

Setting Up an ILIT

This playbook details the sequential steps required to establish an Irrevocable Life Insurance Trust (ILIT). The purpose is to legally arrange for life insurance proceeds to be excluded from your taxable estate.

Step 1: **Assessment**

Consult with an estate planning attorney or a financial advisor to determine if an ILIT is beneficial for your individual circumstances.

Step 2: **Design**

Work with the attorney to design the trust. Decide on the terms, beneficiaries, and the trustee who will manage the ILIT.

Step 3: **Document Drafting**

Have your attorney draft the ILIT document, which will specify how the trust should be managed and how the insurance proceeds will be distributed.

Step 4: **Trust Signing**

Sign the trust document in the presence of a notary public to make it legally binding.

Step 5: **Trust Funding**

Transfer ownership of your existing life insurance policy to the trust or have the trust purchase a new life insurance policy on your life.

Step 6: **Payment**

Arrange for the trust to pay the life insurance premiums. This may involve transferring money to the trust, which the trustee can then use to make premium payments.

Step 7: **Maintain Trust**

Manage the trust according to its terms, including regular premium payments and adherence to any gifting strategies, to ensure it's not included in your estate.

General Notes

Tax Consulting

Consult with a tax professional in addition to an estate planning attorney to understand the full tax implications of an ILIT.

Grantor Rights

Understand that as a grantor, you will relinquish all rights to the policy once it's placed in an ILIT.

Crummey Letters

Familiarize yourself with the use of Crummey letters, which allow for gifts to the trust to be free from gift tax up to a certain amount while funding insurance premiums.