Financial Planning Tax Considerations: Estate and Education Part 2

Course #30907B

Taxes

2 Credit Hours

Support@PacificCPE.com | (800) 787-5313

PacificCPE.com

FINANCIAL PLANNING TAX CONSIDERATIONS: ESTATE AND EDUCATION PART 2

This course introduces key features of life insurance policies, variable annuities, and common trust types. It also outlines important tax benefits available to individuals saving for or paying education expenses for themselves or their dependents

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Life Insurance and Variable Annuities
Trusts as a Financial Planning Tool
Tax-Free Savings for Education

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize characteristics of different types of life insurance policies and variable annuities.
- Identify the basics of various kinds of trusts.
- Identify tax benefits that may be available to individuals who are saving for and paying education costs either for themselves or their dependents.

NOTICE

Program publication date **9/15/25**

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.

- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.

- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.

- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.

- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

TABLE OF CONTENTS

CHAPTER 1: LIFE INSURANCE AND VARIABLE ANNUITIES

Chapter Objective

After completing this chapter, you should be able to:

- Recognize characteristics of different types of life insurance policies and variable annuities.

I. LIFE INSURANCE

Life insurance can be a good estate planning tool for a number of reasons, most notably:

- The insured usually pays little up front for the policy;
- The proceeds of the policy pass directly to the beneficiaries without going through probate; and
- The benefits are not generally subject to federal income tax.

However, today's complex financial markets give individuals a host of other options when considering life insurance, including policies that can add to retirement income. This section will outline the major types of life insurance available and provide some pointers for determining what type of insurance is best in a certain situation, particularly considering its tax implications.

A. THE NATURE OF LIFE INSURANCE

A life insurance policy is a contract. In the contract, the insurer promises to pay proceeds of the policy to the beneficiaries in the event the insured dies. The owner of the policy has the right to name the beneficiary and change the beneficiary as often as he or she likes unless the designation is made irrevocable.

The primary beneficiary is entitled to the proceeds only if he or she survives the insured. Contingent beneficiaries must likewise survive the insured. Thus, in cases of a class that has both surviving and deceased members, only those surviving will receive payment. Settlement options include both installment payments or payment at a future date. The owner of the policy can select the settlement option.

B. WHO NEEDS LIFE INSURANCE?

Almost anyone with dependents should have some type of life insurance policy (the exception may be someone who is so wealthy that it is totally unnecessary to provide the additional assets to survivors upon death). But for most, the only questions are the amount of insurance they should have and the type.

In analyzing the amount of life insurance a person should have, the following list of questions is a good place to start:

- Is the person married?
- Does the person still have children living at home, or, if not living at home, are they still dependent (i.e., college tuition)?
- Does the person own a small business that would likely suffer if he or she were to suddenly die?
- Is there anyone else the person supports, such as an elderly parent?
- What type of financial obligations does the person have, i.e., a large mortgage on his or her home or a loan to support his or her business?

The answers to these and other questions can help determine the amount of insurance that is right for a particular individual. Clearly, for example, someone who has a spouse and several small children living at home with a large mortgage is going to need more life insurance than a single person whose children are grown and whose house is paid for.

Making the precise determination about how much insurance is needed also depends on other assets that are likely to be available at the time of death. Will a surviving spouse be entitled to the deceased's retirement benefits? Will they be entitled to continuing employer-sponsored health benefits? A thorough examination of an individual's current and future expected finances is necessary to determine an appropriate amount of life insurance.

As a rule of thumb, however, some financial experts recommend that individuals have a life insurance policy sufficient to replace two to six times their annual income, depending on individual needs. Therefore, if an individual has an annual income of $100,000, his or her life insurance policy should be for between $200,000 and $600,000.

C. SELECTING A BENEFICIARY

If an individual is married and has dependent children, his or her spouse is most likely going to be the beneficiary of his or her life insurance policy. If the individual is unmarried and has small children, he or she will likely need to select a trustee to manage the proceeds of the insurance policy. In such a case, the children would technically be the beneficiaries, but the proceeds would be placed in a trust managed by a third party. Each person's circumstances are different. Generally, the life insurance should be paid to the person or persons for whom the deceased was responsible during his or her lifetime.

D. OVERVIEW OF TYPES OF LIFE INSURANCE

Traditionally, there were basically two types of life insurance: term, or "pure" life insurance, or whole life, also referred to as investment insurance. Term insurance provides protection for a specified term of years. It is normally cheaper than whole insurance, particularly when the insured is relatively young. It has value only if the insured dies. Whole insurance, on the other hand, has some cash value even if the insured does not die. It is normally more expensive than simple term insurance. Its utility as an estate planning or an investment tool is normally fairly limited. In today's marketplace, individuals also have to consider three other options: variable life insurance, universal life insurance and universal variable life insurance.

TABLE 16-1. TYPE OF LIFE INSURANCE

Type of Policy	Positives	Negatives
Term Life	• Usually inexpensive.	• No cash value; • Not always renewable.
Whole Life	• Pays a death benefit to the beneficiary and a low risk cash value account and tax-deferred cash accumulation; • Provides a fixed premium which cannot increase during insured's lifetime as long as payments are made; • Insurance company manages the cash value of policy; • Insured can receive dividends or use them to defray premiums; • Funds can be withdrawn during insured's lifetime.	• Does not allow insured opportunity to select own investment options; • Does not allow insured to move money between accounts; • Does not offer flexibility in amount of premium or face amount of policy
Variable Life	• Pays a death benefit to the beneficiary and provides insured with low-risk, tax-free cash accumulation; • Allows the death benefit to vary in relation to the fund returns of the cash value account; • Allows insured to borrow from the policy during their lifetime.	• Offers no guarantee to the amount of cash value during insured's lifetime; • Provides no premium or face amount flexibility.
Universal Life	• Pays a death benefit to named beneficiary and offers low-risk cash value account and tax-deferred accumulation; • Allows insured to earn market rates of interest on cash value account; • Offers the right to borrow or withdraw from the policy during insured's lifetime; • Allows premium and face amount flexibility.	• Does not allow insured to invest in separate accounts such as money market or stock funds; • Does not allow flexibility to split money between different accounts.