ESTATE PLANNING

HIGHTOWER

Irrevocable Life Insurance Trust (ILIT)

CONCEPT APPLIED:
Individually owned life insurance faces exposure to creditors during the owner's life and estate tax on the death benefits. Use of an ILIT can keep the policy from creditors and the proceeds out of the estate.

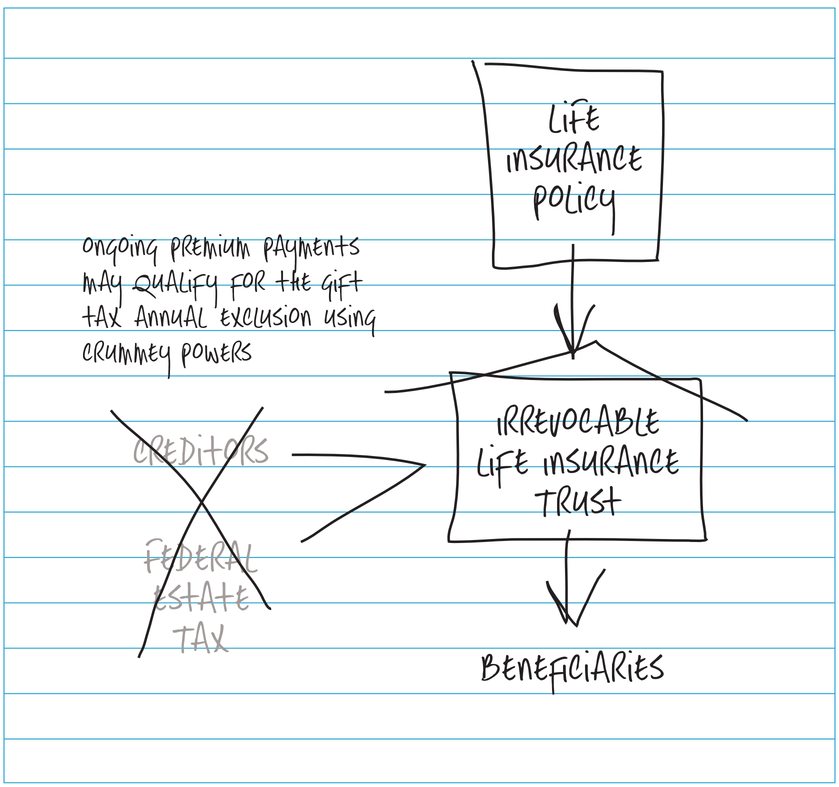
HOW IT WORKS:
The ILIT holds a new or existing life insurance policy on the life of the grantor and/or a spouse. If the grantor initially funds the ILIT with cash to pay premiums, any ILIT income earned will be taxed. More often, the ILIT is unfunded, and the grantor makes annual gifts to the trust to be used for premium payments.

With Crummey powers, these gifts qualify for the gift tax annual exclusion. Crummey powers are trust terms that grant beneficiaries the power to withdraw transfers from the trust. The grantor may not serve as trustee of the ILIT, and may not have any incidents of ownership in the life insurance policy.

WHY IS IT USEFUL?
The ILIT is a flexible planning tool that shelters the policy proceeds from the estate tax and also from creditors. An ILIT does have set-up costs and continued funding obligations.

50 WORDS OR LESS

An ILIT is an irrevocable trust that holds a life insurance policy that will provide estate liquidity and help with beneficiary needs. Because the proceeds are outside of the estate, they avoid the federal estate tax, leaving more money to pay estate expenses or for beneficiaries to use.



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