LIFE ADVANCED MARKETS

Trusts in estate planning strategies

An overview of types, purposes, and financial impacts

A trust can be a versatile tool in an estate planning strategy, offering a level of control and flexibility, helping avoid the probate process, and allowing individuals to specify how and when assets are distributed directly to beneficiaries.

There are variety of trust types that may be used to address specific needs and goals, each offering distinct benefits and features. Trusts may provide tax benefits and asset protection, and can be tailored for special needs planning or charitable giving.

Type of trust	How established	Trust funding	Purpose of the trust	Tax consequences
Revocable Living Trust	Established by a written trust agreement during grantor's lifetime	May be funded by grantor during lifetime, by designating the trust as beneficiary at grantor's death (e.g., beneficiary of a qualified retirement account).	Avoids probate if properly funded; increases privacy; may avoid need for conservatorship or guardianship of estate; allows for immediate management of assets by trustee without court intervention; potential asset protection for trust beneficiaries.	100% includable in grantor's estate for estate tax purposes. Income tax related to trust assets (e.g., capital gains, dividends, interest) taxable to the grantor during grantor's lifetime.
Irrevocable Life Insurance Trust (ILIT)	Established by a written trust agreement during grantor's lifetime	May be funded by transferring existing life insurance policy to the trust, or by having the trust apply for and purchase a new life insurance policy on the grantor's life.	Removes life insurance death benefit from estate of an individual as policy owner; allows annual exclusion gifts to the trust to pay insurance premiums; potential asset protection for beneficiaries.	Gifts may be necessary to pay premiums, but withdrawal rights (a.k.a. Crummey powers) allow annual exclusion gifts to pay life insurance premiums. Note: Death benefit may be included in prior policy owner's gross estate if an existing policy is transferred to the ILIT within three (3) years of owner's death. Insured may not be trustee.

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Credit Shelter Trust (a.k.a. family Trust or A Trust)	Established by a written trust agreement during grantor's lifetime OR Established as part of a will	Generally funded upon the death of the first spouse.	Keeps assets out of surviving spouse's taxable estate by making use of deceased spouse's estate tax exemption.	Funded with assets equal to deceased spouse's applicable exclusion amount so that there will be no federal estate tax on the amount transferred to the Credit Shelter Trust. Trusts may also be created during lifetime to take advantage of lifetime gift tax exemption (sometimes called a Spousal Lifetime Access Trust (SLAT).
Marital Trust (a.k.a. QTIP Trust, B Trust)	Established by a written trust agreement during grantor's lifetime OR Established as part of a will		Provides for management and distribution controls during surviving spouse's lifetime.	Trust eligible for estate or gift tax marital deduction as long as rules under IRC Sec. 2056 are followed. Estate tax is deferred until surviving spouse's subsequent death.
Grantor Retained Annuity Trust (GRAT)	Established by a written trust agreement during grantor's lifetime	Funded during grantor's lifetime.	Used to transfer highly appreciated (or appreciating) property or high income-producing property out of the grantor's estate, while keeping an income stream to the grantor for a number of years (the annuity period).	Gift by grantor at time the trust is created is generally equal to the present value of the remainder interest (see IRC Tables discussed in IRS Publ. 1457). Trust may also be designed so that the value of the taxable gift is zero. This is referred to as "zeroed-out" GRAT. Note: Unlike property received as the result of the death of the grantor, property transferred to the remainder beneficiaries under a GRAT does not receive a stepped-up basis.
Charitable Remainder Unitrust (CRUT)	Established by a written trust agreement during grantor's lifetime OR Established as part of a will	Funded during grantor's lifetime, or by designating the trust as beneficiary to receive assets at grantor's death.	Income generator and capital gain deferral; charity is the ultimate beneficiary. Trust may pay a minimum of 5% and a maximum of 50% of value of trust assets to current beneficiary each year.	If donor or donor's spouse is the income beneficiary, no gift or estate tax consequences. If donor or donor's spouse is not the sole income beneficiary, there will be a gift tax on formation equal to the present value of beneficiary's income interest. Current income tax deduction on formation equal to present value of charities remainder interest (must be at least 10%). Useful for clients who want to diversify and increase lifetime income from investment while deferring tax impact. Trust can also be designed as a charitable remainder annuity trust (CRAT), which pays a fixed dollar amount to the current beneficiary (rather than percentage or unit trust amount) during the term of the trust.

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Charitable Lead Annuity Trust (CLAT)	Established by a written trust agreement during grantor's lifetime OR Established as part of a will	Funded during grantor's lifetime, or by designating the trust as beneficiary to receive assets at grantor's death.	Freezes valuation and benefits charity. Initial beneficiary is charity; remainder goes to individuals.	Trust pays annuity to charity for term of years, with remainder to individual beneficiaries, outright or in further trust. Can be designed to generate no current taxable gift. Designed to pass future appreciation to children at no gift tax cost. Grantor CLAT will also generate current income tax charitable deduction (no current deduction for non-grantor CLAT). Can also be designed as a charitable lead unitrust (CLUT).
Qualified Personal Residence Trust (QPRT)	Established by a written trust agreement during grantor's lifetime OR Established as part of a will	Funded during grantor's lifetime, or by designating the trust as beneficiary to receive assets at grantor's death.	Reduce the transfer tax value of gift of home by retaining right to use during the trust term.	Current gift of the value of the remainder passing to the beneficiaries at the termination of the trust term. If donor does not survive trust term, asset included 100% in donor's estate.
Supplemental Needs Trust	Established by someone other than the disabled person or spouse (e.g., parent or grandparent) by a written trust agreement during grantor's lifetime OR Established as part of a will Note: Supplemental and Special Needs Trusts are not the same. The primary distinction is who funds the trust.	Trust is funded with assets belonging to someone other than the disabled person or their spouse ("third-party" trust).	Provide financial assistance to individuals with disabilities for needs not covered by public benefits (e.g., supplemental care, education, or recreation) without jeopardizing their eligibility for government benefits like Medicaid or Supplemental Security Income (SSI).	The SNT is not primarily a tax-planning tool. It is used for medical assistance (MA) planning. Proceed with caution if you are not well-versed in MA rules.

Product and feature availability may vary by state and broker/dealer.

Type of trust	How established	Trust funding	Purpose of the trust	Tax consequences
Special Needs Trust	Established by disabled person's parent or grandparent through a written trust agreement during grantor's lifetime, or by legal guardian or conservator, or by the court. Established under 42 U.S.C. § 1396p(c) and (d): Omnibus Bdgt. Recl. Act of 1993 (OBRA 1993) Note: Supplemental and Special Needs Trusts are not the same. The primary distinction is who funds the trust.	Person with a disability is funding the trust with their own assets, such as through an inheritance or personal injury settlement ("first-party" trust). OR Trust is funded with assets belonging to someone other than the disabled person or their spouse ("third-party" trust).	Provides financial assistance to individuals under age 65 with disabilities for needs not covered by public benefits (e.g., supplemental care, education, or recreation) without jeopardizing their eligibility for government benefits like Medicaid or Supplemental Security Income (SSI). Note: At disabled person's death, all medical assistance benefits paid to beneficiary must be reimbursed with the excess to beneficiaries designated by grantor.	The IRS usually considers first-party trusts to be "grantor trusts" – a classification that allows the reporting of all trust income, deductions, and credits to pass onto the beneficiary's personal tax returns. A third-party SNT established by a friend or relative for a person with special needs may generate taxable income for the grantor of the trust, the beneficiary of the trust, the trust itself, or all three at once, depending on the circumstances.

This information is provided as an overview of the documents presented and is not intended to be a comprehensive discussion of all features, benefits, and considerations. Clients should consult with their tax advisor and/or attorney to discuss their specific situation.

Your financial professional is an important resource for educating you on how indexed universal life insurance can be an effective part of a trust in helping address your long-term financial goals. However, consulting with an estate planning attorney is essential to successfully navigate the various types of trusts and their specific benefits.

Indexed universal life (IUL) insurance provides a death benefit that is generally paid income-tax-free to beneficiaries, and the opportunity to build accumulation value. IUL requires qualification through health and financial underwriting.

Allianz Life Insurance Company of North America does not provide financial planning services.

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