



An educational guide for individuals

 Guardian®

A flexible strategy to transfer wealth

The Spousal Lifetime Access Trust

If you have significant assets...

and need to create a tax-efficient approach for transferring wealth, life insurance may enable you to leave a more valuable legacy to your heirs.

Perhaps you are considering establishing a trust, and as the trust donor, want to control where, how, and to whom the trust assets are distributed. Or perhaps you want to provide investment support and guidance to loved ones who will be trust beneficiaries, but lack experience in handling large sums of money. On the other hand, you may be looking to put creditor or spendthrift protections in place for your beneficiaries.

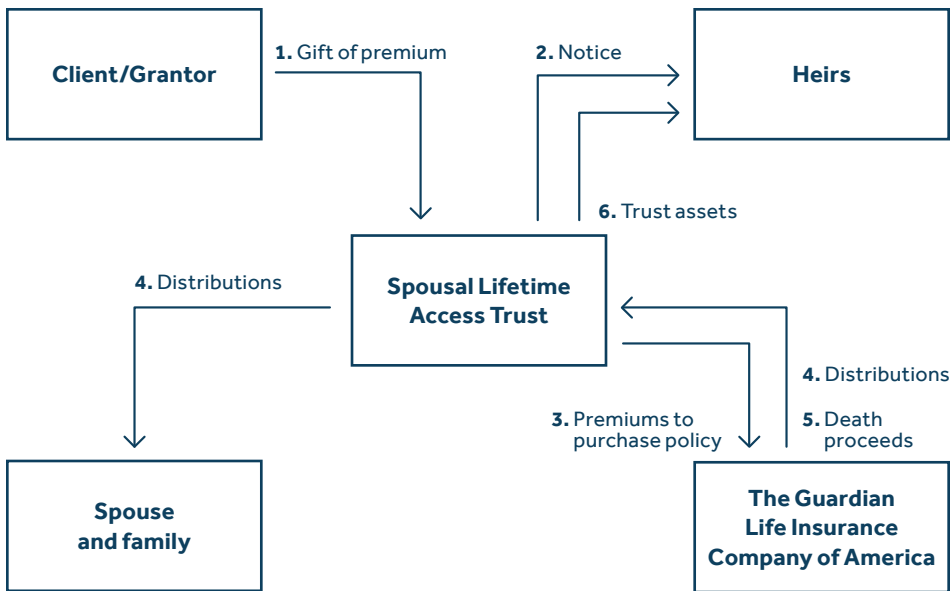
If any of these situations apply to you, you may want to consider implementing an Irrevocable Life Insurance Trust (ILIT). It's a flexible strategy that removes the death benefit from the insured's gross estate.¹ There is, however, one primary limitation to this approach: By law, if the insured individual can access the policy's cash value,² then the death benefit will generally be included in that person's gross estate.

There is a solution that can help

A Spousal Lifetime Access Trust (SLAT) may provide an individual with access to cash values — indirectly through his/her spouse — while keeping the life insurance proceeds out of the individual's taxable estate. A SLAT is a special type of ILIT that contains provisions that allow trust assets to be used for the benefit of the insured's spouse and other beneficiaries. If administered properly, it keeps the policy proceeds out of the insured's taxable estate, while still allowing access to the policy's cash value — generally for the health, education, maintenance, and support of the trust beneficiaries.

This guide has been designed to help you learn more about the Spousal Lifetime Access Trust — and to help you decide whether or not it might be a viable solution for you.

How a Spousal Lifetime Access Trust works



- 1 Your attorney creates the SLAT. The trust provides that discretionary distributions can be made to your spouse and other trust beneficiaries during your lifetime, typically for their health, education, maintenance, and support. If a “disinterested” trustee (other than your spouse or someone with an interest in the trust) is named, even more liberal discretionary distributions can be made by the trustee.
- 2 Your attorney instructs you on some of the technical requirements in making the gift to ensure that you leverage exemptions for gift taxes, one of which includes providing notice of the gift to the beneficiaries of the trust.
- 3 The SLAT purchases life insurance (on your life, or on your life and your spouse’s life, depending on your goals and situation), and you gift the amount of the premium each year to the trust. The trustee purchases and owns the insurance on your life and makes the premium payments.
- 4 As cash values build up over the years, the trustee may make distributions to your spouse and family members, if needed, by making withdrawals up to the amount paid in, or taking loans against the policy.³
- 5 Upon your death, the insurance proceeds will be paid to the trust.
- 6 The trust assets can continue to be held in trust for the benefit of your family or distributed to them (based on the terms of the trust).



Questions for you to consider

Are you someone who:

- needs to purchase a life insurance policy to protect your family, provide funds for estate taxes, or provide cash to equalize inheritances among your children or other loved ones?
- wishes to keep the death benefit of your life insurance policy out of your estate (thus helping your heirs save on estate taxes)?
- would like to set up a trust that would give access to your policy’s cash value to your spouse and/or children during your lifetime?

Do you and your spouse share financial information/ access to finances with each other?

If you answered “yes” to these questions, you may wish to consider implementing a Spousal Lifetime Access Trust.

The Spousal Lifetime Access Trust in action

A case study⁴

Let's explore how an individual wishing to purchase a Guardian life insurance policy used a Spousal Lifetime Access Trust to take the death benefit proceeds of his policy out of his estate — while still retaining a good deal of flexibility and access to the policy's cash value.

Charles Day (age 51) is interested in buying a whole life insurance policy for a number of reasons. He is looking for additional death benefit protection for his family, and likes the fact that life insurance death proceeds that are received are not subject to income taxes. He also likes the guaranteed cash value that comes with a whole life insurance policy, and the possibility of tapping dividends⁵ and cash value growth later in life should he need supplemental retirement income. He's looking for flexibility, and thinks whole life insurance can provide that. He also wants a flexible way to own the policy — one that will protect his assets for his family, but also have options should tax laws change.

Charles talks to his Guardian Financial Professional, who suggests he consider a Spousal Lifetime Access Trust (SLAT). Charles can create a SLAT naming his wife Irene and the children as the beneficiaries. The SLAT will have provisions to make distributions to Irene during Charles's lifetime for health, education, maintenance, and support. The SLAT purchases a life insurance policy with a face amount of about \$500,000 and plans to make a premium payment of \$30,000. This premium amount includes Paid-Up Additions (PUAs)⁶ and is targeted to not require any more premiums after the 10th year, based on current dividend rates.

If Irene and the children have no need of the additional income during Charles's lifetime, the death benefit grows to more than \$1.1M by the time Charles is age 80.



If no distributions are made to the spouse and children during the insured's lifetime

Year	Age	Premium	Cash Value	IRR on Cash Value	Death Benefit	IRR on Death Benefit
1	51	\$30,000	\$17,603	-41.32%	\$527,130	1657.10%
5	55	\$30,000	\$128,837	-5.03%	\$715,919	57.60%
10	60	\$30,000	\$317,318	1.02%	\$966,780	20.59%
15	65	\$0	\$399,905	2.75%	\$958,337	11.21%
20	70	\$0	\$507,827	3.42%	\$985,479	7.81%
25	75	\$0	\$641,176	3.75%	\$1,043,928	6.19%
30	80	\$0	\$804,227	3.92%	\$1,133,851	5.31%
35	85	\$0	\$1,001,006	4.01%	\$1,260,266	4.69%

This is a hypothetical whole life illustration and is not representative of an actual whole life insurance policy. This hypothetical illustration is intended to show, in general terms, how a typical participating whole life insurance policy might work. If purchase of a Guardian whole life insurance policy is being considered, a full illustration with guaranteed values and other important information must be provided.

If, on the other hand, Irene and the children do need to access the policy cash value, the trustee of the SLAT could pull out about \$23,000 a year for 20 years, and still have a remaining death benefit of over \$500K by the time Charles is 80.

If \$23,000 annual distributions are made to the trust beneficiaries for 20 years

Year	Age	Premium	Net Loans/ Withdrawals	Net After- Tax Outlay	Cumulative Net A/T Outlay	Net Cash Value	Net Death Benefit
1	51	\$30,000	\$0	\$30,000	\$30,000	\$17,603	\$527,130
5	55	\$30,000	\$0	\$30,000	\$150,000	\$128,837	\$715,919
10	60	\$30,000	\$0	\$30,000	\$300,000	\$317,318	\$966,780
15	65	\$0	\$20,506	\$-20,506	\$279,494	\$377,790	\$932,726
20	70	\$0	\$20,506	\$-20,506	\$176,963	\$353,591	\$807,087
25	75	\$0	\$20,506	\$-20,506	\$74,431	\$318,684	\$680,085
30	80	\$0	\$20,506	\$-20,506	\$-28,100	\$262,236	\$543,039
35	85	\$0	\$0	\$0	\$-110,125	\$194,669	\$404,352

This is a hypothetical whole life illustration and is not representative of an actual whole life insurance policy. This hypothetical illustration is intended to show, in general terms, how a typical participating whole life insurance policy might work. If purchase of a Guardian whole life insurance policy is being considered, a full illustration with guaranteed values and other important information must be provided.

The advantages of the SLAT

- **Flexibility:** The trustee can access the policy cash values for the benefit of your spouse and family in the event of changes in the estate tax law, or financial need of the family.
- **Access:** Your policy's cash value can be distributed during your lifetime on a tax-favored basis through policy loans and withdrawals.
- **Retirement income:** The trustee may be able to use the policy's cash value as an indirect source of supplemental retirement income through distributions to your spouse.
- **Potential cost savings:** The death benefit that's ultimately payable to the trust should be excluded from your gross estate.
- **Convenience and stability:** Trust assets can be retained in trust and passed on to your heirs estate tax-free or used on their behalf, protected from creditors.
- **The SLAT can be useful for blended families:** The SLAT trustee can act as an impartial arbiter for blended families and remove the emotions from the money equation.

Special considerations

Choosing the right trustee is crucial

If you decide to implement a Spousal Lifetime Access Trust, you should give special consideration to whom you name as trustee:

- **If your SLAT is funded with a single-life policy,** your beneficiary spouse may be one of the trustees, in which case the trust distributions should be limited to the ascertainable standard of health, maintenance, education, and support to avoid inclusion in your spouse's estate.
- **If your SLAT is funded with a survivorship policy,** it is generally recommended that your beneficiary spouse not be a trustee, to avoid the risk of inclusion of the insurance proceeds in his or her estate.

Gifting

It is extremely important that the non-donor spouse not make any direct or indirect gifts to the SLAT.

- A word of caution on gift splitting: You may be familiar with the use of "gift splitting" to maximize annual exclusion gifts. This is a technique where the donor client uses his or her spouse's annual gift exclusion to cover gifts to the trust, even though all the funds are coming from the donor spouse. It is not certain whether gift splitting may be used with a SLAT; you should consult your attorney before using this technique.
- Only the donor spouse should generally be making contributions to the SLAT. That is, gifts to the trust should be made from the donor spouse's separate property.
- The proper planning should be done if a survivorship policy is used: If the SLAT has purchased a survivorship policy and the donor spouse dies, the surviving spouse cannot make additional gifts to the trust to cover premiums. Thought should be given to address this issue when the SLAT is created, so that the right steps can be taken, such as willing enough money to the SLAT to cover any remaining premiums.

Could a Spousal Lifetime Access Trust be right for you?

Only you can answer that question. But once you've decided with your tax and legal advisors that this type of strategy is one you want to pursue, a Guardian Financial Professional will work with you and your trusted team members to help facilitate the issuance of the life insurance policy in conjunction with the implementation of the SLAT.

Contact a Guardian Financial Professional to learn more about the Spousal Lifetime Access Trust today.

Guardian has been helping people protect their futures and secure their lives for 160 years. Every day, we serve approximately 29 million people through a range of insurance and financial products. As one of the largest mutual insurance companies, we know what matters most: putting the needs of our customers first. Because everyone deserves a Guardian. Learn more about Guardian at guardianlife.com.

¹ Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

² Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% tax penalty.

³ Some whole life policies do not have cash values in the first two years. Talk to your financial professional and refer to your individual whole life policy illustration for more information.

⁴ All scenarios and names mentioned herein are purely fictional and have been created solely for educational purposes. Any resemblance to existing situations, persons, or fictional characters is coincidental. The information presented should not be used as the basis for any specific investment advice.

⁵ Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors. Financial information concerning Guardian as of December 31, 2021, on a statutory basis: Admitted Assets = \$72.1 Billion; Liabilities = \$63.5 Billion (including \$51.8 Billion of Reserves); and Surplus = \$8.6 Billion.

⁶ Paid-up Additions (PUA) are purchases of additional insurance (death benefit) that have a cash value. These purchases are made with dividends and/or a rider that allows the policyholder to pay an additional premium over and above the base premium. This creates the growth of death benefit and cash values in a participating whole life policy. Adding large amounts of paid-up additions may create a Modified Endowment Contract (MEC). A MEC is a type of life insurance contract that is subject to last-in-first-out (LIFO) ordinary income tax treatment, similar to distributions from an annuity. The distribution may also be subject to a 10% federal tax penalty on the gain portion of the policy if the policy owner is under age 59½. The death benefit is generally income tax free.

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