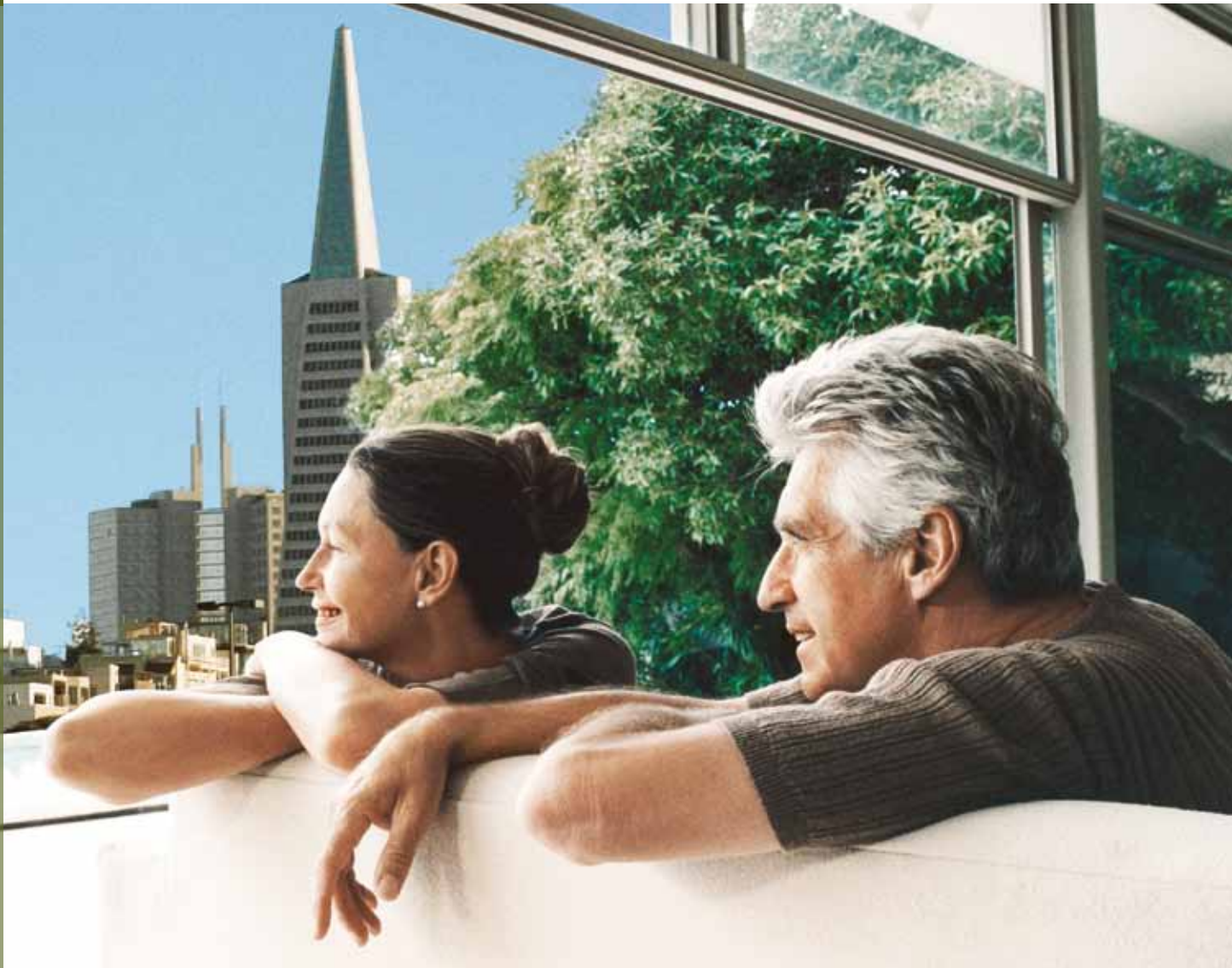




GRANTOR RETAINED ANNUITY TRUSTS



**Providing an Income Stream While
Maximizing Legacies and Tax Savings**

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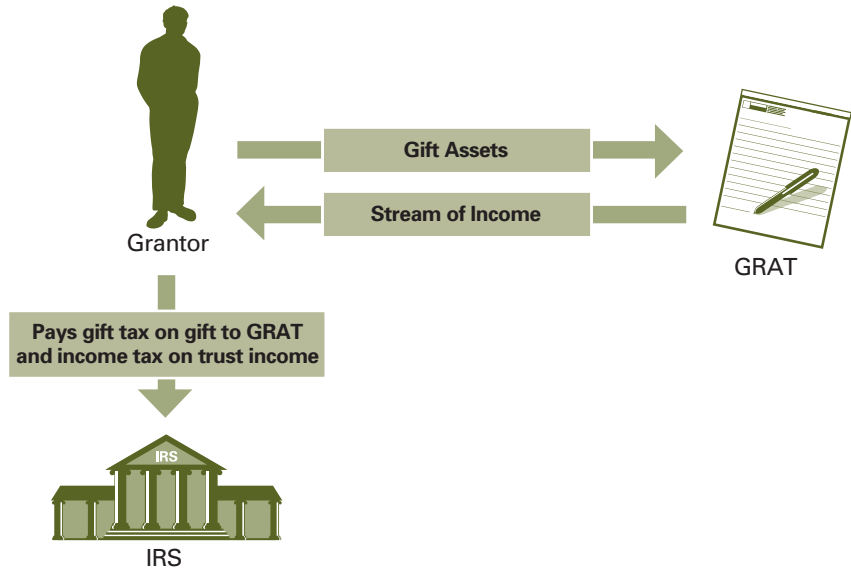


GRATs are highly popular estate planning tools used to pass on assets to loved ones at a discounted gift value while providing a stream of income to the grantor. ILITs set up and funded using a portion of the GRAT annuity can insure against loss of the GRAT's advantages should the grantor not survive the trust term.

One of the essential objectives in estate planning is to transfer assets to loved ones in the most tax-efficient manner available. The grantor retained annuity trust, or GRAT, can be a valuable tool that increases the tax savings accomplished through gifting by discounting the taxable value of the gift. GRATs have become a very popular element of estate planning strategies that pass on highly appreciated assets, such as stock or real estate, to loved ones. Life insurance can enhance this strategy by increasing the amount left to loved ones and mitigating some of the risks inherent in creating a GRAT.

Possible GRAT Settlement Outcomes

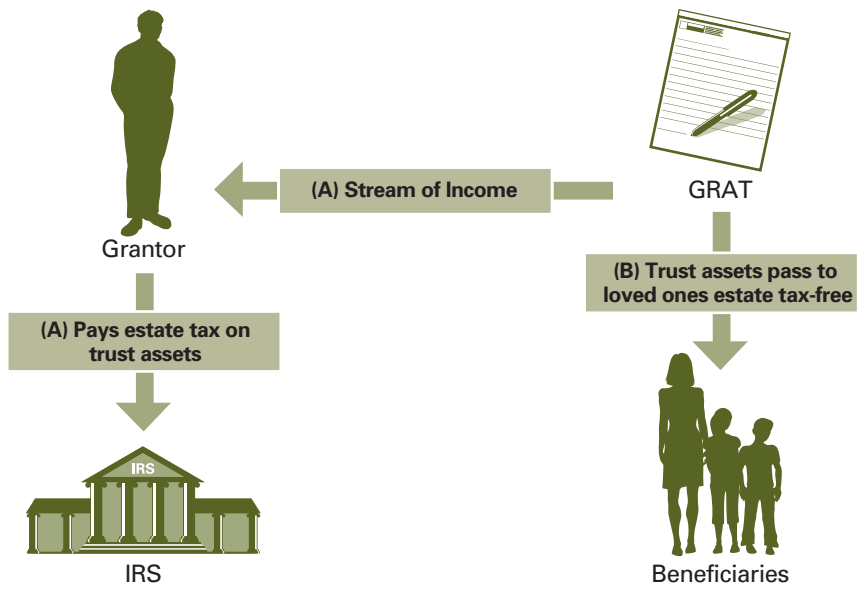
Trust Established and During Trust Term



At End of Trust

Outcome A
 If the GRAT creator, or grantor, passes away before the trust term has lapsed, the fair market value of the assets held by the GRAT at that time is included in the grantor's estate. Life insurance can help mitigate this tax risk. The GRAT also continues to pay the grantor's income distributions to his or her estate.

Outcome B
 If the grantor survives the trust's term, the trust closes at its term ending date, and all of its remaining assets are passed on to the GRAT's named beneficiaries. The property held in the GRAT would not be subject to estate taxes.



How Does a GRAT Work?

A grantor creates a trust and gifts an asset to the GRAT in exchange for the right to receive fixed payments—an annuity—at least annually over a term of years. Because the grantor has retained the right to receive a stream of income from the trust, the value of the gift is discounted by that retained right. The grantor pays gift tax, if applicable, on the discounted gift.

The remainder interest in the trust is left to designated loved ones once the grantor's right to income distributions has ended. Since the trust is a grantor trust, the grantor continues to pay any income tax due on income earned by trust assets, but the GRAT distributions are received tax-free to the grantor.

What Are the Benefits to Implementing a GRAT?

- Gift tax savings
- All future appreciation on the asset is excluded from the grantor's estate
- The annuity provides a stream of income to the grantor
- When the grantor pays the income taxes due on the trust asset's earnings, the grantor is effectively making gift tax-free gifts to the GRAT of those income taxes
- All or some of the grantor's annuity can be used to pay premiums on a life insurance policy
- Life insurance policy proceeds, if the policy is held in an irrevocable life insurance trust, or ILIT, would also be excluded from the grantor's gross estate

Is a GRAT Strategy Right for You?

A GRAT may be appropriate if you:

- Own one or more highly appreciated assets that generate a stream of income, such as rental property or a stock portfolio
- Have no plans to sell the asset(s)
- Value or desire a stream of income
- Are not ill and can be expected to live longer than a chosen trust term

Consult your attorney or financial advisor to learn about the advantages and disadvantages of this strategy and to see if a GRAT is right for you.

How Can Life Insurance Improve This Strategy?

If a grantor uses all or a portion of his or her annuity payments to pay the premiums on a life insurance policy, the gift-discounting value of the trust can be further magnified. If the policy is held in an ILIT, the death benefit would be received estate tax-free. In addition, the ILIT would serve to buffer the risk of inclusion of trust assets in the grantor's estate should he or she not survive the trust term. The amount of the purchased life insurance policy's death benefit should be projected to be at least equal to the amount of the anticipated federal estate taxes that would be paid if the grantor had not survived the term of the trust.

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