



# Revocable Life Insurance Trusts

## A Contemporary Strategy in a New Tax Landscape under the TCJA

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# What is a Revocable Life Insurance Trust?

- A stand-alone revocable living trust designed specifically for owning life insurance (or receiving death benefits) in order to accomplish certain objectives.
- -or- A provision in a revocable living (family) trust encompassing all the same components as a separate insurance trust.
- Typically designed and focused solely on life insurance.
- With the Unified Credit so high (\$11.4M), there are other advantages to holding life insurance in a trust other than gross estate exclusion.

# A Variety of Purposes and Goals (1 of 3)

- Allows for Complete Control of Distribution of Death Benefits
  - Trusts can be designed to pay out benefits over time or in phases to minimize risk of misuse by beneficiaries.
- Can Influence or Control Beneficiary Behavior
  - Distribution of benefits can be made contingent based on certain behavior or accomplishments (e.g., “bonus” for graduating, income matching, etc.).
- Provides Asset Protection for Beneficiaries
  - With the benefit being paid into a trust, the beneficiary can have a substantial amount of control while also receiving continual benefit.

# A Variety of Purposes and Goals (2 of 3)















- Allows for “Forum Shopping” or “Jurisdiction Shopping”
  - Special jurisdictions can be used for life insurance (e.g., Alaska for multi-generational longevity, Delaware for asset protection, etc.) while the insured’s home jurisdiction can be used for the rest of the estate.
- Can Also Act as a Pre-Funded Special Needs Trust
  - Financial planning can reveal specific financial needs of fixed-income beneficiaries, and life insurance paid into a SNT can pre-fund care.
- Provides Opportunity to Small Estates
  - Small estates can avoid probate even without a trust, but a Revocable Life Insurance Trust can provide control of distribution even though probate avoidance is unneeded.



# A Variety of Purposes and Goals (3 of 3)

- Equalization of Multiple Variable Policies
  - Multiple policies exposed to varying investments and levels of risk can be grouped within a single trust, thus equalizing distribution.
- Can Act as a “Trial Run” for any Estate Plan
  - Current trustees can be put in place while the Settlor still maintains the right to step in him/herself. A situation can be created where the Settlor is able to see how trustees and beneficiaries will interact with each other.
- Creates Intra-Family Privacy
  - A policy paid out to a separate trust will be 100% confidential to everyone but the beneficiary/ies of that trust, allowing for unequal distributions among family members (if needed).

# RLIT v. ILIT (Advantages and Disadvantages)

	RLIT	ILIT
<b>Easy to control</b> , Amend, and Manage Multiple Policies		
Allows for <b>Protection</b> of Policy if Owner is <b>Incapacitated</b>		
Can be Structured so as to have <b>Zero Tax Implications</b>		
Can Receive, and <b>Coordinate with Other Assets</b> (IRAs, etc.)		
Provides Flexibility Throughout Life for <b>Multi-Generational Planning</b>		
Death Benefits are <b>Excluded from Gross Estate</b>		
Avoidance of “ <b>Panacea Syndrome</b> ” and Risk of Failure		

# Tax Implications

- Included in Gross Estate
- Unlike and ILIT, the Payment of Premiums are **Not** Gifts
- Policy Owned by One Party on the Life of a Second Party Paid to a Third Party Constitutes a Gift
- All Income Tax Liability is Taxed to the Grantor

# Asset Protection Implications

- No Asset Protection for Grantor
- Benefits Paid to Beneficiaries are Protected from Beneficiary Creditors.
- Beneficiaries Can Maintain Some Control and Still Enjoy Protection.



# Concluding Thoughts

- Advantages of an ILIT Other Than Gross Estate Exclusion are Often Overlooked. When Estate Taxes are Not a Concern, an RLIT can Provide Those Advantages...and More.
- Thinking Outside the Box Can Provide a Trust Structure to Accomplish Many Universally Applicable Goals and Objectives.
- Despite the “Revocable” Nature of the RLIT, There are Tax and Asset Protection Implications Which Should be Considered.