FINANCIAL APPLICATIONS FOR ANNUITIES:

LEVERAGING A SPOUSAL LIFETIME ACCESS TRUST

WHO — PRIMARY DEMOGRAPHIC

High net worth married couples who are interested in removing assets from their estate by using their lifetime gift and estate tax exclusion but wish to have limited use of the assets while still alive.

WHAT IS A SPOUSAL LIFETIME ACCESS TRUST?

A spousal lifetime access trust (SLAT) is an irrevocable trust that removes trust assets from the grantor's estate for estate tax purposes. The trust allows the grantor's spouse limited access to trust assets and income during their lifetime.

HOW IT WORKS

The grantor creates an irrevocable trust (SLAT) through use of their lifetime gift tax exclusion. The SLAT is for the benefit of the grantor's spouse or other named beneficiaries during the life of the grantor. In situations where a spouse can access the assets on a limited basis, use of the assets may benefit both spouses as they can cover mutual fixed and discretionary costs. Due to the irrevocability of the trust, assets contained within it are shielded from estate taxes at the grantor's death so long as the gift to the trust was made three or more years prior to the grantor's death.

CONSIDERATIONS

PROS:

- Assets are removed from the estate
- Allows the spouse limited access to assets
- Creditor protection of assets

CONS:

- Irrevocability in the event marriage dissolves or beneficiary circumstances change
- Compressed taxation schedule on retained trust income
- Reciprocal trust doctrine may apply. This can arise if a court determines the trusts were in fact created for the benefit of the grantor and accordingly are not actually removed from the estate.

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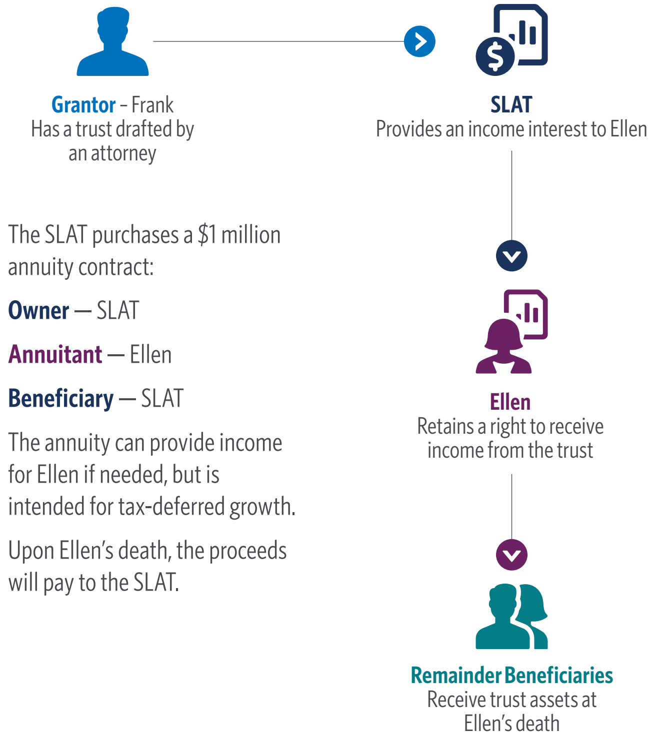

The SLAT purchases a $1 million annuity contract:

Owner — SLAT

Annuitant — Ellen

Beneficiary — SLAT

The annuity can provide income for Ellen if needed, but is intended for tax-deferred growth.

Upon Ellen's death, the proceeds will pay to the SLAT.

USE CASE IN CLIENT PORTFOLIO

Frank and Ellen

High net worth couple seeking to take advantage of current gift and estate tax exemptions.

While there is no immediate income need, they would like limited access to their assets.

Frank and Ellen would consult a trust attorney to construct a SLAT wherein Frank is the grantor. Correctly drafted, Ellen would have limited access to the assets and can take income from the trust to pay for mutually beneficial expenses. As an irrevocable trust, Frank would not have access to the assets or the ability to change the terms of the trust. Additionally, someone other than Frank, including Ellen, must be the trustee of the SLAT. Upon Frank's death, assuming assets have been gifted to the trust three or more years prior, the assets will not be included in Frank's estate at potentially lower exclusion thresholds.

Since there is no immediate income need from the trust, a variable annuity would offer Frank and Ellen the opportunity to benefit from potential tax-deferred growth until such time that income is desired. It also provides flexibility for the trustee to direct investments in the contract. So long as there are no non-natural beneficiaries of the trust, the annuity contract will retain its tax-deferral status. The annuity contract should be structured per the below guidance:

Owner	Annuitant	Beneficiary
Irrevocable Trust (SLAT)	Can be anyone associated with the trust (grantor, spouse beneficiary, remainder beneficiaries, or trustee)	Irrevocable Trust (SLAT)

Annuity placement in a SLAT can serve a multitude of functions. Two are discussed below wherein the spouse or a remainder beneficiary serves as the annuitant on the policy.

Spouse as annuitant

When the spouse is named as annuitant on the strategy, they can access income from the policy when desired. In the meantime, the policy can grow tax deferred to possibly enhance future income needs. The death of the spouse will trigger the death benefit on the annuity contract in this scenario.

Remainder beneficiary as annuitant (Pass-In-Kind)

Leveraging a remainder beneficiary of the trust allows for both the income needs of the spouse mentioned above, but also offers the added benefit of a tax-efficient wealth transfer strategy. At termination of the trust wherein a remainder beneficiary is the annuitant, the policy can be retitled in the name of the annuitant and incur no adverse taxes.

Before engaging in any strategy, consult with a qualified tax and/or legal professional to ensure the appropriateness of the desired strategy.

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