Life Insurance: Your Blueprint for Wealth Transfer Planning

Irrevocable Life Insurance Trusts

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Life Insurance:

Your Blueprint for Estate Planning

Life insurance has been a valuable estate planning tool for many years. It's comforting to know that life insurance provides cash death benefits to your beneficiaries at your death — a time when cash may not be available but may be needed.

Life insurance usually has three unique advantages that are hard to duplicate because policy death benefits:

- Are usually larger than the total premiums paid into the policy.
- Are usually paid to the beneficiary free of federal and state income taxes.
- May be exempt from claims of the insured's and the beneficiaries' creditors (consult with your attorney to determine the extent of the exemption in your state).

That's why death benefits are regularly used to retire a decedent's debts, satisfy bequests, pay state and federal estate tax obligations and provide funds for survivors' living expenses.

Irrevocable Life Insurance Trust

How it Works

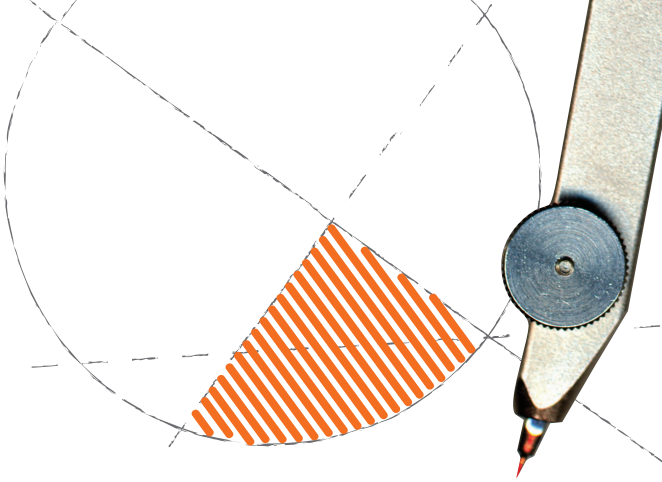
If the insured of a life insurance policy possesses an ownership right (what the IRS calls "an incident of ownership") in a policy, the death benefits are included in his/her taxable estate. This can be a problem for single people with taxable estates larger than $3,500,000 (in 2009) and married couples with taxable estates larger than $7,000,000 (in 2009). If life insurance death benefits are added to a taxable estate that already exceeds these amounts, the estate taxes due will increase. The result is nearly the same as naming the IRS as a partial beneficiary of the policy!

To prevent life insurance death benefits from creating or increasing an insured's estate tax problem, it is usually advisable for someone other than the insured to own the policy. A good way for you to do this is to create an Irrevocable Life Insurance Trust (ILIT). The ILIT trustee purchases the policy and the ILIT is the named beneficiary. You choose the trustee and establish the terms of the trust. These terms are the directions the trustee must use in administering the trust.

Gifts to an ILIT

As the insured, you usually provide funds to an ILIT in the form of a gift so the trustee can pay the policy premiums. These gifts may qualify for the gift tax annual exclusion (up to $13,000 in 2009 per beneficiary per year). Annual exclusion gifts are often used because they are "renewable" and can be repeated in future years.

To qualify for the annual exclusion, the trust beneficiaries must have a "present interest" in the gift. An ILIT can create this present interest if it includes a provision that gives the trust beneficiaries 30 days to withdraw their pro rata share of the annual gifts after the trustee has given them written notice of their withdrawal rights. Gifts that don't qualify for the annual exclusion are applied against the amount the insured may give free of gift taxes during his/her lifetime. Currently (2009) this amount is $1,000,000.



A Case Study:
The Mitchell Family Plan

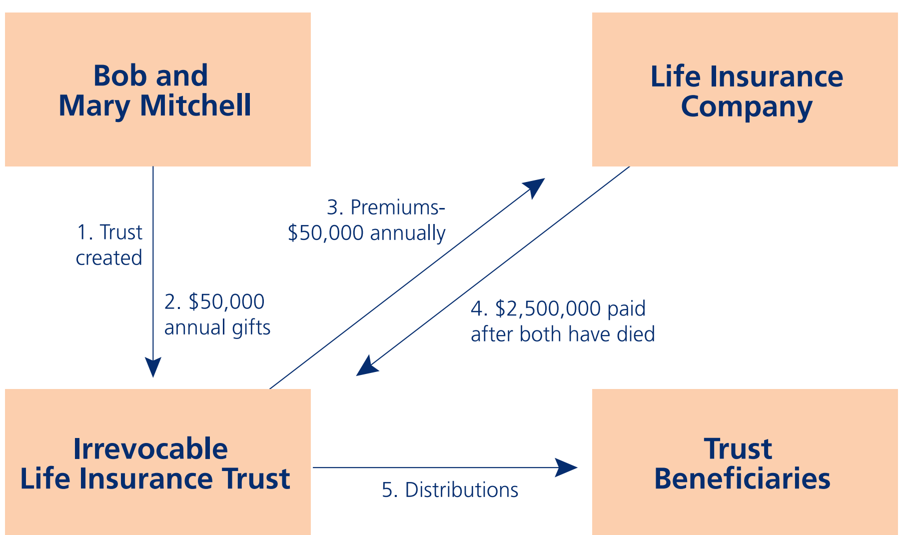
Client: Bob and Mary Mitchell

Age/Health: 70, good health

Estate Value: $4 million

Problem:
The Mitchells believe they will need $2,000,000 to provide them a comfortable lifestyle for the balance of their days. They would like to position the remaining $2 million to pass on as much income and estate tax free wealth as possible to their five children. They are both in standard health.

Solution:
After a discussion with their legal and tax advisors, they developed an estate planning strategy using an ILIT. Bob will be the grantor and use $10,000 of his gift tax annual exclusion for each child. The trustee will purchase a $2,500,000 survivorship life insurance policy insuring both lives. Premiums will be $50,000 annually until both have died. If Bob dies first, Mary will have to provide funds for the premiums through gifts or loans. As long as premiums are paid and the policy remains in force, at the surviving spouse's death the policy will pay $2,500,000 to the trust. Here's how it works:



Note: The hypothetical results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required.

Result:
By using an ILIT in their estate plan, the Mitchells' death benefits may be structured to be paid income and estate tax free. They also will be able to significantly increase the value of the funds they pass on to their children and grandchildren. Most importantly, the Mitchells will be able to achieve peace of mind in knowing that they've provided financial security to their family.

For more information, please call your ING financial professional.

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