Irrevocable Life Insurance Trusts And How They Fit Into Estate Plans

westwoodgroup.com/weeklyfp/irrevocable-life-insurance-trusts-and-how-they-fit-into-estate-plans/

An irrevocable life insurance trust (ILIT), sometimes referred to as a wealth replacement trust, is a trust that is funded, at least in part, by life insurance policies or proceeds. If properly implemented, an ILIT can help minimize estate taxes and provide a source of liquid funds to your estate for the payment of taxes, debts and expenses.

Generally, assets you own at death are subject to federal estate tax. This includes life insurance policies and proceeds. Estates in excess of the applicable exclusion amount (in 2022, $12,060,000 plus any deceased spousal unused exclusion amount) may have to pay estate tax at rates as high as 40%.

An ILIT can also help minimize state death taxes. There are many reasons to use a trust rather than have an individual own your life insurance policy. For example, having your spouse own the policy may defeat the purpose of the ILIT, as the proceeds will be subject to estate taxes in their estate. Having an adult child or any other individual own the policy may expose the policy or proceeds to that individual's creditors or may create disharmony among family members. An ILIT can accomplish some or all of the following:

- Avoid inclusion of the proceeds in your (and your spouse's) estate
- Make the cash liquidity provided by the total proceeds available to the estate of the insured
- Insulate the proceeds from estate taxes over multiple generations
- Provide professional management of the proceeds
- Protect the policy and proceeds from future creditors and potential ex-spouses
- Provide incentives to beneficiaries

IMPORTANT DISCLOSURES

The information contained herein represents the current views and opinions of Westwood Wealth Management and its Financial Planning Group (collectively "Westwood"). The content presented has been curated by Westwood, but the material is the product and property of Broadridge Investor Communication Solutions, Inc., which Westwood has licensed for use and distribution. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable.

This presentation does not constitute an offering of any security, product, service or fund. No investment strategy can guarantee performance results. Past performance is no guarantee of future results. All investments are subject to investment risk, including loss of principal invested.

This presentation is provided without regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not contain investment recommendations. This publication is also designed to provide general information about economics, asset classes and strategies. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon and risk tolerance. Not all asset classes and strategies will be suitable for all investors.

Westwood makes no representations as to the accuracy or the completeness of any of the information herein. The information in this material is only as current as the date indicated and may be superseded by subsequent market events or for other reasons. Any statements of opinion constitute only current opinions of Westwood, which are subject to change and which Westwood does not undertake to update.