Allianz

Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS

Flexible estate planning strategies

Standby trust

Planning for the transfer of your estate is unique from many other areas of financial planning strategies.

It involves planning for the transfer of everything you've worked a lifetime to accumulate, all at once, at some unknown point of time in the future. And you won't be there to provide instructions and guidance as the transfer occurs.

Whether your motivation is to leave behind a legacy, protect the ones you love, keep family wealth in the family, support charitable organizations, or simply help assure an efficient transfer of property, a well-designed estate planning strategy is key to accomplishing your goals.

While there are a number of strategies for accomplishing your estate planning goals, many require irrevocable decisions be made with limited ability to make modifications should circumstances change (e.g., changes in tax laws, changes in family dynamics, or changes in financial goals/needs). Families and their team of professionals should take into consideration strategies for building a level of flexibility into their estate planning strategies.

One such strategy is a standby trust/life insurance arrangement.

Life insurance may be a vital part of a family's overall estate planning strategy – providing funds to help pay estate taxes or to help family members in acquiring the family business, or simply providing a flexible asset (death benefit[1]) that is easily allocated among beneficiaries.

A common practice is to have a cash value life insurance policy such as a fixed index universal life (FIUL) insurance policy, one that is owned by an irrevocable life insurance trust (ILIT) in order to avoid estate taxes and control the distribution of death proceeds. Gifts are then made to the ILIT which uses the funds to help pay policy premiums.

While this strategy has a number of advantages, one primary disadvantage of such a design is that the gifts are irrevocable and the policy is no longer under your control. Should circumstances change, you may not have access to policy cash values held within the ILIT. You may also lose the ability to change the beneficiary, change the owner, or take loans[2] from the policy should your family dynamics or financial needs change in the future.

[1] The death benefit is generally income-tax-free when passed on to beneficiaries.

[2] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

AMK-505 (R-6/2022)

A standby trust is one way to address this issue of control and provide a level of flexibility.

Standby trust

Summary of strategy	
Basic design	• A married couple acquires a life insurance policy on the life of one of the spouses. • The spouse with the shorter life expectancy is named the initial owner, and the spouse with the longer life expectancy is the insured. • A standby trust is named as the contingent owner of the policy. Upon the death of the owner spouse, the policy automatically changes ownership to the standby trust. The trustee will then change the beneficiary of the policy to the trust itself. • Upon the death of the insured spouse, the death benefit proceeds will be paid into the standby trust. • The standby trust may be specifically designed to achieve your family's wealth-transfer goals. Working with your professional legal advisors, you may select the trustee, choose the beneficiaries, and dictate the timing of future distributions. • An alternative is to have the policy owned by a revocable standby trust that automatically converts to an irrevocable trust after the first spouse passes away.
Advantages	• Upon the death of the insured spouse, the death benefit proceeds will not be included in the estate for estate tax purposes. • Premiums paid into the policy will not be subject to federal or state gift taxes, since one of the spouses will own the policy directly. • When properly drafted and administered, the standby trust may provide a level of creditor protection. • It provides an opportunity to delay "irrevocable" decisions related to your estate planning strategy. This may be especially attractive for younger couples. • While both spouses are alive, they will have full rights in the policy, including access to policy cash values through loans or withdrawals,[1] the ability to change the beneficiary, and the ability **to take advantage of all other policy features and riders.**
Considerations	• If the spouse with the longer life expectancy (the insured) passes away first, the surviving spouse will need to consider strategies for removing the death benefit proceeds from their estate if estate taxes are still a concern at that time. • Life insurance requires qualification through health and financial underwriting. • Clients should consult with their tax advisor and attorney to discuss their specific situation.

TALK TO YOUR FINANCIAL PROFESSIONAL today to learn more about flexible estate planning strategies or FIUL solutions.

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