Inside Track

Irrevocable Life Insurance Trust

Does your estate need an ILIT - The Irrevocable Life Insurance Trust?

Do you know that if you die owning life insurance, the proceeds will be included in the value of your estate at death? Do you know that the added amount would create federal and/or state death taxes? If this is a concern for you and your family, you may want to consider incorporating an Irrevocable Life Insurance Trust (ILIT) into your family's estate plan.

Potential advantages of an ILIT: reducing your gross estate by annual premium gifts and keeping life insurance proceeds out of your gross taxable estate.

Talk to your insurance representative today about life insurance products for an ILIT.

What is an Irrevocable Life Insurance Trust?

- An ILIT (also known as a "Crummey Trust") is a planning tool used to keep life insurance proceeds outside of your taxable estate.
- The trust has its own Federal ID.
- The trust is the applicant, the owner and the beneficiary of the life insurance contract.
- You as the grantor(s) (insured), must have no incidence of ownership in the life insurance contract.
- If you need large amounts of life insurance there may be considerable estate tax advantages with an ILIT.

Within your estate plan, life insurance may be used to:

- Pay estate taxes
- Equalize the estate between heirs
- Fund state death taxes
- Fund business continuation plans, such as buy-sell agreements
- Provide funds for charitable bequests

The primary objectives of the ILIT strategy include:

- Removing your life insurance from your gross estate while still providing benefits for your surviving spouse and heirs
- Taking advantage of the $13,000 ($26,000 for married couples) annual gift tax exclusion (year 2012)
- Using generally income tax-free death benefits to provide liquidity to the estate

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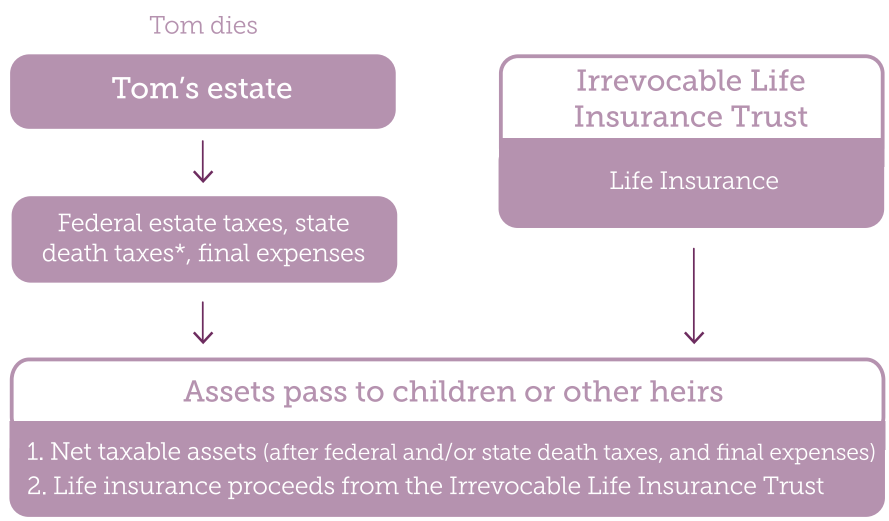
How does an ILIT work?

The ILIT can be used as part of an overall estate plan. For example, Tom is single. As part of his estate plan, he wishes to minimize estate taxes to his children (heirs). Because Tom's taxable estate is estimated over $5 million and Tom is in need of life insurance, an ILIT may be an advantageous planning strategy. Tom plans on having an ILIT purchase the needed life insurance (ILIT owner; Tom insured and ILIT beneficiary) and using his annual gift tax exclusions to gift monies to the ILIT which will in turn use the gifted monies to pay the life insurance premiums.

Let's take a look at the flow of the estate upon Tom's death:

Living Trust with Irrevocable Life Insurance



Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, for estates of individuals who die in 2011 or 2012, the federal estate tax exemption is $5 million and the tax rate is 35 percent. In 2012, the exemption amount may be increased by an inflation adjustment. Under the new law, unused federal estate tax exemptions of individuals who die in 2011 or 2012 are "portable" which means they can be passed along to surviving spouses. In essence, the first spouse to die can leave everything to the surviving spouse without any federal estate tax (assuming the surviving spouse is a U.S. citizen and is therefore eligible for the unlimited marital deduction). The surviving spouse will then have two $5 million exemptions to work with, for a total of $10 million (assuming the surviving spouse dies in 2011 or 2012).

*State death taxes or state inheritance taxes vary by state.

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