

Spousal lifetime access trust (SLAT)

The concept

A spousal lifetime access trust is simply an irrevocable life insurance trust (or ILIT) that allows the trustee to make distributions to the grantor's spouse and children during the grantor's lifetime, if needed.

Benefits

The death proceeds for this life insurance trust should be excluded from the grantor's gross estate. In addition, the trust assets should be protected from the creditors of the grantor, spouse and trust beneficiaries. Furthermore, the trustee can access policy cash values and distribute those amounts to the spouse and children, if needed. Finally, the policy's death proceeds may be used to provide estate liquidity.

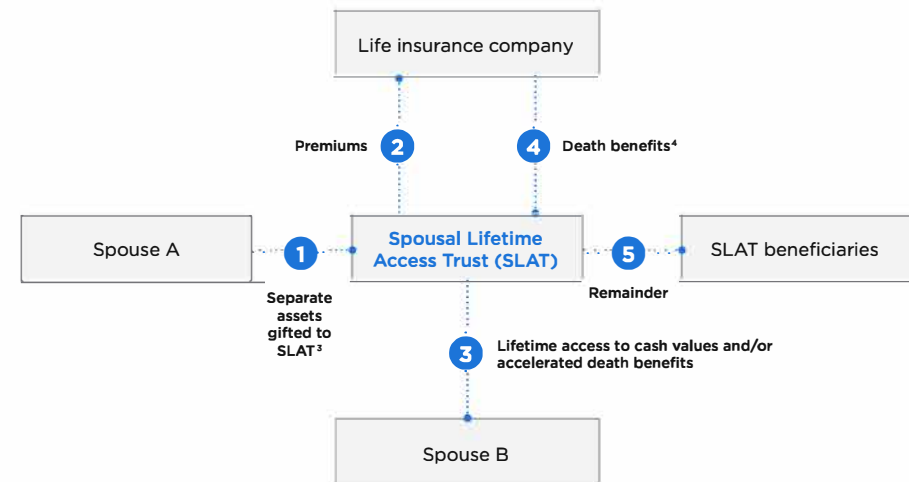
Tax considerations

- To keep the death proceeds out of the grantor's gross estate, the grantor should not retain any right to modify, revoke or terminate the trust or have any incidents of ownership over the life insurance policy
- The grantor must not be a trustee of the trust or a beneficiary of the trust; in the latter regard, the trust property must not be able to be used to satisfy the grantor's legal obligation to support their spouse or children
- The death proceeds are paid to the trust both income and estate tax free

Steps (see illustration on next page)

- The grantor establishes an irrevocable trust under which the trustee is authorized to purchase life insurance on the life of the grantor
- The grantor makes gifts of separate property to the trust using the grantor's annual gift tax exclusion and/or gift tax applicable exclusion
- The trustee purchases insurance on the life of the grantor
- Upon the grantor's death, the proceeds are received by the trustee and made available for application, pursuant to the terms of the trust

How it works



³ The trust language typically includes Crummey notice provisions that are designed to qualify gifts to the trust for the annual gift tax exclusion.

⁴ If properly constructed, the SLAT may have access to cash values or accelerated death benefits during the grantor's life.