Grantor Retained Annuity Trusts (GRATs)

Rolling GRATs: Improve the Efficiency of GRATs and Potentially Reduce Risks by Using Rolling GRATs

These materials are not intended to be used to avoid tax penalties and were prepared to support the promotion or marketing of the matter addressed in this document. Neither ING nor its affiliated companies or representatives give tax or legal advice. Clients should always be advised to consult with their tax and legal advisors regarding their individual situation.

LIFE

ING

Your future. Made easier.℠

For agent use only. Not for public distribution.

You may already be familiar with the use of Grantor Retained Annuity Trusts (GRATs) as a planning technique which can be used for "estate freezes" or as an exit strategy for premium financing or split dollar cases. GRATs can be an effective way for your clients to transfer assets out of their estate without paying any gift or transfer taxes.

But GRATs come with two problems:

- Most of the assets contributed to the GRAT end up being returned to the Grantor and are still part of the Grantor's estate; and
- The Grantor must survive for the full term of the GRAT or all of the assets will be included in his or her estate.

You can help your clients address these concerns by replacing the traditional GRAT strategy with Rolling GRATs.

A GRAT is a wealth transfer technique where an individual (the "Grantor") transfers assets to an irrevocable trust (the "GRAT") in exchange for a stream of payments (an "annuity") and designates remainder beneficiaries who will receive any assets left over in the trust at the end of the annuity term. In essence, a transfer to a GRAT is like a sale, only the payments for the property are characterized as an annuity that lasts for a term of years rather than as payments of principal and interest. The tax treatment of the transfer to a GRAT depends on the value of the annuity payments retained by the Grantor. If the present value of the payment stream to the Grantor is equal to the value of the asset contributed to the GRAT, then there are no gift taxes on the transfer (and any remainder passing to the GRAT beneficiaries will also pass free of gift taxes).

Typically, a Grantor will establish a GRAT for a 5-20 year term. The longer the GRAT term, the more growth the Grantor can remove from the estate, but also the greater the risk that the Grantor will not survive the term. Additionally, all of the payments made from the GRAT to the Grantor are back in the Grantor's estate.

Rather than using a single long-term GRAT, a Grantor might consider using a series of short term or "Rolling GRATs." In the Rolling GRAT technique, the Grantor contributes the same amount of property as would have been used for a single GRAT. But instead of a GRAT which is for 5, 10, or 20 years, the Grantor uses a short term such as 2 years. Then when the Grantor receives payments from the short-term GRAT, those payments are transferred into a second short-term GRAT, and then a third short-term GRAT, and so on.

Thus, for example, a Grantor considering a 10-year GRAT could instead contribute to a 2-year GRAT. After receiving the first payment, he or she could use this amount to establish a second 2-year GRAT. In year 3, he or she would take the second payment from the first GRAT and the first payment from the second GRAT and contribute both of these to a third 2-year GRAT. The Grantor would follow this same pattern until the end of the ten years.

For agent/registered representative use only. Not for public distribution.

The Grantor accomplishes two things by using the Rolling GRATs strategy:

- First, the Grantor reduces the risk of having all of the assets included in his or her estate because of an early death. If, for example, the Grantor died five years into the arrangement, the remainders from three of the short-term Rolling GRATs would be out of the estate.
- Second, the Grantor continues to transfer the income stream received from the GRATs into subsequent short-term GRATs rather than simply having these payments be reabsorbed into the estate.

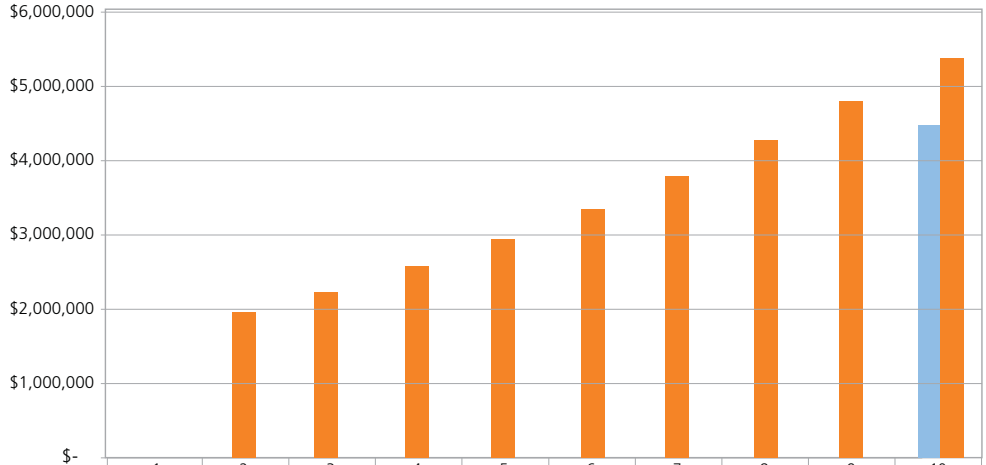
These two advantages may potentially make Rolling GRATs a more efficient way to transfer wealth outside of an estate than through long-term GRATs.

There is a risk that a series of Rolling GRATs may be less efficient than a long-term GRAT if the IRS raises its § 7520 rate after the first year. The § 7520 rate is used to determine the amount of payments that a Grantor has to receive from a GRAT in order for there to be no gift taxes (i.e., in order for the GRAT to be "zeroed out"). A higher § 7520 rate requires the Grantor to receive higher payments from the GRAT (and thus lowers the amount passing to the GRAT beneficiaries). A long-term GRAT locks in the initial § 7520 rate for the entire GRAT term, but Rolling GRATs will be subject to fluctuating § 7520 rates. But even with this risk, Rolling GRATs have the advantage of starting to get assets out of the estate earlier than long-term GRATs and reducing the "all-or-nothing" potential for estate inclusion that comes with long-term GRATs.

The following table provides a hypothetical comparison of the long-term GRAT to the Rolling GRATs strategy. The table shows how much could be transferred to an ILIT assuming a contribution of $5 million to either a 10-year GRAT or a series of 2-year Rolling GRATs. This table assumes an initial contribution of $5 million and an applicable federal rate (AFR) which starts at and remains at 4.2% for the entire 10 years. It is also assumed that the assets used will experience 8.0% annual growth in all years.

TABLE A
10-yr GRAT vs. Rolling GRATs
Amount Transferred to ILIT
4.2% AFR for All Years

This hypothetical example is for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. Actual annual growth and AFR rates may vary each year.



	1	2	3	4	5	6	7	8	9	10
10-yr GRAT	$-	$-	$-	$-	$-	$-	$-	$-	$-	$4,480,990
Rolling GRATs	$-	$1,961,102	$2,230,450	$2,581,142	$2,939,021	$3,346,230	$3,785,925	$4,271,754	$4,802,228	$5,384,039

ReliaStar Life Insurance Company
20 Washington Avenue South
Minneapolis, MN 55401

ReliaStar Life Insurance Company of New York
1000 Woodbury Road, Suite 208
Woodbury, NY 11797

Security Life of Denver Insurance Company
1290 Broadway
Denver, CO 80203

Log in to ING for Professionals at www.inglifeinsurance.com

For more information about Rolling GRATS, please contact ING Life Sales Support at 866-ING-SELL (866-464-7355).

These materials are not intended to be used to avoid tax penalties and were prepared to support the promotion or marketing of the matter addressed in this document. Clients should always be advised to consult with their tax and legal advisors regarding their individual situation.

Neither ING nor its affiliated companies or its representatives give tax or legal advice. The strategies suggested may not be suitable for everyone, and each individual should consult with his or her own tax advisor and legal counsel before implementing any of the strategies discussed here.

Life insurance products are issued by ReliaStar Life Insurance Company (Minneapolis, MN), ReliaStar Life Insurance Company of New York (Woodbury, NY) and Security Life of Denver Insurance Company (Denver, CO). Variable universal life insurance products are distributed by ING America Equities, Inc. Only ReliaStar Life Insurance Company of New York is admitted, and its products issued within the state of New York. All are members of the ING family of companies.

For agent/registered representative use only. Not for public distribution.

© 2008 ING North America Insurance Corporation
cn61267102010

ING

150744 10/13/2008