

## IRREVOCABLE LIFE INSURANCE TRUST

Life insurance can be an important element of one's estate plan, and quite commonly, the proceeds of such can make up a significant portion of one's estate. However, most are unaware that when a life insurance policy is owned by an insured, the proceeds of the life insurance policy are included in his or her gross estate at death; and thus, the proceeds are exposed to estate taxes. The Irrevocable Life Insurance Trust, also known as an "ILIT" is an estate planning tool designed to remove the proceeds of life insurance policies from an insured's gross estate for federal estate tax purposes.

The ILIT may be funded with either an existing life insurance policy owned by an insured or the ILIT may acquire a new policy. If the ILIT acquires a new policy, the proceeds from the policy will not be included in the insured's estate at death. If the ILIT is funded with an existing policy, the insured must survive for three years after transferring ownership to exclude the policy proceeds from his or her estate.

Since the typical beneficiary of a life insurance policy is the surviving spouse, the classic ILIT provides that when the insured spouse dies, the surviving spouse will be the primary beneficiary of the ILIT, with children and more remote descendants as the secondary and remainder beneficiaries (though the ILIT will work for a second-to-die policy as well; naming children or more remote descendants as the primary trust beneficiaries). The proceeds are then used to provide for the support of the surviving spouse and descendants. The ILIT not only serves as an effective estate planning tool at the insured's death, but it may also serve to protect the assets for future generations.

There are a few administrative tasks necessary to appropriately create, fund and manage an ILIT, but so long as the ILIT is maintained properly, the ability to avoid a roughly 50% tax on the insurance proceeds is entirely possible and likely worth the minimal burdens.