

Strategic Insights



Preserving Family Values With An Irrevocable Life Insurance Trust (ILIT)

Values of the Affluent

Affluent clients commonly want to leave enough of their wealth to their children to assure them opportunities, but not enough to enable them not to work. The survey conducted by US Trust indicates that most affluent clients do not want to leave more than \$5.3 million dollars to any one heir. Additionally, only 64% of affluent clients plan to leave all their assets to their children.

The reasons behind this attitude are best reflected by these statistics from the study done on today's millionaires by US Trust.

- Only 10% inherited wealth.
- Many come from middle or lower background and worked through college.
- Work average of 56 hours per week and have worked for 29 years.
- 27% of their after-tax income is invested.

How to Structure the Trust

A properly structured ILIT allows your clients to reward, from the grave, valued behavior demonstrated by their children, grandchildren, great grandchildren, and beyond. This is one way to pass on your "family values" to generations not yet born.

The ILIT should be drafted as a multi-generation trust with specific guidelines to the trustee for payout of trust assets. In order for the trust to last for multiple generations,



it must be drafted pursuant to the laws of one of the eight states that has legislation modifying or eliminating the "rule against perpetuities". It is not necessary for the grantor, the trustee, or the beneficiaries to reside in that state or for the assets to be located in that state.

Rewarding Valued Behavior

Most ILITs like this begin by assuring heirs money for



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education and medical needs. Most then expand to providing dollars for starting business ventures and/or purchasing homes. Finally, rewards are paid for specific behavior.

Common examples of reward distributions include:

- \$10,000 for graduating college with at least a B average
- \$10,000 upon a first marriage, if the beneficiary is at least 21 years of age
- \$10,000 for the birth of a child, if the beneficiary is married prior to the birth, and only if it is their first marriage
- \$50,000 to be paid by the trust every 25 years to the family member who has contributed most to society in the field of medicine, law or education
- \$1 of trust income for every dollar of earned income

The directives for distribution are limited only by your

imagination. It truly is an opportunity for you to define the values you hope your heirs will demonstrate and to reward that behavior.

Today's Planning Environment

If you have been reluctant to buy life insurance to protect against loss of assets to estate taxes thinking, "Even if I have to pay estate taxes, my kids will still be getting more than anyone ever gave me," a creatively structured ILIT may be a better solution. The ability to pass on family values may be just what you were looking for in a plan. With the uncertainty surrounding estate taxation, planning requires flexibility. The ILIT allows you to purchase life insurance outside of your estate, which can be used to pay estate taxes if desired—or, if there are estate taxes when you die—the money can be used to fund the multigenerational ILIT.



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