IRREVOCABLE LIFE INSURANCE TRUST

What Is an Irrevocable Life Insurance Trust?

An irrevocable life insurance trust (ILIT) is an irrevocable trust used to remove the ownership and control of the life insurance policy from an estate. Like other irrevocable trusts, transfers to an ILIT are completed gifts in which the client relinquishes control and ownership of the assets transferred to the ILIT.

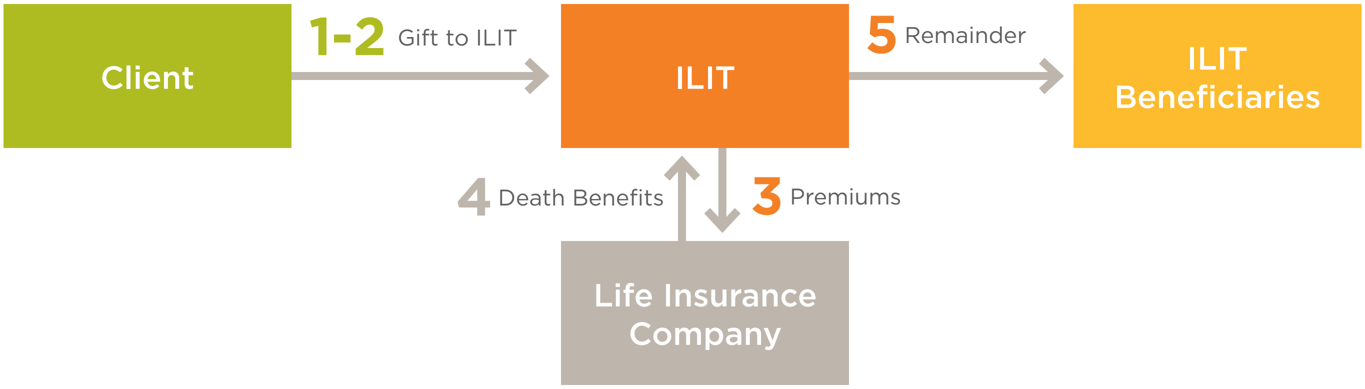
Moreover, in creating an ILIT, the client does not retain the right to modify, revoke or terminate the ILIT. However, assets owned by an ILIT are removed from the client's taxable estate. The ILIT is a wealth transfer vehicle that may be used to remove assets from a client's estate, provide survivor income or liquidity for their estate.

Potential Benefits

- May enable client to leverage their annual gift tax exclusion, lifetime gift tax exemption and generation-skipping tax exemption with the purchase of life insurance.
- Provides estate liquidity for the client's heirs on an income and transfer tax-free basis.
- May replace 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 ILIT provisions in a manner consistent with his/her overall estate objectives.
- May protect ILIT assets from the creditors of the ILIT beneficiaries.
- May reduce the size of the client's taxable estate and corresponding estate taxes.
- May increase the amount of wealth transferred to client's heirs.

Planning Considerations

- Cost of creation and maintenance of ILIT.
- Life insurance qualification generally requires medical and financial underwriting.
- The desired life insurance policy premium may be higher than the client's available annual gift tax exclusion and/or lifetime gift tax exemption.
- Transfers to an ILIT are irrevocable and the client may not possess any incidents of ownership in the life insurance policy owned by the ILIT.



How Does It Work?

1. Client creates an ILIT, the beneficiaries of which are typically the client's family members.
2. Client makes annual, scheduled or lump sum gifts of cash or other assets to the ILIT. Often, the amount of the gift made to the ILIT coincides with the life insurance premium.
3. ILIT purchases a life insurance policy on the client's life, retains ownership rights and designates the ILIT as the beneficiary of the policy.
4. At the client's death, the death benefit is paid to the ILIT.
5. At the end of the trust term, the ILIT assets, including life insurance, will pass to the ILIT beneficiaries free of income tax and transfer tax.