# Use an ILIT as a wealth preserver

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If you’re concerned about your family’s financial well-being after you’re gone, life insurance can provide peace of mind.  Going a step further and setting up an irrevocable life insurance trust ("ILIT") to hold the policy offers additional estate planning benefits.

**Asset protection**

If you’re concerned about your heirs’ money management skills, an ILIT may be the answer.  Why?  Your loved ones won’t receive the proceeds directly, as they would if they were the policy beneficiaries.  Rather, they’re the beneficiaries of the trust, and the trust controls when they receive proceeds.

You can also establish conditions for distributing funds from an ILIT.  For example, you might instruct the trustee to withhold funds from a beneficiary who drops out of school or develops a substance abuse problem.

A properly drafted ILIT can also protect trust assets against your and your beneficiaries’ creditors, particularly if it’s established in a state with favorable asset protection laws.

**Estate tax savings**

Placing your life insurance policy in an ILIT removes it and its proceeds from your taxable estate.  Contributing an existing life insurance policy to an ILIT constitutes a taxable gift to the trust beneficiaries of the policy’s fair market value (which generally approximates its cash value).  With the combined gift and estate tax exemption currently at $5.49 million, now may be a good time to make such a gift.

Future ILIT contributions to cover premium payments will be taxable gifts.  You may, however, be able to apply your annual gift tax exclusion to reduce or eliminate the tax — provided the ILIT is structured appropriately and certain other requirements are met.

Bear in mind that a repeal of the federal estate tax has been proposed by President Trump and the Republican-led Congress.  A repeal or other estate tax law changes could have a significant impact on an ILIT’s estate tax benefits.

**Drawbacks**

An ILIT does have some significant limitations you need to be aware of. After you transfer a policy to the trust, you can no longer:

- Change or add beneficiaries;
- Assign, surrender or cancel the policy; or
- Borrow against or withdraw from the policy's cash value.

In addition, you're not allowed to alter the ILIT's terms or act as trustee.

Nevertheless, you can design the trust to adapt to changing circumstances and provide that children or grandchildren born after you establish the trust be automatically added as beneficiaries.

Please contact us for additional details if you're considering using an ILIT.



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