### *Why Use an Irrevocable Life Insurance Trust?*

An irrevocable life insurance trust is often used to set aside assets for certain purposes, such as paying estate taxes, because these assets themselves are not taxable. In order to do this, the selected assets must be moved into the life insurance trust at least three years before they are used. Sometimes people create new policies in their spouse's names, to circumvent this requirement.

If properly structured, the death benefits paid to the ILIT will be free from inclusion in the gross estate of the insured. This differs from a scenario where life insurance death benefits are paid to an individual, because the proceeds are included in the taxable estate of the decedent.

Consider that the federal estate and gift tax exemption is currently at $5.49 million. While most estates aren't that substantial, several U.S. states begin taxing estates that reach values of $1 million or less. This is can be an easier figure to arrive at than one may initially think. For example, a benefactor with a $600,000 life insurance policy, who owns a home worth $400,000, would trigger a tax consequence for his or her beneficiaries.

Contrarily, segmenting out the life insurance portion from the estate by placing it in an ILIT, lets the benefactor help his heirs avoid estate taxes.

### *Ensuring Responsibility*

If the insured has beneficiaries who are either minors or adults with histories of reckless spending habits, or demonstrated patterns of alcohol and/or substance abuse, the creation of an ILIT, with a trust as a beneficiary, can help minimize irresponsible behavior. An appointed trustee can supervise the trust and distribute the assets according to the grantor's wishes, as memorialized in the trust document.

The ILIT will also provide a level of asset protection for the beneficiaries, in the event that they become embroiled in future litigation. This is because ILITs are not considered to be owned by the beneficiaries. This in turn makes it difficult for courts to link the assets to the beneficiary, rendering them nearly impossible for creditors to access.

### *Drawbacks of an Irrevocable Life Insurance Trust*

There are drawbacks to using an ILIT, therefore grantors should carefully deliberate the pros and cons of creating one, before taking the plunge. Changes to an ILIT can only be made by the beneficiaries, so the benefactor loses control of the assets before death. Furthermore, while ILIT assets are not taxed as part of the estate, they are taxed as part of the beneficiaries' estates, consequently leaving a bigger tax burden to their descendants.

** Important: The paperwork surrounding the creation of ILITs is unusually complex, with strict drafting and procedural guidelines that must be met, to conform to IRS guidelines. Therefore it's essential to consult with a seasoned trust lawyer or a tax specialist.