

# How an ILIT Can Help Protect Your Family's Wealth

Life insurance is a powerful tool for estate planning: It provides a means to transfer wealth to beneficiaries free of income tax and outside of the probate process. But because their cash value and death benefits can range into the millions of dollars, life insurance policies can be a tempting target for creditors.

That's where ILITs, or irrevocable life insurance trusts, come in. Designed and used properly, ILITs can shield a life insurance policy's proceeds from creditors. And they have another major benefit for wealthy households: the potential to help mitigate estate-tax obligations. A potent tool for protecting and transferring family wealth, ILITs are well worth understanding.

## How ILITs Work

Like virtually all trusts, ILITs have a grantor, who creates the trust, along with a trustee, who manages it, and beneficiaries, who benefit from it. In creating the trust's terms, the grantor specifies how the life insurance proceeds will be managed and distributed. For example, he or she might direct that the proceeds be invested conservatively to generate income, which would be distributed to beneficiaries once they reach specified ages. The grantor might also specify that proceeds from the trust be used to pay estate taxes or retire outstanding debts.

To fund the ILIT, grantors with taxable estates often use their annual gift-tax exclusion. They may also fund the trust with a lump sum, using part of their lifetime gift-tax exemption amount. For 2024, the annual gift-tax exclusion amount is \$18,000 per beneficiary, and the lifetime gift-tax exemption is \$13.61 million per individual.<sup>1</sup>



The trustee then uses trust assets to pay the insurance policy's premiums. Note that it's also possible to transfer an existing policy to the ILIT, but in that case the insured person must survive for at least three years to avoid estate taxes on the policy's proceeds.

## The Benefits of an Irrevocable Trust

With the ILIT becoming the owner and beneficiary of the insurance proceeds, those assets are kept out of the grantor's taxable estate. This reduces the grantor's overall estate-tax liability, potentially preserving more wealth for beneficiaries. If the ILIT has been structured properly, creditors generally cannot access the assets within it. That's because the trust is irrevocable, meaning the grantor no longer owns or controls the assets within it. Upon the death of the insured party, the life insurance death benefit is paid to the ILIT, income-tax free. The trustee then distributes the proceeds according to the trust terms.

## How ILITs Allow for Customized Planning

The terms of trusts such as ILITs are customizable. Take a hypothetical scenario in which a parent wants to ensure that their children receive financial support for education expenses. That parent can specify in the trust document that a portion of the life insurance proceeds should be distributed to each child upon reaching specific milestones, such as graduating from high school or college.

This allows for controlled and staggered distributions over time, ensuring that the funds are used for their intended purpose. Additionally, the trustee could have discretion to make distributions for other needs, such as health care or starting a business, as beneficiaries' needs evolve.

In another scenario, a grantor might use an ILIT to support charitable causes in addition to providing for their family. In that case, the grantor could specify that a portion of the life insurance proceeds be distributed to selected charities. The trustee would manage distributions to charities and loved ones to ensure they align with the grantor's intentions.

## We're Here to Help

A life insurance strategy incorporating an ILIT is just one way families can help to accomplish key estate-planning goals like asset protection, tax minimization and efficient wealth transfer. Your wealth advisor can help you understand the alternatives, as well as the costs of setting up an ILIT and the ongoing responsibilities of administering it, based on your unique needs and goals.

For more information visit: [mariner.com](https://mariner.com)

<sup>1</sup>["IRS provides tax inflation adjustments for tax year 2024"](#)

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