MetLife®

Wealth Preservation Strategy

The Spousal Lifetime Access Trust

The Client

Married couple with a solid relationship who are in good health and have a high income and/or high net worth.

The Situation

For high-income clients, life insurance can be a popular vehicle for accumulating cash on a tax-favored basis. However, in order to receive the tax-favored benefits afforded life insurance cash values, the policy must have sufficient death benefit above the cash value. For clients who are concerned about estate taxes, this additional death benefit may make the estate tax problem worse. Therefore estate planners are constantly looking for creative ways to access policy cash values while having the death benefit excluded from the estate.

The Solution

One possible technique is the Spousal Lifetime Access Trust or SLAT. The Spousal Lifetime Access Trust is an irrevocable trust funded with a single-life, life insurance policy that permits distributions of trust principal and income to the non-insured spouse of the grantor. If properly structured, none of the insurance death benefit held in the trust will be included in the estate of the insured, and little, if any, of the value of the trust will be included in the estate of the non-insured spouse.

How a SLAT Works

A SLAT is very similar in design to the "credit shelter trust" that is usually created at death in the typical estate plan. In a credit shelter trust, the surviving spouse has access to trust funds while alive (subject to some limitations discussed below) even though the trust proceeds are not included in the surviving spouse's estate. While the insured is alive, the non-insured spouse has access to policy cash values and, upon the death of the insured, has access to policy death benefits without causing estate inclusion in either estate.

Steps in Establishing a SLAT

1. The person purchasing insurance (the grantor) establishes an Irrevocable Life Insurance Trust (ILIT).
   Trust beneficiaries are the non-insured spouse and the grantor's children/grandchildren.
2. The non-insured spouse is named trustee of the trust.
   a. The grantor/insured cannot be trustee.
   b. Other family members could serve as trustee.
3. The trust purchases a policy on the insured/grantor, which is funded with gifts from the grantor using the normal "Crummey powers."
4. Gifts to the trust must come from the insured/grantor's separate property. Gifts cannot come from the non-insured spouse's property.

**Please note: This document is designed to provide introductory information on the subject matter. MetLife does not provide tax and legal advice. Clients should consult their attorney and /or tax advisor before making financial investment or planning decisions.*

Characteristics of a SLAT

- The non-insured spouse is entitled to all trust income while alive plus principal subject to an ascertainable standard.
- The spouse can take trust distributions for his/her health, education, support or maintenance. Generally speaking, the ascertainable standard allows trust property to be distributed for the non-insured spouse's basic living expenses.
- The non-insured spouse is also entitled to take distributions (for any reason) up to the greater of $5,000 or 5% of the trust. This is commonly called a 5 or 5 power.
- Policy cash values grow tax-deferred in the trust and can be accessed tax-free using normal withdrawals to basis and then policy loans thereafter.
- Distributions from the trust to the non-insured spouse retain the tax-free character of the distribution from the policy.
- The non-insured spouse should not deposit trust withdrawals into a joint account with the insured/grantor. This could cause potential estate inclusion for the insured/grantor. Instead, the non-insured spouse should keep trust distributions separate and pay for living expenses from a separate checking account.
- Upon the death of the grantor/insured, none of the policy proceeds are included in his/her estate.
- The spouse (as trust beneficiary) is entitled to continue receiving all trust income plus trust principal subject to the 5 or 5 power and the ascertainable standard.
- Upon the death of the non-insured spouse, the remaining trust proceeds pass to the grantor's children, grandchildren or other beneficiaries.
- The amount included in the estate of the non-insured spouse is only the unused 5 or 5 power for the year of death, not the entire trust.
- As an alternative, estate inclusion for the non-insured spouse can be avoided altogether by having someone other than the spouse (such as another family member) serve as trustee, and allow distributions to the non-insured spouse only at the discretion of the trustee.

Drawbacks of a SLAT

- Access to policy cash values are available only for the non-insured spouse. A divorce from, or the death of the non-insured spouse can reduce the benefits of this planning technique.
- The trust needs to be carefully drafted and funded so that inadvertent estate inclusion does not occur.
- Trust distributions should not be used by the insured/grantor or commingled in the insured's accounts. This could cause estate inclusion.

Where to Use a SLAT

- Scenarios where cash value accumulation is the primary goal of the life insurance purchase, but the client is in an estate tax situation. The typical prospect would be someone who is interested in a life insurance private retirement plan, but has an estate (including the insurance death benefit) of over $2,000,000.
- Where a large death benefit (exceeding the estate tax threshold) is purchased to provide income replacement due to the death of a breadwinner. While the death proceeds passing to the surviving spouse would avoid estate tax because of the unlimited marital deduction, should the insured and spouse die together or the non-insured spouse predecease the insured, the death benefit would be subject to estate tax. A SLAT can provide for the surviving spouse and children while avoiding estate taxation.
- Where there is a need to keep the death benefit out of the estate, but there is also uncertainty about the future of estate taxes. A SLAT can provide an opportunity to retain control over policy values through the non-insured spouse trustee in the event estate taxes are eliminated or reduced.

For Producer and Broker/Dealer Use Only. Not for Public Distribution.

Prospectuses for variable life insurance issued by a MetLife insurance company, and for the investment portfolios offered thereunder, are available from MetLife. The contract prospectus contains information about the contract's features, risks, charges and expenses. The investment objectives, risks and policies of the investment options, as well as other information about the investment options, are described in their respective prospectuses. Clients should read the prospectuses and consider this information carefully before investing. Product availability and features may vary by state.

MetLife variable life insurance policies have limitations, exclusions, charges, termination provisions and terms for keeping them in force. There is no guarantee that any of the variable investment options in this product will meet their stated goals or objectives. The account value is subject to market fluctuations so that, when withdrawn, it may be worth more or less than its original value. Guarantees are based on the claims-paying ability and financial strength of the issuing insurance company.

Pursuant to IRS Circular 230, MetLife is providing you with the following notification: The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of insurance products. You should seek advice based on your particular circumstances from an independent tax advisor.

MetLife, its agents, and representatives may not give legal or tax advice. Any discussion of taxes herein or related to this document is for general information purposes only and does not purport to be complete or cover every situation. Tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the facts and circumstances. You should consult with and rely on your own independent legal and tax advisors regarding your particular set of facts and circumstances.

Life insurance products are issued in by MetLife Investors Insurance Company, MetLife Investors USA Insurance Company, Metropolitan Life Insurance Company and, in New York only, by First MetLife Investors Insurance Company. All guarantees are based on the claims-paying ability and financial strength of the issuing insurance company. Variable products are distributed by MetLife Investors Distribution Company (MetLife Investors), Irvine, CA. September 2008

Insurance Products
• Not A Deposit • Not FDIC Insured • Not Insured By Any Federal Government Agency
• Not Guaranteed By Any Bank Or Credit Union • May Go Down In Value

BDVL20469 L08089312[EXP0910] 07-3099A