



Welcome to *Trust Connection*, our monthly newsletter highlighting Trust news and information. Each month we will feature timely articles of interest.

About Us

At Halliday Private Trust, it is our mission to assist our clients in the process of providing solutions, specifically through a wide range of financial advice.

Since 1982, we have utilized a full spectrum of financial services to help our clients navigate every major hurdle in their financial lives. Because we are an independent financial services firm, we utilize an open architecture approach to locating the most suitable investment options for our clients.

Our role is to help clients make smart decisions about their money. We understand that each client has unique needs and requires personalized solutions based on their goals, objectives and concerns.

Do You Still Need An Irrevocable Life Insurance Trust?

You may have established an irrevocable life insurance trust (ILIT) as an integral part of your estate plan. An ILIT is a trust that is constructed to primarily hold a life insurance policy (or policies) on the grantor during the grantor's lifetime. As the name indicates, an ILIT generally cannot be revoked, amended, or modified after it has been drafted and executed. Once the grantor contributes property or life insurance death benefits to the trust, he or she cannot change the terms of the trust or reclaim any of the properties held within without proper consideration. Ideally, the trust is executed and the policy is then applied for, with the trust making the application as the policy owner and beneficiary. The grantor then makes contributions to the trust for the purpose of paying the premiums on the policy held in the trust. Between the time of the contribution and the payment of the premium, the trust's beneficiaries have the right to withdraw the contribution. These, and other complex rules, are required in order for you as the grantor to avoid retaining an incident of ownership of the policy, which is necessary to keep the policy proceeds out of your estate.

If structured properly, proceeds from a policy held in an ILIT are not includible in the federal taxable estate. However, the Tax Cuts and Jobs Act of 2017 doubled the estate tax exemption to \$11.2 million for a single person and \$22.4 million for married couples, eliminating the federal estate tax issue for the vast majority of Americans. There may be good reasons to maintain your ILIT, such as post-death liquidity needs and state estate tax liability. However, in this tax environment, most ILIT grantors should determine whether it makes sense to maintain the trust.

There are several options if you determine that the complexity and expense of maintaining your ILIT is not worth continuing the trust. The option selected will depend on a number of factors, but a primary factor is your need or desire to maintain some level of life insurance coverage. If you want to continue insurance protection, it may be possible to purchase the policy out of the trust for its fair market value. This may be particularly useful if you would have trouble obtaining replacement coverage due to insurability issues. If continuing insurance coverage is not important, you can always stop making contributions to the trust, effectively surrendering the policy and letting it lapse under its terms. If the policy has generated cash surrender value, the proceeds received upon surrender will be distributed to your trust beneficiaries under the dispositive provisions of the trust. And if for some reason the beneficiaries want to maintain the insurance on your life, perhaps because of attractive investment returns, it may be possible to distribute the policy to them and they can continue to pay the premiums.

A LOCAL TRUST SOLUTION

Call us today at (800) 786-1598 to learn more about working with Halliday Private Trust.

For information and assistance, please feel free to contact one of our Trust Advisors:

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Finally, even though an ILIT is irrevocable by its definition, it may be possible to terminate the trust. In some states, a trust may be revoked by a nonjudicial settlement agreement that is signed by the grantor and the beneficiaries. In other states, the beneficiaries may have to go to court to seek termination of the trust. It may also be possible to decant the trust into a new irrevocable trust in a jurisdiction with friendlier trust termination statutes, such as South Dakota. An experienced estate planning attorney can advise you on these issues.

It goes without saying that the decision to terminate an existing ILIT is enormously complex and should not be made solely based on the increase in the estate tax exemption. Your trusted advisor is in a unique position to bring together all the financial, legal, and accounting resources needed to make a good decision. Most people are not familiar with the terminology or complicated issues that seem to be inevitable when life insurance is discussed, so it is crucial that you seek competent advice.

If you have an ILIT, don't be afraid to have a conversation with your advisor to help determine what your next steps should be. What was a good idea 10 years ago may no longer be relevant to your needs, and the time and expense of maintaining such a trust may no longer be relevant to your estate plan.

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