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**AVIVA**

# Estate Planning

Your estate and the  
Irrevocable Life Insurance Trust

Client reference guide



## Estate Planning

### Your estate and the Irrevocable Life Insurance Trust

Do you know what the value of your estate is? Do you know that the death benefit proceeds of any life insurance policies you own and/or have control over will be included in your estate for federal estate tax purposes at your death?

All of the property you own or have an interest in will be included in your gross estate for purposes of calculating any federal estate tax due upon your death. This includes real estate, personal property, business interests, retirement account balances and other items. Many people assume that because death proceeds of a life insurance policy are typically payable to a third-party beneficiary, those proceeds won't be added into the value of the estate when calculating federal estate tax.

# Estate Planning



## Estate tax at work

Estate tax is calculated on the value of your gross estate. Your gross estate includes all property you own or control as of your date of death. One of the most overlooked items that must be included in your gross estate for estate tax purposes is life insurance. If you own a life insurance policy on your own life, have the proceeds payable to your estate, or otherwise have a measure of control over a policy on your life (i.e. access to cash value, power to designate the beneficiary), the proceeds of that policy will be counted as part of your estate for purposes of calculating any estate tax that may be due. For instance, assume you own real estate and personal property valued at \$1 million. In addition, you own and are the insured on a life insurance policy with a face amount of \$1 million. If you were to die today, your gross estate would be valued at \$2 million, even if someone other than your estate were the beneficiary of your life insurance policy.

So, how can you adequately provide for your heirs with life insurance without having the proceeds includible in your estate for estate tax purposes? By utilizing a planning strategy that uses an irrevocable life insurance trust (ILIT) as the owner of the policy. An irrevocable trust can be formed specifically to hold a life insurance policy. Such a trust is usually created during the grantor's lifetime and typically the beneficiaries are a spouse, children, grandchildren, and other family members.

## What is an ILIT?

An irrevocable trust is one where you give up all rights in the property that is placed in the trust, and you cannot amend or revoke the trust once it is set up. The assets in such a trust will generally not be included in your estate for estate tax purposes if:

- The trust is irrevocable;
- A third party is the trustee;
- You have retained no incidents of ownership over the property transferred to the trust; and,
- Assets of the trust are not directly used to pay any estate costs.

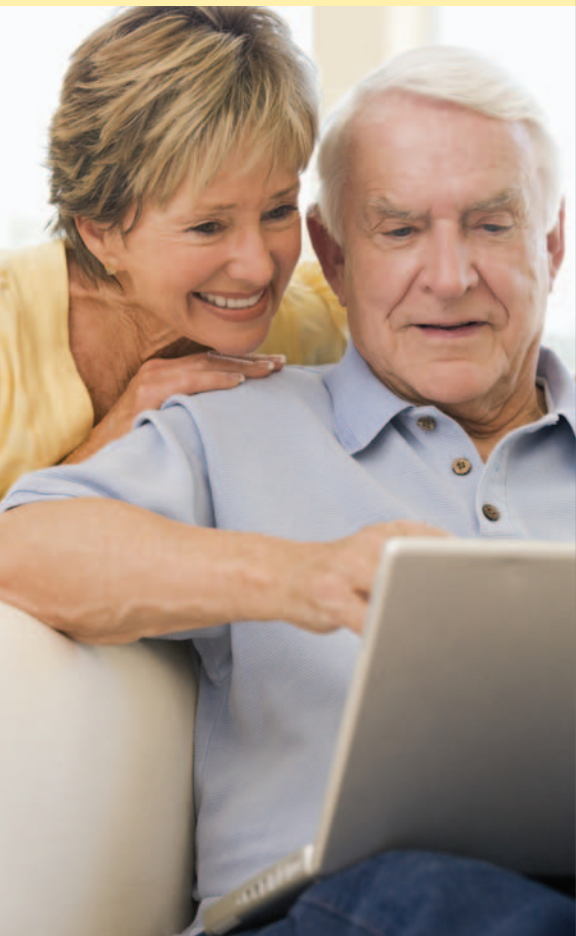
## Here's How it Works

When life insurance is used with such a trust, typically the trustee will apply for a policy on your life, and you will gift dollars into the trust sufficient to pay annual premiums that may be due. The beneficiaries of the trust, typically your spouse and/or your heirs, will have special withdrawal powers over the annual gifts you make to the trust for a limited period of time (referred to as "Crummey" powers, named after a famous court case). This makes the gift of dollars into the trust qualify for your \$13,000 per person (as indexed for 2011) annual gift tax exclusion. While it is possible to transfer an existing life insurance policy to an ILIT, there are special rules that apply to such a transfer. One important rule is if you die within three years of transferring a life insurance policy, it will still be included in your gross estate for estate tax purposes.

By using life insurance inside an ILIT, you can accomplish some very important estate planning objectives. You can help meet the liquidity needs of your estate by authorizing the trustee to either loan dollars to your estate or to purchase assets from your estate at fair market value. You can provide for the income needs of your heirs while sheltering assets in the trust from creditor claims at your death. You can replace the value of assets you may have gifted to charity and your heirs may receive more through the death proceeds than if you were to sell those assets and pay capital gains and estate taxes. And, you can accomplish all these goals without having the life insurance death proceeds subject to estate taxation.

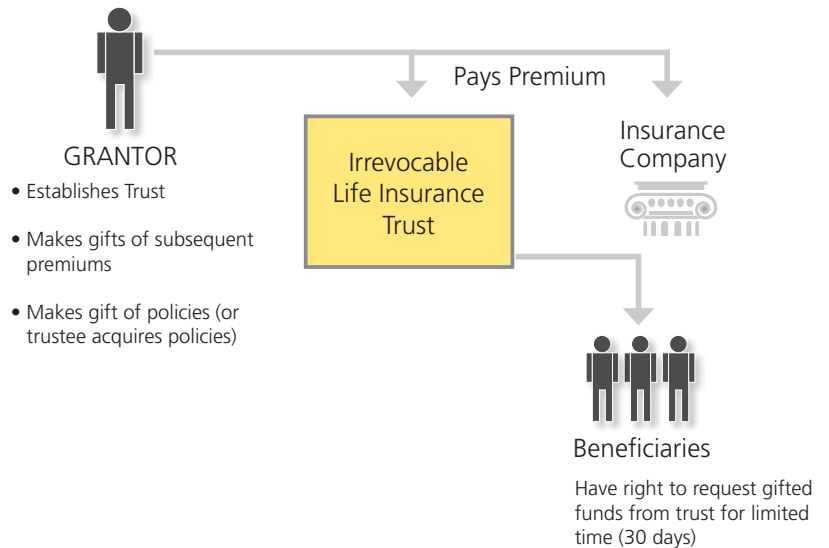
# Is this type of planning device right for you?

An Irrevocable Life Insurance Trust is a sophisticated estate planning tool and requires special legal, accounting and tax counsel to reach its full potential. Your financial advisor can assist you in bringing together the necessary professionals to review your situation and determine if an ILIT is right for you.

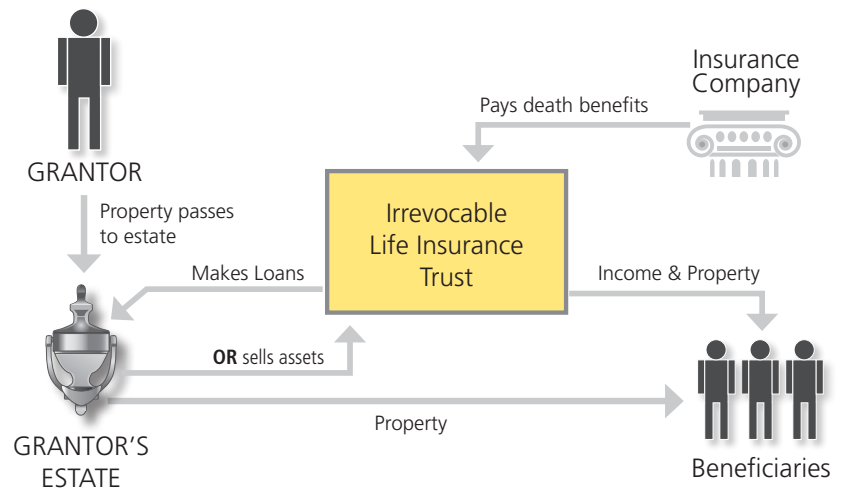


## An ILIT at Work

### During lifetime



### Upon death



## Conclusion

There is a perception today that estate planning means planning only for the distribution of property at your death. In reality, the purpose of estate planning should be for you to enhance your estate during your accumulation years, to maintain your financial security during your retirement years, and to provide for the most efficient transfer of property at your ultimate death. With proper planning, these goals can usually be met while at the same time avoiding the conflict and delays inherent in the estate distribution process, and reducing expenses.

# Estate Planning





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We're developing new ways to provide better service to you.

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