IRREVOCABLE LIFE INSURANCE TRUST

Principal®

Create estate liquidity with simplicity and flexibility.

Contingent ownership arrangement for survivorship life insurance

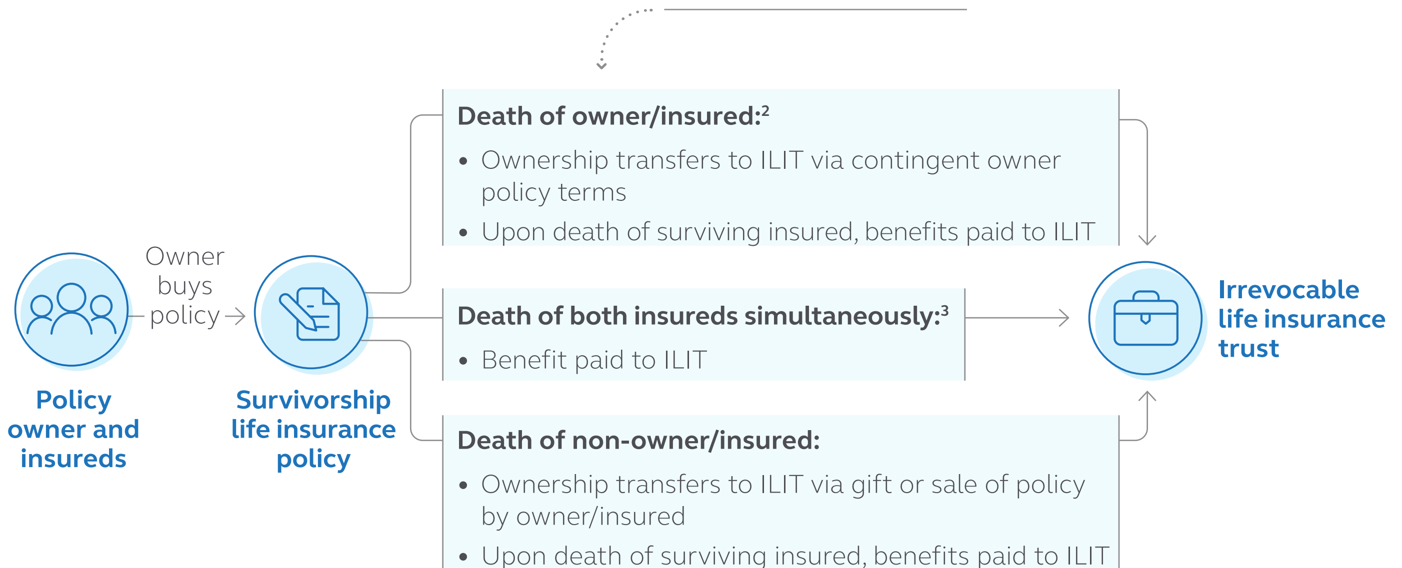
An irrevocable life insurance trust (ILIT) can be an effective solution to help create estate liquidity. And a contingent ownership arrangement combined with an ILIT and survivorship life insurance can help create even more flexibility and control.

The value of a contingent ownership arrangement is its simplicity and flexibility. With this approach, you can:

- Simplify the life insurance purchase with a policy that covers both spouses and automatically transfers ownership to an ILIT at the owner's death.
- Avoid complicated gift tax strategies resulting from premium payments being greater than the gift tax annual exclusions available.
- Retain control over the policy, including the ability to change the contingent owner and the beneficiaries, access the cash value, and exercise any other policy owner rights. If your goals change, you can always transfer ownership to an ILIT that meets your estate planning objectives.

Here's how it works

It starts with the purchase of a survivorship life insurance policy and creation of an ILIT. One insured is named as the owner of the policy and the ILIT is named as contingent owner. At this point, the ILIT can remain unfunded. The insureds make premium payments with the goal of having the policy paid up before the owner's death.[1] This arrangement helps you create estate liquidity in any of **three possible scenarios.**



Benefits

May avoid issues with gift tax and alternate financing arrangements when large policy premiums are required, until policy is transferred to the ILIT.

Less trust administration required, with no current need for an active trustee or distribution of annual Crummey letters.[4]

Help protect policy death benefit from estate inclusion with transfer of policy ownership to the ILIT and then exclusion from the non-owner/insured spouse's estate upon their death.

Considerations

Policy cash value will be included in the estate if the owner is the first to die. This amount may be offset by the estate tax personal exemption or credit-shelter amount.

Policy ownership is typically transferred to ILIT if the non-owner/insured is first to die in order to remove death proceeds from the estate of the surviving spouse. If the policy is gifted to the ILIT, the surviving spouse must live an additional three years for the proceeds to be excluded from the estate. If the policy is sold to the ILIT, the three-year look-back rule generally doesn't apply.

Gift tax strategy may be needed if the non-owner/insured passes away before the policy is paid up. The younger or healthier spouse often is named as policy owner.

Contact your financial professional today or go to **principal.com**.

[1] Additional premium payments may be needed if the owner dies before the policy is paid up.

[2] Any policy cash value is included in the estate since no death benefit is payable; death benefit is not includible in the estate after first spouse's death.

[3] Definition of simultaneous death is controlled by state law.

[4] A Crummey letter is a notice sent to the beneficiaries of an ILIT informing them of a gift made to a trust and their right to withdraw their share of the gift.

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