Irrevocable life insurance trust (ILIT):

How does it work?
Is it right for your estate plan?

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Life insurance is commonly used to supplement income upon an individual's passing. Within your estate plan, it can also provide an important alternative purpose if you use an irrevocable life insurance trust (ILIT).

An ILIT is designed to own an insurance policy on your life (or the joint lives of you and your spouse), and if it is properly drafted and administered, assets remaining in the ILIT after your death will be excluded from your taxable estate. ILITs can facilitate the transfer of assets to beneficiaries, mitigate federal or state estate taxes by reducing the taxable estate and provide a source of potential liquidity for paying state or federal estate taxes or other expenses.

An ILIT might be appropriate for you if:

- You (or you and your spouse) might have a taxable estate above the federal exemption levels.*
- You might have state estate tax liability.**
- You're interested in directing/limiting the use of or access to gifted assets.
- You're seeking a liquidity option for tax payments or other estate expenses (such as supporting a business or maintaining real estate).
- You have adequate assets to support your current and future spending needs, including the ability to continue making gifts toward the payment of any life insurance premiums.
- You (or you and your spouse) are insurable.

Why consider using an ILIT now?

- **Insurability.** Life insurance costs generally increase with age and declining health.
- **Cash flow.** Generally, ILITs don't require an immediate substantial gift, since they can be structured so gifts only cover a life insurance policy's annual premium.
- **Large estate tax exemption.** ILITs can be funded using the current lifetime exemption. The IRS has indicated that gifts you make today, up to the current exemption, won't create additional estate tax liability upon your passing, even if the exemption amount should decrease.

** In 2025, an individual can pass $13.99 million ($27.98 for a married couple) either during life or upon their death before paying any federal estate tax. If there are no legislative changes, those amounts are scheduled to be reduced by roughly half after 2025 to $6.5 million–$7 million.*

***Twelve states and the District of Columbia have state estate tax in 2025. Check with your estate-planning attorney to determine whether your state of residence or the location of any property could subject you to state estate taxes.*

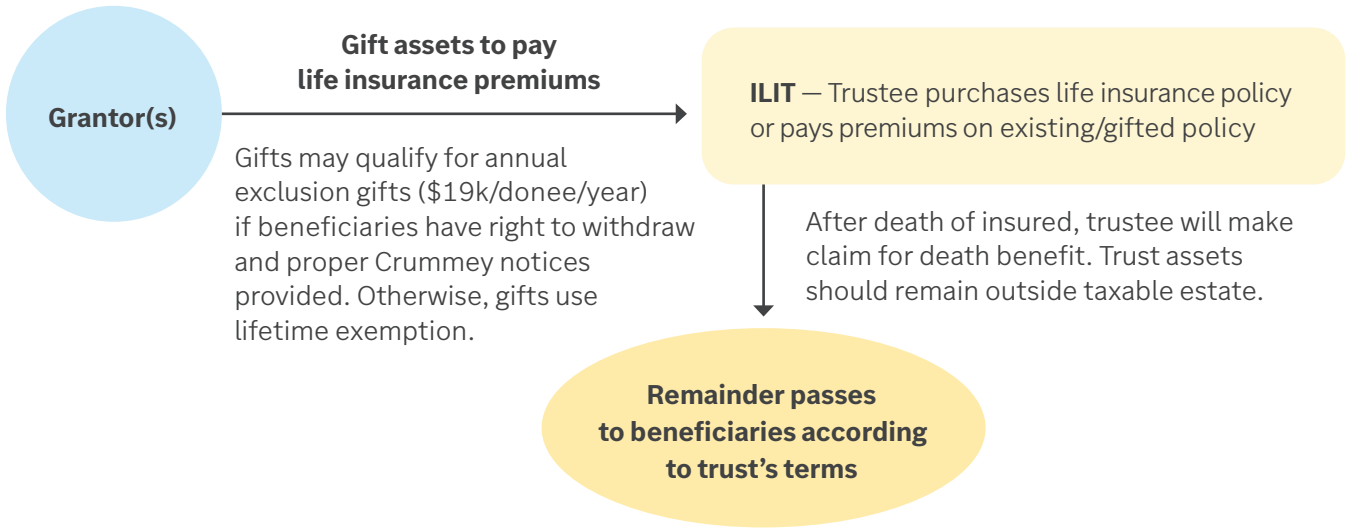
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Important steps in adding an ILIT to your estate plan

1. Work with your estate-planning team to determine whether an ILIT can help meet your goals. If so, you'll want to work closely with your team throughout the creation and administration of the ILIT to ensure important requirements are satisfied, allowing you to maintain essential ILIT benefits.
2. Your attorney will draft the trust agreement. You will need to determine:
   a. Who will be the grantor (or creator) of the trust?
   b. Who will serve as trustee?
   c. Who will be the trust's beneficiaries?
   d. How will the trust's assets be distributed?
3. You can gift assets to the trust using your annual gift exclusions and/or part of your lifetime federal estate and gift tax exemption. Gifts can be in most any form, including cash, marketable securities or an existing life insurance policy.*
4. The ILIT trustee will provide appropriate notice to trust beneficiaries about gifts. Depending on the terms of the ILIT, these notices might be Crummey notices (named for the court case *Crummey v. Commissioner*), notifying your beneficiaries of their right to withdraw part or all of your gift to the trust.
5. If beneficiaries don't exercise their withdrawal rights, the trustee will purchase a life insurance policy or maintain an existing policy by paying its annual premium. Upon the death(s) of the insured, the trustee will claim the death benefit from the policy, and the proceeds and any other assets held by the ILIT should remain outside the taxable estate.
6. The assets will be distributed outright to beneficiaries or held in trust for their benefit, depending on what you chose. If permitted by the terms of the trust, the trustee could work with your estate's executor to loan the ILIT's assets to your estate. The trustee could also purchase assets from the estate, providing liquidity for the executor to pay estate taxes or support other assets, such as a business or real estate. There may also be negative estate-tax implications if you transfer a life insurance policy and pass away within three years.

**If you choose to gift an existing life insurance policy, you'll work with your tax preparer to value the gift. The IRS provides guidance to determine the fair market value of life insurance policies, but for an in-force policy in place for some time, the gifted value is often close to the policy's cash value.*

Diagram of an ILIT



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Funding an ILIT using annual exclusion gifts and Crummey notices

A significant advantage when using ILITs is the opportunity to make gifts to the trust to pay insurance policy premiums and have those gifts qualify as annual exclusion gifts.

- According to the IRS, a gift is a present interest if the recipient has all immediate rights to the use, possession and enjoyment of the property or income from the property.
- A gift to an ILIT (or other irrevocable trusts) can qualify as a present interest if the beneficiaries are provided the temporary right (usually a minimum of 30 days) to withdraw the gifted assets from the trust.
- The trustee will provide a Crummey notice to the beneficiary of their withdrawal rights.
- To the extent the withdrawal right is not exercised, it will expire, and the gift becomes part of the principal of the trust, available for investment in an insurance policy or other assets.

Key considerations of an ILIT

Funding. An ILIT for which proper procedures are followed (including the issuance of Crummey notices) can have assets gifted to it that are covered by the annual gift tax exclusion for you and your spouse without using any lifetime federal estate and gift tax exemption. For example, assuming you are married and have three children, you and your spouse could gift up to $114,000* annually to the trust. After the trustee issues Crummey notices to the three children and the proper withdrawal period has lapsed, the trustee can use the $114,000 to pay an annual premium on a life insurance policy. This process can be repeated year after year.

Annual exclusion gift funding example

Assuming you are married and have three children, you and your spouse could gift up to $114,000* annually to the trust.

$19,000 X 3 children = $57,000 per spouse

Source of liquidity. An ILIT could provide a source of liquid assets if there is a concern about possible estate tax liability or other cash needs. While an ILIT can't directly pay tax liabilities or other debts or expenses, the trust document can provide the trustee the power to loan liquid assets to your estate or purchase estate assets. ILITs might also be used to create a source of cash to pay non-estate tax liabilities, such as income tax on qualified assets that pass through your estate, offset charitable gifts or counterbalance specific bequests, such as the transfer of a business to a particular beneficiary.

Cash flow and spending needs. An ILIT is an irrevocable trust, so you won't be able to amend or revoke it. You also won't be able to use or receive any benefit from the assets that you gift to it. Ensure you consider the future costs of the ILIT's life insurance policy's premiums to avoid a potential policy lapse.

*2025's annual gift exclusion is $19,000 per donor.

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Trustee selection. The grantor(s) shouldn't serve as trustee of an ILIT, because doing so would create an "incident of ownership" over trust-owned life insurance policies, making the policy includible in the grantor's taxable estate.

An ILIT's trustee's responsibilities include:

- Providing any needed Crummey notices or other appropriate notices to grantor and beneficiaries
- Investing and monitoring the assets of the trust, including any trust-owned life insurance policies
- Filing any required tax returns or legal paperwork
- Claiming life insurance proceeds at the appropriate time
- Distributing assets according to the terms of the trust

If you're interested in naming your spouse as a trustee, discuss your plans with your estate-planning attorney, since it could create concerns over includability in their own taxable estate if they're also a beneficiary of the ILIT. Other parties who might serve as a trustee include family members or friends who have the appropriate skills and interest in the role. Because of strict requirements on trust administration, you should consider naming an attorney, CPA or professional or corporate fiduciary with the appropriate expertise and experience.

Investment choices. ILITs can hold term or permanent policies, although permanent policies are the most common. Term policies are less common because there is no buildup of cash value. Second-to-die policies are popular for married couples, since the cost of insurance is typically lower on two individuals' lives versus one.

When contemplating the use of an ILIT, it's important to consider your insurability. Although ILITs are generally created to hold life insurance, they're permitted to hold other assets, such as cash, brokerage assets, real estate or business interests.

ILIT tax implications

Federal or state estate and gift tax. ILITs allow you to transfer assets (including the value of a life insurance policy) and their appreciation outside your taxable estate. However, if the terms of the ILIT aren't properly followed, or the insured party or parties serve as trustee, the trust assets might become includible in the estate. Policies gifted to the trust will be included in your taxable estate if you pass away fewer than three years after the gift. Gifts that don't qualify for the annual exclusion or are above the annual exclusion amount will reduce your lifetime federal estate and gift tax exemption.

Income tax. ILITs can be drafted as grantor trusts for income tax purposes, which means you will report the trust's income tax liability on your 1040 tax form and pay taxes accordingly. The income tax liability should be negligible for ILITs that hold a life insurance policy and nominal cash.

Generation-skipping transfer (GST) tax.* You can allocate your GST exemption to an ILIT if you intend for the trust to benefit skip persons.

Transaction costs. Costs of an ILIT can include legal fees associated with drafting and executing the trust, annual accounting and tax return preparation fees and trustee fees.

*GST tax is assessed when assets are transferred to a "skip person" — an individual who is more than one generation away from you (such as a grandchild) or is unrelated and more than 37.5 years younger than you. Every U.S. citizen has a GST exemption of $13.99 million in 2025.

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ILITs: Potential benefits	ILITs: Potential trade-offs
• Removes value of life insurance policy (and its appreciation) from the future taxable estate through the insurance policy's leverage opportunity. • Can provide a source of liquidity after the death of the grantor (which might be needed for estate taxes or other expenses). • ILITs can be funded using annual exclusion gifts (if allowable by the trust and proper Crummey notices are provided) or the use of lifetime exemption. • Grantor chooses when and how assets can be used by trust beneficiaries.	• Grantor loses permanent access and control of assets gifted to the trust. • Proper administration must be followed to avoid estate tax inclusion or unintended use of the grantor's gift tax exemption. • Grantor/insured cannot serve as trustee to avoid having trust includible in taxable estate. • Costs could include legal fees, annual accounting and tax prep fees, and trustee fees. • Beneficiaries will likely have the ability to withdraw all or a portion of the gifted assets, allowing them to control their use.

For more information about ILITs and whether they might be a good fit for your financial strategy, talk with your financial advisor.

Edward Jones, its employees and financial advisors are not estate planners and cannot provide tax or legal advice. Please consult your attorney or qualified tax advisor regarding your particular situation.

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