LIFE ADVANCED MARKETS

Flexible estate planning strategies

Spousal Lifetime Access Trust (SLAT)

While there are a number of strategies for accomplishing your family's estate planning goals, many require irrevocable decisions be made, which may limit your ability to make modifications should circumstances change (e.g., changes in tax laws and changes in your family dynamics).

Federal and state taxes triggered at death may create funding issues for your surviving heirs. Estate plans designed to minimize the impact of such taxes must deal with an ever-changing tax environment. For example, the current federal estate tax has gone through a constant stream of changes over the past few decades. There have been attempts to repeal the tax, increases and decreases to the exemption amount and tax rates, and there was even a year without an estate tax (2010) that turned into a year with a retroactive estate tax. As the federal government has modified its transfer tax laws, states have followed suit and implemented their own changes. This trend will likely continue in the years ahead, making planning for such taxes somewhat of a moving target.

Family dynamics are likely to change over the years as well. Some changes may be positive – grandchildren come into the world, marriages add new family members, and family business success is achieved. Some changes may be negative – divorce separates families, family friction creates rifts, and family members may pass away well before their time. With each change, your family's goals for passing on the wealth you have accumulated may change as well.

Due to these factors, when possible, families and their financial professionals should take into consideration strategies for building a level of flexibility into their plans. One such strategy is a spousal lifetime access trust (SLAT) funded with an indexed universal life (IUL) insurance policy.

SPOUSAL LIFETIME ACCESS TRUST (SLAT)

Summary of strategy	
Basic Design	• An irrevocable trust is established by one spouse (the grantor spouse) to benefit the other spouse (the beneficiary spouse) and their children. • The trust purchases a life insurance policy on the life of the grantor spouse. • While both spouses are alive, the trustee of the SLAT may make distributions to the beneficiary spouse and their children for their health, education, maintenance, and support. The trustee may use withdrawals and/or loans[1] from the life insurance policy or other trust assets to make the distributions. • Upon the death of the grantor spouse, life insurance death proceeds will be paid to the trust. The trust may continue to provide income to the beneficiaries or may terminate and distribute the remaining income and principal to the beneficiaries.
Advantages	• Provides advantages similar to a traditional irrevocable trust – e.g., assets contributed to the trust are removed from the estate and free from estate taxes, trust property may be protected from potential creditors, professional management of trust assets, etc. • Provides funds that may be needed to pay taxes triggered at death, reducing the need to sell other family assets to meet tax obligations. • **The grantor spouse retains access to trust income "indirectly" through the beneficiary spouse.**

CONSIDERATIONS

IUL requires qualification through health and financial underwriting.

Since access to policy cash values are derived indirectly through your spouse, a divorce would eliminate that access and leave your ex-spouse as a beneficiary of the trust (most likely a less than desirable result). If this is a concern, the issue may be addressed in part by designing the SLAT with language that removes an ex-spouse as beneficiary should a divorce occur. In addition, each spouse may create a SLAT for the benefit of the other such that both retain access to policy cash values held by the separate SLATs. When such dual SLATs are considered, extra care must be taken to assure the death benefit proceeds are excluded from each spouse's gross estate upon their death. You should consult with your legal and tax advisors to address your specific needs and concerns if considering this strategy.

ENHANCING A SLAT

Finally, there are strategies for enhancing the flexibility of a SLAT. For example, instead of making contributions to the SLAT and treating them as an irrevocable gift (also subject to gift taxes), contributions may be treated as a loan. This alternative provides the flexibility to recover contributions if your financial needs change in the future. It also allows you to determine the nature of the transfer (gift vs. loan) for tax purposes, as well as the timing of such a decision.

ASK YOUR FINANCIAL PROFESSIONAL about how indexed universal life (IUL) insurance can be a part of your estate planning strategies.

Allianz Life Insurance Company of North America does not provide financial planning services.

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

[1] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

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