



ESTATE PLANNING

Trust Comparison Table

The purpose of this comparison table is to summarize the most common estate planning and charitable giving trusts.

Every situation is unique and trust laws vary by state. There are many variations of trusts (even within each type of trust). Consultation with an attorney is recommended.

Trust comparisons at a glance

Trust defined

A trust is an arrangement, established by a grantor, typically in writing, whereby a trustee holds property in a fiduciary capacity for the good of one or more beneficiaries.

The three parties to a trust

GRANTOR	TRUSTEE	BENEFICIARY
Also known as a "trustor," "trust creator," "settlor" or "donor." This is the person (or persons) who creates a trust.	Also known as a "fiduciary." A trustee can be a person, multiple people (serving as co-trustees) or a professional trustee (such as a bank or trust company).	A person (or people) who benefits under the trust. A trust may have primary beneficiaries who are the first in line to benefit under a trust, and remainder beneficiaries who stand next in line, often after a primary beneficiary has died. The trust must be managed in the beneficiary's best interest.

Goals of a trust

Individuals and families create trusts to achieve a variety of goals including:

- Maintaining control over assets during lifetime (and after death)
- Providing financial support to beneficiaries
- Protecting family harmony
- Supporting loved ones who have special needs
- Avoiding the time, expense and publicity associated with probate
- Encouraging productive behavior among children and grandchildren
- Protecting personal and family wealth from creditors
- Protecting privacy
- Minimizing income, estate, generation skipping, and gift taxes
- Making charitable gifts

The type of trust selected depends on the goals of the person creating the trust.

A word about annuities

If an AuguStar® Retirement annuity will be owned by a trust, a completed Trustee Certification (Form V-4603) is required prior to annuity issuance.

	Charitable Lead Trust (CLT)	Charitable Remainder Trust (CRT)
Description	<p>Designed to split gifts between charity and beneficiary. Charity receives income stream for term of years or for life of an appropriate individual, donor's beneficiaries receive remainder.</p> <p>Entitles donor to:</p> <ol style="list-style-type: none"> (1) charitable income tax deduction. (2) remove the donated asset from the estate. (3) designate a beneficiary to receive trust principal after the term ends. 	<p>Designed to split gifts between charity and beneficiary.</p> <p>Donor receives income stream for term of years or for life, charity receives the remainder.</p> <p>Entitles donor to:</p> <ol style="list-style-type: none"> (1) charitable income tax deduction. (2) income stream for term of years or for life. (3) remove the donated asset from the estate.
Suitability	Appropriate for charitable giving when freezing or reducing estate size is desired.	Appropriate for charitable gifting when freezing or reducing estate size is desired. Also, where retaining an income stream is desired.
Additional planning considerations	<p>Takes several forms including charitable lead annuity trust and charitable lead unitrust.</p> <p>Donor must permanently relinquish ownership and control over donated asset.</p> <p>Unlike a charitable remainder trust, the donor receives no income stream from the trust.</p>	<p>Takes several forms including charitable remainder annuity trust and charitable remainder unitrust.</p> <p>Donor must permanently relinquish ownership and control over donated asset.</p> <p>Highly appreciated, low basis assets are appropriate for this trust.</p>
Annuity planning	Single premium immediate annuity (SPIA) may fund annual income payments to charity.	An annuity can provide guaranteed stream of income for either a term of years or for lifetime as required under the terms of the trust.
Life insurance planning	Life insurance is not typically used as a CLT funding vehicle.	Life insurance is not typically used as a CRT funding vehicle. It is more typical for a grantor to purchase a life insurance policy in a wealth replacement trust to replace the value of the assets donated to the CRT. (See Wealth Replacement Trust.)

	Credit Trust (Bypass, Family, or B Trust)	Grantor Retained Annuity Trust (GRAT) & Grantor Retained Unitrust (GRUT)
Description	<p>An estate tax exemption trust that is often coupled with a “pourover will.”</p> <p>At death of first spouse, property bypasses surviving spouse into trust that typically benefits family members.</p> <p>Can be drafted to provide income and principal to surviving spouse.</p>	<p>Irrevocable trust where the grantor retains the right to receive a fixed percentage of the trust value at least annually for life or for a term of years.</p> <p>Can leverage gifts between generations. Both trusts reduce gift taxes and shift future asset appreciation to heirs.</p>
Suitability	Appropriate for married couples who want to maximize estate tax savings by removing appreciation from the estate after death of the first spouse and/or who live in a state that imposes a separate estate tax.	Appropriate for someone desiring to gift assets, freeze an estate value and retain an income stream.
Additional planning considerations	<p>If both spouses do not own enough separate property, it may not be adequately funded.</p> <p>Regular review of bypass amount is recommended to avoid unintentional results (such as inadvertently disinheriting a spouse).</p> <p>Assets in bypass trust generally do not receive a step-up in basis at second spouse’s death.</p>	<p>GRAT: Must make fixed annual payment to grantor regardless of income earned by trust. Does not provide inflation protection.</p> <p>GRUT: Must pay fixed percentage of trust value at least annually to grantor. Trust is revalued annually and may provide inflation protection if trust assets appreciate. Conversely, if trust assets decrease in value, payment to grantor will decrease.</p>
Annuity planning	<p>Assuming the agency rule applies, a trust-owned deferred annuity with living benefits can minimize taxes by accumulating earnings on a tax-deferred basis while providing a guaranteed source of income for the named annuitant.</p> <p>The trust may purchase a trust-owned annuity for each of the trust beneficiaries with each beneficiary the annuitant on a separate annuity contract (each annuity held in separate sub-trusts). When the surviving spouse dies, the annuity carrier may permit a distribution of the annuity contract to the annuitant without current taxation. This is called an “in-kind” distribution.*</p>	An annuity may be purchased by the trust to provide a guaranteed income stream in accordance with the trust terms.
Life insurance planning	<p>Life insurance death benefit payable to trust can be used to provide income tax-free estate liquidity for final expenses, taxes, debts, and to provide financial support for trust beneficiaries.</p> <p>Some states impose estate and/or inheritance taxes at the death of the first spouse. Life insurance payable to the trust can provide income tax-free liquidity to pay such taxes.</p> <p>After the death of the first spouse, trust assets may be used to purchase life insurance on the surviving spouse to protect family wealth.</p>	If the grantor dies during the term of the trust, the value of the trust is included in the grantor’s taxable estate. Therefore, life insurance on the grantor’s life can be purchased to cover the potential tax liability.

Generally, trust-owned annuities do not qualify for income tax deferral (IRC Sec. 72(u)). This means earnings would be currently taxable annually. However, under the agency rule, if a trust is holding an annuity on behalf of a natural person beneficiary, the annuity may qualify for tax deferral. These rules apply to annuity contributions made after February 28, 1986.

Intentionally Defective Grantor Trust (IDGT)	Irrevocable Life Insurance Trust (ILIT)
<p>Irrevocable trust that causes grantor to be taxed on all trust income, but excludes trust property from grantor's estate.</p> <p>Intentionally drafted with "defective" provisions to achieve grantor trust tax status.</p> <p>Often used in order to transfer significant assets to heirs.</p>	<p>An irrevocable trust established to hold life insurance.</p> <p>Structured properly, life insurance policy within trust, including cash value and death benefit, is excluded from trust grantor's estate.</p> <p>ILIT distributions can be stretched out over a beneficiary's lifetime.</p>
<p>Appropriate as way to maximize trust asset values for heirs and manage income taxes during grantor's lifetime (for instance, personal income tax brackets are not as compressed as trust income tax brackets).</p> <p>IDGTs are complicated and have several tax traps if trust is not drafted with extreme care.</p> <p>Typically cannot be changed or revoked by grantor once created. However, many IDGTs contain a swap power permitting grantor to substitute assets of equivalent value.</p>	<p>Appropriate for creating estate liquidity, financial support for surviving spouse and family, estate tax savings, probate avoidance, asset management, leveraged gifts and/or privacy.</p> <p>Cannot be changed or revoked by grantor once created.</p> <p>Existing insurance gifted to an ILIT within three years of grantor's death is brought back into donor's estate.</p>
<p>An annuity can be held in the trust to provide guaranteed lifetime income to a named annuitant, such as a spouse.</p>	<p>A single premium immediate annuity (SPIA) can be purchased by the trust to fund annual life insurance premiums. This is especially attractive if the grantor is funding the trust with a large sum and wishes for the trustee to make premium payments over several years to avoid the policy being classified as a modified endowment contract (MEC).</p>
<p>Personally-owned life insurance may be used in conjunction with an IDGT. The grantor may substitute (swap) asset with trust assets having an equivalent value. When properly designed, the assets swapped out of the trust may receive a step-up in basis for income tax purposes at the grantor's death while the trust-owned insurance avoids transfer taxes.</p>	<p>Trust is the policy owner, premium payor and beneficiary.</p> <p>When properly structured, death benefit pays to the trust transfer tax-free.</p> <p>The grantor typically funds the trust by making premium gifts or loans to the trust. Permitting beneficiaries to exercise <i>Crummey</i> withdrawal powers minimizes potential gift taxes.</p>

	Marital Deduction Trust (A Trust)	Qualified Domestic Trust (QDOT)
Description	<p>Any trust that qualifies for the estate tax marital deduction.</p> <p>Can take many forms. Trust may be restrictive, limiting surviving spouse to trust income only (QTIP trust), or less restrictive (giving spouse unlimited rights to all income and principal).</p>	Allow spouses who are not U.S. citizens to qualify for estate tax marital deduction (non-citizen spouses generally do not qualify).
Suitability	Appropriate for married couples interested in using unlimited marital deduction to reduce or eliminate estate taxes at death of first spouse.	Appropriate for married couples if one spouse is not a U.S. citizen and they desire to defer estate taxes at death of citizen spouse.
Additional planning considerations	<p>Estate taxes due at death of first spouse are deferred, but are not eliminated.</p> <p>Can be combined with a credit trust to maximize estate tax savings.</p>	<p>Trust must be domestic (established and administered within the U.S.), have U.S. institutional trustee (such as a bank trust department), pay federal estate taxes at non-citizen spouse's death and must otherwise qualify for marital deduction.</p> <p>In lieu of a QDOT, non-citizen spouse may own life insurance on citizen's life and avoid estate taxes for death benefit.</p> <p>Citizen spouse's estate still receives estate tax exclusion amount removing need for QDOT unless the size of estate creates an estate tax exposure.</p>
Annuity planning	<p>Annuity guarantees provide stable benefits to a surviving spouse who may be near or at retirement age.</p> <p>To qualify for the estate tax marital deduction, the surviving spouse should have the right to annuity income or a general power of appointment over annuity proceeds.</p>	An annuity may be purchased by the trust to provide a guaranteed income stream to the non-citizen spouse in accordance with the trust terms.
Life insurance planning	Death benefit payable to trust can provide financial support for the surviving spouse and income tax-free estate liquidity for a variety of estate planning needs.	Life insurance on the U.S. citizen spouse payable to a QDOT will avoid estate taxes at the death of the citizen spouse. The policy need not be owned by the QDOT but generally must be the beneficiary.

Qualified Personal Residence Trust (QPRT)	Qualifying Terminable Interest Property (QTIP) Trust
Trust created to hold a residence and/or vacation property for a specific period of time (typically between 10 and 20 years). After trust ends, residence passes to trust beneficiaries.	Trust that qualifies for marital deduction to defer estate taxes. All income must be distributed to surviving spouse at least annually and surviving spouse may have limited access to trust property. At surviving spouse's death, remaining property passes to trust beneficiaries.
Appropriate for people desiring to transfer a home or vacation property out of their estate and shift future appreciation to heirs while retaining the right to live in home during trust term.	Appropriate when ultimate control is needed over disposition of property (e.g., for second marriage where the grantor wants to ensure that children from previous marriage receive his or her property).
Grantor may remain in residence at the end of the trust term by paying fair market rent pursuant to a written lease agreement.	Spouse should not be named trustee. During the spouse's lifetime, trust can be invaded solely for spouse's benefit. Cannot be terminated if surviving spouse remarries, but can be drafted to limit spouse's access to trust property upon remarriage.
Annuities are not typically used in conjunctions with QPRTs.	Annuities may provide a guaranteed lifetime income stream to support a surviving spouse as required under the QTIP trust terms.
If the grantor dies during the term of the trust, the fair market value of the realty is included in the grantor's taxable estate. Therefore, life insurance on the grantor's life can be purchased to cover the potential tax liability.	Death benefit payable to trust is used to provide financial support for the surviving spouse and income tax-free liquidity for a variety of estate planning needs.

	Revocable Living Trust	Special Needs Trust (SNT)
Description	<p>Any trust that is created during life and can be changed or revoked at any time prior to grantor's death or incapacity.</p> <p>Trust becomes irrevocable at grantor's death.</p>	<p>Established to benefit mentally or physically disabled individual.</p> <p>Provides asset management and allows the individual with special needs to benefit from an inheritance without disqualification from needs-based government benefits.</p>
Suitability	<p>Appropriate for asset management in event of incapacity, probate avoidance, will substitute, privacy, and/or where individual has property located in several states.</p>	<p>Appropriate to supplement resources available to an individual with special needs.</p> <p>Not intended to replace government benefits such as Social Security, Medicaid or Medicare.</p>
Additional planning considerations	<p>Trust does not reduce income or gift taxes but transfers to it do not generate income or gift taxes either.</p> <p>Trust grantor typically serves as initial trustee with successor trustee(s) appointed in event of grantor's death or incapacity.</p>	<p>Trust beneficiary should not have ownership or control over trust assets. Beneficiary should not have withdrawal rights to trust property. If any of above conditions exists, government benefits may be disallowed.</p>
Annuity planning	<p>Annuity generates a flexible, guaranteed lifetime income and gives the trustee the ability to time distributions as needed. Trust need not own the annuity to avoid probate but there may be other valid reasons for a trustee to control the contract such as providing financial oversight and annuity management for trust beneficiaries who may need it for reasons such as incapacity planning for the grantor. Annuities held in this type of trust typically qualify for tax deferral because the trust is acting as an agent for a natural person.</p>	<p>Parent(s) can purchase an annuity with the trust beneficiary as the annuitant and name the trust as the beneficiary. Payments are made to the parent(s) until the parent(s)' death, at which time the trust receives the death benefit or remainder amount, which is used to support the trust beneficiary.</p>
Life insurance planning	<p>Life insurance death benefit payable to trust can be used to provide income tax-free estate liquidity for final expenses, taxes, debts, and to provide financial support for trust beneficiaries.</p> <p>Revocable trust assets, including life insurance, are included in grantor's taxable estate.</p> <p>The trust need not own the policy to avoid probate but there may be other valid reasons for the trustee to control the policy such as providing policy oversight and policy management for trust beneficiaries who may need it including incapacity planning for the grantor.</p>	<p>Life insurance is often an important funding vehicle to provide income tax-free funds in the event of death of the parents and/or guardians. The trust is typically the policy beneficiary.</p>

Spousal Lifetime Access Trust (SLAT)	Wealth Replacement Trust
<p>An irrevocable trust established to hold life insurance.</p> <p>Structured properly, life insurance policy within trust, including cash value and death benefit, is excluded from the trust grantor's estate. Allows distribution of life insurance cash value to the grantor's spouse for health, education, maintenance and support.</p>	<p>An ILIT designed to accompany a CRT where a portion of CRT income stream is gifted to ILIT for purchase of life insurance.</p> <p>Life insurance proceeds pass to heirs income, gift and estate tax-free.</p> <p>Depending on age and health, donor may pass the full value (or more) of gifted asset with tax-free life insurance proceeds.</p>
<p>Appropriate for all situations listed under Irrevocable Life Insurance Trust (ILIT). Additionally, it is appropriate for married couples interested in maintaining access to life insurance cash value for the grantor spouse's benefit.</p>	<p>Appropriate for replacing or leveraging value of donated property for benefit of heirs.</p>
<p>Cannot be changed or revoked by grantor once created.</p> <p>Existing insurance gifted to a SLAT within three years of grantor's death is brought back into grantor's estate.</p> <p>Death of a spouse (or divorce) generally eliminates cash value access provision.</p>	<p>In most cases, accessing cash value within the trust is not part of the estate plan, but if cash access is a possibility, the trustee should avoid purchasing a modified endowment contract (MEC) for the same reasons a MEC would not be used in a SLAT.</p>
<p>A single premium immediate annuity (SPIA) can be purchased by the trust to fund annual life insurance premiums. This is especially attractive if the grantor is funding the trust with a large sum and wishes for the trustee to make premium payments over several years to avoid the policy being classified as a modified endowment contract (MEC). MEC avoidance is crucial with a SLAT to ensure non-taxable lifetime access to policy cash value.</p>	<p>A single premium immediate annuity (SPIA) can be purchased by the trust to fund annual life insurance premiums.</p>
<p>Trust is the policy owner, premium payor and beneficiary.</p> <p>When properly structured, death benefit pays to the trust transfer tax-free.</p> <p>The grantor typically funds the trust by making premium gifts or loans to the trust. Permitting beneficiaries to exercise <i>Crummey</i> withdrawal powers minimizes potential gift taxes.</p> <p>Distributions of policy cash value may be made to the spouse during lifetime for the spouse's health, education, maintenance and support.</p>	<p>Trust is the policy owner, premium payor and beneficiary.</p> <p>When properly structured, death benefit pays to the trust transfer tax-free.</p> <p>The grantor typically funds the trust by making premium gifts or loans to the trust. Permitting beneficiaries to exercise <i>Crummey</i> withdrawal powers minimizes potential gift taxes.</p> <p>The policy death benefit is equivalent to the value of the donated property, replacing wealth for heirs.</p>



A universe of possibilities®

* The in-kind distribution strategy is based on IRS Private Letter Rulings (PLRs). A PLR only applies to the taxpayer who requested the ruling and cannot be used as legal authority. Still, PLRs often serve as guidance for estate and tax planners because they give a glimpse into that the IRS is thinking and how it may handle similar cases. Clients should always be urged to work with their own tax and legal professionals in a particular case.

This material provides general information that should not be construed as specific tax or legal advice 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.

Annuities are long-term investment vehicles designed to accumulate money on a tax-deferred basis for retirement purposes. Upon retirement, annuities may provide an income stream or a lump sum. If you die during the accumulation or payout phase, your beneficiary may be eligible to receive any remaining Contract Value.

There is no additional tax-deferral benefit for contracts purchased in an IRA or other tax-qualified retirement plans because such retirement plans already have tax-deferred status. An annuity should only be purchased in an IRA or qualified plan if the contract owner values some of the other features of the annuity and is willing to incur any additional costs associated with the annuity.

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AuguStar Life Insurance Company
One Financial Way | Cincinnati, Ohio 45242
513.794.6100 | augustarfinancial.com

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