

LIFE ADVANCED MARKETS

Key benefits of irrevocable life insurance trusts (ILITs)

An ILIT is a type of trust specifically designed to own and manage life insurance policies. It is a legal arrangement where the grantor (the person creating the trust) transfers ownership of a life insurance policy to the trust, relinquishing control over it.



The trust is irrevocable, meaning that once the trust is established and funded, the grantor cannot modify, amend, or terminate it.

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Indexed universal life insurance policies provide a death benefit that is generally paid to beneficiaries income-tax-free, and the potential to build tax-deferred accumulation value.

Indexed universal life insurance policies require qualification through health and financial underwriting.

Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

The death benefit is generally income-tax-free when passed on to beneficiaries.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

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KEY FEATURES AND BENEFITS OF AN ILIT INCLUDE:

- **Estate tax reduction:** By transferring ownership of the life insurance policy to the ILIT, the death benefit is removed from the grantor's estate for estate tax purposes. This can significantly reduce the estate tax liability upon the grantor's death.
- **Control over distribution:** The grantor can specify how the proceeds from the life insurance policy are to be distributed to beneficiaries. This can include instructions about when and how beneficiaries receive funds, providing control over the financial legacy. In addition, the life insurance can be used to fund charitable donations of the grantor's choosing.
- **Gift tax benefits:** Contributions to the ILIT can qualify for the annual gift tax exclusion if structured properly, often using Crummey powers, which allow beneficiaries a temporary right to withdraw contributions.
- **Liquidity for the estate:** The proceeds from the death benefit of the life insurance policy¹ can provide liquidity to pay estate taxes, debts, or other expenses, ensuring that other estate assets do not need to be liquidated quickly or at a disadvantageous time, allowing them to be passed on to beneficiaries as intended.

Incorporating life insurance into an estate planning strategy requires careful consideration and planning. It's important to consult with financial professionals and estate planning professionals to determine the most effective way to use life insurance to meet the client's specific estate planning goals.



NEED ADDITIONAL HELP?

Call the Life Case Design
Team at **800.950.7372**

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