Annuity vs Unitrusts

- How much interest income is paid out?
    - An annuity trust, by law, pays out at least 5%, but no more than 50% of the initial fair market value (FMV) of the trust assets annually, for up to 20 years or life of the donor.
    - An unitrust, by law, pays out at least 5%, but no more than 50% of the annual fair market value (FMV) of the trust assets, for up to 20 years of life of the donor.
- What if the interest earned is not sufficient for the agreed pay out, will the principal be invaded?
    - In an annuity trust, the principal must be invaded to cover the agree upon pay out rate.
    - In an unitrust, the donor has the option to choose invasion of principal, but it is not required. A unitrust also has the option of a make-up provision [A make-up provision allows the income from a year with more interest earnings then agreed upon pay out rate to cover the shortfalls of a past year's income.]
- Can a donor donate more assets to the trust later?
    - In an annuity trust, no. The donor would have to setup a whole new annuity trust.
    - In an unitrust, yes. The donor is allowed to add as much new assets to a unitrust as they want.
- Is real estate a good asset for these trusts?
    - In an annuity trust, yes (if it is income producing or a buyer is waiting). With the annuity trusts being paid out from the initial fair market value, the real estate would not be required to have an appraisal every year, just the initial year.
    - In an unitrust, no. With the unitrust being paid out from the annual fair market value, the real estate would have to be appraised every year, which just adds to the cost and maintenance of the trust.
- What are the important planning considerations?
    - In an annuity trust, the annual income is a fixed amount. Ideal for those who need to be on a fixed retirement amount.
    - In an unitrust, the annual income is a vairable amount and the income is inflation protected .