TRUST-OWNED LIFE INSURANCE: AN EFFECTIVE ESTATE-PLANNING TOOL

Trust-owned life insurance (TOLI) is becoming an increasingly common tool in estate planning to provide liquid assets upon the death of a family member. These funds can be used to provide a continued income stream for the policy beneficiaries or to help pay estate taxes and other settlement costs.

When the Trust "Owns" the Policy, You Benefit

If you personally own a life insurance policy, its proceeds are taxed upon your death as part of your estate. The proceeds are also taxed if you happen to die within three years of having transferred the policy to a trust. Naming your spouse as the beneficiary doesn't solve the problem, either. Although policy proceeds that pass to a surviving spouse will qualify for the marital deduction and avoid estate tax when the insured dies, the proceeds will likely be subject to estate taxation upon the spouse's subsequent death.

For a married couple, the idea behind TOLI is to remove the proceeds of the insurance policy from both spouses' estates so the proceeds can pass to children or more remote descendants undiminished by taxes. One way to do this without being subject to the three-year rule is to create an irrevocable trust and have the trust purchase a new insurance policy.

Have an Insurance Professional Review Your TOLI Annually

Once a policy is deposited into a trust and is in force, it is very important for the trustee to have the policy reviewed regularly to ensure that it is performing properly. It is the fiduciary responsibility of the trustee to ensure that every financial instrument contained in the trust is secure and well invested.

Many old policies are not performing the way they were intended to. Industry experts suggest that 25 percent of in-force, non-guaranteed TOLI policies will lapse during the insured's lifetime. Failure to properly review and manage TOLI can expose trustees to liability. An insurance professional can review your policy for suitability, performance, premium adequacy, and carrier financial condition each year.

In many cases, an insurance professional can exchange a poorly performing policy for a better one—either one that has a higher death benefit for the same premium dollar, or one that maintains the same death benefit at a much lower premium.

With all TOLI, careful monitoring is key. With the guidance of a skilled professional, you and your trustee can ensure that the maximum funds will be available upon your death as you originally intended, for the sake of your beneficiaries and future generations.

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