

Benefits of Trust Planning

Structuring your trust plan in a new tax paradigm



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Preserving your legacy for future generations

When Congress passed the American Taxpayer Relief Act of 2012 (ATRA), much attention was focused on the new estate tax rules. Whether the possibility of estate taxes remains or not, legacy planning is still essential. If you're considering a strategy to pass on your legacy to future generations, you may want to enhance your strategy with the benefits of trust planning using life insurance.

Do I still need an estate plan?

The American Tax Payer Relief Act of 2012 brought long-awaited clarity to estate tax rules. In 2014, Congress has decided to keep the applicable federal estate tax exclusion (indexed for inflation) at \$5,340,000 for individuals and \$10,680,000 for couples. While many estates will fall below the federal exclusion amount, there are still many important reasons to consider utilizing a trust funded with life insurance for legacy planning. Consider the following:

- As of January 1, 2014, 19 states and the District of Columbia collect either a state estate tax or inheritance tax—or both, in the case of Maryland and New Jersey. State estate tax exclusions range from \$675,000 to the current federal level, and top tax rates range from 9.5% to 20%.¹
- The largest portion of one's estate typically comes in the form of illiquid assets. Illiquid assets can include assets such as the family home, vacation property, stocks or jewelry. If cash is needed to settle the estate, your beneficiaries may be forced to sell these assets to raise cash. Selling assets may present problems, particularly if the timing coincides with depressed real estate values or a slumping stock market.
- Life insurance proceeds are included in your taxable estate if you "own" the policy. If you can make changes in your policy—such as changing the beneficiary—you will be viewed as the owner. However, if you transfer the policy to an irrevocable trust with instructions to leave the beneficiary designation as is, after three years you will no longer be deemed the owner of the policy, and the proceeds will be exempt from estate taxes.
- Trust planning using life insurance can assist in the disposition of a family-owned business, particularly as a solution for inheritance equalization if one or more beneficiaries are not active in the business.

Why use trusts?

Trusts are used not only for the reduction of taxes, they remain essential planning tools for individuals and couples looking to efficiently transfer assets. Here are a few reasons why you may still want to move your hard-earned legacy into a properly designed trust.²

1. Control

Whether you are concerned about paying estate tax or not, you may not want to just hand over your legacy to beneficiaries and hope for the best—especially when beneficiaries are young or otherwise not prepared to manage their own affairs. When assets are moved into a trust, you create a "playbook" that dictates how the assets are managed and ensures that funds are distributed according to your wishes.

2. Asset protection

Assets placed in a trust, if properly structured, are separated from your estate, which protects them from creditors and preserves them for your beneficiaries. Trusts also can ensure that assets will go to your intended recipients. For example, if a surviving spouse remarries, a properly structured trust can ensure that your original beneficiaries receive what you intended, rather than the surviving spouse designating step-children or other beneficiaries.

3. Income tax planning

Trusts allow for flexible strategies to effectively manage income taxation. Care should be taken to reduce or defer taxable income, as trusts are subject to high income taxes at a low income threshold.³ Income shifting can be accomplished by establishing a grantor trust. As the grantor, you are responsible for the income taxes due, using your marginal tax bracket to relieve the trust of its obligation to spend any earnings. In addition, trusts can be drafted to "spray" or spread distributions to beneficiaries in lower tax brackets.

4. Permanency

As with any tax law, Congress could change or eliminate portability, the current applicable exclusion amount and the lifetime gift amount in the future. "Permanency" may not be long-term, but trusts should remain a stable and efficient alternative for wealth transfer.

5. Portability

Current estate-tax rules allow for a surviving spouse to retain any unused exclusion amounts from a deceased spouse. The Deceased Spousal Unused Exclusion Amount (DSUEA) is now permanent, but relying on portability and simply transferring all assets to a surviving spouse may make the planning process more complicated.

The use of trusts may be more beneficial, as:

- The DSUEA is not indexed each year, and there is no portability of the generation-skipping transfer tax (GSTT) to benefit multiple generations.
- The unused exclusion from a pre-deceased spouse will be lost if the surviving spouse remarries and survives his or her next spouse.
- Regular growth in assets is not excluded from the gross estate of the surviving spouse, unlike growth in a trust.

The value of life insurance in trust planning

Life insurance can be a highly effective vehicle for asset protection and increasing the wealth that passes to your beneficiaries—in some cases, over several generations. But with a life insurance policy properly structured in a trust held outside of the estate, your assets can work even harder for your beneficiaries. Life insurance provides tax-deferred accumulation, and the death benefit is paid to the trust free of federal income and estate tax. By “leveraging your assets” you’ll have more control and a more efficient way to pass on your legacy.⁴

The power of using Life Insurance in Trusts

\$1,469,638

Irrevocable Trust

\$2,843,538

Irrevocable Trust
using Life Insurance

The Result: 93% more!

In our scenarios, the beneficiaries would receive **\$1,373,900 more** with the leveraged Irrevocable Trust

This hypothetical scenario assumes the grantor spouse gifts \$1,000,000 to the trust with a pre-tax annual growth rate of 4%, subject to the trust's federal income tax rate of 35%. This also assumes that the trust purchases a universal life insurance policy with a face amount of \$2,072,409 with five annual premiums of \$100,000 each (based on a 55-year-old, nonsmoking male in the Super Preferred Non-Nicotine rate class). The net to the beneficiaries of \$2,843,538 at the end of the 15th year includes the remaining trust assets of \$771,129 and the life insurance death benefit of \$2,072,409 which is not subject to federal income or estate taxes.

Strategies

There are different trust options to help you achieve your protection and transfer goals. In an Irrevocable Life Insurance Trust (ILIT), you (or you and your spouse) gift funds to the trust using your annual exclusions or the gift tax exemption,⁵ and your designated trustee uses some or all of the funds to purchase life insurance owned by the trust on your life or the lives of you and your spouse. Upon death, the death benefit is received by the trust free of federal estate and income taxes, and the trustee distributes the funds based on the trust specifications.

In Intentionally Defective Grantor Trusts (IDGTs), you—as the grantor(s)—retain certain power over the trust assets, causing you to pay income taxes due on any earned income held in the trust, while effectively transferring assets out of your estate. This way, no values come out of the trust and more wealth passes to your beneficiaries.

Importance of trust owned life insurance reviews

Trusts should be reviewed annually to ensure proper administration and to protect your legacy from unforeseen changes. The Uniform Prudent Investors Act (UPIA), created by the National Conference of Commissioners, holds trustees to a higher level of conduct and provides a means to enforce those standards. A trustee must act in a fiduciary capacity to achieve the objectives stated in the trust, including asset management as it pertains to risk tolerance, including life insurance policies.

Policy Reviews

Life insurance policies are complex financial instruments. Annual reviews should cover:

- **Policy administration:** Ensure that the payment of policy premiums is timely and appropriate, the accounting of policy values is accurate and the ownership and beneficiary information is correct.
- **Insurance carrier strength:** Verify that the carrier's financial integrity remains positive.
- **Policy performance:** Confirm that the policy is performing as expected, and consider new opportunities that may:
 - Improve your underwriting options.
 - Provide more appropriate product risk.
 - Offer more cost efficient pricing and guarantees.
 - Include innovative riders with improved options.

Contact your insurance professional to learn more.

Life insurance is issued by Symetra Life Insurance Company, 777 108th Avenue NE, Suite 1200, Bellevue, WA 98004-5135. Products are not available in all U.S. states or any U.S. territory.

Symetra Classic Universal Life Insurance is a flexible premium universal life insurance policy. Policy form number is ICC11_LC5 in most states.

Life insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force.

Guarantees and benefits are subject to the claims-paying ability of Symetra Life Insurance Company.

This material is not intended to provide investment, tax or legal advice. Consult your attorney or tax advisor for more information.

¹ (Source: "2014 State Death Tax Exemption and Top Tax Rate Chart: State Estate Tax and Inheritance Tax Overview for 2014" accessed March 2014: www.wills.about.com/od/stateestatetaxes/fl/2014.state-death-tax-exemption-and-top-tax-rate-chart.htm?p=1) For current information and an assessment of your unique situation, please consult your tax professional.

² Trusts should be drafted by an attorney familiar with such matters. Failure to do so could result in adverse tax treatment of trust proceeds.

³ Trusts will be subject to the Medicare surtax if they have undistributed Net Investment Income and also have adjusted gross income over the dollar amount at which the highest tax bracket for a trust begins for a taxable year (for tax year 2014, this threshold amount is \$12,150). The surtax should not be subject to certain types of trusts, such as Charitable Remainder Trusts, tax exempt trusts, grantor trusts and trusts that distribute all income annually.

⁴ The trust must have a provision to purchase life insurance as a trust investment and the trustee should have authority to purchase life insurance on the grantor(s).

⁵ Individuals can gift up to \$14,000 per year, per recipient, free of federal income and estate taxes in 2014. The applicable federal estate tax exclusion amount (indexed for inflation) is \$5.34 million per individual in 2014. The estate tax is unified with the federal gift tax and generation-skipping transfer such that in 2014 the lifetime gift tax exclusion and generation-skipping transfer tax is \$5.34 million (indexed for inflation) and the maximum tax rate for both of these taxes will be 40%. (Source: "Frequently Asked Questions on Gift Taxes," IRS, accessed January 2014: www.irs.gov/businesses/small/article/0,,id=108139,00.html). For current information and an assessment of your unique situation, please consult your tax professional.



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