

LIFE ADVANCED MARKETS

Flexible estate planning strategies

Disclaimer Trust

One factor to keep in mind as you consider plans for transferring wealth to the next generation, or passing on the family business, is that change is inevitable. Your family dynamics may change, your personal financial needs may change, and tax laws may (and probably will) change. In addition, your estate planning strategy will be triggered by an event that will occur at some unknown point in the future – your death. These factors can create a moving target when it comes to developing an estate plan, making it important to build in as much flexibility as possible. One strategy for adding a level of flexibility is the disclaimer trust.

Disclaimer trust basic design

Each spouse states in their will, or through a beneficiary designation in their revocable trust, that all, or a portion, of their estate shall pass to their spouse at their death. Upon the death of one of the spouses, the surviving spouse may disclaim all or a part of the assets they are to receive as a result of the death of his/her spouse. Based on the terms of your will, or trust, the assets disclaimed are then placed in a trust (disclaimer trust) which may provide income to the surviving spouse for the remainder of their life, with the remaining balance passed on to their children, grandchildren, or other family members at the surviving spouse's death. The surviving spouse may take full ownership of assets not disclaimed.

Life insurance may be a vital part of a family's overall estate planning strategy – providing funds to help pay estate taxes, funds for family



members to acquire the family business, or simply providing a flexible asset that is easily allocated among heirs.

Life insurance death benefits may be disclaimed into a disclaimer trust – but it is important that the beneficiary does not take receipt of the death benefits before disclaiming them. It is also important that the beneficiary designation on the life insurance policy specifically state that the contingent beneficiary is the disclaimer trust.

With estate tax exemptions fluctuating between \$675,000 and \$12,060,000 between 2001 and 2022, traditional rigid planning may not be appropriate. The disclaimer trust provides a tremendous amount of flexibility to deal with estate taxes regardless of what the laws are when a transfer of wealth occurs.

A fixed index universal life insurance policy (FIUL) may be used as a funding vehicle.

Hypothetical example:



A married couple, Spouse A and Spouse B, have a need for \$10 million of life insurance on Spouse A's life. Instead of having an irrevocable life insurance trust purchase the policy, Spouse A purchases and owns the policy themselves. The policy names Spouse B as the primary beneficiary and a disclaimer trust that benefits Spouse B and their children as contingent beneficiaries. Spouse A passes away. Spouse B consults with their tax advisor or attorney and determines that they have \$3 million of unused estate tax exemption remaining after utilizing a portion of their exemption for lifetime gifting strategies. Spouse B may inform the insurance company that they wish to formally disclaim \$3 million of the death benefit. The insurance company will pay \$7 million of the death benefit to Spouse B and \$3 million to the disclaimer trust, applying their remaining estate tax exemption to avoid estate taxes.

Disclaimer Trust

Summary of strategy

Advantages

- Allows the insured(s) to retain access to cash surrender values during their lifetimes
- Does not require utilizing annual gift tax exclusions or lifetime gift tax exemptions when premiums are paid
- Simple plan to implement
- Allows decisions to be delayed, taking into consideration potential changes to tax laws, family dynamics, or personal financial needs

Considerations

- To be valid, a disclaimer must meet certain legal and filing requirements. For example, the person disclaiming must not accept any benefits from the assets disclaimed before filing the disclaimer. The disclaimer must be in writing and must be irrevocable. Seek advice from legal and tax counsel prior to implementing the concept discussed above.
- The disclaimer trust itself is flexible, allowing a family to decide who will be named beneficiary, the amount and timing of distributions, who will be named the trustee, etc.



TALK TO YOUR FINANCIAL PROFESSIONAL today to learn more about disclaimer trusts or FIUL solutions.

The death benefit is generally income-tax-free when passed on to beneficiaries.

This content is for general educational purposes only. It is not intended to provide fiduciary, tax, or legal advice and cannot be used to avoid tax penalties; nor is it intended to market, promote, or recommend any tax plan or arrangement. Allianz Life Insurance Company of North America, its affiliates, and their employees and representatives do not give legal or tax advice. Customers are encouraged to consult with their own legal, tax, and financial professionals for specific advice or product recommendations.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.
www.allianzlife.com

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962.
www.allianzlife.com