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The benefits of trust-owned annuities for trustees

MANY INVESTMENTS ARE AVAILABLE FOR USE IN TRUSTS, BUT THE ANNUITY OPTION IS SOMETIMES OVERLOOKED BY FINANCIAL PROFESSIONALS AND TRUSTEES.

Many investments are available for use in trusts, including corporate and municipal bonds, stocks, mutual funds, separately managed accounts (SMAs), and annuities. However, the annuity option is sometimes overlooked by financial professionals and trustees. Irrevocable trusts can benefit from the same features that individuals find in annuities, such as possible tax deferral,* income control, and diversified investment options.†

Unique Trust Challenges

Trustees face challenges today from volatile markets, but trust requirements don't change with the markets. Trustees still need to follow the requirements of the trust and try to meet beneficiary expectations of income, growth, preservation of capital, and control of costs and taxes. Annuities can help address these concerns.

Dual Trust Obligations

Many trusts are set up to benefit individuals who receive income from the trust and those who receive assets when the trust dissolves. Juggling these competing interests can be difficult. An annuity can help a financial professional with dual trust obligations through income control and tax efficiency.

Income Control and Tax Efficiency

In some cases, current investment income can be the last thing a trust wants or needs—this is because income retained in the trust is subject to comparatively higher trust income tax rates. Income can be passed to beneficiaries to lessen the trust tax effect, but these distributions reduce the size of the trust and can impose an added income tax burden on the beneficiary. For irrevocable trusts, passing income to the income beneficiary moves funds that are outside of an estate back into a potentially taxable estate.

An annuity can provide the trustee with control over the recognition of income, which is a taxable event. Many trust-owned annuities are eligible for tax deferral. With a tax-deferred annuity, any portion of trust assets that benefits from tax deferral is not subject to annual taxation for capital gains, interest, or dividends. As a result, trustees can avoid tax-motivated distributions, which can allow the trustee to minimize income distributions while allowing any earnings to accumulate on a tax-deferred basis.

Efficient Asset Allocation

When a trust is initially funded, the asset allocation is typically based on the terms of the trust, its long-term objectives, and the current economic environment. Over time, however, the allocation of the trust assets may have to be changed or modified. For many investment vehicles, a reallocation of assets may result in additional transaction costs, and the sale of one asset to buy another may trigger capital gains taxation. By using a variable annuity, a trustee can mitigate additional transaction costs and reallocate the assets without triggering a taxable event.

* Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

† Diversification does not assure a profit or protect against loss in a declining market.

Which Trusts?

One question we often hear is, “Can trusts own annuity contracts?” The answer is yes. Most trusts are eligible to own nonqualified annuity contracts. Some common trust types include:

- Credit Shelter Trust (CST) (also called Bypass Trust or B-Trust)
- Special Needs Trust (SNT)
- Irrevocable Family Trust
- Generation-Skipping Trust (GST)
- Charitable Remainder Trust (CRT)
- Charitable Lead Trust (CLT)
- Qualified Terminable Interest Property Trust (QTIP Trust)
- Living Trust
- Spousal Lifetime Access Trust (SLAT)

Variable annuities are long-term, tax-deferred investments, involve investment risks, and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.‡

CONTACT US

Financial professionals – Contact your Jackson team for more information on trust-owned annuities.
Customer Service – 800/644-4565

‡ IRS Private Letter Ruling (PLR) 202031008, says a nonqualified annuity owned by a non-grantor trust is deemed to be owned by the trust, not a natural person, for purposes for Section 72(q) and cannot use the exceptions for (1) reaching age 59½, (2) disability, or (3) substantially equal periodic payments. The ruling recognized nongrantor trusts may use the Section 72(q) exception for death. While a PLR may provide insight as to the IRS interpretation of tax law, it can only be relied on by the party to whom it was issued. Jackson's processing of trust-owned annuity transactions with respect to Sections 72(q) and 72(u) relies on the statements and indemnifications provided by the trustee. It is the annuity owner's responsibility to ensure that withdrawals comply with IRS rules, so clients should seek and rely on independent tax and legal counsel.

Before investing, investors should carefully consider the investment objectives, risks, charges, and expenses of the variable annuity and its underlying investment options. The current contract prospectus and underlying fund prospectuses provide this and other important information. Please contact your financial professional or the Company to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.

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