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Protect your legacy for life

The basics of trusts in estate planning

LIFE SOLUTIONS

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Take your estate into your own hands

Creating an estate plan can help solidify your vision for the future by putting you in control of the assets you worked so hard to attain. Prepare for your family's needs or fulfill philanthropic goals using estate planning tools, such as a trust.

So, what is a trust?

A trust is a legal agreement between the grantor and a trustee, whose role is to hold and manage assets for one or more beneficiaries. There are two types of trusts: a **revocable trust** and an **irrevocable trust.**

A **revocable trust** can help individuals unconcerned about estate taxes, but who want to avoid the cost and inconvenience of the probate process. Often called a living trust, it can be terminated or modified at any time during the life of the grantor. This type of trust also allows a successor trustee to manage assets in the trust should a grantor become incapable of doing so.

An **irrevocable trust** can help individuals concerned that their high net worth will incur estate taxes and who want protection for the legacy that the grantor wishes to pass along to their loved ones. It cannot be terminated or significantly modified by the grantor. This type of trust also protects beneficiaries who have special needs, or who may not be able to manage their own money.

Benefits of a Life Insurance Trust

A life insurance policy helps protect your family, business and the legacy you've created. Naming a trust as owner and beneficiary of your life insurance policy can help you control how the proceeds are distributed, taking fate — or the courts — out of the equation.

Other benefits of a life insurance trust include:

- Immediate availability of cash to pay estate taxes and other expenses
- Reduction of estate taxes by excluding life insurance proceeds
- Avoidance of delays and legal fees associated with probate
- Control over life insurance proceeds after you're gone

To meet your estate planning goals and take advantage of these benefits, existing insurance policies need regular reviews.

Who should have a trust?

While a trust is beneficial for many people, it may not be needed by everyone. A trust may be the right solution for your estate if you:

- Have over $200,000 in assets
- Want to simplify the probate process for loved ones
- Have a taxable estate
- Want to add stipulations on inheritances

What to include in a trust?

Once you decide that a trust will benefit your estate goals, you can start looking at what assets you'd like to include in it. Your trust can hold:

- Real estate
- Brokerage accounts
- Cash accounts, including money markets and CDs
- Businesses you have ownership of
- Stocks and bond certificates

Key terms

Grantor	The creator of the trust
Trustee	The person selected by the grantor to manage the trust
Beneficiary	The individual, institution or estate which receives the trust's assets

Start protecting your legacy

Establishing an estate plan can help you — and your loved ones — feel secure for the future. It puts you in control of your assets and protects the legacy you worked hard to build. See how adding a trust strategy with life insurance into your estate plan can help with your financial goals.

SITUATION #1:

I want my family and business to be protected.

Who it impacts

My spouse, loved ones, business partners, employees

Strategy

An irrevocable life insurance trust (ILIT)

SITUATION #2:

I want my disabled dependent well cared for.

Who it impacts

My physically or mentally disabled child

Strategy

A special needs trust

SITUATION #3:

I want to gift assets to my favorite charities.

Who it impacts

My church, community groups and foundations

Strategy

A charitable remainder trust (CRT)

Already have a policy in place?

Talk to your attorney and financial professional about reviewing existing assets held in your trust. Often, a life insurance policy is a neglected asset that needs to be reviewed to weather market conditions, just like other investable assets. Also, keep in mind that the trustee may need support by an attorney or financial professional to review existing insurance policies and make sure they're on track to accomplish your estate planning goals.

Take control of your future

The strategy: irrevocable life insurance trusts (ILITs)

An ILIT allows you to pass along insurance proceeds to your heirs estate tax-free. It is an irrevocable trust — meaning it cannot be changed once created — that holds a life insurance policy within it, and these assets are not included in the grantor's estate. Because the proceeds are outside of the estate, federal estate taxes are avoided, leaving more money for estate expenses and for your beneficiaries.

How ILITs work

- A grantor often makes annual gifts to pay the life insurance premium
- The grantor gives each beneficiary the ability to withdraw the gift during a short period of time each year under the gift tax exclusion
- Policy proceeds are passed along to the beneficiaries estate tax-free upon death of the grantor

Advantages

- The insurance premiums paid are discounted compared to liquidating assets to pay taxes
- This prevents a distress sale of the grantor's business, real estate or investments
- And it helps avoid probate while maintaining confidentiality

How to implement

Talk to your attorney and financial professional to make sure an ILIT is the right solution for your estate planning goals. If it is, a trust will be drafted by your attorney and a trustee will be chosen to manage the trust. Then, you'll choose your beneficiaries and make annual life insurance premium payments. The rest takes care of itself.

Provide support for life

The strategy: Special needs trusts

Families who have dependents with special needs know that planning ahead to protect their future is essential. Setting up a special needs trust with life insurance helps provide funds to the disabled beneficiary while preserving any government benefits they receive. A trustee can use the trust assets to enhance your dependent's quality of life, for the rest of their life.

How special needs trusts work

- A parent or guardian funds a special needs trust
- A survivorship life insurance policy is purchased by the trust on the parent
- The death benefit goes back into the special needs trust, which helps pay for the care of the beneficiary

Advantages

- This trust provides the beneficiary with the financial means to enhance their life after a parent or caregiver's death
- It effectively provides long-term security and asset distribution in a manner that protects the beneficiary's eligibility for government benefits

How to implement

Speak with your financial professional and attorney to help you set up a special needs trust. You will then transfer assets into the trust and purchase life insurance with the trust as the owner, payer and beneficiary. The life insurance proceeds will be received by the trust and paid out according to the terms you include in the trust.

Share gifts that matter

The strategy: charitable remainder trusts (CRTs)

Many of us enjoy sharing our wealth with causes we care about. If you have a charity or foundation you are passionate about, a charitable remainder trust can help support them while offering tax benefits to you. It can be a win-win solution, especially with recent tax developments.

How CRTs work

- The grantor funds the trust, which invests money into the market
- The trust makes regular payments to the grantor
- All remaining assets are passed along to the charity after grantor's death

Advantages

- Grantors may receive a tax deduction on the donation of assets to a CRT, reducing their income tax liability
- Assets placed into a CRT are excluded from the grantor's estate, reducing estate tax exposure after death
- The remaining assets are distributed to one or more charities of the grantor's choosing

How to implement

There are two types of CRTs: A charitable remainder annuity trust and a charitable remainder unitrust. The CRAT has some limitations but offers a fixed stream of income. A CRUT's income stream is based on the FMV of the assets held in the trust but offers more flexibility as far as additional contributions. Your attorney and financial professional can help you establish whichever CRT works best for your estate planning goals.

Create the legacy you want

Trusts can help you meet different estate planning objectives. Adding in life insurance allows you to create a tax-efficient legacy for the people and things that matter most to you.

- Irrevocable life insurance trust
- Special needs trust
- Charitable remainder trust

Talk with your financial professional to see how you can benefit from Trust-owned Life Insurance.

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