

ESTATE PLANNING

Irrevocable Life Insurance Trust (ILIT)

CONCEPT APPLIED:

Individually owned life insurance can face exposure to creditors during the owner's life and possibly estate tax on the death benefits. Use of an ILIT can help keep the policy from creditors and the proceeds out of the estate.

HOW IT WORKS:

The ILIT holds and owns a new or existing life insurance policy on the life of the grantor and/or a spouse. If the grantor initially funds the ILIT with cash to pay premiums, any ILIT income earned will be taxed. More often, the ILIT is unfunded, and the grantor makes annual gifts to the trust to be used for premium payments.

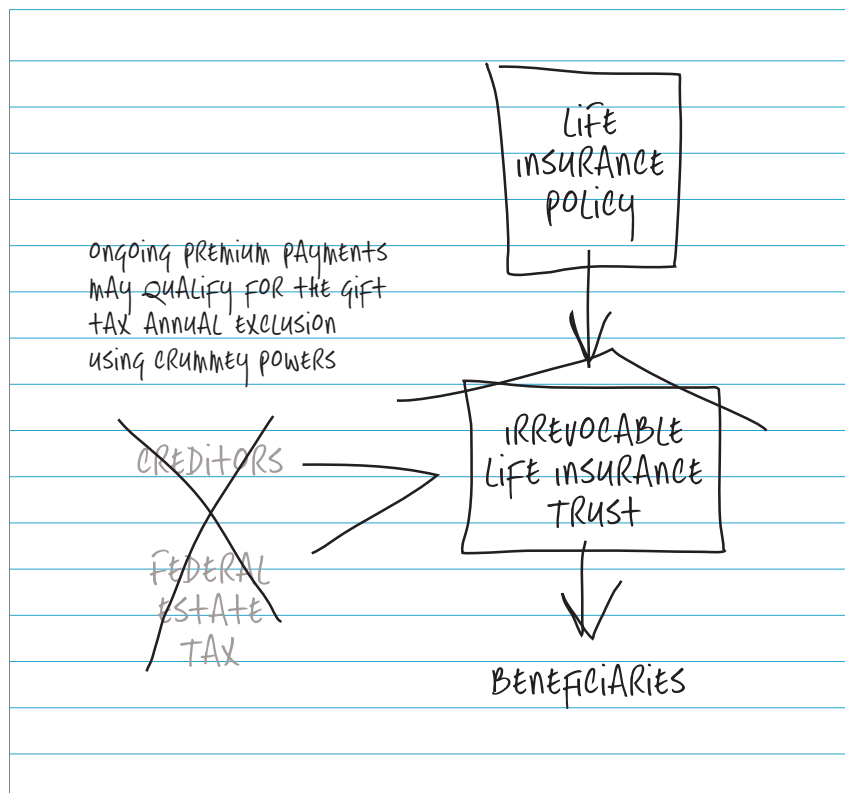
With Crummey powers, these gifts may qualify for the gift tax annual exclusion. Crummey powers are trust terms that grant beneficiaries the power to withdraw transfers from the trust. The trustee manages the trust assets on behalf of the beneficiaries when the insured person dies. The grantor may not serve as trustee of the ILIT, and may not have any incidents of ownership in the life insurance policy.

WHY IS IT USEFUL?

The ILIT is a flexible planning tool that helps to shelter the policy proceeds from the estate tax and also from creditors. An ILIT does have set-up costs and continued funding obligations. Because an ILIT is irrevocable, the grantor should carefully consider the planning impact before trust creation.

50 WORDS OR LESS

An ILIT is an irrevocable trust that holds a life insurance policy that will provide estate liquidity and help with beneficiary needs. Because the proceeds are outside of the estate, they may be able to avoid the federal estate tax, leaving more money to help pay estate expenses or for beneficiaries to use.



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