



# Life Insurance: Your Blueprint for Wealth Transfer Planning

**Private Financing**

## Life Insurance:

# Your Blueprint for Wealth Transfer Planning

Life is good. You are financially successful and have a family of children – even grandchildren. Because your family is so important to you, you plan on leaving a legacy to the next generation in hopes that your good fortune continues on.

Now the question is: What is the most efficient way to transfer your wealth to the next generation? Life insurance may be the answer. Often the cornerstone of a solid wealth transfer strategy, life insurance may help:

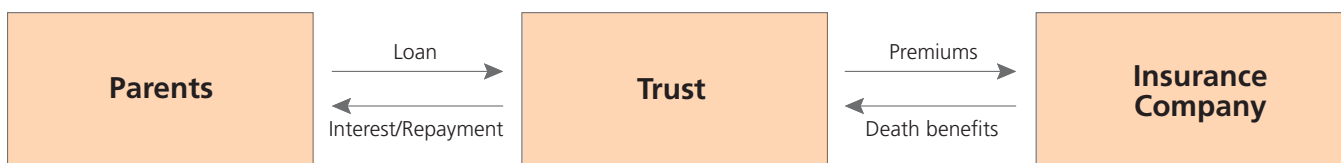
- Grow policy premiums into larger death benefits free of income taxes.
- Keep some of the policy death benefits from being taxed in your estate.
- Protect proceeds from children's creditors and former spouses.
- Keep some control over the policy to recover your costs.

Private financing is one tool you can use to efficiently fund life insurance premiums in a wealth transfer strategy.

## Private Financing

# How it Works

Private financing is a wealth transfer strategy using an Irrevocable Life Insurance Trust (ILIT). As demonstrated below, funds are paid to the ILIT, which in turn pays premiums for a life insurance policy.

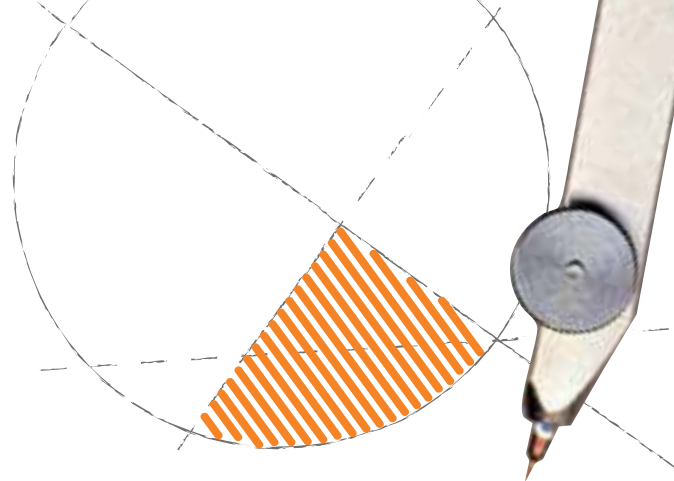


There are two ways to pay funds to the trust:

- **Cash Gifts:** once gifts are made, the money cannot be returned.
- **Loans:** provide flexibility to recover costs from the trust.

Financing loans to an ILIT may be more attractive to those who want to preserve their lifetime gifting amounts and maintain control over the wealth transfer arrangement.

Within limits, you can determine the terms of the loan, which may be repaid during your lifetime or at your death with a portion of the death benefit proceeds. Any proceeds that remain in the ILIT after the loan is repaid are income tax and estate tax free.



# A Case Study: The Smith Family Plan

**Client:** John and Mary Smith

**Age/Health:** 70, good health

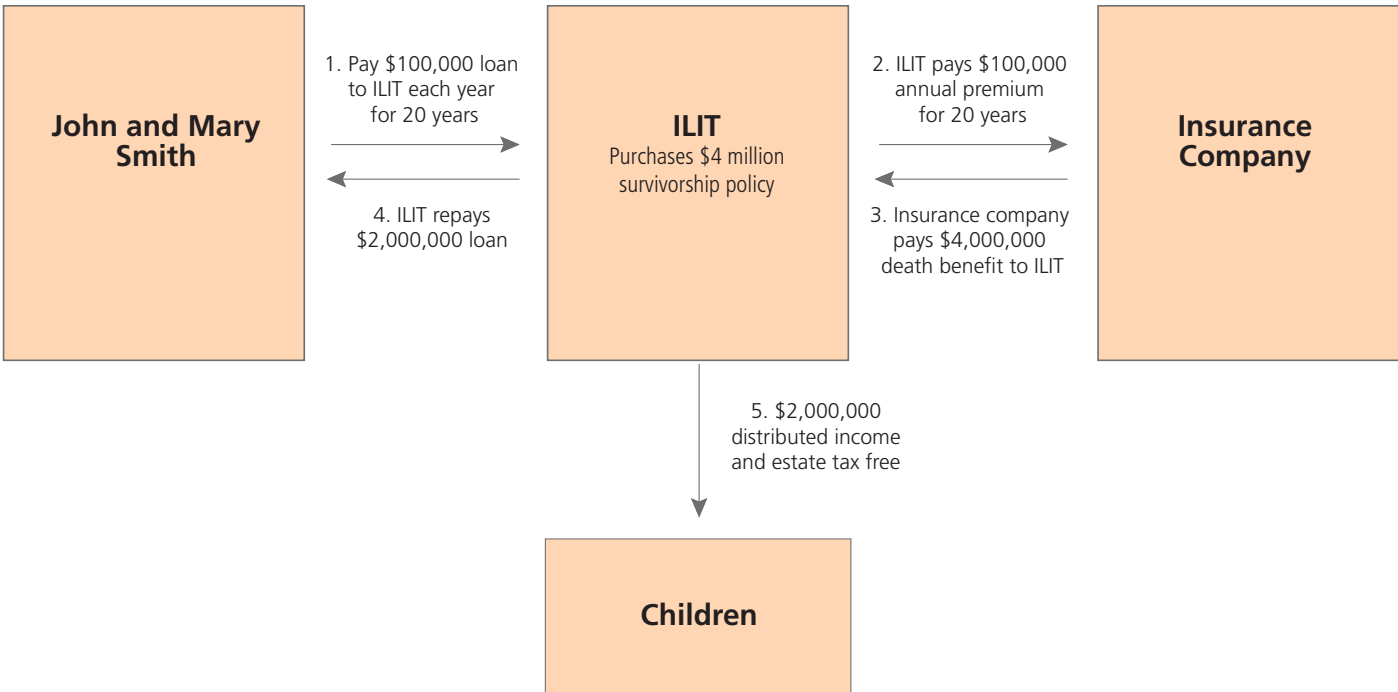
**Estate Value:** \$4 million

**Problem:**

John and Mary want to increase the inheritance to their five children while retaining the opportunity to get their money back if they need it.

**Solution:**

After a discussion with their advisors, they develop a private financing strategy designed to leave their children a financial legacy. With their attorney, they create an ILIT that is designed to work as follows:



**Note:** In this case, the trustee will pay interest on the loan balance annually. However, the Smith's may also gift the loan interest payments to the ILIT. Because the loan balance remains part of the grantor's estate, it could be subject to estate tax if the grantor dies before the loan balance is retired. The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required.

**Result:**

With the private financing tool, the Smiths can maintain control of their money, keep their lifetime gifting limit intact and will be positioned to increase their financial legacy to their children by \$2,000,000.