



ESTATE PLANNING

Revocable living trusts

A revocable living trust is a dynamic estate planning tool for holding assets during lifetime and at death. A trust exists when one person (often called the grantor or settlor) gives property to another person (called the trustee) to hold and manage for one or more other persons (called the beneficiaries).

Under current tax laws, the need to remove assets, including life insurance, from an estate to avoid federal estate taxes is not a primary concern for most individuals and families.

You may wish to create a revocable living trust in order to protect wealth from creditors, ensure privacy, and provide asset management for your family after your death (or during periods of incapacity). When paired with life insurance, a trust can provide a powerful legacy plan for you and your heirs.

How does it work?

Your attorney drafts the trust to meet your individual goals. As a “revocable” trust, you can typically modify or even cancel it during your lifetime. In most cases, you – the trust creator – will act as the trustee during your lifetime. Should you become incapacitated or

unable to act, your successor trustee steps in to manage trust assets according to the trust document. Once the trust is established, your attorney will instruct you on how to “fund” the trust. This might involve steps like retitling assets in the name of the trust or updating beneficiary designations.

Revocable living trusts and life insurance

Life insurance fits well with many revocable living trusts. For example, you might have beneficiaries who would be unable to manage a large inheritance due to young age or lack of capacity. Life insurance policy proceeds can be paid directly to the trust. Once in the trust, the assets will be managed and/or distributed according to your instructions. Your trust can be designed to distribute funds for things like health, education, maintenance and support of the beneficiary without distributing a large sum all at once.

Additionally, life insurance death benefits are income tax free with very few exceptions, and the trust can be structured to stretch distributions over any period of time, including the lifetime of a beneficiary. This can be an effective legacy planning tool for many situations.

Life insurance with a revocable living trust



The benefits

- When properly structured, assets inside a revocable living trust avoid the costs, delays, and publicity of probate at death.
- Because trust assets pass outside of probate, your trust agreement can be kept private in most cases.
- Revocable trusts offer incapacity planning. If you were to become incapacitated, your successor trustee can manage trust assets on your behalf.
- A revocable living trust can be useful if you have a complex estate or if you own real estate in several states.
- Your trust can be drafted with “spendthrift” language and discretionary distributions to protect beneficiaries who might get divorced or who otherwise have creditor protection or spending issues of their own.

Additional considerations

- Revocable living trusts are relatively more expensive than a simple will.
- As with all estate planning documents, you should work with an attorney to draft your trust and to explain the funding process (updating beneficiary designations, retitling accounts, etc.). In some situations, your attorney might even recommend leaving your trust “unfunded” until death.
- Assets inside a revocable living trust are generally included in your taxable estate for estate tax purposes. If you have a taxable estate, additional estate planning may be recommended.
- Because you can revoke the trust during your lifetime, revocable living trusts typically do not offer creditor protection against your own creditors.
- Some assets – such as Individual Retirement Accounts (IRAs) – cannot be owned by a revocable living trust during your lifetime.

You can learn more about estate planning by requesting our client guide, *Preserve Your Estate for Your Beneficiaries (Form 2307LMP)*. Contact your financial professional today.

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