Prudential

ADVANCED PLANNING

SPOUSAL LIFETIME ACCESS TRUST

A tax-favored strategy to accumulate, access, and transfer wealth

INVESTMENT AND INSURANCE PRODUCTS ARE:
- NOT FDIC INSURED
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Life insurance can provide flexibility and tax efficiency.

A Legacy with Flexibility

Things don't always go as we hope. That's why flexibility with the financial legacy you leave to your loved ones should also mean access to your assets while you're still living

A strategy that protects your wealth while balancing your needs and what you want for your family after you die may be possible with permanent life insurance because it:

- Provides estate liquidity through a death benefit that may be significantly greater than the cumulative premiums paid, depending on age and health at the time of purchase.
- Has a death benefit that is typically received income tax-free.[1]
- Features a cash value with tax-advantaged accumulation potential that can be accessed through withdrawals and loans at any time, for any reason.[2]
- May be estate tax-free if ownership is properly structured within an Irrevocable Life Insurance Trust (ILIT).[3]

But, while an ILIT removes the death benefit from your federally taxable estate, a traditionally drafted ILIT may restrict your flexibility by making the cash value of the life insurance policy inaccessible to the non-grantor beneficiary spouse while living. A Spousal Lifetime Access Trust (SLAT) strategy may help.

A SLAT Strategy Using Life Insurance as a Solution

A SLAT is an ILIT drafted by your attorney. It includes specific provisions in the trust document and manner of gifting that may differ from a traditional ILIT:

- One spouse is the grantor of the SLAT.
- The other spouse is a beneficiary of the SLAT, in addition to children or other heirs of the grantor.
- The beneficiary spouse can receive lifetime distributions from the trustee, according to the terms of the trust document. This solution can be used with either a single life (insures one life) or a survivorship life (insures two lives) insurance policy owned by a SLAT.

Benefits of a SLAT

Estate Tax-Free Death Benefit

A properly drafted and funded SLAT will receive the death proceeds of the life insurance policy income[1] and estate tax-free and therefore provide for efficient wealth transfer to your heirs.

Access to Cash Value

A properly drafted SLAT allows the trustee to make distributions to the non-grantor spouse during their life.[2,3]

Flexibility

A properly drafted and funded SLAT protects the life insurance death benefit from estate taxes while allowing one spouse access to the life insurance policy cash values.[2,3]

How a SLAT Works

1 Grantor Spouse

Either spouse is the grantor spouse and creates and makes gifts with their separate property to the SLAT. Annual and lifetime gift tax exemption amounts can be used; otherwise, gift taxes may be incurred.

2 SLAT

The trustee uses the gifts made by the grantor spouse to purchase a life insurance policy insuring either the grantor alone (single life policy) or both spouses (survivorship policy). The non-grantor spouse is a trust beneficiary.

3 Wealth Accumulation and Access

The trustee can make distributions to the non-grantor spouse during that person's lifetime, providing the non-grantor spouse with indirect access to policy values in the trust.

4 Wealth Transfer

The SLAT receives the death benefit free of both income and estate taxes when the grantor dies, if a single-life policy is used. If the trust owns a survivorship policy, it will receive the death benefit when the second death occurs. The trustee administers the trust for the beneficiaries in accordance with the terms of the trust document. The death benefit paid to the trust beneficiaries will be free from both income[1] and estate taxes.

Anthony and Jennifer are a married couple, ages 55 and 50, respectively. They have three children.

Life insurance can help financially protect their children if both Anthony and Jennifer die.

Anthony and Jennifer's Profile:

Need

At their death, Anthony's and Jennifer's estates may be subject to estate taxes. They would like to implement a strategy that uses life insurance to provide the liquidity they need to fund transfer taxes and efficiently transfer their wealth to their three children. For underwriting purposes (pricing a policy), Anthony is rated Preferred, Non Tobacco, and Jennifer is rated Preferred Best.

Goals

- When they die, transfer the life insurance policy's death benefit in a tax-efficient manner to their loved ones.
- Should they need it, have the flexibility to access their assets while they're living.

Solution

Working with their financial professional, attorney, and tax advisor, they've determined that they need a survivorship life insurance policy and that they have the risk tolerance necessary for variable investing. This will help Anthony and Jennifer to:

- Financially protect their three children.
- Help offset any estate tax liability when they both die.

Life insurance policy consideration

If a life insurance policy is personally owned, the death benefit may be subject to estate taxes upon the death of the surviving spouse. A properly drafted ILIT can be created to own the life insurance policy, thereby keeping the proceeds out of the taxable estate.

ILIT consideration

A traditionally drafted ILIT may not allow them access to a life insurance policy's cash value[2,3]—and they're many years away from retirement. While they do not expect that they will need access to the assets in the ILIT, they want that flexibility in case there is a change in their financial situation or retirement needs. VUL policies do carry some risk. Such policies are typically appropriate for clients who understand and are willing to assume that risk.

By using a SLAT strategy, Anthony and Jennifer are able to help protect their family, but still have access to the policy's cash value, if necessary.

The strategy

A SLAT can provide a solution to help the couple reach their goals. With an annual exclusion amount of $19,000 per child beneficiary for 2025, Anthony can make tax-free gifts of up to $57,000 with his separate assets to a SLAT. The SLAT will purchase a variable survivorship universal life insurance policy on the lives of Anthony and Jennifer, with a face amount of $5.5 million. The SLAT will then use Anthony's gifts to pay the policy premiums of approximately $57,000 annually for 20 years.[4] Anthony is the grantor of the SLAT; Jennifer and the couple's three children are beneficiaries of the SLAT.

Result

If both Anthony and Jennifer die, the children would be financially protected by the policy's death benefit. However, during Anthony's lifetime, the trustee could make distributions, according to the terms of the trust, to Jennifer from the policy's cash value, for retirement income or other financial needs.[3]

By the time Anthony reaches the age of 75, the policy's cash value is projected to be approximately $1.6 million, based on a 6.5% gross rate of return and current cost of insurance charges. This is the amount that can be accessed by the trustee under the specific terms of the SLAT for Jennifer's benefit.

If the policy does not perform as illustrated, the policy's no-lapse guarantee will still provide a death benefit of $5.5 million (through Anthony turning 106 and Jennifer turning 101). However, assuming a 0.00% (net -1.04%) rate of return and maximum charges, the policy will not have any cash value after Anthony turns 82 and Jennifer turns 77.

Keep in mind that this information is hypothetical and not representative of any particular product. Actual results will vary.

Important Considerations

Trustee of a SLAT

In a SLAT that owns a survivorship policy on a married couple, neither spouse should serve as a trustee. Acting as a trustee of a trust that owns insurance on one's own life can cause the death proceeds of the policy to be included in your estate for estate tax purposes. The trustee may be another competent adult or institution.[5]

In a SLAT that owns a single life policy, the insured should not serve as the trustee, or the death proceeds of the policy will be included in the insured's estate for estate tax purposes. The trustee may be another competent adult or institution. In addition, the non-insured spouse beneficiary can be a trustee, as long as their ability to make distributions from the trust is limited to an ascertainable standard for health, education, maintenance, or support.

Gifting

On an annual basis, you can gift up to $19,000 per person (in 2025, subject to increases for inflation in later years) without any federal gift tax liability. In addition, you can, during your lifetime, use your lifetime exemption amount of up to $13.99 million (in 2025, subject to increases for inflation in later years) without incurring any federal gift tax consequences. (Note that this amount reverts to $5 million, adjusted for inflation, Jan. 1, 2026, absent new legislation.) You can use your gifting ability to fund a SLAT.

Gift splitting allows two spouses to treat a gift given by one of them as if half were given by each of them. If a married couple creates a SLAT, the grantor spouse may elect to split gifts with the non-grantor spouse under certain circumstances.[6]

Separate property

Proper funding of a SLAT is imperative for the property in the SLAT to not be includible in the non-grantor spouse's estate for estate tax purposes. Separate property of the grantor should be used to gift to the SLAT rather than joint or community property. The non-grantor spouse may not make direct or indirect gifts to the SLAT.

Key points to remember

A SLAT is a strategy that allows married couples to:

- Create an ILIT.
- Allow the non-grantor spouse indirect access to policy cash values through the trustee, maintaining flexibility in planning.
- Keep the death benefit proceeds free from income[1] and estate tax for beneficiaries.

The value of professional guidance

Your financial professional can work with you and your tax and legal advisors to help you implement a strategy that will help you to reach your goals. It starts with a conversation—reach out to them today.

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[1] Per IRC Section 101(a).

[2] Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

[3] Access to any policy cash values is subject to the terms of the trust. There may be federal gift tax consequences associated with the funding of an ILIT.

[4] If a SLAT owns a survivorship policy and premiums are still due at the death of the grantor spouse, the trust will need funds to continue to pay the life insurance premiums. The non-grantor spouse cannot make direct or indirect contributions to the trust. You should plan ahead and discuss with your own legal counsel on how to plan for this contingency. One strategy may be for the grantor spouse to leave a testamentary bequest to the SLAT or for the SLAT to own a separate term life insurance policy on the grantor spouse.

[5] To avoid giving the non-grantor beneficiary spouse any incidents of ownership in a SLAT that owns a survivorship policy, the authority to make distributions to the non-grantor beneficiary spouse may be limited to an independent trustee with absolute discretion. The non-grantor beneficiary spouse should not have any rights or powers under the terms of the SLAT that could cause inclusion of the policy in their estate. Your attorney must draft the appropriate provisions based on your specific needs and circumstances. You must consult your own tax and legal advisor.

[6] A filing of a gift tax return may be necessary to elect gift splitting. You must consult your own tax and legal advisors as to whether gift splitting is advisable/permissible, based on the actual terms of your SLAT, because of the beneficiary spouse's interest in the trust. For a SLAT owning either a single life or survivorship policy, the non-grantor spouse beneficiary should not be given a "Crummey" withdrawal right.

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