# ADVANCED WEALTH PLANNING TIP #3

## *IRREVOCABLE LIFE INSURANCE TRUSTS - HOW DO THEY WORK?*

*A successful irrevocable life insurance trust (ILIT) is designed to allow affluent families to pass wealth to future generations on a tax-favored basis. The mechanism is pretty straightforward in its concept: money is placed in trust through annual gifts or other funding mechanisms. The trust, using this money, purchases a life insurance policy; usually on the life of the grantor. At the death of the grantor, the life insurance proceeds are paid to the trust and can used for the benefit of the intended heirs. The huge benefit of this structure (if done correctly) would be that these life insurance proceeds are received income tax free by the trust, and are not includable in the estate of the grantor. If structured properly, the insurance proceeds may also avoid GST taxation. This would provide a family liquidity that may be gift tax free, income tax free, and estate tax free: quite useful if faced with any possible, significant estate taxes due upon the grantor's death. Federal estate tax would be owed within nine months of the death of the grantor.*

*Planning tip: As with other planning methods, there are number of very creative, useful ways to fund your irrevocable life insurance trusts. Here are just a few useful ideas:*

- *The grantor can make direct gifts annually into the trust.*
- *The ILIT can be made the remainder beneficiary of a GRAT.*
- *Consider a private split-dollar arrangement as a viable premium financing alternative.*

*Planning issues around these ILIT financing arrangements can be complex. It is important to consult your tax, estate, and insurance advisors before entering into an ILIT transaction.*

**Michael J. Greiner**
*Managing Principal / CEO*
*Summit Asset Strategies Wealth Management*

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