

Spousal Lifetime Access Trust (SLAT)

THE SITUATION

Steve and Jamie Austin are a successful couple. They are both age 50 and in excellent health. However, Steve is worried that, should something happen to him, Jamie and the children would not have sufficient resources. The Austins have been advised to set up a Spousal Lifetime Access Trust (SLAT) funded with a life insurance policy on Steve's life. Steve will create the SLAT and make annual cash gifts to it to pay the premiums on the policy. Jamie will be the sole trustee of the SLAT. She will use the cash gifts to purchase a \$3 million policy on Steve's life.

Upon Steve's death, the insurance company will pay the death benefit to the SLAT. The death benefit will be received free of income and estate taxes. As trustee, Jamie can pay income and principal to herself for her health, maintenance and support.* Upon Jamie's death, any remaining SLAT assets will be paid to the children or held in the SLAT for the benefit of the children and the couple's future grandchildren, free of estate taxes in Jamie's estate.

The policy is also designed to accumulate cash. It is projected to have over \$1 million of cash value at Steve's age 65. During Steve's lifetime, he and Jamie can also access the policy cash value income tax free via principal distributions to Jamie.

SLAT BENEFITS

- Steve provides valuable life insurance protection for Jamie and their children.
- Policy cash values remain available to the couple during Steve's lifetime.
- Assets inside the SLAT are protected from the reach of creditors, providing asset protection to Steve and Jamie.
- Any assets gifted to the SLAT pass free of estate taxes in both spouses' estates.
- The policy death benefit is received by the SLAT free of income and estate taxes.
- Jamie can be the sole trustee of the SLAT during her lifetime.
- The SLAT can be structured to be a dynasty trust, with all trust assets exempt from the federal generation-skipping transfer (GST) tax.

SLAT CONSIDERATIONS

- If absolute discretion as to SLAT distributions is desired, an independent trustee is necessary.
- The SLAT must be carefully drafted to allow for flexibility and asset protection.
- If two SLATs are utilized, they must avoid application of the reciprocal trust doctrine.



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