MassMutual

The Irrevocable Life Insurance Trust

Meeting your needs today; protecting your family's tomorrow

Help secure your family's future from financial worries with an irrevocable life insurance trust (ILIT).

An ILIT helps provide your family financial security after your death. It serves as the foundation of your family's overall estate.

What is an Irrevocable Life Insurance Trust?

An irrevocable life insurance trust, or ILIT, is simply an irrevocable trust funded with life insurance. It is not just an estate planning vehicle but can also provide benefits during your lifetime.

The benefits of an irrevocable life insurance trust:

- Your spouse can be the trust's primary beneficiary.
- The trustee can access policy cash values[1] or other assets to make distributions for the benefit of your spouse and children.
- The trustee can loan or sell trust assets to you.
- Your spouse can hold a power to change the trust terms or to distribute trust assets to other beneficiaries.

***The information provided is not written or intended as specific tax or legal advice. MassMutual, its subsidiaries, employees, and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.**

An ILIT is a vehicle that carries out your instructions on how your assets should be invested, managed, and distributed — for the benefit of your family. You appoint one or more trustees to carry out your wishes, as expressed in the trust document. The use of this type of trust can allow you to make gifts over a period of years that qualify as exempt transfers under the estate and gift tax laws. Assuming the trust is properly structured, the assets held by the trustee will not be included in your taxable estate.

An ILIT Helps You to Keep the Promises You've Made

We all make promises to keep our families safe and secure even after we're gone and to give our children the benefits of our own success. We promise ourselves that our future will be free from financial worry.

A well-designed ILIT not only helps to provide your family with financial security after your death, but it also provides you with the optimal tool to help accumulate, conserve, and protect your assets. This enhances your financial security during your lifetime. This trust also serves as the foundation of your family's overall estate plan. It helps you to keep your promises.

Certain benefits can be received throughout your children's lifetime with an estate plan or with an ILIT.

[1] Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Who Can Serve as Trustee of my ILIT?

You can choose an individual or a trust company. The trustee should be someone who is financially responsible and trustworthy to carry out your wishes.

You may want to consider multiple trustees with at least one family member and one independent person. Examples of potential trustees include your attorney, your CPA, your best friend, or a bank trust department or other professional trustee. With proper planning, you could even name your spouse as a trustee.

You Care About Leaving an Inheritance for Your Children, but Your Primary Concern is Meeting the Needs of You and Your Spouse

We all have goals we want to meet during our lifetime, such as:

- The education of our children.
- A comfortable and financially secure retirement.
- The purchase of a vacation home.

You can transfer assets to your trust without giving up your dreams of a secure future.

While it's true that you cannot revoke the trust, that does not prevent you from obtaining any benefit from trust assets. Your spouse can be named the primary beneficiary of the trust. The trustee can make distributions of trust assets to your spouse throughout the remainder of his or her lifetime. These distributions can be used to supplement your spouse's otherwise available retirement income.

What happens if your spouse dies first? Have you lost access to the trust's assets? No, the trustee can loan trust assets to you during your retirement years. Any unpaid loan balance reduces the value of your taxable estate at your death — even if the beneficiaries of your estate and your trust are exactly the same.

Choosing a responsible and trustworthy individual or trust company as your trustee can help you carry out your wishes after you're gone.

- Lifetime goals can be met with the right ILIT.
- Gifting can benefit each potential beneficiary.

Did you know MassMutual Trust Company can serve as your corporate trustee? Learn more at www.MassMutualtrust.com.

The Tax Cuts and Jobs Act of 2017 increased the lifetime gift tax exemption to an indexed amount of $11.58 million in 2020. That means that you and your spouse can each make tax-free gifts of $11.58 million. This enhanced exemption amount is effective through December 31, 2025.

This amount is in addition to the $15,000 (in 2020) per beneficiary annual gift tax exclusion.[2] You and your spouse can gift $30,000 for the benefit of each potential beneficiary of a properly structured trust.

For example: If you and your spouse have two children and five grandchildren, you can make gift tax-free transfers of $210,000 per year to the trust. You can also transfer up to $23.16 million using your lifetime gifting exemption.

Note that if your spouse will be the primary beneficiary of the trust, you will have to physically make all of the transfers to the trust out of your own separate property. If you live in a community property state and do not have separate property, your attorney can help you to create separate property out of your community funds.

Your ILIT will help to make certain that your family will receive as much of your estate as is legally possible.

[2] The annual gift tax exclusion is indexed for cost of living adjustments. The per donee exclusion amount for 2020 is $15,000. Please refer to IRS.gov for the most up to date information.

How Long Should my Trust Last?

That question should be decided after you compare the benefits of continuing the trust with the costs of maintaining the trust.

Typically, parents will structure their children's inheritance to be paid out in installments while the children are gaining financial and emotional maturity. A common example is to structure the trust to distribute one-third of its assets at age 25, one-half at age 30, and the remainder at age 35.

There are certain benefits from maintaining the trust throughout your children's lifetimes. Assets held in the trust may be completely exempt from your children's creditors, including a divorcing spouse. Keeping assets in the trust can also shield them from being includable in your children's taxable estates.

The costs of maintaining the trust include potential trustee and accounting fees. One other potential disadvantage is that your children do not have outright control of the trust assets. However, you can provide for your children's involvement in the management of the trust by appointing them as co-trustees with an independent trustee.

A life insurance death benefit is generally income tax free and is received at the time most needed by the trust beneficiaries.

What Assets Should be Held in the Trust?

Life insurance is an advantageous asset held in an ILIT.

The benefits of an irrevocable life insurance trust:

- The insurance premiums may fit within the allowable annual gift tax exclusion.
- The cash value within an insurance policy is tax-deferred.
- Surrenders from the policy are tax free up to the amount of premiums paid.[1]
- Most importantly, the insurance death benefit is typically income tax free and is received by the trust at the time most needed by the trust beneficiaries or to help pay estate settlement costs.

The trust can hold other income and non-income producing assets as well. Closely held business stock and Limited Liability Company (LLC) or Family Limited Partnership (FLP) interests can be gifted to the trust at a discount from fair market value. Rental real estate or vacation home property can be held by the trust.

The ILIT is multifaceted and may be used to:

- **Provide income for your family.**
- **Remove assets/life insurance from your taxable estate.**
- **Provide funds for estate settlement costs.**
- **Shelter assets from the reach of creditors.**
- **Avoid probate expenses.**
- **Maintain confidentiality.**
- **Provide for asset/investment management.**

AS6027e 320 CRN202203-260917