

# Methodical GRAT Management: A Systematic Approach to Multiply Results

## Estate Planning

Wealth and Estate Planning Strategists  
Family Office Resources

### Introduction

In a previous article on “Active Estate Planning,” we argued that sophisticated planning works best when it is integrated with ongoing investment decision-making, not treated as a one-time legal event. One of the clearest examples is the grantor retained annuity trust (GRAT).<sup>1</sup>

A GRAT seeks to transfer appreciation above a hurdle rate out of the grantor’s taxable estate in a federal gift and estate tax free manner and without the need to use the grantor’s federal lifetime exemption amount, while the grantor receives an annuity stream.<sup>2</sup> If the contributed asset fails to outperform the IRS discount rate over the term, the strategy may produce little or no remainder to be transferred to intended beneficiaries, yet the structure is often viewed as having limited economic downside because the assets (or their value) effectively return to the grantor through the annuity payments.

So why aren’t GRATs used more frequently and more effectively?

A common reason is behavioral, not structural. GRATs are often treated as opportunistic. The client waits for two variables to “line up”: (i) a low-rate environment and (ii) an asset that appears poised for a sharp rise. Only when the client feels confident about these two factors is a GRAT funded, and the client passively waits for the term to end. If the asset underperforms during that window, the client concludes that “the GRAT didn’t work” and is discouraged from trying again.

That framing misses two critical points.

<sup>1</sup> For more information on GRATs, see our whitepaper “Grantor Retained Annuity Trust,” where we explain the strategy in detail.

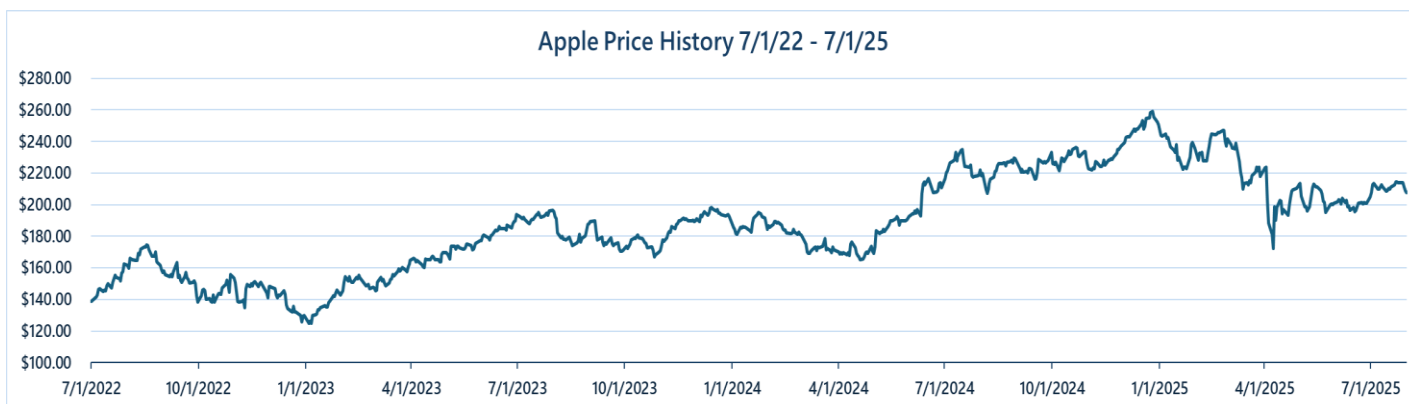
<sup>2</sup> GRATs often are structured so that the present value of the annuity payments (valued using an IRS prescribed discount rate) is roughly equal in value to the assets transferred to the trust so that there is little or no taxable gift made to the remainder beneficiary at the inception of the trust.

First, the pass/fail framing is misleading. A GRAT that produces no remainder is not necessarily a costly mistake; it is simply a neutral outcome relative to doing nothing, because the grantor receives the assets back via the annuity payments with little to no economic or tax consequences.

Second, and more importantly, many GRATs can be managed actively using the power of substitution available in many grantor trusts. This power allows the grantor to swap assets held in the GRAT for other assets of equal fair market value without any income tax implications. Once the substitution power is appreciated as a portfolio-management tool inside the estate plan, a GRAT stops being a single bet on “the right moment” and becomes a repeatable process designed to harvest volatility.

The simplest manner to show value of the two latter points is by comparing the different approaches with some real numbers. Below, we will describe the different outcomes of three different strategies using APPL stock from July 1<sup>st</sup>, 2022, through July 1<sup>st</sup>, 2025.

Illustration of the market value of APPL from July 1<sup>st</sup>, 2022, through July 1<sup>st</sup>, 2025.



## The Typical Approach: One-Time “Wait and See”

In a traditional GRAT, the grantor contributes an asset, receives annuity payments, and waits until the end of the term to see whether any remainder passes to beneficiaries. This approach depends heavily on what happens to the asset between inception and termination, and it provides no mechanism to protect a mid-term gain from being erased by a subsequent downturn.

Illustration of a “wait and see” 3-year GRAT with APPL Stock from July 1<sup>st</sup> 2022 until July 1<sup>st</sup>, 2025.<sup>3</sup>

Asset: APPL	7/1/2022	7/1/2023	7/1/2024	7/1/2025	Remainder
Value of GRAT	\$ 1,000,000	\$ 1,208,849	\$ 962,291	\$ 604,676	\$ 247,061
Annuity Payment to Grantor		\$ (357,615)	\$ (357,615)	\$ (357,615)	
<b>Total Outside of Estate through 07/01/2025</b>					<b>\$ 247,061</b>

<sup>3</sup> Values set forth in this and subsequent Illustrations in this white paper are for illustrative purposes of hypothetical GRATs. Actual performance of any GRAT may vary due to factors including, the value of the asset contributed and its performance over the GRAT term selected, the rate under Section 7520 of the Internal Revenue Code applicable at the time of funding of the GRAT, the performance of assets swapped in during the remaining term of the GRAT, the specific upside and downside thresholds selected, and the cadence at which assets are swapped, among others. The success of the strategies set forth in the Illustrations herein are based on the specific assumptions set forth herein and are not representative and do not guarantee performance under any other assumed factors.

## A Step Forward: Rolling GRATs

A more advanced variation is the rolling GRAT approach, where annuity payments received from one GRAT are reinvested into a new GRAT with similar terms. Rolling GRATs introduce repetition and can improve results versus a single-shot implementation, but they can still leave value “on the table” because they do not fully exploit intra-term volatility.

Illustration of a 2-year Rolling GRAT strategy with APPL Stock from July 1<sup>st</sup> 2022 until July 1<sup>st</sup>, 2025.

Asset: APPL	7/1/2022	7/1/2023	7/1/2024	7/1/2025	Remainder
Value of GRAT 1	\$ 1,000,000	\$ 1,208,849	\$ 770,639	\$ 243,491	\$ 243,491
Annuity payment to Reinvest	\$ -	\$ (527,148)	\$ (527,148)		

Asset: APPL	7/1/2023	7/1/2024	7/1/2025	Remainder
Value of GRAT 2	\$ 527,148	\$ 595,923	\$ 293,466	\$ 11,568
Annuity payment to Reinvest		\$ (281,897)	\$ (281,897)	\$ -

Asset: APPL	7/1/2024	7/1/2025	Remainder
Value of GRAT 3	\$ 809,045	\$ 756,076	\$ -
Annuity payment to Reinvest		\$ (437,581)	

<b>Total Outside of Estate through 07/01/2025</b>	<b>\$ 255,060</b>
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## A More Effective Framework: A Methodical Monitor and Swap Process

Consider GRATs as a systematic, medium-term strategy rather than a one-time transaction. The objective is straightforward: increase the probability of capturing appreciation outside the estate by (1) locking in gains when they occur and (2) resetting the strategy after downturns so that recovery-generated appreciation can be captured in a fresh GRAT.

One example of a simple methodical framework could be one similar to the following:

1. Create a GRAT and contribute the desired assets.
2. Define an upside threshold for the value of the contributed assets into the GRAT.
3. Define a downside threshold for the value of the contributed assets into the GRAT.
4. Monitor whether thresholds are met on a quarterly basis.
  - a. **If the upside threshold is met:**
    - i. Swap the appreciated asset in the GRAT for other grantor-owned assets with lower volatility and an expected return at least sufficient to satisfy the GRAT annuity.
    - ii. Immediately contribute the swapped-out (appreciated) asset to a new GRAT. This “locks in” the appreciation for federal gift tax purposes (subject to the grantor’s survival of the term) and prevents a later decline from jeopardizing the progress already achieved in the original GRAT.
  - b. **If the downside threshold is met:**
    - i. Swap the asset in the GRAT for other grantor-owned assets of equal value (here, volatility/return characteristics are less important than resetting the position).
    - ii. Immediately contribute the swapped-out (depressed) asset to a new GRAT. This effectively restarts the GRAT “clock” at a lower value, so that a recovery in the asset can be captured in the new GRAT, rather than merely restoring the original GRAT back to break-even. Instead, a tactical decision is made to allow the original GRAT to fail and return all assets to the grantor.

- c. **If no threshold is met:**  
Leave the assets in place and reassess next quarter.

- Set new upside and downside thresholds for the new GRAT.
- Repeat the process quarterly.

Illustration of the Methodical 2-year GRAT Strategy described above with APPL Stock from July 1<sup>st</sup> 2022 until July 1<sup>st</sup>, 2025.

Asset APPL	7/1/2022	10/1/2022	1/1/2023	4/1/2023	7/1/2023	10/1/2023	1/1/2024	...	Remainder
Value of GRAT 1	\$ 1,000,000	\$ 943,573	\$ 952,065	\$ 986,339	\$ 1,021,847	\$ 512,508	\$ 530,959		\$ -
Upside Thershold		\$ 1,057,126							
Downside Threshold		\$ 950,000							
SWAP		\$ 943,573	Downside Threshold is met. Swap.						
Annuity Payment to Grantor					\$ 527,148				

Asset APPL	10/1/2022	1/1/2023	4/1/2023	7/1/2023	10/1/2023	1/1/2024	...	Remainder
Value of GRAT 2	\$ 943,573	\$ 887,884	\$ 896,763	\$ 932,633	\$ 969,938	\$ 488,469		\$ -
Upside Thershold		\$ 998,225						
Downside Threshold		\$ 896,394						
SWAP		\$ 887,884	Downside Threshold is met. Swap.					
Annuity Payment to Grantor		\$ -	\$ -	\$ -	\$ 439,457	\$ -		

Asset APPL	1/1/2023	4/1/2023	7/1/2023	10/1/2023	1/1/2024	...	Remainder
Value of GRAT 3	\$ 887,884	\$ 1,044,120	\$ 1,056,128	\$ 1,104,710	\$ 1,155,526		\$ 156,237
Upside Thershold		\$ 940,379					
Downside Threshold		\$ 843,490					
SWAP		\$ 1,044,120	Upside Threshold is met. Swap.				
Annuity Payment to Grantor			\$ -	\$ -	\$ 474,804		

Asset APPL	4/1/2023	7/1/2023	10/1/2023	1/1/2024	...	Remainder
Value of GRAT 4	\$ 1,044,120	\$ 1,208,849	\$ 1,223,959	\$ 1,285,157		\$ 164,728
Upside Thershold		\$ 1,106,689				
Downside Threshold		\$ 991,914				
SWAP		\$ 1,208,849	Upside Threshold is met. Swap.			
Annuity Payment to Grantor						

Asset APPL	7/1/2023	10/1/2023	1/1/2024	...	Remainder
Value of GRAT 5	\$ 1,208,849	\$ 1,050,828	\$ 1,062,912		\$ -
Upside Thershold		\$ 1,279,534			
Downside Threshold		\$ 1,148,406			
SWAP		\$ 1,050,828	Downside Threshold met. Swap		
Annuity Payment to Grantor					

Continue applying the method until the end date.

**Total Outside of Estate through 07/01/2025** **\$ 723,279**

## How This Boosts Estate Planning: Turning Volatility into an Asset

The illustrations underscore how iterative GRATs can capture smaller, but more frequent, asset appreciation to great effect. Over the same multi-year window, the one-time GRAT removed a smaller percentage of value from the estate than the rolling GRAT approach, while the methodical strategy materially increased the amount transferred— multiplying the efficiency in the example: 25% for a one-time GRAT vs. 26% for traditional rolling GRATs vs. 72% for the Methodical Monitor-and-Swap GRATs strategy.

If we were to apply the same strategies with other stocks or assets, the methodical strategy shows better outcomes consistently.

% Removed out of the Estate from 7/1/22 to 6/30/2025

Asset	3-year GRAT	Rolling GRATs	Methodical GRAT
APPL	25%	26%	72%
NVDA	653%	768%	1150%
AMZN	58%	84%	165%
TSLA	0%	20%	117%
SPY	19%	35%	81%
Bitcoin	180%	324%	589%

The intuitive takeaway is that the methodical approach does not merely depend on a favorable start-to-finish price path. It harnesses volatility by systematically crystallizing gains before they can be surrendered to later declines and re-establishes exposure after downturns so that recoveries are measured from a lower starting value.

In practice, the more volatile the asset, the more valuable the disciplined monitoring and substitution can become. Volatility creates more frequent threshold events, which creates more opportunities to lock in gains and reset the strategy. While this approach can be optimized with a higher frequency of monitoring and review, or tighter thresholds, it is important to define these parameters with caution to ensure a sustainable program balancing the efficiency of the strategy, the additional assets required for substitution, and the administrative burden of the GRATs.

The Methodical GRAT strategy is not without risk and is not suitable for all individuals. Reacquired and substituted assets must be of equivalent value, and even professional valuations of these assets are subject to review by the federal Internal Revenue Service. In addition, for many families who have built wealth by concentrated or illiquid investments, there may not be appropriate assets (both easily valued and low volatility) available to effectuate these substitutions. Furthermore, not all GRAT instruments contain substitution powers. Securities regulations may restrict the use of this GRAT strategy by an individual who is considered to be a corporate insider or is required to file a Form 4 with respect to any security. Your legal, tax, and financial advisors will have to craft the details of the optimally balanced method and process for you considering your specific set of circumstances, preferences, and goals.

## Closing Thought

A GRAT is often described as a “heads I win, tails I don’t lose much” technique. The more important insight is this: when managed with a repeatable-swap discipline within your overall portfolio investment strategy, the GRAT can become less of a single wager and more of a process designed to increase the frequency and magnitude of successful transfers over time.

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