

An Irrevocable Life Insurance Trust (ILIT) is a type of trust that is funded during a grantor's lifetime with one or more life insurance policies. It is irrevocable, meaning that once created it cannot be changed or revoked; the terms of the trust agreement are final. An ILIT can provide a source of funds to satisfy the liquidity needs of an estate without subjecting the proceeds to estate taxation.

Funding an ILIT:

Working with an estate planning attorney, a grantor can fund an ILIT in of two ways:

- The grantor can make a cash contribution to the ILIT and the Trustees will use the proceeds to purchase one or more life insurance policies. The trust will be named as both the initial owner and the beneficiary of the policy. None of the proceeds of the policy(ies) will be included in the insured's gross estate for estate tax purposes.
- The grantor can transfer an existing life insurance policy to the ILIT and name the trust as the new owner and beneficiary. If the grantor dies within three years of transferring the policy, the proceeds will be includable in their estate. If the grantor survives for three years after the policy transfer, the proceeds of the policy will not be includable in their estate.

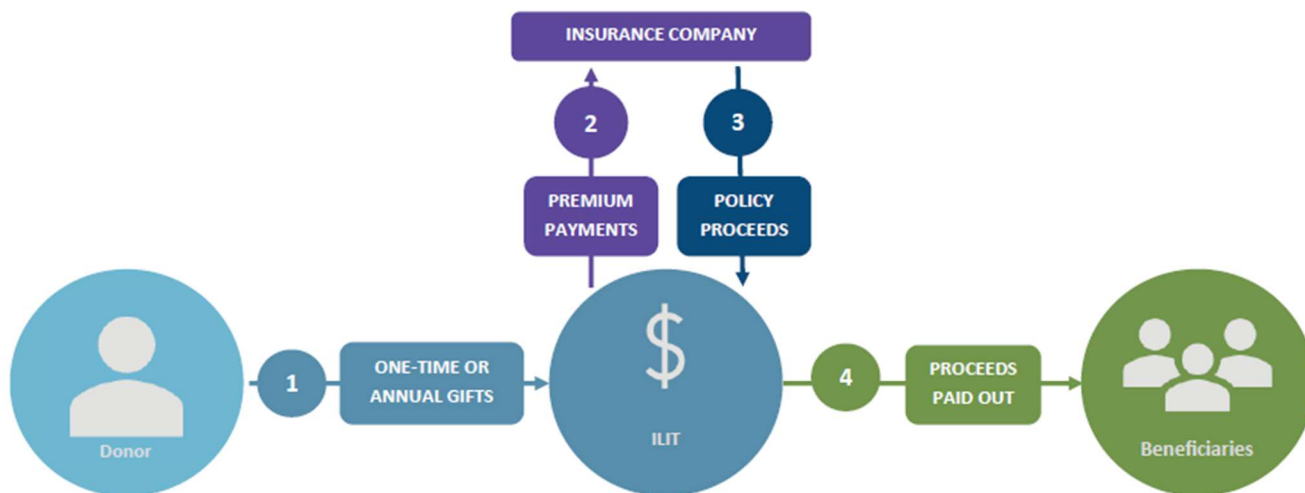
In most cases, there are no income tax consequences to funding an ILIT or making additional contributions to it.

During the Grantor's Life:

- The grantor will make cash gifts to the trust in order for the trustees to pay premiums on insurance policies held by the trust.
- In most cases, the ILIT will be structured so that the grantor's contributions qualify for the annual exclusion from gift and will not require use of the grantor's applicable exclusion amount from gift and estate tax.
- A married grantor may be able to contribute twice the annual exclusion amount if his or her spouse makes additional contributions to the ILIT or elects to split gifts to the ILIT.
- In order for gifts to qualify for annual exclusion from federal gift tax, each beneficiary will have the right to withdraw a portion of each gift made to the trust each year. The trustees are required to notify each beneficiary of this withdrawal right.
- If the beneficiary does not exercise his or her withdrawal right, the right lapses, and the trustees will use the funds to pay premiums on the insurance policy.

Upon the Death of the Grantor:

- The ILIT will receive the proceeds of any life insurance policies owned by the trustees on the grantor's life.
- The proceeds can be loaned to the grantor's estate or exchanged for estate assets in order to satisfy liquidity needs for estate taxes so that family businesses, real estate, or retirement assets will not need to be sold to pay estate taxes.
- The proceeds received by the trustees will be distributed or held in ongoing trusts as set forth in the terms of the ILIT.
- The ILIT can provide that the proceeds will be paid to someone other than the decedent's spouse without any adverse estate tax consequences.



1

CONTRIBUTION

The grantor makes a one-time or annual gifts to the ILIT for the payment of premiums.

2

PREMIUM PAYMENTS

The trust pays the insurance premiums to the insurer.

3

POLICY PROCEEDS

Upon the insured's death, the proceeds of the policy are paid to the Trustees of the ILIT.

4

PROCEEDS PAID

The life insurance proceeds are then paid to the trust beneficiaries either outright or in further trust.