IRREVOCABLE LIFE INSURANCE TRUSTS (a/k/a "ILIT")

Client Meeting of April 2, 2010

COMMON FEATURES

- ILITs are irrevocable trusts funded with life insurance
- The assets in the trust are typically excluded from the gross estate for federal estate tax purposes – this can save *substantial* federal estate tax
- Existing life insurance policies can be assigned to the trust, but at least three years must pass before the proceeds will escape federal estate tax
- Ideal for term insurance, or group life policies
- Proceeds can be maintained in trust for the benefit of multiple current and future generations

How It Works

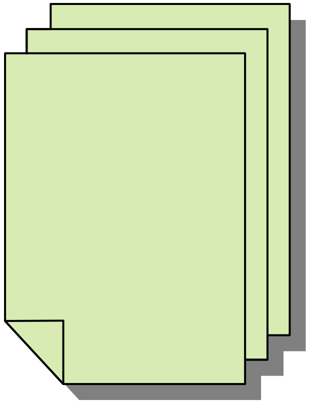
- An ILIT is a separate legal entity for tax purposes.
- The ILIT is the owner and beneficiary of the insurance policy
- The Grantor does not retain control - at least one Trustee is appointed to manage the ILIT.
- The Grantor must gift money to the ILIT to pay insurance premiums
- The Beneficiaries must acknowledge the gift and permit the money to be used to pay insurance premiums
- Upon Grantor's death, the insurance proceeds pay into the ILIT, and are distributed in accordance with the ILIT's terms
- Provided that the ILI T is properly structured and managed, the insurance proceeds will escape federal estate tax

THE GIFT AND THE CRUMMEY POWER

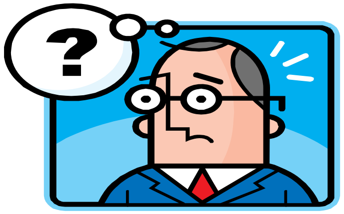
- In order to avoid tax problems, premium payments must be "gifted" to the ILIT by the Grantor
- To constitute a completed gift, the beneficiaries must receive notice of the gift, and acknowledge their right to keep the gift.
- The money must remain on hand for at least 30 days following notice to the beneficiaries
- The beneficiaries must agree to allow the money to be used to pay the insurance premiums to keep the policy in force
- This procedure must be followed each time money is gifted to the ILIT

Setting Up The ILIT

1. Trust is Drafted and Executed
2. Bank account is opened
3. Insurance is procured
4. Trust is Funded (annual premium)
5. Crummey Notices Go Out
6. Premium is Paid 30 Days Later



DRAWBACKS



- There is considerable administrative hassle
- The beneficiary does not have the power to revoke the trust or direct use of funds
- Irrevocable estate planning of all kinds involves a loss of (at least some) control

TRUSTEE

Who is best able to administer the trust when you are gone?

Spouses can serve, but beware of allowing the trust assets to be included in their estate

Consider the importance of investment management for this trust

Consider the age of the beneficiaries and who is most likely going to be available to serve for the longest time

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NOTICE ABOUT IRREVOCABLE PLANNING TECHIQUES: The decision to use a special needs trust requires a balancing of the potential loss of control versus the potential loss of public benefits. Because the Special Needs Trust is usually irrevocable, you should give serious consideration to whether it is appropriate for you and your loved ones.