



HIGHTOWER
Trust Company

NAVIGATING WEALTH PRESERVATION

The Pros and Cons of ILITs

When it comes to estate planning and wealth preservation, Irrevocable Life Insurance Trusts (ILITs) emerge as a powerful tool. Understanding the advantages and considerations of ILITs is essential for making informed decisions about securing your financial legacy. Let's explore the pros and cons of ILITs:

PROS

01 | ESTATE TAX EFFICIENCY:

ILITs are designed to remove life insurance proceeds from your taxable estate. This strategic move can help minimize estate taxes, ensuring that more of your wealth is passed on to your heirs rather than being subject to taxation.

02 | ASSET PROTECTION:

Assets held within an ILIT are generally protected from creditors. This can be a valuable feature for individuals concerned about potential legal challenges or financial risks, providing an added layer of security for the beneficiaries.

CONS

01 | IRREVOCABILITY:

As the name suggests, ILITs are irrevocable, meaning that once established, you generally cannot make changes or revoke the trust. This lack of flexibility may be a concern for individuals who anticipate changes in their financial situation or estate planning goals.

02 | COMPLEXITY OF ADMINISTRATION:

Managing an ILIT involves adherence to specific rules and requirements. Proper administration is crucial to ensure the trust's effectiveness and maintain its tax benefits. Working with experienced professionals is essential to navigate the complexities of ILIT management.





PROS

03 | CONTROL OVER PROCEEDS:

While the trust is irrevocable, the grantor can still retain control over certain aspects, such as determining the beneficiaries and how the proceeds are distributed. This level of control allows for customization based on the specific needs and goals of the grantor.

CONS

03 | LIMITED ACCESS TO CASH VALUE:

While the life insurance death benefit is accessible to beneficiaries, the cash value of the policy is typically not readily available to the grantor. This lack of liquidity may impact individuals seeking immediate access to the policy's cash value for other financial needs.

04 | PRIVACY PRESERVATION:

ILITs offer a level of privacy as the trust is a separate legal entity. This can be advantageous for those who prefer to keep the details of their estate plan confidential, as ILITs do not go through probate, providing a more private transfer of wealth.

04 | POTENTIAL GIFT TAX IMPLICATIONS:

Transferring a life insurance policy into an ILIT is considered a gift. Depending on the size of the gift, it may trigger gift tax implications. Proper planning and consideration of the gift tax consequences are necessary to optimize the benefits of an ILIT.

CONCLUSION

ILITs can be a powerful tool in estate planning, offering significant advantages in terms of tax efficiency, asset protection, and control. However, the irrevocable nature and administrative complexities require careful consideration. Consulting with experienced estate planning professionals is crucial to ensure that an ILIT aligns with your overall wealth preservation strategy.

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