Think about this: **"Have you talked about setting up an ILIT with your client as part of the estate planning process?"**

What is an ILIT?
This stands for **I**rrevocable **L**ife **I**nsurance **T**rust, a trust that is funded in part by life insurance policies or proceeds. This is a powerful and sometimes, complex tool used in estate planning. It is always recommended to use an estate planning attorney for consultation so as to draft the relevant trust documents and address any legalities keeping in mind, the objectives of your client.

Who should consider an ILIT?
Individuals or couples whose estates are likely to be subject to heavy estate tax. In 2006, up to $2 million can pass free of the estate tax; an ILIT is appropriate only for those whose assets, including life insurance, will be significantly larger than $2 million or $4 million for a married couple.

Why an ILIT?

- ⇨ The proceeds of policies acquired by an ILIT are not included in the insured's estate and are generally not subject to income tax.
- ⇨ An ILIT can provide liquidity for an individual who wishes to preserve a closely held business or other unique assets that might otherwise have to be liquidated to pay death taxes and expenses.
- ⇨ Use of an ILIT as a generation-skipping trust is an extremely efficient technique to leverage the transferor's GST tax exemption and applicable exclusion amounts.

How an ILIT works?
Let us take the example of a couple, Frank and Mary, who establish an ILIT after extensive consultations with their attorney and appoint a trustee. The trustee then applies for a 7 million survivorship insurance policy naming the trust as owner and beneficiary. Frank and Mary will pay premiums to the trust which in turn will pay the insurance company. Properly structured, they can contribute as much as $24,000 per year free of gift taxes. Upon both deaths, the trustee will collect and distribute the policy proceeds to the beneficiaries as per the terms of the ILIT. This sounds simple but extreme care must be taken as an ILIT is an irrevocable device and the insured/s cannot change their mind once it is set up.

***Please note** that the above is a sales concept and financial advisors are not legal or tax experts. Please advise your client/s to consult a legal and or tax advisor to understand the implications of implementing this concept.*