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Introduction to Estate Planning:

Life Insurance, Commercial Annuities & Charitable Gift Annuities

By: Barry Nickelsberg, CAP, Chief Development Officer for Estate & Gift Planning
&
Mark N. Williams, Esq., CAP, Senior Associate Director

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We hope you find the following information helpful, and ask that you consider expanding your partnership with The Carter Center by making a planned gift.

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Thank You for Your Trust

We would also like to express our gratitude for allowing us to serve as your resource; it is a privilege to be trusted to provide you with information about these important topics.

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Overview

1. Life Insurance Basics
   - Types
   - Planning with Insurance

2. Commercial Annuity Basics
   - Types
   - Planning with Annuities

3. Charitable Gift Annuities
   - Amplified Benefits

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Life Insurance

- Life insurance is one of the most well known and flexible estate planning tools

- Insurance policies are sold by insurance companies and are regulated by state and federal law (possibly securities laws, too)

- Life insurance contracts cover many details and it is important to read the policy document fully

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Insurance Basics

- Insurance policies are backed by the assets of the insurance company

- Creating an insurance policy requires a special contract that spells out what the insurance company must do, and what you must do as the buyer

- It is common to purchase an insurance policy from an agent, but some companies may sell policies to consumers directly

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Insurance Basics

- When you buy a life insurance policy, you will choose a beneficiary

- The beneficiary is the person who will receive the money from the insurance company when you pass away

- Insurance policies typically call this money the Death Benefit, and certain rules must be met for the payment to be made

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Considerations When Choosing An Insurance Company

- Because the Death Benefit is only covered by the assets of the insurance company, it is critical to evaluate company financial health and stability

- Life insurance is typically sold by insurance agents or brokers who earn commissions, and there can be other fees associated with the sale or exchange of a policy

- Insurance agents can help you shop for and more easily compare policies and coverage types

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Two Types of Life Insurance

- Life insurance is most often sold as either "Term Life", or "Whole Life"

- Term Life Insurance only pays money to the person(s) you choose if you pass away during the period of years (the term) you purchase and are covered by the insurance policy

- Generally, the beneficiary will get the same amount, no matter when you pass away (called a "Level Term Policy"), but there are policies where the payment decreases over time (called a "Decreasing Term Policy")

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Two Types of Life Insurance

- Whole Life Insurance is a permanent life insurance with coverage that does not expire after a number of years, and it often requires all contract terms to remain the same for the life of the policy

- Whole Life Insurance pays money to the person(s) you choose, whenever you pass away

- Whole Life is often further divided into two additional subcategories: "Universal Life" and "Variable Life"

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Universal Life Insurance

- Universal Life Insurance often accumulates a cash value, with the funds in your account generating modest interest

- When a policy accumulates a certain cash value, you may have the right to withdraw funds, in addition to receiving the Death Benefit

- After paying a certain amount or reaching a pre-set value, some Universal Life policies allow you to reduce the premiums due in future years, or to increase the Death Benefit without paying more each month

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Variable Life Insurance

- Variable Universal Life Insurance accumulates a cash value, and also allows you to invest the funds in your account
- Most insurance companies offer a diverse selection of investments ranging from stocks, to bonds, to money market funds
- Policy cash value can increase or decrease over time, depending on your investments, which can also cause the Death Benefit to grow or shrink (depending on the policy you buy)
- Variable Life policies also allow you to reduce future payments due or to increase the death benefit for no cost, at a certain cash value

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Insurance Costs

- Insurance companies use many factors to determine the amount they will charge you

- Age, gender, and health are factors used to determine individual rates

- Insurance companies usually charge fees in any policy, including mortality and "expense risk" fees that can increase overall costs

- If you decide to cancel a policy, surrender fees may be due

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Planning With Life Insurance

- There are many reasons for buying life insurance, including:
  - Replacing income for your dependents
  - Paying for final medical and funeral expenses
  - Paying income or estate taxes that are due
  - Creating or supplementing an inheritance
  - Making charitable gifts

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Planning With Life Insurance

- Life insurance policies are a contract, and are not required to be included in probate

- In most cases, no taxes are due when loved ones get money from the insurance company

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Planning With Life Insurance

- Beneficiaries have a right to the insurance money when you pass away, and it is important to update your beneficiary forms on a regular basis

- For example, if you get a divorce and never update the form, your former spouse may get the money even if you did not want this

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Planning With Life Insurance

- Life insurance policies are a great way to make gifts to charity
- It is easy to name The Carter Center as a beneficiary of your policy, while providing for your loved ones, too
- By naming The Carter Center as the beneficiary of your policy, and then transferring ownership of the policy to us, you can amplify the tax benefits of your gift and receive annual tax deductions just for making your insurance payments

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Commercial Annuities

- Commercial annuities are another common estate planning tool

- A commercial annuity is a contract between you and an insurance company

- In exchange for your money, the insurance company will pay you, or a person you choose, a certain income for life or a period of years

- The person(s) who receives the annuity payments is called an Annuitant

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Commercial Annuity Basics

- It is possible to buy a commercial annuity with a large lump sum, or to make payments over time

- A commercial annuity can pay you and a loved one an income for life or for a term of years (called a "Joint & Survivor" annuity)

- A commercial annuity can begin immediately, or can be delayed until you are ready to begin receiving payments

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Commercial Annuity Basics

- The size of your annuity income will depend on several variables, including your choice of a guaranteed payout, if the annuity is for life or a term of years, any period of delay before you start receiving income, and in some cases, the performance of the stock market

- Like life insurance, an annuity is backed only by the assets of the insurance company, so it is important to research and select only the strongest companies

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Fixed Commercial Annuities

- Fixed Commercial Annuities are similar to Certificates of Deposit, paying a set rate of return/interest rate for life or a number of years

- Fixed commercial annuities offer steady, predictable income streams

- Not all commercial annuities pay your loved ones if you pass away

- Like life insurance, some annuities provide a Death Benefit in the event you pass away before the commercial annuity term ends; this can be included with lifetime income annuities, too

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Variable Commercial Annuities

- Variable Commercial Annuities allow you to invest your funds in a variety of stocks, bonds and mutual funds

- Variable commercial annuity account values fluctuate with the performance of the investments, which may cause your payments to go up or down

- Generally, there is no guaranteed minimum payment

- Variable commercial annuities are generally meant for long-term investments, so your money grows and the annuity payments increase

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Indexed Commercial Annuities

- An Indexed Commercial Annuity is another type of Variable Annuity that tracks a stock index, like the S&P 500 or the NASDAQ

- Indexed annuity account values fluctuate with the performance of the investments, which may cause your payments to go up or down

- These annuities are generally meant to generate returns that match the stock market, but the contracts often limit the amount of growth you will receive (Ex. – If stocks produce a 30% return, you may be limited to a maximum gain that is less)

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Deferred Commercial Annuities

- When creating a commercial annuity, you can choose to receive payments right away, or you can wait

- If you wish to make payments over time when you create a commercial annuity, you will purchase a deferred commercial annuity

- Deferring commercial annuity payments often leads to higher annual payments when you begin receiving money

- Some retirement plans include commercial annuity choices; the funds grow tax free inside the account and you pay taxes on payments

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Commercial Annuity Costs

- As with Life Insurance, annuity companies will use many factors to determine the amount they charge

- Age, gender, health, and any periods of delayed payments are typical factors used to determine your rate

- Companies pay commissions to agents, and charge fees for commercial annuities, including mortality and "expense risk" fees that can increase overall costs

- If you cancel or take money from the commercial annuity at an earlier date, surrender fees or other penalty fees may be due

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Planning With Commercial Annuities

- There are many reasons for buying a commercial annuity, including:
  - Replacing/guaranteeing income during your retirement
  - Supplementing retirement accounts or retirement income
  - Replacing funds used to pay income or estate taxes due at death
  - Creating or increasing an inheritance
  - Making charitable gifts

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Estate Planning With Commercial Annuities

- Commercial Annuities are a contract, and are not required to be included in probate

- If you owe money to people or businesses, they may be able to get the money from the commercial annuity company before you do

- If your commercial annuity includes a Death Benefit, it is important to update beneficiary forms

- Commercial Annuities charge fees at creation, and charge fees each year that may reduce the benefits to you or your loved ones over time

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Planning With Commercial Annuities

- With any deferred commercial annuity, taking early withdrawals will cause penalties

- Surrender fees are charged if you cancel or withdraw money from the commercial annuity in the first several years after creation (some are as high as 10%)

- If the commercial annuity is a part of your retirement account and you are younger than 59 ½ years old, additional penalties will apply for early withdrawals

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Planning With Fixed Commercial Annuities

- Fixed Commercial Annuities can be good for steady and predictable income

- Since they are not subject to stock market moves, fixed commercial annuities are often sold as protecting the money (principal) you invest

- Fixed commercial annuity payments may face possible loss of purchasing power due to inflation

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Planning With Variable Commercial Annuities

- Variable Commercial Annuities can be good for younger workers who can invest for many years to increase annuity payments

- Investment fees and management fees are typically charged each year, in addition to other fees, and can often add up to 2 – 3% per year

- Variable commercial annuity payments are taxed as ordinary income, even when they include built up capital gains, so you pay more than the 15% - 20% capital gains rate on those profits

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A Note on Retirement Planning

- Because of the high fees and less favorable tax treatment on tax deferred commercial annuities, it is commonly suggested that individuals max out contributions to traditional retirement accounts (IRAs), Roth IRAs, and 401(k)/employer offered accounts before considering an investment in an annuity for retirement income

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A Note on Retirement Planning

- Individual Retirement Accounts (IRAs), are similar to employer sponsored retirement plans – 401(k), 403(b), and 457(b)&(f), etc.

- IRAs are tax deferred savings vehicles, so when you put money in you pay less income taxes, and you can invest more money

- When you begin taking money out of the IRA (or employer plan) you owe taxes on all of the money withdrawn

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A Note on Retirement Planning

- Roth IRAs are great savings tools, especially for younger people

- You pre-pay taxes on the money you invest in a Roth IRA, and no matter how much the money has grown, no taxes are due on the money you take out of the Roth IRA

- Following the 2017 tax cuts, income tax rates are lower for almost all Americans and this makes a Roth even more attractive if you believe tax rates will rise in the future

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A Note on Retirement Planning

- In 2020, the contribution limits for IRAs and Roth IRAs are $6,000 ($7,000 for those who are 50+ years), but certain limits apply

- 401(k), 403(b), 457(b), 457(f) contribution limits are $19,500 ($26,000 for those who are 50+ years)

- Note: 457(b) plans have a double catch up limit ($33,000 total), but in some cases participants can contribute up to $39,000 total if eligible for rollover of non-used prior contribution limits, but employer contributions may decrease these amounts

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- Special withdrawal rules generally apply to 457 plans

A Note on Retirement Planning

-A 457(f) nonqualified deferred compensation arrangement is a nonqualified retirement plan which gives the tax-exempt employer an opportunity to supplement the retirement income of its select management group or highly compensated employees by contributing to a plan that will be paid to the executive at retirement. All nonqualified plans for tax-exempt employer executives must satisfy 457(f) requirements.

-A 457(f) nonqualified deferred compensation arrangement is made up of a written agreement between the employer and each eligible executive to pay benefits when the executive retires, dies, or is disabled. The agreement contains certain conditions that executives must meet before benefits are paid to them. There is no limit on the amount o money that can be deferred on behalf of qualifying executives. In addition, executives can invest up to 100% of their compensation. Deferred amounts and their earnings are employer assets and subject to the claims of general creditors.

-How the executives pay income taxes, Social Security and Federal Unemployment, depends on the written agreement with each eligible executive. Ordinary income tax is paid on the entire value of the fund when there is no longer a risk that the money will be forfeited for non-performance of the agreement. This means that ordinary income tax will be paid on the entire amount in the plan in the year of retirement, regardless of the method of payment. Typically, taxes are paid when the benefits become payable or the substantial risk of forfeiture lapses.

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A Note on Retirement Planning

- Despite the contribution limits previously listed, there are very detailed rules regarding deductibility of contributions to IRAs

Note: AGI is your Adjusted Gross Income

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
single or **head of household**	$65,000 or less	a full deduction up to the amount of your contribution limit.
	more than $65,000 but less than $75,000	a partial deduction.
	$75,000 or more	no deduction.
married filing jointly or **qualifying widow(er)**	$104,000 or less	a full deduction up to the amount of your contribution limit.
	more than $104,000 but less than $124,000	a partial deduction.
	$124,000 or more	no deduction.
married filing separately	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.
If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "single" filing status.		

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A Note on Retirement Planning

- Despite the contribution limits previously listed, there are very important rules limiting contributions to Roth IRAs

<u>Note: AGI is your Adjusted Gross Income</u>

If your filing status is…	And your modified AGI is…	Then you can contribute…
married filing jointly or **qualifying widow(er)**	< $196,000	up to the limit
	≥ $196,000 but < $206,000	a reduced amount
	≥ $206,000	zero
married filing separately and you lived with your spouse at any time during the year	< $10,000	a reduced amount
	≥ $10,000	zero
single, **head of household**, or **married filing separately** and you did not live with your spouse at any time during the year	< $124,000	up to the limit
	≥ $124,000 but < $139,000	a reduced amount
	≥ $139,000	zero

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A Note on Retirement Planning

- For Roth IRAs

Amount of your reduced Roth IRA contribution

If the amount you can contribute must be reduced, figure your reduced contribution limit as follows.

1. Start with your modified AGI.
2. Subtract from the amount in (1):
   - $196,000 if filing a joint return or qualifying widow(er),
   - $-0- if married filing a separate return, and you lived with your spouse at any time during the year, or
   - $124,000 for all other individuals.
3. Divide the result in (2) by $15,000 ($10,000 if filing a joint return, qualifying widow(er), or married filing a separate return and you lived with your spouse at any time during the year).
4. Multiply the maximum contribution limit (before reduction by this adjustment and before reduction for any contributions to traditional IRAs) by the result in (3).
5. Subtract the result in (4) from the maximum contribution limit before this reduction. The result is your reduced contribution limit.

See Publication 590-A, Contributions to Individual Retirement Accounts (IRAs), for a worksheet to figure your reduced contribution.

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Charitable Gift Annuities

- Charitable Gift Annuities are a great way to make a gift to charity and receive a lifetime income, too

- In exchange for a lump sum of money, The Carter Center will pay you (and/or a loved one) an income for life

- You will receive an immediate tax deduction, and a portion of the payments you receive will be tax free

Charitable Gift Annuities

- Charitable Gift Annuities offer a guaranteed rate of return and steady, predictable payments that you cannot outlive

- In today's low-interest-rate environment, Charitable Gift Annuities offer returns that are between 3 – 8%, which is higher than most Certificates of Deposit (CD)

- Charitable Gift Annuity rates are set by the American Council on Gift Annuities

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Charitable Gift Annuities

- Charitable Gift Annuities can be created using cash, but using stock or other appreciated assets is even better

- Giving appreciated property or investments allows you to avoid some of the capital gains taxes due, and due to the low-interest rate environment, it is possible to get more tax free income each year

- Charitable Gift Annuities can also be created using gold, mutual fund shares, bitcoin and more; these assets may come with special tax rules and we are happy to provide detailed examples for you

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Planning With Charitable Gift Annuities

- Charitable Gift Annuities are a great way to plan for and increase retirement income, as well as fund your philanthropy

- Annuity payments can begin immediately

- Payments could also begin at a pre-set future date with a Deferred Charitable Gift Annuity

- Or you can wait to choose the right time for your payments to begin with a Flexible Charitable Gift Annuity

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Charitable Gift Annuity Considerations

- Charitable Gift Annuities can be the key to expanding partnerships with your favorite organizations

- Charitable Gift Annuities are backed by the organization that issues them, and, like insurance or commercial annuities, it is important to select only organizations with the financial resources and right management to ensure that your payments continue

- Charitable Gift Annuities are regulated under state law, and not all charities offer these unique planning tools

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Charitable Gift Annuities – Amplified Benefits

- On December 20, 2019, the Setting Every Community Up For Retirement Enhancement Act (SECURE Act) was passed and its provisions became effective on January 1, 2020

- The law made substantial changes to almost every retirement plan, including IRAs, Roth IRAs, 401(k)s, 403(b)s, etc.

- Charitable Gift Annuities can avoid many of the negative tax issues that were caused by the SECURE Act

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Charitable Gift Annuities – Amplified Benefits

- Prior to January 1, 2020, if you inherited a retirement plan from a loved one, you could withdraw all of the funds over the course of your life expectancy (the "lifetime stretch" withdrawal)

- The benefit of the lifetime stretch was that it allowed the person inheriting the assets to keep the funds invested, tax free, and plan a distribution schedule that reduced taxes by spreading them over many years

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Charitable Gift Annuities – Amplified Benefits

- The SECURE Act eliminated the lifetime stretch withdrawal for most people, and now funds must be withdrawn and taxed within ten years

- Spouses still qualify for the lifetime stretch and can still rollover the IRA to their personal retirement account

- Non-spouse beneficiaries <u>less than ten years younger</u> than the person giving them the IRA also qualify for the lifetime stretch

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Charitable Gift Annuities – Amplified Benefits

The lifetime stretch still applies to:

- Disabled beneficiaries
- Chronically ill beneficiaries
- Minor children, but the ten year period applies once the child reaches the age of majority (defined by state law – generally 18-21)

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Potential Impacts of Inherited IRA

Distributions of inherited IRA funds may affect:

- Medicare/Medicaid
- SSI/SSID
- Student Financial Aid
- Other Federal/State Assistance Programs

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Charitable Gift Annuities – Amplified Benefits

- Choosing, in your will, to give a portion of your retirement account funds, *after you pass away*, to charity to create a Charitable Gift Annuity for a loved one, avoids the problem of high taxes on an inherited IRA

- This allows you to provide a lifetime income stream for loved ones with your IRA even if they do not meet the requirements of the lifetime stretch rules under the SECURE Act, while giving them stock, real estate and other property can reduce or eliminate taxes

Charitable Gift Annuities & The SECURE Act

- If you are interested in learning more about the SECURE Act, and how you can update your estate plans to avoid high taxes that will reduce an inheritance, while providing a lifetime income for your loved ones, please CLICK THIS LINK to replay our webinar on the details of this important estate planning strategy

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Charitable Gift Annuities –Planning Considerations

- Please be aware that a Charitable Gift Annuity with The Carter Center cannot begin paying until an annuitant is at least 65 years old

- As with a fixed commercial annuity, the charitable gift annuity payments may lose purchasing power over time due to inflation

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Barry Nickelsberg and Mark Williams are happy to work with you and your advisors to discuss how these strategies can fit your specific needs and goals.

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BARRY NICKELSBERG, CAP
Chief Development Officer

ESTATE & GIFT PLANNING

453 Freedom Parkway
Atlanta, GA 30307 USA
Tel (404) 420-3868
Fax (404) 420-3453
barry.nickelsberg@cartercenter.org
www.cartercenter.org

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MARK WILLIAMS, ESQ., CAP
Associate Director

ESTATE & GIFT PLANNING

453 Freedom Parkway
Atlanta, GA 30307 USA
Tel (404) 420-3883
Fax (404) 420-3453
mark.williams@cartercenter.org
www.cartercenter.org

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Q & A

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