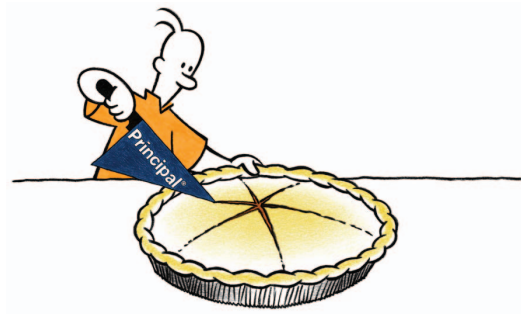


Irrevocable Life Insurance Trust

# Trustee Checklist





An irrevocable life insurance trust (ILIT) plays a key role to help ensure that an estate plan distributes wealth the way that one chooses. Like any financial tool, this ILIT needs to be reviewed periodically to make sure it performs as originally intended.

### The need for a review

The Uniform Prudent Investor Act spells out the fiduciary responsibilities of the trustee in managing all trust assets. However, a recent article in *The Nebraska Lawyer* indicates that fewer than 16.5% of trustees actually have a formal process for reviewing life insurance policies owned by their trusts.<sup>1</sup>

Although trustees are ultimately responsible for trust management, in the case of many ILITs, the reality is that the grantor's adult child acts as trustee and relies on guidance from advisors. A trust review should include not only a checkup on any life insurance policies, but also a review of operational, tax and funding issues in light of one's overall estate plan.

### What to review

**Insurance** – A policy review should be conducted by a knowledgeable insurance advisor and should address a variety of questions (use the checklist on the following page).

**Trust operations** – If Crummey powers are being used to qualify trust gifts for the annual gift tax exclusion, is the trustee actually meeting all the requirements?

**Trust document** – This should also be reviewed to confirm it still meets client objectives and contains no technical errors. If problems are found, several private letter rulings issues in recent years suggest possible avenues for transferring the life insurance policy to an updated trust.

<sup>1</sup> Monte L. Schatz and Joseph L. Kizer "Ignorance is No Longer Bliss," *The Nebraska Lawyer*, February 2006

## Checklist for life insurance

Use this checklist with your financial representative to review each life insurance policy owned by the trust to help ensure that the trust's objectives are being met.

### Carrier suitability

- Does the issuing insurance company have high marks from rating companies (i.e. A.M. Best, Fitch, Moody's, Standard and Poor's)?

### Performance review

Obtain a current in-force policy illustration on each policy owned by the trust.

- How does the in-force policy illustration compare with the original illustration?
- How does the in-force policy illustration compare with the previous in-force illustration(s)?
- Is the life insurance policy death benefit guaranteed for life?
- If not guaranteed for life, how long are the guarantees and is that consistent with the objectives of the trust?
- Are the life insurance policy provisions and features still consistent with the objectives of the trust?
- If a variable life insurance policy, are the assets allocated consistently with the best interests of the beneficiaries?

### Competitive Position

- Is the life insurance policy making efficient use of trust assets and contributions?
- Are there other life insurance policies or policy types which would be better suited to the objectives of the trust?<sup>2</sup>
- Are there other life insurance policies that would provide the same guaranteed death benefit at lower cost?<sup>2</sup>
- Are there other life insurance policies that would provide more guaranteed death benefit at the same cost?<sup>2</sup>

### FOR MORE INFORMATION

Contact your Principal Life financial representative.

<sup>2</sup> Replacing policies may include issues with insurability, surrender costs, contestability, riders, and policy provisions; no existing policy should be canceled until replacement coverage is approved.



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