Advisor Insurance Resource
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Irrevocable Life Insurance Trusts

SUMMARY:

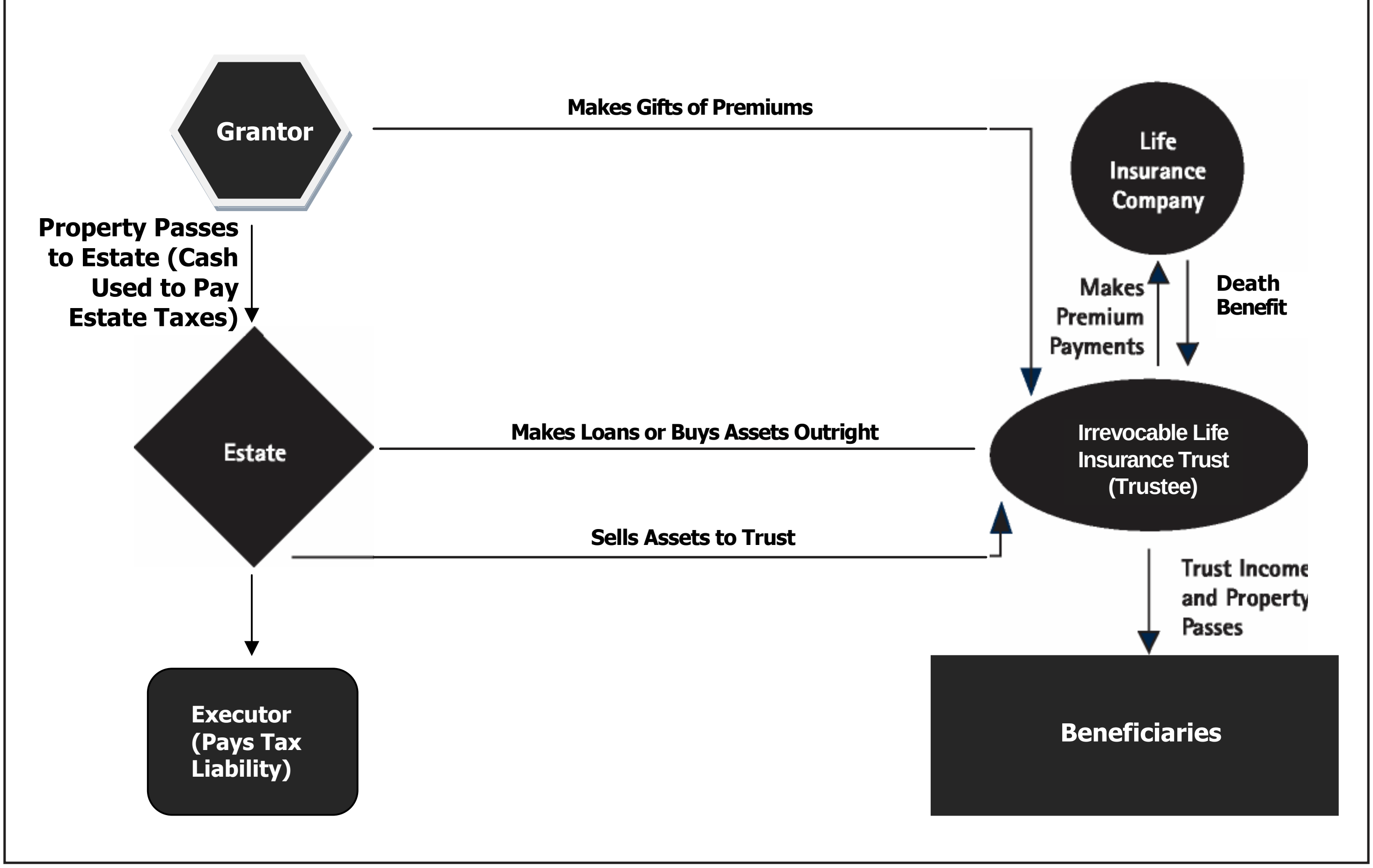
An Irrevocable Life Insurance Trust enables an individual to pass insurance proceeds to his heirs' estates tax-free. It cannot be amended, revoked or altered by the grantor once it is created. The assets in the trust are not included in the grantor's estate. The trustee may buy assets or lend money to the estate.

The grantor makes annual gifts to pay the life insurance premiums. The grantor gives each beneficiary Crummey withdrawal power, which is the ability to withdraw the grantor's gift to the trust within a prescribed time period — often between 30 and 60 days — each year.

If the grantor makes annual exclusion gifts of $11,000, the beneficiaries could be subject to gift taxes on the assets that exceed the greater of $5,000 or 5 percent of the trust assets. The attorney can draft certain provisions into the trust that permit the grantor to use the full $11,000 gift tax annual exclusion without creating gift tax consequences.

HOW IT WORKS:

Provides Estate Liquidity For Taxes



ADVANTAGES:

- Insurance premiums are discounted dollars compared to liquidating assets to pay taxes.
- Prevents a distress sale of the grantor's business, real estate, or investments.
- Proceeds are excluded from the grantor's taxable estate.
- Avoids probate and maintains confidentiality.

DISADVANTAGES:

- Grantor forgoes control over the trust assets. Grantor cannot access the assets within the trust, such as the cash values of the life insurance policy.
- Grantor loses the ability to alter, amend, revoke, or terminate the trust.
- Policy proceeds may be included in the estate if death occurs within three years of the transfer of an existing policy to the trust.

TAX CONSIDERATIONS:

- Using the applicable credit amount, individuals can shelter up to $1,000,000 from gift taxes during life and an amount at death equal to that shown in the table below.
- Cash Gifts — The annual gift tax exclusion allows an individual to gift up to $11,000 annually per beneficiary free of gift tax. Married couples can "split gifts" by gifting $22,000 annually per beneficiary.

HOW TO IMPLEMENT:

- Attorney drafts irrevocable trust document.
- Trustee procures a trust tax ID number.
- Grantor makes annual gift to trustee to pay premium.
- Via letters, Trustee notifies beneficiaries of withdrawal right.
- Trustee sends insurance company the premium after appropriate withdrawal period.
- Trustee applies for insurance on life of grantor and/or spouse. Trust is owner, beneficiary and applicant of insurance.

Year	Estate and GST Tax Deathtime Transfer Exemption	Estate Tax Applicable Credit Amount
2002	$1 million	$345,800
2003	$1 million	$345,800
2004	$1.5 million	$555,800
2005	$1.5 million	$555,800
2006	$2 million	$780,800
2007	$2 million	$780,800
2008	$2 million	$780,800
2009	$3.5 million	$1,455,800
2010	Taxes repealed	$0
2011+	$1 million	$345,800

Note: Specific questions regarding your will and associated estate planning documents should be referred to your tax adviser or legal counsel. Specific tax and legal questions should be referred to your tax adviser or legal counsel.

Life insurance policies may involve exclusions or limitations.