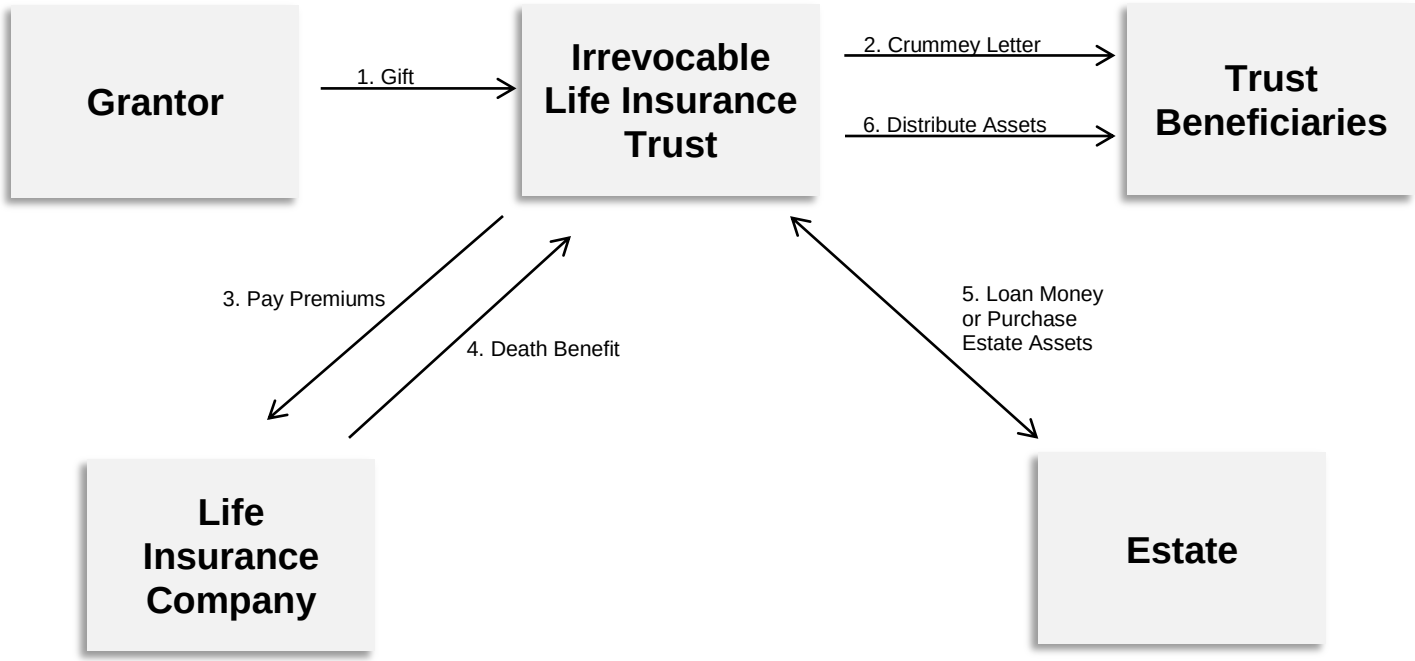
IRREVOCABLE LIFE INSURANCE TRUSTS

An irrevocable life insurance trust (ILIT) is generally created to own life insurance policies. To ensure the ILIT has funds with which to pay policy premiums, the grantor (trust creator) makes gifts to the trust which the trustee uses to pay premiums. The death benefit received by a properly structured ILIT is not subject to income tax nor is it includible in the grantor's taxable estate.

Irrevocable Life Insurance Trusts



Client Profile

- Client with estates potentially subject to estate tax
- Client desires to protect assets from incapable or irresponsible beneficiary(ies)
- Client desires to protect trust assets from a beneficiary's creditors or divorcing spouse

Why It Is Used

- Excludes death benefit from the taxable estate
- Creates immediate liquidity
- Allows grantor to control death benefit distribution
- Asset protection

Tax Considerations

- Gifts to the trust must qualify as present interest gifts
- Avoid inclusion of death benefit in taxable estate
- Death benefit received income tax free

Benefits

- Lifetime gifts to ILIT reduce taxable estate
- Provides liquidity outside of estate
- Leveraged gifts
- Allows Grantor to control distributions of death benefit
- Protects trust assets from creditors
- Trust assets avoid expense and delay of probate
- Allows for professional management of trust assets

Disadvantages

- Grantor's inability to directly access trust assets
- Inability to revoke or amend the trust