ESTATE PLANNING

# Spousal Lifetime Access Trusts

Current tax laws provide unprecedented opportunities for you to make tax-free wealth transfers to your beneficiaries. An increased lifetime exclusion amount for estate and gift tax purposes ($13.99 million/person in 2025 or $27.98 million/married couple, as indexed for inflation) may enable individuals to transfer significant amounts of wealth - tax-free. And if you already exhausted your lifetime gifting exemption with prior planning, your gifting capacity may have been significantly increased.

A common strategy to help combat estate taxes is to establish an ILIT, an Irrevocable Life Insurance Trust, but many people worry that an ILIT also denies access to the life insurance policy's cash value while the insured is alive. A powerful strategy that helps manage the accessibility concern is establishing a Spousal Lifetime Access Trust – commonly called a SLAT.

## What is a Spousal Lifetime Access Trust?

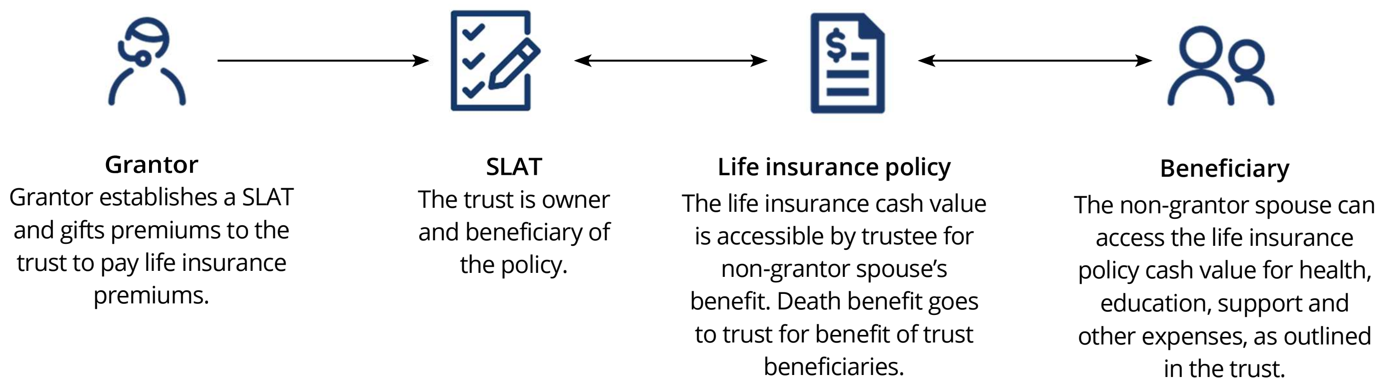
A SLAT is a special type of irrevocable life insurance trust that includes provisions allowing the non-grantor spouse access to the policy. The spouse that establishes the trust, the grantor, creates more flexibility than an ILIT by unlocking the life insurance policy's cash value for the non-grantor spouse's lifetime needs. And, with a SLAT, the life insurance death benefit is still excluded from the grantor's estate.

## How does it work?

A married individual establishes a SLAT. The trust grantor gifts amounts to the trust which, in turn, pays the premiums on a permanent life insurance policy on the life of the grantor. A trustee is named and he/she is allowed to make distributions of the policy's accumulated cash value for the health, education, maintenance and support of the non-grantor spouse, as outlined in the trust. The policy and its corresponding values would not be included in either spouse's estate for estate tax purposes.

This makes the SLAT a powerful estate planning tool that balances the power of cash value life insurance with estate tax planning.

## Tax advantages plus flexibility



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## The benefits

- Assets gifted to the SLAT are no longer included in grantor's estate for estate tax purposes.
- 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.
- When the grantor dies, the trust assets are enhanced by the income tax-free death benefit of the life insurance policy, thereby leveraging the original gift(s) to the trust.
- Although a SLAT can own almost any asset, life insurance works well due to its tax-deferred cash value accumulation and significant death benefit potential.

## Additional considerations

- This strategy requires the services of a skilled attorney who can draft the trust document(s) in strict adherence to current tax laws.
- The trust creator (grantor) cannot have direct access to the cash value of the policy in the trust. Direct access will likely result in trust assets being included in the grantor's estate for estate tax purposes.
- The couple may consider having two SLATs – one for each spouse. Couples interested in having a SLAT for each spouse must avoid "mirror trusts." You should discuss options with your attorney to ensure proper structure.
- Distributions to the non-grantor spouse should generally be limited to satisfying health, education, maintenance, and support needs, as outlined in the trust.
- Many SLATs are structured such that divorce or death of the non-grantor spouse ends all spousal access to cash values. Generally, many trusts will include language for successor beneficiaries in both situations.

**You can learn more about how to manage estate taxes with the use of a Spousal Lifetime Access Trust by requesting our white paper titled Spousal Lifetime Access Trust: A Flexible Tax Reduction Strategy (Form 2297LMP) from your financial professional.**

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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.

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

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