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Facts ➤ Opportunities ➤ Results

Estate Planning Using an Irrevocable Life Insurance Trust

Purchasing a life insurance policy inside of an irrevocable life insurance trust (ILIT) keeps both the policy and the death benefit proceeds outside of an estate and provides liquidity to meet estate taxes.

FACTS

- Dean and Sarah have a current estate tax liability of $10 million and expect this amount to grow significantly over the rest of their lives.
- The bulk of their estate is made up of ownership in their family company and personal real estate.
- At their death, the couple does not want their children to have to sell their interest in the family business or liquidate any appreciating real estate to pay estate taxes.

OPPORTUNITIES

- Using a combination of their individual estate tax exemption and annual gifting amounts, Dean and Sarah fund an ILIT whose beneficiaries are their three children.
- The trustee of the ILIT purchases a life insurance policy designed to pay out at the death of the second of the couple to die.
- The policy selected has a death benefit which increases over time in order to meet the couple's increasing estate tax burden.

RESULTS

By purchasing a life insurance policy inside of an ILIT, the death benefit will not be subject to estate or income taxes. At their deaths, Dean and Sarah's children do not have to liquidate their interest in the family business or sell other assets to pay the estate tax. The policy's death benefit, which increases over time, will be used by the children to address the estate taxes, allowing them to receive their parent's estate in its entirety.

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