

# INTRODUCTION

## **Life Insurance Properly Acquired and Actively Managed**

Life insurance properly acquired and actively managed is one of the best long-term solutions to assuring financial liquidity at death. Life insurance can provide for the continuation of a family's lifestyle, care for those with special needs, provide the means to pay federal and state estate taxes, and/or preserve illiquid assets until market conditions are appropriate for sale. When life insurance is acquired outside an insured's estate and used for the benefits described herein, life insurance becomes even more efficient when it is not subject to transfer taxes.

Life insurance can often be confusing to consumers and advisers. Further, the various types of insurance seem to invite vastly different recommendations, depending on with whom you are speaking. And if you are a personal trustee for an Irrevocable Life Insurance Trust (ILIT), you may not know your legal duties and responsibilities.

Whether you are a newly appointed trustee—or one who has been acting in that role for many years—if any of these statements are true for you, you will find this book a valuable resource. This has been written in collaboration with attorneys, actuaries, business school professors, insurance professionals, and others with the requisite expertise, and the focus has the personal trustee in mind. You have questions—we have plain-spoken answers.

This book is organized in such a way that if you just have a simple question—"Quick: do I have to pay the invoice that just came in on this universal life policy?"—you do not have to pore through a lot of pages hoping to find the answer. In fact, brief thumbnails of all the major forms of life insurance—and answers to the most frequently asked questions—will be found at the front

of the book. And, as needed, you will see a specific page reference for more detail if the thumbnail was not enough.

## **WHAT YOU WILL FIND HERE; WHAT YOU WILL NOT**

If you are looking for information about Private Placement Variable Universal Life—you will not find it here. That is a style of life insurance used more as a tax-deferred cash value accumulation “wrapper” for aggressive investors, and not typically found in insurance trusts. But when it comes to practical information about policy styles and technical issues of acquiring and managing life insurance for the benefit of the trust beneficiaries, attorneys who draft trusts and the trustees who will implement them will find practical information organized in increasing detail to accommodate your questions.

Here is what you can expect to find:

1. Sample documents (pages 125–251). We will reference these throughout the book: annotated sample policy illustrations to assist in understanding how to discern relevant information, such documents as Life Insurance Property Management questionnaires, and how to read a policy annual statement.
2. Trustee due care/due diligence (pages 121–124). What does due care/due diligence mean to an ILIT trustee, and how does the trustee accomplish it?
3. Major forms of life insurance and determining what will most efficiently and effectively serve the interests of the beneficiaries (pages 19–27). There are guaranteed policies—and “current assumption” policies. And there is “term” and “permanent.” Using a Life Insurance Property Management Statement, what is the most appropriate policy (or combination of policies) that will optimize the value and longevity of trust assets? What are the inherent risks, guarantees, and types of processes of assessment that will allow me to fulfill my duties as ILIT trustee?
4. Illustration savvy: what the trustee needs to know (pages 65–73). The illustration is not the policy—yet that is probably your single biggest resource in figuring out “how are we doing?” The section covers what you need to know about policy illustrations and their limitations.
5. When the trustee should ask for expert assistance—and from whom (page 121). And, having asked a question, how will you be able to evaluate the answer and possible alternatives?

6. How should the trust be funded (pages 87–89. See also Chapter 7 page 75). Grantors do not pay premiums; they make gifts. This can be done in a variety of ways, and it is even possible to pay premiums through outside financing. But there is no free lunch, and there is *no* free life insurance!
7. Necessary levels and timing of policy funding (pages 65–73). Current assumption policies can be funded with payments that are flexible as to amounts, as well as timing; guaranteed policy premiums must be paid when due to preserve the value and underlying guarantees. One of the most important decisions a trustee must make is “What should I assume about how long the insured/grantor(s) will live; what’s the time frame on which I should be focused to make certain the death benefit will be in force?” In other words—how long will he/she/they *live*?
8. Who’s your daddy? Grantor involvement at inception and later (pages 85–86).
9. Producer and other advisors involvement (page 92).
10. Beneficiary communications (pages 90, 93).