Survivor Lifetime Access Trust (SLAT) with Supplemental Income

THE SITUATION

Jordan, 45, is a key executive in a high-tech company, while Georgia, 42, is a practicing attorney in a large national law firm. They have three children, all under age 16. Jordan and Georgia have been extraordinarily successful in leveraging Jordan's stock options and their disposable income into a significant portfolio. Recently, Jordan's company went public, ballooning their stock holdings to over $25 million.

THEIR GOALS

- To reduce the concentration of the couple's portfolio in Jordan's company's stock
- To mitigate the potential risk to their portfolio from creditors
- To insulate some of their portfolio from the ups and downs of the stock market
- To provide security for their family
- To create retirement income

To meet these goals, their financial advisor has suggested they consider creating Survivor Lifetime Access Trusts (SLATs) and fund them with life insurance.

RECOMMENDATION

- Jordan and Georgia each set up a SLAT* for the primary benefit of their spouse.
- Jordan and Georgia each contribute up to their lifetime exemption, $5.45 million in 2016, to their respective SLATs. Those assets are held inside the SLAT, where they generate income annually and are liquidated to pay the premiums on the life insurance policy.
- The trustee of each SLAT purchases an indexed universal life policy on the life of the grantor with the trust as the owner/beneficiary. Each policy will be funded over seven years, maximizing cash value accumulation.
- At retirement, the policy cash values will be accessed to provide tax-free income to the beneficiary spouse.
- Should the grantor/insured die prior to retirement age, the trust will receive the death benefit proceeds income and estate tax free. The trustee will invest the SLAT assets for the primary benefit of the surviving spouse. During the surviving spouse's lifetime, the trustee pays income and principal to maintain his/her lifestyle. Any residual assets at the death of the beneficiary spouse are available to provide for their children.

POTENTIAL BENEFIT OF JORDAN'S SLAT

ASSUMPTIONS:

- Jordan funds a SLAT for the primary benefit of Georgia with his $5.45 million lifetime exemption.
- The trustee purchases a $30.6 million Pacific Indexed Performer LT 2 policy on Jordan. Jordan is a Super Preferred Nonsmoker.
- At Jordan's age 57, when their children are grown and financially independent and the couple's main concern is retirement income, the policy's death benefit is reduced in order to maximize cash accumulation.
- The planned annual insurance premium, payable for seven years, is $897,017.
- Excess cash flow is invested in a side fund and earns 5 percent.
- The policy earns 6.48 percent.
- At Jordan's age 65 the trustee accesses the policy for $1.125 million in annual tax-free supplemental income payable to Georgia for 26 years.

Year	Jordan's Age (EOY)	Trust Side Fund @ 5%	Cumulative Income	Death Benefit	Total Potential Benefit
1	46	$4,780,632	$0	$30,587,035	$35,367,667
20	65	$0	$1,125,409	$17,306,120	$18,431,529
30	75	$0	$12,379,499	$12,751,033	$25,130,532
42 (LE)	87	$0	$25,884,407	$5,120,855	$31,005,262

THE BOTTOM LINE

A SLAT is an irrevocable trust created by one spouse for the benefit of the other spouse. A SLAT can be funded with any assets, but is often funded with a life insurance policy on the life of the donor spouse. Upon the death of the insured spouse, the death benefit proceeds can be used to provide for the surviving spouse's needs. Proceeds invested in indexed universal life insurance participate in the performance of a stock market index, without being directly invested in stocks and while being insulated from market downturns. Additionally, tax-free income from policy values can be provided to the spouse during their lifetime. Upon the surviving spouse's death, any remaining assets pass to the couple's children or remain in trust for their benefit. If properly designed, all property held in the trust will be free of estate taxes in both spouses' estates.

RETIREMENT SOLUTIONS — AND A WHOLE LOT MORE

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