



Irrevocable life insurance trusts

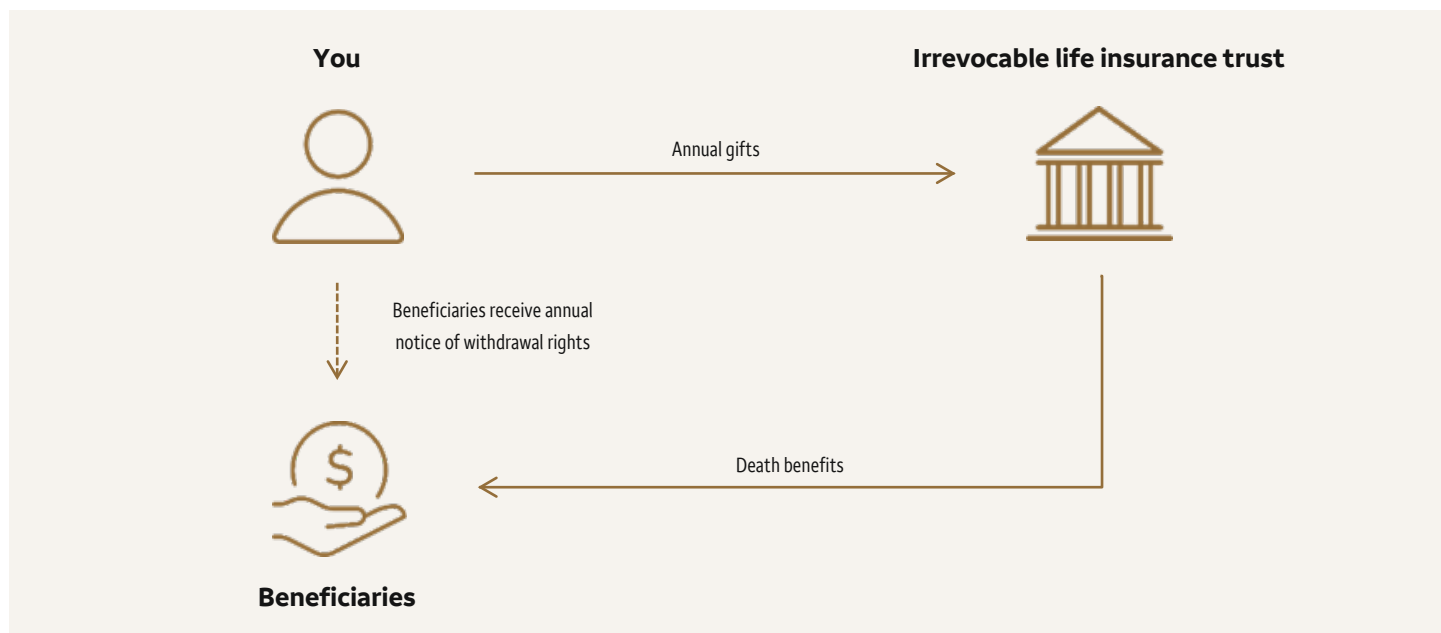
The following information and opinions are provided courtesy of Wells Fargo Bank, N.A.

An irrevocable life insurance trust (ILIT) is a wealth transfer strategy that may help provide liquidity for wealth planning goals. This type of trust is funded with or purchases a life insurance policy on the life of the grantor. In most instances, life insurance is deemed taxable in the insured's estate. When properly structured, the death proceeds will not be included in the insured person's estate by virtue of the grantor not retaining any "incidents of ownership" over the policy. Incidents of ownership may include retaining the right to change the beneficiary, transfer ownership, or use the policy for collateral.

Is an ILIT a good fit for your needs?

- The federal estate tax exemption amount is \$13,990,000, or \$27,980,000 for a married couple in 2025. Will your estate have an estate tax liability?
- Would you benefit from paying life insurance premiums to set aside a future death benefit amount to beneficiaries?
- Do you need to equalize the inheritance amongst beneficiaries if some of your holdings (such as a business) are being transitioned to a specific heir?
- Are you willing to forego control over gifted funds to pay life insurance premiums to gain tax advantages?

How does an ILIT work?



- Do you prefer to create a trust structure rather than leaving the management and administration of the insurance policy to inexperienced family members?
- Are you looking for a potential wealth replacement strategy to complement existing charitable strategies?
- Will your estate require liquidity for business succession and continuity?
- Do you have a need to preserve a beneficiary's eligibility to receive government benefits?
- Commitment to fund life insurance premiums may impact cash flow.
- Existing policies that are transferred to an ILIT by a grantor will still be included in the taxable estate if the grantor dies within three years of the transfer (also referred to as "lookback"). A professional valuation to determine the gift's value is often recommended.
- Life insurance may be unavailable or cost prohibitive based on grantor's health condition.
- ILIT should have an independent trustee. As a general practice, anyone who might provide funds to the trust is not designated as trustee.
- The designated trustee will have the responsibility to monitor the policy to determine if it is adequately funded, performing as planned, as well as the soundness of the insurance policy.

Other considerations

- Size of taxable estate (including insurance you own) could be a factor for consideration.
- Experiencing the impact of lifetime giving is a priority.

A typical ILIT strategy may include these steps:

- Make annual exclusion gifts (up to \$19,000 per beneficiary in 2025). A "funded" ILIT will contain other income-producing assets or marketable securities and may provide liquidity to pay the premiums.

- ILIT is the owner and beneficiary of the insurance policy. For married couples, a second-to-die policy is often used.¹ The trustee uses the gifted funds to acquire and pay premiums on the life insurance policy.
- Trustee sends a notice every time a gift is made to advise the beneficiary (including a parent or legal guardian for a minor) that a gift has been made and that the beneficiary has a right to withdraw funds for a limited time, typically 30 days.² Only gifts of a “present interest” qualify for the gift-tax annual exclusion.
- At death, the policy proceeds are paid to the trust as the beneficiary. If there are no incidents of ownership, the death benefits are not included in the taxable estate.
- Trustee distributes the proceeds based on the governing document. Typical examples include:
 - Outright payment to named beneficiaries.
 - Maintain assets in trust and distribute income and principal to beneficiaries based on ascertainable standard which may include distributions for health, education, maintenance, and support.
 - Permit use of the death proceeds to provide cash to an illiquid estate such as through a loan or purchase of assets, which can be used to pay estate taxes.

Consult with your advisors

A well-thought-out wealth plan deals not only with the disposition of your assets at death and may incorporate some of the strategies outlined above. For more information on which strategies may be most appropriate to meet your wealth planning goals and how they should be structured for your specific situation, talk to your financial, tax, and legal advisors.

1. Traditional life insurance provides protection on the life of a single insured individual. “Second-to-die” or “survivorship” insurance covers two lives in one policy with the proceeds payable at the second death. Single-life insurance is commonly used to protect the financial security of a surviving spouse or minor children by providing capital to replace the income lost when a wage earner dies. Second-to-die insurance, in comparison, is most used as part of a plan to assist in efficiently transferring wealth between generations. Because two lives are insured under one policy, premiums are typically lower than for single-life policies on either spouse.

2. These notices are known as Crummey letters and get their name from a tax court case entitled *Crummey v. Commissioner*. The notices evidence that the trustee has notified beneficiaries of their temporary withdrawal right and provides evidence that the gift qualifies for the annual exclusion.

Information sourced from [irs.gov](https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025); <https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025>

Insurance products are offered through nonbank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.

Wells Fargo and Company and its Affiliates do not provide tax or legal advice. This communication cannot be relied upon to avoid tax penalties. Please consult your tax and legal advisors to determine how this information may apply to your own situation. Whether any planned tax result is realized by you depends on the specific facts of your own situation at the time your tax return is filed.

Wells Fargo Wealth & Investment Management (WIM) provides financial products and services through various bank and brokerage affiliates of Wells Fargo & Company. Bank products and services are offered through Wells Fargo Bank, N.A.

Trust Services are available through Wells Fargo Bank, N.A. and Wells Fargo Delaware Trust Company, N.A.

Wells Fargo Bank, N.A. (“the Bank”) offers various banking, advisory, fiduciary and custody products and services, including discretionary portfolio management. Wells Fargo affiliates, including Financial Advisors of Wells Fargo Advisors, may be paid an ongoing or one-time referral fee in relation to clients referred to the Bank. In these instances, the Bank is responsible for the day-to-day management of any referred accounts.