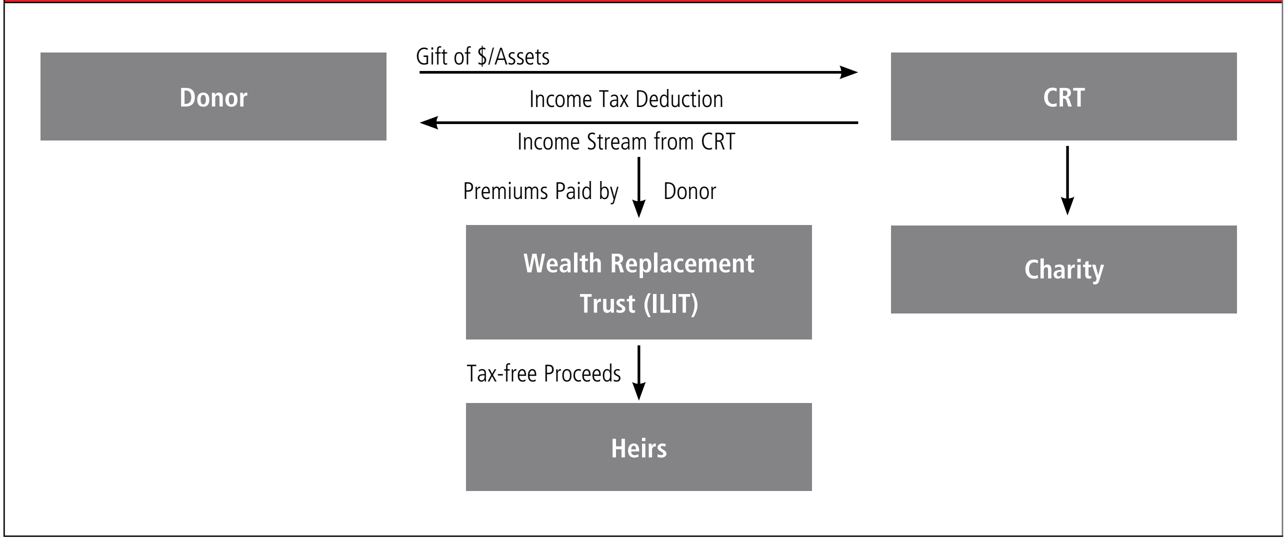
Wealth Replacement Trusts—Using Life Insurance to Provide for Your Heirs

When created along with a Charitable Remainder Trust, a wealth replacement trust, sometimes also known as an Irrevocable Life Insurance Trust (ILIT), allows you to "replace" the value of the assets gifted to your CRT as a means to preserve an inheritance for your heirs. Here's how it works:

1. Using income from your Charitable Remainder Trust, buy a life insurance policy on your and your spouse's (if married) life. The life insurance policy is owned by an ILIT, and your heir(s) is/are named as beneficiary(ies).
2. The amount of insurance you buy "replaces" the value of the assets gifted to the CRT that will eventually pass to your named charity(ies).
3. The annual premium on the insurance policy is paid with income from the CRT.
4. Upon the death of the insured (in many cases, the surviving spouse), the death benefit of the life insurance policy is distributed to the heirs.
5. Because the life insurance policy is owned by the trust, the proceeds of the policy will generally not be subject to estate taxes. (See Figure 2.)

It's important to keep in mind that these trusts are legal instruments that involve additional conditions, costs, and fees.

Figure 2 — The Relationship of Donor, CRT, Charity, and Wealth Replacement Trust



Annuities as a CRT Investment

Charitable Remainder Trusts can be funded with a variety of investments, including annuities, which offer some distinct advantages over other investments. A Jackson® annuity can provide the following:

- Guaranteed* Death Benefit: Unlike other investments, many annuities provide a death benefit. This not only allows you, the grantor, to secure your legacy, but it also provides for the expedient transfer of assets from the CRT to your designated charity(ies).
- Systematic Income: Annuities allow for distributions on a systematic basis. Annuities also allow donors to withdraw or defer income payments whenever they need, which is especially useful with a NIMCRUT.
- Second-to-Die Death Benefit Payout: Jackson allows income beneficiaries the option to defer payout of the death benefit until the second income beneficiary dies. This ensures that funds stay invested after the first death and continue to provide income to the surviving spouse/second income beneficiary. It also simplifies trust administration in case of an income beneficiary's death. This option is available for both spousal and non-spousal income beneficiaries.
- Competitive Interest Rates: Fixed annuities can offer competitive interest rates that may help you work toward your financial and philanthropic goals.
- Flexibility: Variable annuities can also offer you the ability to change subaccount investments as your financial or philanthropic goals change.

What are variable annuities?
Variable annuities are long-term, tax-deferred investments designed for retirement, involve investment risks, and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

How Jackson Can Help

While giving to charities may be an important priority, most grantors don't wish to leave their heirs feeling "disinherited." As leading providers of retirement strategies, Jackson can help.

Contact your advisor for more information about Charitable Remainder Trusts.

See the following page for important additional information.

*Guarantees are backed by the claims-paying ability of Jackson National Life Insurance Company® or Jackson National Life Insurance Company of New York® and do not apply to the principal amount or investment performance of the separate account or its underlying investments.

The content of this brochure is our summarization of Cornell University Law School, Legal Information Institute, U.S. Code 664, Charitable Remainder Trusts, data pulled December 14, 2014.

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If you are considering an annuity to fund the CRT, the tax-deferral feature is not applicable. Please consult your tax advisor.

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