

What is an Irrevocable Life Insurance Trust?

Written by gallupsun
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"The things you do for yourself are gone when you are gone, but the things you do for others remain as your legacy." - Kalu Ndukwe Ka

Created to own and control a life insurance policy or policies while the insured is alive, Irrevocable Life Insurance Trusts are tools that are sometimes recommended by estate and planners. ILITS also manage and distribute proceeds from a policy when an insured dies.

ILITS have three components: a grantor (creator of the trust), a trustee (manager of the trust), and a beneficiary or beneficiaries. Beneficiaries are those who receive the assets of the trust when the grantor dies.

When insurance benefits are paid out upon the grantor's death, the trustee collects those funds, pays any estate taxes due, along with outstanding debts such as legal fees and probate costs, then distributes the rest to the beneficiaries.

What are the benefits of an ILIT?

The primary reason most people consider an Irrevocable Life Insurance Trust is to help mitigate estate taxes. Over the past few years, the government has increased the estate and gift tax exemption to \$11.58 million per individual. Since the majority of people don't come anywhere close to that amount, the tax benefits of an ILIT are not as attractive as they once were.

Still, there are other reasons people choose an ILIT. These include:

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- **Beneficiary incapacity:** If a life insurance beneficiary is incapacitated, having an ILIT can prevent the court system from controlling the proceeds.
- **Provides cash to pay expenses:** If there are estate taxes or other debts, an ILIT will provide immediate money to pay those expenses.
- **More control:** A properly-designed ILIT gives you more control over the policy or policies and the use of proceeds.
- **Income for a spouse:** An ILIT can provide Income to your spouse without that money being included in the spouse's estate.
- **Potential protection for heirs:** Depending on the state in which you live, proceeds from life insurance payouts may have protection from creditors.
- **Ability to include a "Spend-Thrift" Provision:** If you have an heir or heirs who have issues managing money, your ILIT trust can contain a spend-thrift provision. A spend-thrift provision pays your beneficiaries monthly instead of giving them a lump sum upfront.

ILITS are not for everyone. They have some definite cons worth considering:

- ILITS generally cannot be modified. The "irrevocable" part of an ILIT means that it is nearly impossible to make changes other than changing your trustee.
- Once you place a policy in an ILIT, you give up all rights to that policy. You cannot reassign it to a different trust or entity. ILITS are complex and nuanced legal vehicles requiring the expertise of an attorney who specializes in trusts. They are rather expensive to create and maintain, and you should consider these costs.

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ILITs can be very expensive to create and maintain. An ILIT is not something you can do yourself with online software. It requires the often pricey services of an experienced estate planning attorney. In addition to setup costs for an ILIT, there are also ongoing expenses that can add up.

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While an ILIT offers certain advantages for high-net-worth individuals, it is far from the only option. There are many different kinds of trusts. Each of these trusts are designed to solve specific estate issues.

If you are considering forming a trust, use an authorized professional and experienced trust designer (attorney) who understands your goals and unique financial situation to see if an ILIT is the best choice. Legal representation is important when considering an ILIT; never attempt this alone.

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