A STRATEGY SPOTLIGHT

A Spousal Limited Access Trust May Play a Beneficial Role in Your Estate Plan

You want to protect assets from income, gift, and estate taxes while ensuring your spouse is taken care of. How can you provide for your spouse's needs during your lifetime without giving assets outright that may cause unwanted and unnecessary transfer taxes?

Use a Spousal Limited Access Trust (SLAT) to apply for and own a whole life insurance policy on your life. A SLAT is a type of Irrevocable Life Insurance Trust (ILIT) that provides your spouse with access to life insurance cash values [1] while keeping the life insurance proceeds out of your gross estate.

How a SLAT Works

1 | You establish an ILIT for the benefit of your spouse and your children/grandchildren. Cash gifts are made in order to pay premiums on a life insurance policy that insures your life and is owned by the trust. The gift tax annual exclusion of $15,000 in 2021 and the gift tax exemption of $11,700,000 (2021) can be used to shelter these gifts from gift tax.

2 | Your spouse (or someone other than you) is named as the trustee of the trust. The trustee may take policy withdrawals or loans for the spouse's health, maintenance, education, and support.[1] In addition, your spouse may be given the right to withdraw the greater of $5,000 or 5% of the trust principal from the trust each year. For greater flexibility, name a friendly, independent trustee who can have discretion to make distributions to your spouse for any reason whatsoever. The trust can also provide you with the power to remove and replace the trustee with any other person other than your spouse, an ancestor, a descendant, a sibling, or someone who works for you.

3 | When you die, the policy's death benefit will be paid to the trust free from income and estate tax. Distributions of income and principal can be made to your spouse and children/grandchildren.

4 | When your spouse dies, the assets remaining in the trust will pass estate tax free to your children/grandchildren.

Benefits of a SLAT

1 | The gifts you make to the trust are removed from your taxable estate.

2 | The trust assets (including the life insurance policy insuring you) will not be taxed in your spouse's estate either.

3 | The life insurance owned by the trust is generally protected from your spouse's and your creditors.[2]

4 | Access to the cash value[1] in the life insurance policy is generally tax-free.[1]

5 | The life insurance policy benefit is paid tax-free at your death.[3] This maximizes the benefit to your spouse and family.

Is a SLAT Right For You?

- It provides for your spouse while it enjoys a number of tax advantages.
- It may provide for your children/ grandchildren on a tax-advantaged basis.
- You can select the right person to manage the assets owned by the trust.
- You reduce your taxable estate by gifting cash or other assets to the trust.
- The assets owned by the trust can escape taxation in your spouse's and your taxable estates.
- You provide for your spouse and family without making outright gifts to them.

Please refer to IRS.gov for the most up-to-date information.

The decision to purchase life insurance should be based on long-term financial goals and the need for a death benefit. Life insurance is not an appropriate vehicle for short-term savings or short-term investment strategies. While the policy allows for loans, you should know that there may be little to no cash value available for loans in the policy's early years.

The information provided is not written or intended as specific tax or legal advice. MassMutual, its subsidiaries, employees, and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

[1] Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

[2] Protections afforded life insurance products are a matter of individual state law.

[3] Internal Revenue Code section 101(a).

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