

# **An Irrevocable Life Insurance Trust Presentation**

We offer you this presentation to help you understand how life insurance can be used to help provide funds for estate liquidity. This material contains references to concepts that have legal, accounting and tax implications. It is not intended as legal, accounting or tax advice. Consult your own attorney and/or tax advisor for advice regarding your particular situation.

Like most insurance policies, our policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Your licensed financial professional will provide you with costs and complete details.

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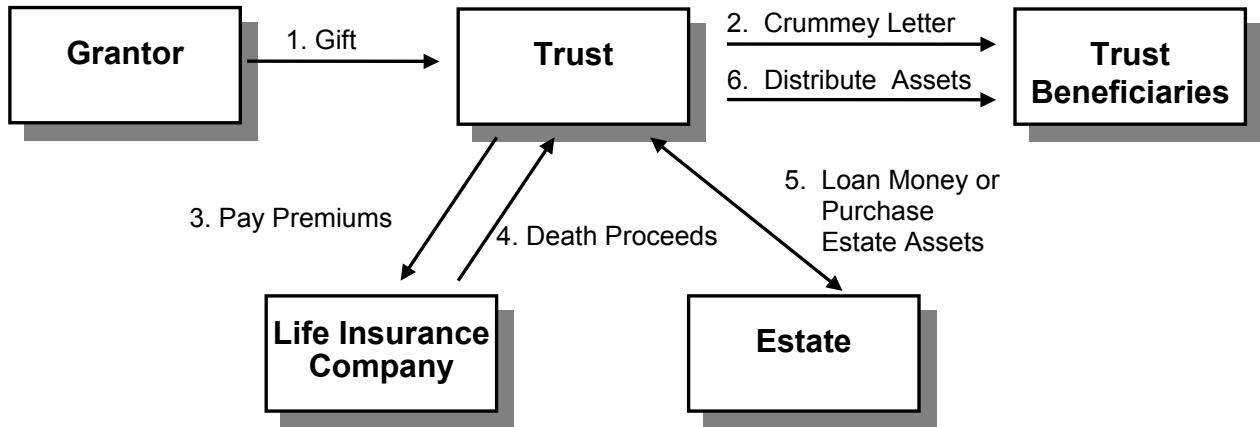
## Estate Liquidity

### **Do you identify with the following?**

- ◆ You would like your family to have cash at your death to help pay estate taxes, liquidate debts or maintain their accustomed standard of living; or
- ◆ You would like to help make your family whole by replacing the assets used to pay estate taxes; or
- ◆ You would like to help replace assets given to charity; or
- ◆ You are in a second marriage and you would like your surviving spouse to be the primary beneficiary of your estate; however, because your spouse is close in age to your children you would like to provide them with an advance distribution; and
- ◆ You want the life insurance proceeds to pass to your heirs transfer tax-free.

**If so you may want to consider establishing an irrevocable life insurance trust.**

## Structure of the Irrevocable Life Insurance Trust



1. Grantor insured annually makes a gift to the irrevocable trust in an amount sufficient to pay the premiums on a life insurance policy.
2. The trustee of the trust annually makes the gifts available to the trust beneficiaries for a limited number of days pursuant to the Crummey withdrawal provisions in the trust document. This qualifies the gift for gift tax annual exclusion treatment.
3. If the trust beneficiaries fail to exercise the withdrawal right over the cash gift the trustee may use the gift to pay premiums for the life insurance policy. The trustee is the owner and beneficiary of the policy.
4. At the death of the grantor insured the life insurance death proceeds pass transfer tax-free to the trust.
5. The trustee may loan money to the estate or purchase assets from the estate, providing liquidity to the estate to help pay estate taxes.
6. The trust assets are distributed to the beneficiaries of the trust as directed by the terms of the trust document.

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## Estate Liquidity

### **Benefits to the Family:**

- ◆ Enables the grantor to potentially leverage his/her annual gift tax exclusion and generation skipping tax exemption to a larger sum of money through the purchase of life insurance.
- ◆ Provides estate liquidity for the insured's heirs on a transfer tax-free basis.
- ◆ Helps replace estate assets used to pay estate taxes or used to provide a charitable bequest.
- ◆ Gives the grantor the opportunity to control the distribution of the death proceeds through the terms of the trust provisions in a manner consistent with his/her overall estate objectives.
- ◆ Protects the trust assets from the creditors of the trust beneficiaries.
- ◆ Enables the grantor to have trust assets managed by a professional Trustee.

### **Tax Considerations:**

- ◆ Gifts made by the grantor to the trust must be subject to Crummey withdrawal powers to be treated as a gift of a present interest eligible for the annual gift tax exclusion.
- ◆ Tax-free gifts can also be made using the gift tax applicable exclusion amount. No Crummey powers are necessary for applicable exclusion amount gifts.
- ◆ The death proceeds payable to the trust will not be includable in the insured's taxable estate provided the insured possesses no incidents of ownership in the life insurance policy.
- ◆ Death benefits received are generally income tax free under IRC 101(a). Death benefits not received in a lump sum may incur some income tax liability.