PACIFIC LIFE

Hypothetical Case Study

LEAVE A LEGACY WITH LIFE INSURANCE

Using a Spousal Lifetime Access Trust (SLAT) as a Wealth Transfer Tool

Goal: Protect inheritance value to leave a financial legacy for future generations.

Scenario

Jack (67) and Diana (60), are married with two adult children. The couple's businesses are going well, and their net worth has grown to $30 million in recent years. They want to minimize taxes and maximize the legacy they leave to their kids. They are young enough to still want control and access to their assets. In addition, Jack wants to ensure that Diana is taken care of given the difference in their ages. They know life insurance will help them accomplish their goals, but they're uncomfortable with a traditional irrevocable life insurance trust. Rather than give up all access to trust assets, Jack wants a cash value life insurance policy on his life to help to provide for Diana and the kids during his lifetime and after he's gone.



Approach

The Becks establish a Spousal Lifetime Access Trust (SLAT) funded with a life insurance policy on Jack's life. Jack, as grantor, will make an annual gift[1] to the SLAT to pay the premiums on the policy. Diana will be the sole trustee and beneficiary of the SLAT.[2] As trustee, Diana will use the cash gifts to purchase a $10 million life insurance policy on Jack's life. As a beneficiary, Diana is entitled to trust distributions for her health, education, maintenance, and support.[3] And since Jack is Diana's spouse, he has indirect access to these trust payouts. The flexibility of the SLAT makes Diana and Jack more comfortable facing the uncertainty of the future.

What is a SLAT?

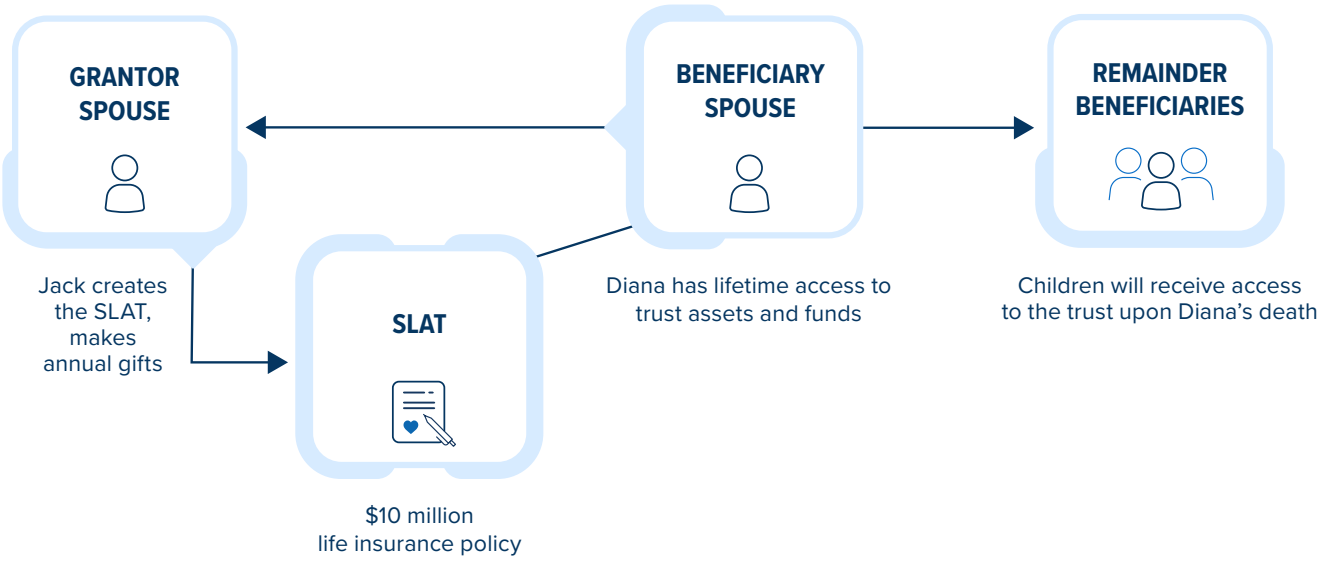
A SLAT is an irrevocable trust used by affluent married couples who want to minimize taxes and maximize flexibility while providing for a life partner and loved ones. Not only does the SLAT remove the value of trust assets from the taxable estate, but it also allows the spousal beneficiary to retain access to income, and in some cases, principal from the trust.

[1]As of January 1, 2026, the annual gift tax exclusion is $19,000 per donee (indexed for inflation). Rev. Proc. 2019-44.
[2]The trustee appointed should not be the insured or the insured's life insurance producer. A life insurance producer who is paid a commission on the sale of a life insurance policy represents both his or her personal interest and the interests of the trust, creating a conflict of interest.
[3]If the spousal beneficiary is also the trustee, then his or her discretion as trustee to make distributions to him or herself would need to be limited by what are known as ascertainable standards (health, education, maintenance, and support) in order to avoid inclusion of the trust assets in his or her estate.

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Considerations

When considering a SLAT, it is crucial to seek the assistance of experienced legal professionals who can provide valuable guidance regarding the various limitations and flexibilities than can be incorporated into a SLAT to suit individual needs.

Result

Upon Jack's passing, the life insurance policy's death benefit will be paid to the SLAT free of income and estate taxes.[4] Diana, as trustee, can make distributions to herself for health, maintenance, and financial support purposes. When Diana passes, the remaining SLAT assets will be paid to the children according to the terms of the SLAT.

If Diana happens to pass before Jack, he may still be able to have access to the trust assets (including the policy cash value), assuming the trustee has the authority to make loans to Jack.

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[4]For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

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