

The Survivorship Standby Trust

Problem:

In a world of estate tax uncertainty you may be finding married couples reluctant to commit to irrevocable arrangements, which may not make sense in a world without federal estate taxes. Additionally, you may find individuals hesitant to establish an irrevocable life insurance trust (ILIT) because they may want to access the policy cash values to help supplement their retirement income.¹ If your prospects are demanding flexibility to respond to changes in tax law or family circumstances, they may want to consider the Survivorship Standby Trust.

Prospects:

- Married couples that have a taxable estate with a need for survivorship life insurance coverage.
- Married couples where one spouse has an anticipated shorter life expectancy.
- Married couples that want a plan that will be flexible to respond to changes in tax and family circumstances.

Solution:

The Survivorship Standby Trust is a technique designed to accomplish two objectives: permit the insured to retain lifetime access and control over the cash values of a survivorship life policy, and avoid federal estate tax on policy proceeds at the death of the second insured. Under this arrangement, the spouse with the anticipated shorter life expectancy is the owner and premium payer of a survivorship life insurance policy. The owner spouse creates a trust either under the terms of his/her will or living revocable trust and designates this trust as the contingent policy owner and primary beneficiary. This trust will assume policy ownership on the death of the owner spouse. The trust is like an ILIT except it is waiting in the wings (it's on "standby") and does not begin to operate until the death of the primary owner spouse. Since the trust is contained in the will or living revocable trust of the owner spouse, it may be revised to meet the changing needs of the family.

With ownership established in this manner, the policy owner spouse has control of the policy, permitting easy access to the cash values to help supplement retirement income.¹ Assuming the owner spouse is the first to die the survivorship policy passes into the trust. Assuming the surviving spouse is not trustee, at his/her death the policy passes estate tax-free to the heirs. This technique allows a married couple to acquire the survivorship coverage needed to provide estate liquidity, while giving them control and flexibility to adapt to changes in tax law or family circumstances.

Benefits of the Survivorship Standby Trust:

- Flexibility to revise or terminate the arrangement during the lifetime of both insureds.
- Control over the policy during the lifetime of the owner spouse.
- Access to policy values to help supplement income.¹
- Avoidance of gift taxes during the lifetime of the owner.
- Estate tax-free death proceeds for estate liquidity.

Call our Advanced Marketing team for the rest of the story on the Survivorship Standby Trust and to see if this technique can help solve your client's needs for flexibility.

¹ Withdrawals and loans reduce policy cash values and death benefit, may affect any policy guarantees against lapse, and may have tax consequences.

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