PacificCPE

COURSE
30907C

Financial Planning: Insurance, Trusts, and Education Tax Benefits

Rounding out a comprehensive financial planning curriculum, this course covers three versatile planning tools. Life insurance and variable annuities are examined for their tax characteristics and practical trade-offs. Trusts are explored as flexible planning instruments, with attention to common trust types, creation requirements, and how they fit into broader strategies. The course also covers tax-advantaged education savings, including Coverdell accounts, 529 plans, savings bonds, and education tax credits. Professionals advising clients on long-term financial planning will gain practical insight across all three of these commonly encountered planning areas.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course 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.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: February 2026

TABLE OF CONTENTS

CHAPTER 01

Life Insurance And Variable Annuities 5

1.01 I. Life Insurance 5

1.02 II. Variable Annuities 15

Test Your Knowledge 26

CHAPTER 02

Trusts As A Financial Planning Tool 31

2.01 I. Introduction And Overview 31

2.02 II. Trust Creation 33

2.03 III. Types Of Common Trusts 36

Test Your Knowledge 45

CHAPTER 03

Tax-Free Savings For Education 48

3.01 I. Coverdell Education Savings Accounts 48

3.02 Issue Rule 56

3.03 II. Other Education Savings Accounts 58

3.04 III. Savings Bonds For Education 63

3.05 IV. Tax Credits For Education 65

3.06 V. Scholarships, Fellowships, Grants, And Tuition Reductions 69

Test Your Knowledge 74

Final Exam Copy 88

Glossary 77
Index .....

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

value account;

• Allows insured to borrow from the policy during their lifetime.

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;	• Does not allow insured opportunity to select own investment options;
	• Provides a fixed premium which cannot increase during insured’s lifetime as long as payments are made;	• Does not allow insured to move money between accounts;
	• Insurance company manages the cash value of policy;	• Does not offer flexibility in amount of premium or face
	• Insured can receive dividends or use	amount of policy them to defray premiums; [BULLET] • Funds can be withdrawn during insured’s lifetime.
Variable Life	• Pays a death benefit to the beneficiary and provides insured with low-risk, tax- free cash accumulation;	• Offers no guarantee to the amount of cash value during insured’s lifetime;
	• Allows the death benefit to vary in relation to the fund returns of the cash	• 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;	• Does not allow insured to invest in separate accounts such as money market or
	• Allows insured to earn market rates of interest on cash value account;	stock funds; • Does not allow flexibility to
	• Offers the right to borrow or withdraw from the policy during insured's lifetime;	split money between different accounts.
	• Allows premium and face amount flexibility.	
Universal Variable	• Pays a death benefit to the beneficiary	• Requires policyholder to
Life	and offers low-risk tax-deferred cash value options;	devote time to manage the accounts;
	• Offers separate accounts for investment, such as stock and bond funds;	• Does not work well with small premium amounts
	• Offers premium flexibility;	because premium must
	• Allows insured to make withdrawals or to borrow from the policy during their lifetime	cover insurance and accounts.

1. Term Life Insurance

Term life insurance is "pure" life insurance. It has a value only if the insured dies during the life of the policy. If the insured outlives the stated term of the policy, it has absolutely no value. Most term life insurance policies have specific terms. When purchasing a term life insurance policy, one should always determine if and under what circumstances the policy is renewable. That is because such a policy might be relatively inexpensive for an individual who is healthy and 30 years old. But what happens if, when the policy expires, the individual has become quite ill. Will he or she have the option of renewing? And at what price? Term life insurance is cheapest to buy when an individual is young. Rates generally increase with age.