



## ESTATE PLANNING

# Spousal lifetime access trusts funded with indexed whole life insurance

Many individuals facing potential estate tax exposure choose to create an ILIT – an irrevocable life insurance trust – to hold an insurance policy that will one day be used to pay such taxes. One trade-off is that the insured usually lacks access to the cash value of the policy. However, a spousal lifetime access trust (SLAT), funded with AuguStar® Life's Prestige Indexed 10 Pay or Augustar Life's Prestige Indexed 20 Pay may be an excellent alternative to an ILIT.

### What is a SLAT?

With proper planning, this type of irrevocable life insurance trust allows the trustee to access the policy for the benefit of a third party, usually the non-grantor spouse, while still providing an income-tax free death benefit that might be excluded from both the grantor and non-grantor's taxable estates, when structured properly.

### How does it work?

A married individual establishes a SLAT and gifts amounts to the trust. The trustee then purchases a permanent life insurance policy on the individual and uses the gifted amounts to pay the policy premiums. The trustee may also

make distributions of the policy's accumulated cash value for the health, education, maintenance, and support of the spouse, as outlined in the trust.

### Why is indexed whole life an excellent funding mechanism?

AuguStar® Life's indexed whole life insurance provides the excellent cash accumulation potential available with indexed universal life, blended with the guarantees and stability of whole life insurance to meet the trust's objectives. And the product's guaranteed paid-up, predictable 10-pay or 20-pay design affords estate planning certainties and reliable death benefit protection with the potential for strong long-term cash values. The cash accumulation upside is similar to that of indexed universal life but with a minimum guaranteed cash value. The cash value of the policy may be accessed on a tax-preferred basis through surrenders to basis and/or policy loans.

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## Tax advantages plus flexibility



### Grantor

Grantor establishes a SLAT and gifts premiums to the trust to pay life insurance premiums.



### SLAT

The trust is owner and beneficiary of the policy.



### Prestige Indexed 10 Pay whole life

The life insurance cash value is accessible by trustee for non-grantor spouse's benefit. Death benefit goes to trust for benefit of trust beneficiaries.



### Beneficiary

Cash value can be used for the non-grantor spouse's health, education, support and other expenses, as outlined in the trust.

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## The benefits

- Unlike a traditional ILIT, the life insurance cash value is accessible for the health, education, maintenance, and support of the non-grantor spouse, as outlined in the trust, and an indexed whole life product can provide the cash accumulation possibilities inherent in indexed universal life.
- No matter how the related market index performs over time, the guaranteed cash accumulation feature, together with the 10-pay or 20-pay design, provides certainty that assets will be available, exactly as planned for and needed.
- Neither the death benefit nor the assets gifted to the SLAT are included in the grantor's estate for estate tax purposes.
- With proper planning, the death benefit is also income-tax free and can be used to pay estate taxes, make loans to the estate or in several other ways.

## Additional considerations

- Even though the policy is not owned by the insured or either spouse, the optional Accelerated Benefit Rider can provide additional cash, should the insured become chronically or terminally ill, that can be accessed to benefit the non-spouse grantor.
- If the trust creator is able to access the cash value of the policy in the trust, or if the cash value is used to discharge any of such person's financial obligations, the policy value may be included in that person's taxable estate.
- Many SLATs contain provisions terminating access to cash value at divorce or death of the non-grantor spouse, although the trust creator may choose to name successor beneficiaries in both situations.
- When the grantor spouse dies first, the trust may receive the death benefit and then the trust property may pour into a family trust, depending on the particular estate plan.
- An experienced estate planning attorney should be used in all steps of designing and implementing the estate plan, including the use of a SLAT or any other type of trust.

## You can learn more by consulting our spousal lifetime access trusts white paper (Form 2297LMP).

This material provides general information that is designed to be educational in nature and is not intended as specific tax or legal advice to any particular individual nor the law of any particular state. Clients should seek the advice of a qualified tax or legal professional for their specific situation.

If tax-free loans are taken and the policy lapses, a taxable event may occur. Withdrawals (partial surrenders) and loans from life insurance policies classified as modified endowment contracts may be subject to tax at the time the withdrawal or loan is taken and, if taken prior to age 59½, an additional 10% federal tax may apply. Withdrawals and loans reduce the death benefit and cash surrender value.

The optional Accelerated Benefit Rider provides for a partial acceleration of the policy death benefit in the event that the base policy insured is certified by a licensed physician as being chronically ill or terminally ill. By taking an accelerated death benefit payment, a lien is created against the policy death benefit. The lien accrues carrying charges at an adjustable rate we declare.

The lien, including the lien carrying charges, will be deducted from the total death benefit otherwise payable to the policy beneficiary(ies) and will reduce the cash value available for policy loans, surrenders, or the exercise of any non-forfeiture option. The required premium for the

policy must still be paid even if an accelerated death benefit is taken. If an accelerated benefit is taken and the policy lapses or otherwise terminates, a taxable event may occur. Any death benefit provided by an optional Accidental Death Benefit Rider is not available for acceleration under this rider.

Any accelerated benefit taken under this rider may be taxable. Clients should consult their tax advisor on all tax matters. Adding the rider to a life insurance policy or the taking of rider benefits may affect eligibility for certain public assistance programs and government benefits.

The Accelerated Benefit Rider is not designed to be a substitute for long-term care insurance, health insurance, or nursing home insurance. Rider benefits and features may vary by state.

Products issued by AuguStar Life Insurance Company, member of Constellation Insurance, Inc. family of companies. Product, product features and rider availability vary by state. Guarantees are based on the claims-paying ability of the issuer. Issuer not licensed to do business in New York.

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