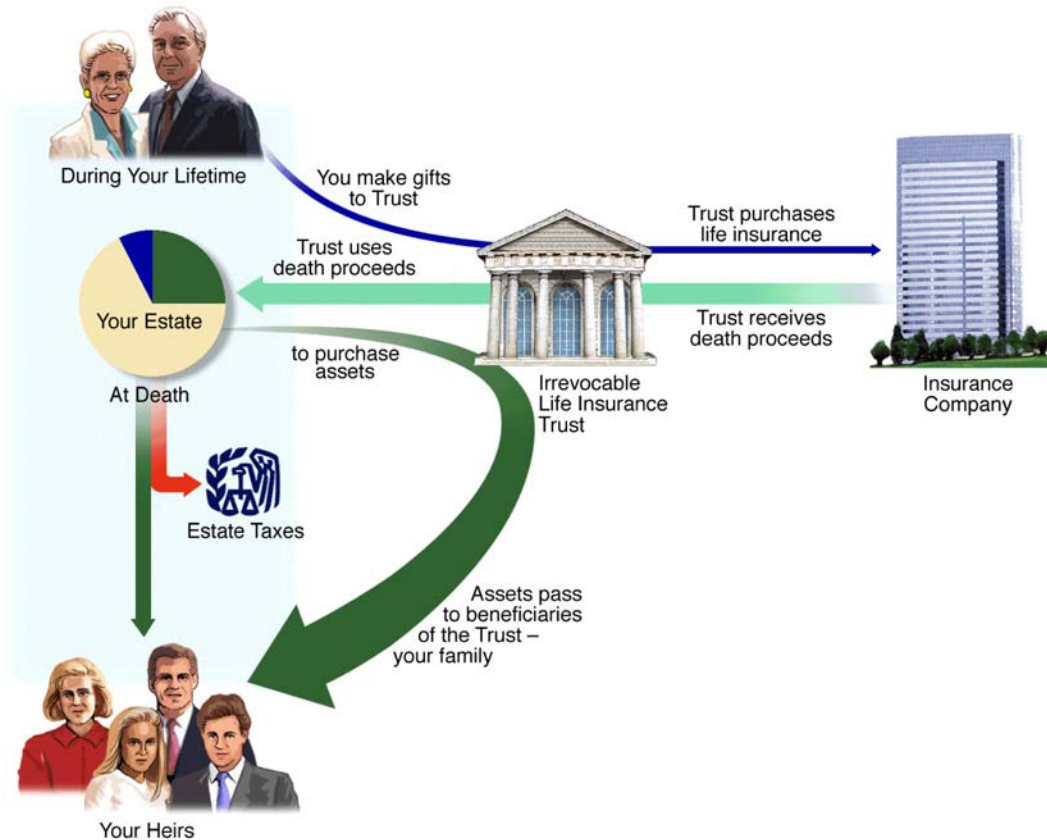


How a Life Insurance Trust Works

Using an Irrevocable Life Insurance Trust



An Irrevocable Life Insurance Trust (ILIT) can be designed for many special purposes.

Although there are numerous ways to create and fund these trusts, usually you make annual gifts to the trust. Based upon current withdrawal rights given to beneficiaries, these gifts are designed to qualify for the gift tax annual exclusion. The trust purchases life insurance on your life using the gifts to pay the premiums. The gifts will help to reduce your taxable estate.

At your death, the life insurance proceeds are paid to the trust as beneficiary. The irrevocable life insurance trust generally receives the policy proceeds free of income taxes (see IRC 101(a)), and with proper planning, the proceeds may be excluded from your estate for estate tax purposes. The trust may use the proceeds to purchase assets from your estate, or to make loans to your estate (provided that there is no obligation to make such loans). The executor uses this cash to help pay estate taxes and expenses. The assets purchased by the trust may then be distributed to the trust beneficiaries—your chosen heirs, or the trust may continue to hold the assets for the benefit of the beneficiaries as provided in the trust agreement.