Advisor Webinar

November 30, 2022 - 3:00 p.m. Eastern

“The Appeal of Life Insurance When a CRT is Beneficiary of a Retirement Account"

Presented by Christopher R Hoyt, JD
University of Missouri Kansas City School of Law

The Appeal of Life Insurance When a CRT is Beneficiary of a Retirement Account

Webinar for Professional Advisors

Program overview:

In this one-hour webinar, Professor Christopher Hoyt will share his insights on the appeal of life insurance when a charitable remainder trust is named the beneficiary of a retirement account. Participants will learn to identify and assess the:

- Required distributions from inherited retirement accounts in 2022, in light of the 2022 proposed regulations and recent IRS guidance;
- Reason interest has increased in naming a charitable remainder trust as a beneficiary of a retirement account;
- Obstacles and solutions for naming a CRT as an IRA beneficiary; and
- Role life insurance can play in helping families preserve their wealth.

Christopher R. Hoyt, JD

Date: Wednesday, November 30, 2022
Time: 3:00 - 4:00 p.m. Eastern
(2:00 - 3:00 p.m. Central; 1:00 - 2:00 p.m. Mountain; Noon - 1:00 p.m. Pacific)

Christopher R. Hoyt, JD, is a Professor of Law at the University of Missouri Kansas City School of Law where he teaches courses in the area of federal income taxation and business organizations. Previously, he was with the law firm of Spencer, Fane, Britt & Browne in Kansas City, Missouri. He received an undergraduate degree in economics from Northwestern University and dual law and accounting degrees from the University of Wisconsin. Professor Hoyt has served as the Chair of the American Bar Association's Committee on Charitable Organizations (Section of Trusts and Estates) and is on the editorial board of *Trusts and Estates* magazine. He is an ACTEC fellow, has been designated by his peers as a "Best Lawyer," and was elected to the Estate Planning Hall of Fame by the National Association of Estate Planners & Councils. He is a frequent speaker at legal and educational programs and has been quoted in numerous publications, including *The Wall Street Journal*, *Forbes*, *MONEY Magazin*e, *The New York Times*, and *The Washington Post*.

Accountants can earn CPE credit by pre-registering using the link on the following page and responding to the polling questions that will be asked during the program. This course qualifies with NASBA for 1.0 hour of CPE credit in the field of study: Taxes.

The Appeal of Life Insurance When a CRT is Beneficiary of a Retirement Account

With Christopher R. Hoyt, JD

To register for and attend this session, use the link below:

https://nylife.zoom.us/webinar/register/WN_MO9WNc2uQnaXGp5LVsNLYQ

To ensure the best possible webinar experience, test your connection here: https://nylife.zoom.us/test
It is critical that you test your connection prior to logging into the webinar.

Technical support: If you experience issues registering or attending, please visit https://support.zoom.us

Mobile access: Zoom runs on tablets and smartphones. Download the application from the App Store of your choice.

Learning objectives: Upon completion of this program, participants will be familiar with the required distributions from inherited retirement accounts in light of the 2022 proposed regulations and recent IRS guidance; understand why interest has increased in naming a charitable remainder trust as a beneficiary of a retirement account; be able to identify the obstacles and solutions for naming a CRT as an IRA beneficiary; and recognize the role life insurance can play in helping families preserve their wealth.
Who should attend: This presentation is prepared for the general information and education of professional advisors who work with agents of New York Life Insurance Company. It is for educational purposes only and not intended for use with the general public.
Program level: Advanced.
Prerequisites: Practicing accountants and attorneys with significant exposure to the subject.
Advanced preparation: None required.
Delivery method: Group Internet based (GIB).
Recommended CPE credit and field of study: Participants will earn 1.0 CPE credits in the category "Taxes." In order to be awarded the full credits, participants must respond to the polling questions asked during the program, and complete and return the appropriate CE forms.
Registration requirements: To register for this program, go to https://nylife.zoom.us/webinar/register/WN_5Fkljv_gQf6HRTFyF80Fjw.
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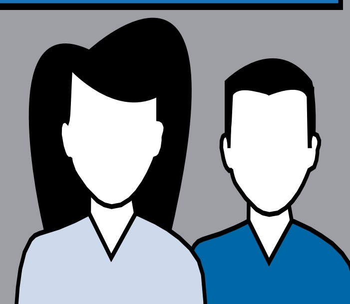

2 Accurately respond to each polling question that will appear on the Zoom platform throughout the program and complete an optional short evaluation survey at the conclusion of today's event.

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The Appeal of Life Insurance When a CRT is Beneficiary of a Retirement Account

New York Life Advisor Webinar
Featuring Christopher R. Hoyt, JD

Disclaimer

This presentation is for educational purposes only and is prepared for the general information and education of professional advisors who work with agents of New York Life Insurance Company (NYLIC). It is not intended for use with the general public. It discusses current developments and sets forth generally accepted concepts or principles. It does not set forth solutions to individual situations. Clients should consult their professional advisors on such matters. NYLIC, its affiliates and agents and employees thereof may not provide tax, legal or accounting advice, and none is intended nor should be inferred from the following comments and observations. This material includes a discussion of tax-related topics prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding IRS penalties that may be imposed upon the taxpayer. Taxpayers should always seek and rely on the advice of their own independent tax professionals. The University of Missouri Kansas City School of Law is not affiliated with NYLIC or its subsidiaries. Christopher R. Hoyt is solely responsible for his content and opinions, which may not necessarily represent the opinions of NYLIC. NYLIC makes no warranties or representations as to the accuracy or fitness of any information presented or comments made by Christopher R. Hoyt. Examples provided are hypothetical and intended for illustrative purposes only and are not indicative of the actual performance of any particular product. The Nautilus Group ® is a service of NYLIC.

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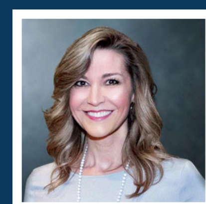

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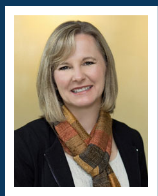
Polling Question (1 of 6)

Answering your questions:



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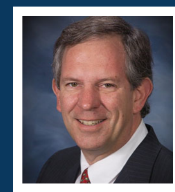
Our guest speaker:



Christopher R. Hoyt, JD
Professor, University of Missouri
Kansas City School of Law

What will be covered today:

- What are the required distributions from inherited retirement accounts in 2022?
- Why is there increased interest in naming a charitable remainder trust as a beneficiary of a retirement account?
- Under what circumstances can a family have more wealth if a CRT is named as the beneficiary of an IRA, than if the IRA is left outright to the family?
- Obstacles and solutions for implementation.
- A CRT disinherits the grandchildren.
  - A role for life insurance.

Retirement Accounts

- Tax deduction at contribution.
- Accumulate in tax-exempt trust.
- Taxed upon distribution.

= Tax Deferred Compensation

Types of Qualified Retirement Plans

- Section 401
  - Company plans
- Section 408
  - IRAs
  - SEP & SIMPLE IRAs
- Section 403(b) & 457
  - Charities
- Roth IRAs & 401(k)/403(b)

Roth IRA, Roth 401(k), or Roth 403(b)

Inverse of traditional:

- No tax deduction at contribution.
- Accumulate in tax-exempt trust.
- Not taxed upon distribution.

Distributions from retirement accounts are generally taxable income.

(Except from Roth accounts.)

Distributions from retirement accounts are generally taxable income.

(Except from Roth accounts.)

- Retirement Withdrawals
- Distributions After Death

Usual objective: Defer paying income taxes in order to get greater cash flow.

	Principal	10% Yield
Pre-tax amount	**$ 100,000**	$ 10,000
Income tax on distribution (40%)	40,000	
Amount left to invest	**$ 60,000**	$ 6,000

Required Minimum Distribution (RMD)

BACKGROUND:

50% penalty if not receive distribution from IRA, 401(k), etc.

1. Lifetime distributions from own IRA:
   – Beginning when attain age 72.

Required Minimum Distribution (RMD)

BACKGROUND:

50% penalty if not receive distribution from IRA, 401(k), etc.

1. Lifetime distributions from own IRA:
   – Beginning when attain age 72.

2. An inherited IRA, 401(k), etc.

Polling Question (2 of 6)

What will be covered today:

- **What are the required distributions from inherited retirement accounts in 2022?**
- Why is there increased interest in naming a charitable remainder trust as a beneficiary of a retirement account?
- Under what circumstances can a family have more wealth if a CRT is named as the beneficiary of an IRA, than if the IRA is left outright to the family?
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  - A role for life insurance.

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- General rule – 10 years.

  2022 proposed regulations –
  - Death ***before*** "required beginning date?" (e.g., before age 73)
    - No required distributions in the first nine years. The account needs to be empty by December 31 of the tenth year after the year of the decedent' death, or else there is a 50% penalty on the balance.
  - Death ***after*** "required beginning date?" (e.g., after age 72)
    - The proposed regs will require the beneficiary to receive minimum distributions every year in years 1 through 9, and the account must be empty at the end of the tenth year.
  - **Failure to receive that year's RMD triggers a 50% excise tax on the shortfall.**

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

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  2022 proposed regulations – effective date January 1, 2022.
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Polling Question (3 of 6)

Distributions after death (for decedents who die in 2020 and later)

These are only proposed regs. Some argue that the final regs should not require any RMDs until the tenth year. Legislative intent.

October 2022: IRS announces it will NOT apply this RMD rule in years 2021 or 2022. IRS Notice 2022-53 (October 7, 2022) states:

IV. Guidance for Certain RMDs for 2021 and 2022

B. Guidance for certain taxpayers who did not take a specified RMD -

- To the extent a taxpayer did not take a specified RMD [defined below], the IRS will not assert that an excise tax is due under section 4974….

Distributions after death (for decedents who die in 2020 and later)

C. Definition of specified RMD:

For purposes of this notice only, ***a specified RMD*** is any distribution that, under the interpretation included in the proposed regulations, would be required to be made pursuant to section 401(a)(9) in 2021 or 2022 under a defined contribution plan or IRA that is subject to the rules of 401(a)(9)(H) for the year in which the employee (or designated beneficiary) died if that payment would be required to be made to:

- A designated beneficiary of an employee under the plan (or IRA owner) if:
  1) The employee (or IRA owner) **died in 2020 or 2021 and on or after the employee's (or IRA owner's) required beginning date**, and
  2) The designated beneficiary is not taking lifetime or life expectancy payments pursuant to section 401(a)(9)(B)(iii);…

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years.

There are three exceptions to the 10-year rule.

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years, ***or***
- **Remaining life expectancy of an "*eligible designated beneficiary."***
  (RMD every year)
  - Surviving spouse.
  - Minor child of the decedent.
  - Disabled individual.
  - Chronically ill person.
  - Beneficiary not more than 10 years younger than decedent.

Liquidate inherited IRAs in ten years.

EXCEPTION: "*Eligible Designated Beneficiary*"

- Surviving spouse.
- Minor child of the decedent.
- Disabled individual.
- Chronically ill person.
- Beneficiary not more than 10 years younger than decedent.

An ***eligible*** designated beneficiary may take distributions over her/his life expectancy:

- When minor child attains majority, 10-year clock starts.
- When an EDB dies, 10-year clock starts for successor.

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years, or
- Remaining life expectancy of an "eligible designated beneficiary," ***or***
- ***Five years.***

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years, or
- Remaining life expectancy of an "eligible designated beneficiary," or
- Five years, ***or***
- ***"Ghost life expectancy."***

RMDs: "Ghost Life Expectancy"

Age of Beneficiary	Life Expectancy
74	15.6 more years
75	14.8
76	14.0
77	13.3
78	12.6
79	11.9
80	11.2

RMDs: "Ghost Life Expectancy"

Age of Beneficiary		Life Expectancy
74	6.4%	15.6 more years
75	6.8%	14.8
76	7.1%	14.0
77	7.5%	13.3
78	7.9%	12.6
79	8.4%	11.9
80	8.9%	11.2

RMDs: "Ghost Life Expectancy"

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74	6.4%	15.6 more years
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Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

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If on "determination date," there is a beneficiary that is not a human being

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years, or
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If on "determination date," EVERY beneficiary is a human being (designated beneficiary)

Distributions after death (for decedents who die in 2020 and later)

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- Ten years, or
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If on "determination date," EVERY beneficiary is a human being (designated beneficiary)

If on "determination date," there is a beneficiary that is not a human being

RMDs: Definitions

- **Required Beginning Date (RBD):**
  - April 1 in year after attain age 72.
- **Designated Beneficiary (DB):**
  - A human being. An estate or charity can be a beneficiary of an account, but not a designated beneficiary.
- **Determination date:**
  - September 30 in year after death.

RMDs – If there is even just one non-designated beneficiary on determination date (Sept 30 after year of death):

RMDs – If there is even just one non-designated beneficiary on determination date:

Death before RBD

Five years

(No RMD until year #5)

Death after RBD

Remaining life expectancy of someone who is decedent's age at death.

(Each year has an RMD)

("Ghost life expectancy")

RMDs – If there is even just one non-designated beneficiary on determination date:

Death before RBD

Five years

Death after RBD

~~Remai… life expe…cy of someone w… …edent's age at deat…~~

Roth IRA: Just 5 years.

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years, or
- Remaining life expectancy of an "eligible designated beneficiary," or
- Five years, ***or***
- ***"Ghost life expectancy."***

If on "determination date," EVERY beneficiary is a human being (designated beneficiary)

If on "determination date," there is a beneficiary that is not a human being

Polling Question (4 of 6)

Actions that can be taken before determination date to get better outcomes (e.g., to get 10 years instead of just 5 years):

Actions that can be taken before determination date to get better outcomes:

- Disclaimers.
- Full distribution of share.
- Divide into separate accounts.
  - For example, separate accounts when:
    - One beneficiary is an EDB and another is not.
    - One beneficiary is a charity and cannot pay by 9/30.

Liquidate inherited IRAs in ten years.

SECURE Act – Effective dates:

- Rules apply for decedents dying after December 31, 2019.
- For decedents who died before 2020, beneficiaries can continue to receive payments over remaining life expectancy.
  - However, upon the death of that beneficiary, the 10-year clock starts ticking.
  - EXAMPLE: A 60-year-old beneficiary inherited an IRA in 2019 when he had a life expectancy to age 85 (for 25 years). That beneficiary dies 2 years later at age 62. The inherited IRA must be empty in the 10th year after death (rather than the year that the individual would have been age 85).

Distributions after death (for decedents who die in 2020 and later)

Maximum time period to empty account:

- Ten years, ***or***
- **Remaining life expectancy of an "*eligible designated beneficiary.*"** *(RMD every year)*
  - **Surviving spouse.**

Married couples: Retirement assets

Surviving spouse has an option that no other beneficiary has:

- A ***rollover*** of deceased spouse's retirement assets to her or his own new IRA .
  - (Creditor protection, too!)

Other beneficiaries cannot do a rollover.

- Main option: liquidate over ten years.

Leave $ in decedent's account?

- Generally, a rollover produces greater income tax deferral than leaving assets in the decedent's account.
- Two situations when it may be advisable to leave some assets in the decedent's account (at least for a while):
  - Surviving spouse is less than age 59½.
  - Deceased spouse was under age 72, and surviving spouse is past that age (e.g., deceased was age 65 and survivor is age 74).

Leave $ in decedent's account?

Required distributions if surviving spouse is sole beneficiary:

- Spouse can recalculate life expectancy.
- IRAs only: Spouse can elect to treat IRA as her own.
- Decedent died before age 72?
  - No required distribution until year the deceased spouse would have been age 72.

What will be covered today:

- What are the required distributions from inherited retirement accounts in 2022?
- **Why is there increased interest in naming a charitable remainder trust as a beneficiary of a retirement account?**
- Under what circumstances can a family have more wealth if a CRT is named as the beneficiary of an IRA, than if the IRA is left outright to the family?
- Obstacles and solutions for implementation.
- A CRT disinherits the grandchildren.
  - A role for life insurance.

End of the inherited "stretch IRA."

- "Stretch IRA" means an inherited retirement account (e.g., IRA), where payments are gradually made over the beneficiary's life expectancy.
- Until the enactment of the SECURE Act, it was fairly easy for any beneficiary who inherited a retirement account to receive distributions until the age of 83 (or older for beneficiaries who inherited at an older age).
- Beginning 2020: General rule is a ten-year liquidation.

Why do people want a long stretch?

- When administering a decedent's estate, isn't the usual objective to close the estate within a year of death and have everything distributed to the heirs and the beneficiaries?

Distributions from inherited retirement accounts are taxable income.

Income in respect of a decedent (IRD) §691:

- No stepped-up basis for retirement assets.
- Distributions from inherited retirement accounts are usually taxable income to the beneficiaries.

Usual objective: Defer paying income taxes in order to get greater cash flow.

	Principal	10% Yield
Pre-tax amount	**$ 100,000**	$ 10,000
Income tax on distribution (40%)	40,000	
Amount left to invest	**$ 60,000**	$ 6,000

Distributions after death (for decedents who die before 2020)

"Life expectancy"

Oversimplified: Half of population will die before that age, and half will die after.

RMDs: Law before 2020 - "Life Expectancy Table"

Age of Beneficiary		Life Expectancy
30	83	53.3 more years
40	83	43.6
50	84	34.2
60	85	25.2
70	89	18.7
80	91	11.2
90	96	5.7

RMDs: Law before 2020 - "Life Expectancy Table"

Age of Beneficiary	Life Expectancy
30	53.3 more years
40	43.6
50	34.2
60	25.2
70	18.7
80	11.2
90	5.7

RMDs: Law before 2020 - "Life Expectancy Table"
Example: Death at age 80?

Age of Beneficiary		Life Expectancy
30	1.9%	53.3 more years
40	2.3%	43.6
50	2.9%	34.2
60	4.0%	25.2
70	5.3%	18.7
80	8.9%	11.2
90	8.9%	5.7 (11.2 years)

RMDs: New law – Ten years (if >10 years younger)
Example: Death at age 80?

Age of Beneficiary		Life Expectancy
30		10 years
40		10
50		10
60		10
70	5.3%	18.7
80	8.9%	11.2
90	8.9%	5.7 (11.2 years)

Stretch IRA

- "Stretch IRA" means an inherited retirement account (e.g., IRA), where payments are gradually made over the beneficiary's life expectancy.
- Until the enactment of the SECURE Act, it was fairly easy for any beneficiary who inherited a retirement account to receive distributions until the age of 83 (or older for beneficiaries who inherited at an older age).
- **Beginning 2020: General rule is a ten-year liquidation.**
- Inherited IRA distributions are taxable income.
- *A $1million IRA will shrink to $700k in 10 years* (oversimplified).

Stretch IRA

- "Stretch IRA" means an inherited retirement account (e.g., IRA), where payments are gradually made over the beneficiary's life expectancy.
- Until the enactment of the SECURE Act, it was fairly easy for any beneficiary who inherited a retirement account to receive distributions until the age of 83 (or older for beneficiaries who inherited at an older age).
- **Beginning 2020: General rule is a ten-year liquidation.**
- *"Would you like your descendants to be able to get an income stream from all of your retirement assets for the rest of their lives?"*

Charitable Remainder Trust

- Payment to non-charitable beneficiary(ies) for *life* *or* for a *term of years*. (maximum 20 years)
- Remainder interest distributed to charity.
- *Exempt from income tax.*

Polling Question (5 of 6)

Liquidate inherited IRAs in ten years.

Implications for charities - Donors more likely to consider:

- Outright bequests.
- Retirement assets to tax-exempt CRT.
  - Child: income more than 10 years; then charity.
  - Spouse & children (no estate tax marital deduction).

Two-generation Charitable Remainder Unitrust

- Typically pays 5% to the surviving spouse for life, then 5% to children for life, then liquidates to charity.
- Like an IRA, a CRT is exempt from income tax.
- Can be like a QTIP trust for IRD assets (but no estate tax marital deduction).

Theory: Tax advantage of income tax deferral!

Move IRD tax-free after death from one tax exempt trust (e.g., the IRA) to another tax-exempt trust (the CRT).

Theory: Tax advantage of income tax deferral!

Move IRD tax-free after death from one tax exempt trust (e.g., the IRA) to another tax-exempt trust (the CRT).

*[**Compare:***
A charitable lead trust is NOT tax-exempt;
don't name a CLT as an IRA beneficiary!]

Theory: Tax advantage of income tax deferral!

Move IRD tax-free after death from one tax exempt trust (e.g., the IRA) to another tax-exempt trust (the CRT).

Theory: Tax advantage of income tax deferral!

Move IRD tax-free after death from one tax exempt trust (e.g., the IRA) to another tax-exempt trust (the CRT).

- It can be done! PLR 199901023

* A private letter ruling (PLR) is issued by the IRS National Office in response to a specific request from a taxpayer as to the tax consequences of a proposed transaction. A PLR applies tax laws to specific facts only, is solely for the taxpayer who requested it and should not be relied upon as authority by other taxpayers. PLRs may later be revoked by the IRS. As such, PLRs do not carry the stamp of law, but do give an indication of current IRS thinking toward a specific type of transaction. All reference to PLRs in this presentation are for informational purposes only.

Theory: Tax advantage of income tax deferral!

Move IRD tax-free after death from one tax exempt trust (e.g., the IRA) to another tax-exempt trust (the CRT).

- It can be done! PLR 199901023
- No taxable income to beneficiaries until they receive distributions from CRT.

* A private letter ruling (PLR) is issued by the IRS National Office in response to a specific request from a taxpayer as to the tax consequences of a proposed transaction. A PLR applies tax laws to specific facts only, is solely for the taxpayer who requested it and should not be relied upon as authority by other taxpayers. PLRs may later be revoked by the IRS. As such, PLRs do not carry the stamp of law, but do give an indication of current IRS thinking toward a specific type of transaction. All reference to PLRs in this presentation are for informational purposes only.

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- Obstacles and solutions for implementation.
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Can a CRT produce more family wealth than a 10-year liquidation?

Yes. It is possible. But usually not likely.

- It can happen with long-term CRUTS (e.g., 40 or 50 years) and beneficiaries who pay high income tax rates.
- Outcomes vary with investment returns and tax rates.
- CRT can beat leaving outright to children when both:
  - There will be a high income-tax rate imposed on the distributions after death, and
  - The CRT will have a long term (e.g., at least 30 years).

Can a CRT produce more family wealth than a 10-year liquidation?

- Investments earn 5%

IRA $1,000,000

Can a CRT produce more family wealth than a 10-year liquidation?

- Investments earn 5% -- Tax rate: 40%

IRA	$1,000,000
Income tax	-400,000
After-tax	**$600,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

CRT	$1,000,000
Income tax	-400,000
After-tax	**$600,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

CRT	$1,000,000	< charity
Income tax	-400,000	
After-tax	**$600,000**	< family gets

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

		5% Annual Income
CRT	$1,000,000	**$50,000**
Income tax	-400,000	
After-tax	**$600,000**	**$30,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

			5% Annual Income
CRT	$1,000,000	< charity	**$50,000**
Income tax	-400,000		
After-tax	**$600,000**	< family gets	**$30,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

		5% Annual Income
CRT	$1,000,000	**$50,000**
Income tax	-400,000	
After-tax	**$600,000**	**$30,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$30,000*	*$20,000*
Income tax	-400,000			
After-tax	**$600,000**	**$30,000**		

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$30,000*	*$20,000*
Income tax	-400,000	*Income tax >>>*		*-$8,000*
		Net annual investment		$12,000
After-tax	**$600,000**	**$30,000**		

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$30,000*	*$20,000*
Income tax	-400,000	*Income tax >>>*		*-$8,000*
		Net annual investment		**$12,000**
After-tax	**$600,000**			**<50 years?**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 40%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$30,000*	*$20,000*
Income tax	-400,000	*Income tax >>>*		*-$8,000*
		Net annual investment		**$12,000**
After-tax	**$600,000**	*Purchase $600k life insurance?*		**<50 years?**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

CRT	$1,000,000

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

CRT	$1,000,000	< charity
Income tax	-200,000	
After-tax	**$800,000**	< family gets

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

		5% Annual Income
CRT	$1,000,000	**$50,000**
Income tax	-200,000	
After-tax	**$800,000**	**$40,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

			5% Annual Income
CRT	$1,000,000	< charity	**$50,000**
Income tax	-200,000		
After-tax	**$800,000**	< family gets	**$40,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

		5% Annual Income
CRT	$1,000,000	**$50,000**
Income tax	-200,000	
After-tax	**$800,000**	**$40,000**

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$40,000*	*$10,000*
Income tax	-200,000			
After-tax	**$800,000**	**$40,000**		

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$40,000*	*$10,000*
Income tax	-200,000	*Income tax >>>*		*-$2,000*
		Net annual investment		$8,000
After-tax	**$800,000**	**$40,000**		

Can a CRT produce more family wealth than a 10-year liquidation?

5% CRUT -- Investments earn 5% -- Tax rate: 20%

		5% Annual Income	*Consume*	*Save*
CRT	$1,000,000	**$50,000**	*$40,000*	*$10,000*
Income tax	-200,000	*Income tax >>>*		*-$2,000*
		Net annual investment		**$8,000**
After-tax	**$800,000**			**<50 years?**

CRUT can offer other benefits:

- A steady income-stream to the child that will last for the child's entire lifetime.
- Asset protection provisions can be included in the CRT in the event of a divorce or other financial challenge.
- Professional asset management is possible with a corporate trustee, which could be particularly helpful for a child who would have likely mismanaged a large lump-sum inheritance.

What will be covered today:

- What are the required distributions from inherited retirement accounts in 2022?
- Why is there increased interest in naming a charitable remainder trust as a beneficiary of a retirement account?
- Under what circumstances can a family have more wealth if a CRT is named as the beneficiary of an IRA, than if the IRA is left outright to the family?
- **Obstacles and solutions for implementation.**
- A CRT disinherits the grandchildren.
  - A role for life insurance.

Legal obstacles with a CRT:

Young beneficiaries: 10% charitable deduction?
- Beneficiaries must be over age 27 for lifetime CRT.
- If beneficiaries are under age 27, the present value of the charity's remainder interest will be less than the minimum required 10% amount.

Federal estate tax paid?
- **CRT beneficiaries lose an income tax deduction.**
  - If a retirement account was part of a taxable estate, the beneficiaries who receive taxable distributions can claim an income tax deduction for the federal estate tax paid. §691(c)

Can a CRT stretch an inherited IRA?

- Situations that produce the best results for family:
  - Combination of a long-term CRT (between 30 and 55 years) and high income-tax rates on IRD.
- Obstacles:
  - 10% charitable deduction with young beneficiaries.
  - Problem when federal estate tax was paid.

Two-generation Charitable Remainder Unitrust

- Make distributions first to a surviving spouse, and upon death of the spouse payments begin to children for the rest of their lives.
- Can be attractive for retirement assets in blended families.
  - For example: CRT makes distributions to second spouse and then to children from a prior marriage or relationship.

Two-generation Charitable Remainder Unitrust

- Can be a solution for second marriages when estate is top-heavy with retirement assets. Example:
  - Half of IRA to surviving spouse,
  - Other half of IRA to a CRT for 2nd spouse and children from 1st marriage.

Two-generation Charitable Remainder Unitrust

Technical requirements:

- Minimum 10% charitable deduction.
  - All children should be over age 30.
- CRUT – minimum 5% annual distribution.
- No estate tax *marital* deduction.
- ***Charitable intent?***

What will be covered today:

- What are the required distributions from inherited retirement accounts in 2022?
- Why is there increased interest in naming a charitable remainder trust as a beneficiary of a retirement account?
- Under what circumstances can a family have more wealth if a CRT is named as the beneficiary of an IRA, than if the IRA is left outright to the family?
- Obstacles and solutions for implementation.
- **A CRT disinherits the grandchildren.**
  - **A role for life insurance.**

Two-generation Charitable Remainder Unitrust

Can be a solution for second marriages when estate is top-heavy with retirement assets, e.g., half of IRA to surviving spouse, **half of IRA to CRT for 2nd spouse and children from 1st marriage.**

- **Payments stop at death of children.**
  - **What about the grandchildren?**

Two-generation Charitable Remainder Unitrust

Can be a solution for second marriages when estate is top-heavy with retirement assets, e.g., half of IRA to surviving spouse, **half of IRA to CRT for 2nd spouse and children from 1st marriage.**

- Payments stop at death of children.
  - What about the grandchildren?
- **What if the 2nd spouse and all children die early? A car accident? Illness?**
  - **Quick payment of all CRT assets to charity.**

Two-generation Charitable Remainder Unitrust

Can be a solution for second marriages when estate is top-heavy with retirement assets, e.g., half of IRA to surviving spouse, **half of IRA to CRT for 2nd spouse and children from 1st marriage.**

- Payments stop at death of children.
  - What about the grandchildren?
- What if the 2nd spouse and all children die early?
- **Life insurance on lives of the children can be part of comprehensive IRA-to-CRT plan.**

Questions

Christopher R. Hoyt, JD
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Polling Question (6 of 6)

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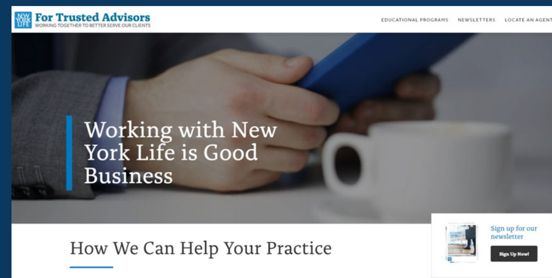

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