

## TRUST-OWNED ANNUITIES

One question we often get in the Retirement and Wealth Strategies Group is “can trusts own Jackson® annuity contracts?” The answer is yes. Most trusts are eligible to own Jackson nonqualified annuity contracts.

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 advisors and trustees. Trusts can benefit from the same features that individuals find in annuities: tax deferral, income and death benefit protection, and diversified investment options.

### Unique Trust Challenges

Trustees face challenges today from volatile markets and historically low interest rates. 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 be part of a solution to many of these concerns.

### Dual Trust Obligations

Many trusts are set up to benefit two sets of individuals: those who receive income from the trust and those who receive assets when the trust dissolves. Juggling the competing interests of these groups can be difficult. Jackson variable annuities can help by providing guaranteed, predictable income as needed while maintaining the protection of a death benefit and the possibility of long-term growth through the freedom of investment selection from over 95 subaccounts.

### Income Control and Tax Efficiency

In some cases, current investment income can be the last thing a trust desires or needs. 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 this may be undesirable as well. Distributions reduce the size of the trust and can impose an added (and perhaps unwanted) income tax burden on the income beneficiary. For irrevocable trusts, passing income to the income beneficiary also moves funds that are outside of an estate, and free from estate tax, back into a potentially taxable estate.

An annuity can also provide the trustee with control over the recognition of income. Many trust-owned annuities are eligible for tax deferral under IRC section 72(u). With a tax-deferred Jackson annuity, a trustee can request a distribution when income is needed and otherwise avoid recognizing income from the annuity if it is not needed.

### Efficient Asset Allocation

When a trust is initially funded, the asset allocation is typically based on the terms of the trust, the long-term objectives of the trust, 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 taxes.

By using a Jackson variable annuity as part of the trust investment strategy, the trustee has the flexibility to choose an asset allocation from over 95 subaccounts. Because the subaccounts are held within the variable annuity, the trustee can change the asset allocation without triggering additional transaction costs\* or capital gains.

\* Jackson variable annuities allow up to 15 free transfers per year.

## Why Use Annuities in Trusts?

- Provide potential long-term growth with downside protection.
- Control recognition and taxation of income.
- Investment choice and flexibility without additional transaction costs.
- For an additional cost, add the protection of living and/or death benefit riders.

## Which Trusts?

Most trusts can own a Jackson annuity. Some common trust types include:

- Credit Shelter Trusts (also called Bypass Trusts or B-Trusts) (CSTs)
- Special Needs Trusts (SNTs)
- Irrevocable Family Trusts
- Generation Skipping Trusts (GSTs)
- Charitable Remainder Trusts (CRTs)
- Charitable Lead Trusts (CLTs)
- Qualified Terminable Interest Property Trusts (QTIP Trusts)
- Living Trusts<sup>†</sup>

## Trust-Owned Annuities at Jackson

- In order for a trust-owned annuity to benefit from tax deferral, provide Jackson with a completed Indemnification Agreement to identify and declare a beneficial owner of the annuity.
- The beneficial owner/annuitant is the measuring life on the contract.
- A “pass-in-kind” strategy is available at Jackson for annuities that are owned by irrevocable trusts. To use this strategy, name a remainder beneficiary as annuitant of the trust. The remainder beneficiary may then receive the annuity in kind when the trust dissolves. The annuity will simply be retitled in the name of the beneficiary at the request of the trustee. Any annuity benefits and riders will continue.

## How to Find Opportunities

Look for trusts that have a separate taxpayer ID number (TIN) and schedule a review to see if the trust could benefit from a Jackson annuity.

## For more information, please contact:

Bank and Financial Institution Representatives: 800/777-7900; In New York: 888/464-7779  
Independent and Non-Bank Broker/Dealer Representatives: 800/711-JNLD (5653)  
Regional Broker/Dealer Representatives: 800/340-JNLD (5653)

<sup>†</sup> Since annuity death benefits do not pass through probate, the use of an annuity inside of a revocable living trust is often not necessary. In many (but not all) cases, the annuity can be purchased outside of the trust with similar results.

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Annuities are long-term, tax-deferred investments designed for retirement, involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% federal tax penalty if withdrawn before age 59½. Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA, and may not be available if the annuity is owned by a “non-natural person” such as a corporation or certain types of trusts.

**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, which are contained in the same document, provide this and other important information. Please contact your Jackson representative to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.**

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