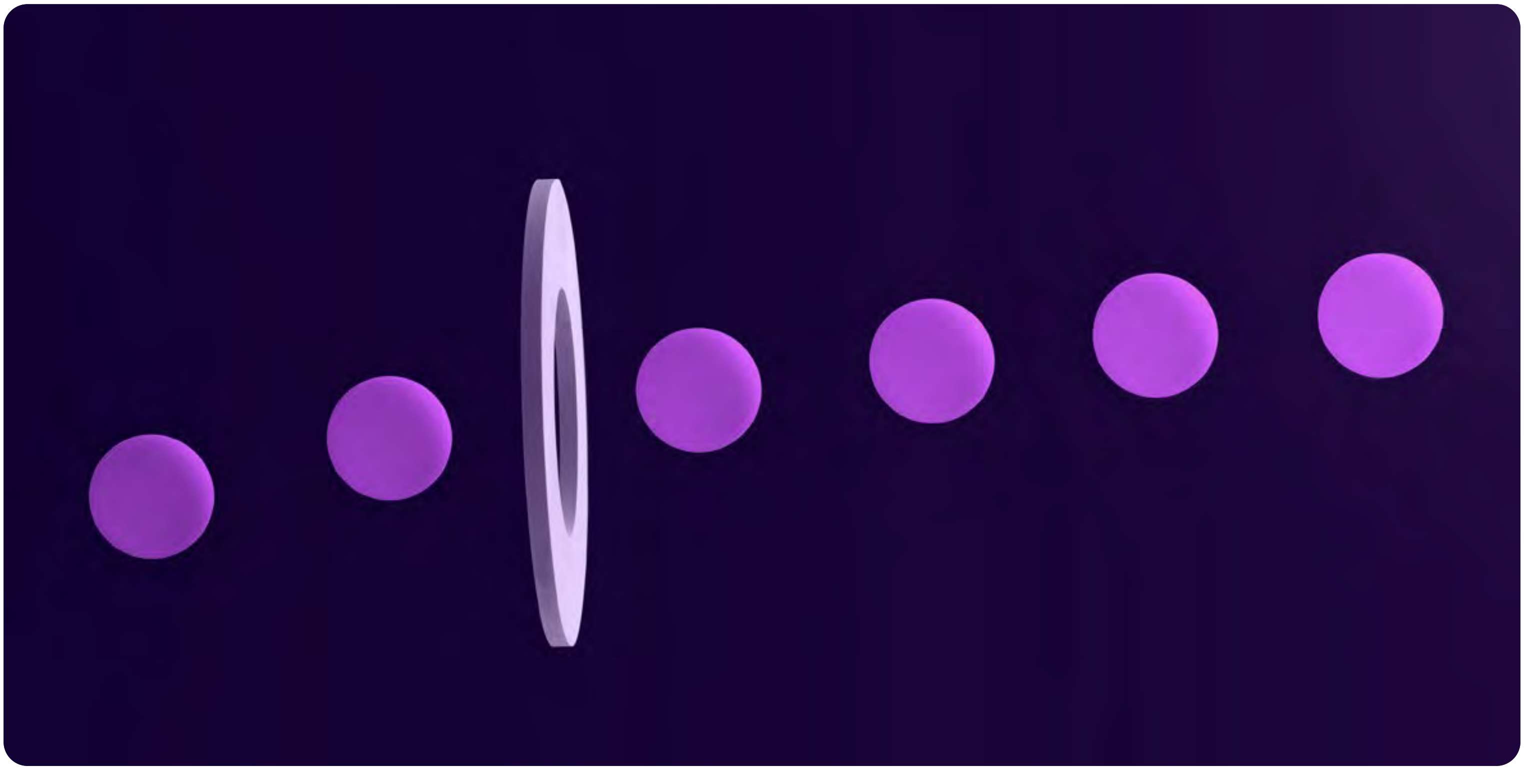

Funding a trust with an annuity

Trusts play an important part in the estate planning process and have become increasingly common. They are often used to help protect assets and minimize taxes. Attorneys, clients, and financial professionals recognize the benefits of using both revocable and irrevocable trusts to avoid the probate process, which can be long, costly, and available for public scrutiny. Most importantly, trusts can help ensure that the wishes of the trust creator are continued even after their passing. Almost as important as making the decision to establish a trust are the decisions around choosing the types of assets to fund it. Commonly, trusts hold several different types of financial assets, including annuities.

Funding a trust with an annuity

Important considerations regarding trusts and annuity ownership

Tax-deferred growth is primarily afforded to owners that are natural living persons [IRC Section 72(u)]. One exception to this rule involves trusts that are acting exclusively as an agent for natural persons. Corebridge will accept trust-owned annuity business so long as the trust is eligible to hold the annuity on a tax-deferred basis and that it can confirm it is either 1) a Grantor Trust under IRC Section 671 – 678 or 2) a Non-Grantor Trust where all beneficiaries, including those who have a remainder and reversionary interest, are individuals.

For additional types of trust ownership accepted or not accepted by Corebridge, please refer to the Non-Qualified New Business Guide for Non-Natural Owners [R1316FLA].

Potential benefits

Tax deferral	Growing trust assets faster through the benefit of tax deferral.
Guaranteed income	Providing protected lifetime income for trust beneficiaries, even if the contract value reaches zero.
Guaranteed death benefit	Helping to preserve trust capital and capture growth potential of asset with a guaranteed death benefit.
Distribution in-kind	Preserving any tax-deferred growth in the annuity through a tax-free ownership change in the future

Tax deferral

Annuity assets are generally not taxed until they are distributed, including trust owned annuities where the trust is acting as an agent for natural persons. Distribution timing can be aligned with the intended distribution of assets from the trust—resulting in taxation to the trust beneficiaries at their individual tax rate, as opposed to the trust's. In the meantime, annuity values can grow tax-deferred within the contract.

Conversely, if the trust earnings are retained by the trust and not distributed at least annually, then distributions may be taxed at a much higher, trust-specific tax rate. (For 2024, trusts can be subject to the top marginal federal tax bracket with annual undistributed taxable income as low as $15,201). Therefore, if the trust has $1 million in assets, taxable income of roughly 1.6% in a year would place the trust in the 37% federal tax bracket.

Income Tax Rates 2024

Marginal Tax Rate	Single Filer	Married Filing Jointly	Trusts and Estates
10%	$0 - $11,600	$0 - $23,200	$0 – $3,100
12%	$11,601 - $47,150	$23,201 - $94,300	N/A
22%	$47,151 - $100,525	$94,301 - $201,050	N/A
24%	$100,526 - $191,950	$201,051 - $383,900	$3,101 - $11,150
32%	$191,951 - $243,725	$383,901 - $487,450	N/A
35%	$243,726 - $609,350	$487,451 - $731,200	$11,151 - $15,200
37%	Over $609,350	Over $731,200	Over $15,200

Condensed tax bracket

Planning Opportunity Recap

If the trust is seeking tax deferred growth and meets the Internal Revenue Code (IRC) 72(u) "as an agent for natural person" requirement, then a deferred annuity may be an option for the trust to consider.

Guaranteed income for trust beneficiaries

If a trust settlor/grantor wants to provide income for a family member, an annuity with the trust as the owner and the trust beneficiary as the designated annuitant can provide guaranteed income either for life or for a specific duration, without transferring control of the asset.

Grantor drafts trust and provides assets. → **Trust beneficiary is annuitant on contract. Living benefits and death benefits are based on annuitant.** → **Annuitant has no ability to control or invade principal. Income is controlled by trustee and given to an annuitant. Annuitant pays taxes on earnings (assuming the trust is a non-grantor trust operating as a pass-thru entity).**

Planning Opportunity Recap	This feature can be particularly helpful when the grantor wants to control the distribution to some degree, for instance in the case of a spendthrift relative that tends to be more extravagant or recklessly wasteful with money.

Guaranteed death benefit

Trust assets can be invested while maintaining guarantees that the value at the death of the annuitant will be no less than the net premiums received (after any applicable adjustments). Because a death benefit is payable upon the death of the annuitant, the trust will have complete liquidity at the annuitant's death.

Beneficiary Protections	Death benefit proceeds pass directly to the trust as the designated beneficiary of the annuity. Depending on the type of annuity purchased, the amount paid to the beneficiary is often the greater of the annuity account value or the annuity minimum death benefit amount. In some annuity contracts, this feature is an optional benefit with an additional fee.

Planning Opportunity Recap	If a trust goal is to leave a financial legacy through a protected death benefit, then leveraging the features of a deferred annuity may be a useful strategy.

Distribution in-kind

If an annuity is purchased by an irrevocable trust, ownership of the annuity, in some cases, can be transferred to the annuitant without generating a taxable event. Contract features (such as guaranteed living and/or death benefits) are generally unaffected by this distribution.

Hypothetical example	• Clive and Claire Client created a revocable grantor trust in 2010 to avoid a lengthy probate process. • Their three children (Anne, Brad and Cody) are named beneficiaries. • Recently, Clive passed away, and as a result, the trust automatically converted to an irrevocable trust. • Claire, the surviving spouse, has income from other sources and wishes to maximize the trust assets for the benefit of her children upon her own passing. • Here, because the trust is acting as an agent of a natural person, it satisfies the IRC 72(u) requirement. • Claire now has a choice to make when deciding how to structure the newly purchased trust owned annuity contact. **Surviving spouse approach** – If Claire is named as the annuitant, the trust as owner/beneficiary of the contract will receive the death benefit when Claire (the annuitant) passes away. – The trust would then distribute the proceeds of the annuity death benefit according to the terms of the trust. – Note: this approach is not utilizing the "in-kind" distribution strategy. **Child/trust beneficiary approach** – If the children of Claire are named as the annuitant (individually on separate annuity contracts), Claire's death would not trigger a death benefit since she was not the named annuitant. • If desired, Claire (while living) can generally access trust income even though she is not the annuitant – Now that Claire has died, it has prompted the dissolution of the irrevocable trust. – Rather than surrendering the annuity contract for its cash value, the successor trustee, may consider a "in-kind" tax free transfer of ownership to the trust beneficiary (annuitant), as illustrated below.

Illustration of in-kind distribution strategy

Initial Contract Structure		Tax-free Transfer	New Contract Structure
Annuity 1	Annuitant = Anne (Child #1) Owner and Beneficiary = Irrevocable Trust	At Claire's death; trust terminates Trustee requests an "in-kind" transfer/distribution (ownership change)	Annuitant and Owner = Anne Beneficiary = Anne as owner designates new beneficiaries
Annuity 2	Annuitant = Brad (Child #2) Owner and Beneficiary = Irrevocable Trust		Annuitant and Owner = Brad Beneficiary = Brad as owner designates new beneficiaries
Annuity 3	Annuitant = Cody (Child #3) Owner and Beneficiary = Irrevocable Trust		Annuitant and Owner = Cody Beneficiary = Cody as owner designates new beneficiaries

Planning Opportunity Recap	Consider purchasing a deferred annuity for each irrevocable trust beneficiary to facilitate a tax-free change of ownership at a future date.

Clients should seek the advice and counsel of their independent attorney and tax advisor to discuss their particular circumstances and how these contract structures may help them reach their objectives.

Common trust terms

Who are the parties to a trust?	
Settlor/Grantor/ Trustor/Donor	A person, persons, or entity who creates or who contributes property to a trust, and as creator(s), establishes the purpose and rules of the trust. While there are certain technical differences, in common practice "Settlor," "Grantor," "Trustor" and "Donor" are often treated as synonyms.
Trustee	May be one or more persons, or a corporate entity. The trustee has a fiduciary responsibility to administer a trust in accordance with the terms and purpose of the trust and in the best interest of the current and future beneficiaries of the trust.
Corporate Trustee	A third party, often associated with a financial institution, who is hired to manage and administer a trust.
Successor Trustee	The person, persons, or entity positioned to assume the role of trustee should the trustee resign, be removed, or die.
Beneficiary	A person, persons, entity, or entities who has or who will have a beneficial interest in the trust property.
Income Beneficiary	A person, persons, or entity to whom trust income is or may be paid. Often only entitled to trust income not principal.
Remainder Beneficiary	A beneficiary whose benefit vests at a later time or after a triggering event like at the death of an income beneficiary.

Types of Trusts	
Living Trust (or inter vivos trust)	A trust that is created and operates before the death of the Settlor. In common practice "Living Trust" and "Revocable Trust" are often treated as synonyms.
Testamentary Trust	An irrevocable trust created under the will of the testator. As such, it does not exist until the testator's death or permanent legal incapacity. Testator refers to a person who has died and has left a will.
Revocable Trust	A trust that can be revoked, amended, or terminated by the grantor and the property transferred.
Irrevocable Trust	Property is transferred to the trust permanently; the grantor cannot terminate the trust and/or reclaim the property before the trust terminates by its terms. Common types of irrevocable trusts include marital deduction trust (A trust), credit shelter trust (B trust), Irrevocable Life Insurance Trust (ILIT) and qualified terminable interest property (QTIP) trust.

Common trust terms (continued)

Grantor and Non-Grantor Trusts	
Grantor Trusts	• A trust where the trust Settlor maintains significant powers over the trust. Some of the powers include power to revoke, power to borrow from the trust without adequate security, power to distribute income from trust to grantor or grantor's spouse and power to add beneficiaries. • Because the grantor retains these powers, for tax purposes they are treated as if they are the owners of the trust assets and trust income is taxable to them (the Settlor) at their individual tax rate. • A revocable grantor trust often, but not always, will share the same Tax Identification Number or Social Security Number (SSN) as the Settlor. • The revocable trust (or living trust) is notably the most common type of grantor trust. • May be revocable or irrevocable.
Non-Grantor Trusts	• Any trust not that is not a grantor trust is considered a non-grantor trust. • Treated as a separate tax entity and is required to have its own Tax Identification Number (TIN). • Non-grantor trusts pay taxes on income received and retained by the trust. • Non-grantor trusts are not revocable; meaning they are unable to revoke or change the terms of the trust or make changes to trust beneficiaries.

To learn more contact your Corebridge Financial Distributors wholesaler or call our Sales Desk at 1-888-502-2900

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