Life Insurance:
Your Blueprint for Wealth Transfer Planning

Irrevocable Life Insurance Trusts

Caution: These materials are based on current tax laws that were in effect when these materials were prepared in 2011. Please consult your tax and legal advisors before utilizing these materials to verify the accuracy of the federal estate tax information contained herein.

These materials are not intended to and cannot be used to avoid tax penalties and they were prepared to support the promotion or marketing of the matters addressed in this document. Each taxpayer should seek advice from an independent tax advisor. The ING Life Companies and their agents and representatives do not give tax or legal advice.

LIFE INSURANCE

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Your future. Made easier.®

Life Insurance:
Your Blueprint for Estate Planning

Life insurance has been a valuable estate planning tool for many years. It's comforting to know that life insurance provides cash death benefits to your beneficiaries at your death — a time when cash may not be available but may be needed.

Life insurance usually has three unique advantages that are hard to duplicate because policy death benefits:

- Are usually larger than the total premiums paid into the policy.
- Are usually paid to the beneficiary free of federal and state income taxes.
- May be exempt from claims of the insured's and the beneficiaries' creditors (consult with your attorney to determine the extent of the exemption in your state).

That's why death benefits are regularly used to retire a decedent's debts, satisfy bequests, pay state and federal estate tax obligations and provide funds for survivors' living expenses.

Irrevocable Life Insurance Trust
How it Works

If the insured of a life insurance policy possesses an ownership right (what the IRS calls "an incident of ownership") in a policy, the death benefits are included in his/her taxable estate. This can be a problem for individuals and married couples who own enough property to have a federal estate tax problem. Those who don't currently have an estate tax problem could accidently create one for themselves if the life insurance death benefits push the size of their taxable estates over the federal estate tax limit. It may be wise to consult with tax and legal advisors about how federal and state transfer tax laws apply to your individual situation.

To prevent life insurance death benefits from creating or increasing an insured's estate tax problem, it is usually advisable for someone other than the insured to own the policy. A good way for you to do this is to create an Irrevocable Life Insurance Trust (ILIT). The ILIT trustee purchases the policy and the ILIT is the named beneficiary. You choose the trustee and establish the terms of the trust. These terms are the directions the trustee must use in administering the trust.

Gifts to an ILIT

As the insured, you usually provide funds to an ILIT in the form of a gift so the trustee can pay the policy premiums. These gifts may qualify for the gift tax annual exclusion. Annual exclusion gifts are often used because they are "renewable" and can be repeated in future years.

To qualify for the annual exclusion, the trust beneficiaries must have a "present interest" in the gift. An ILIT can create this present interest if it includes a provision that gives the trust beneficiaries 30 days to withdraw their pro rata share of the annual gifts after the trustee has given them written notice of their withdrawal rights. Gifts that don't qualify for the annual exclusion are applied against the amount the insured may give free of gift taxes during his/her lifetime. This is known as the lifetime gift tax exemption. Consult with your tax and legal advisors about it because this exemption amount changes over time.

A Case Study:
The Mitchell Family Plan

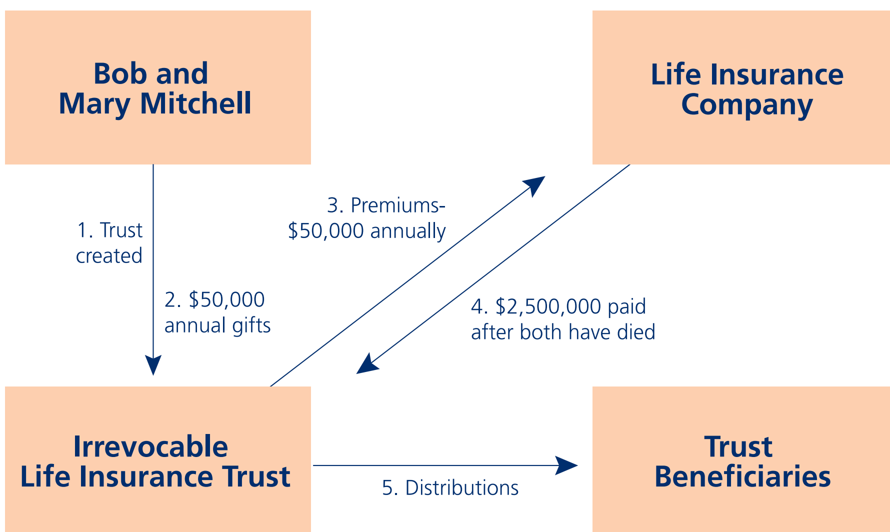
Client: Bob and Mary Mitchell **Age/Health:** 70, good health **Estate Value:** $4 million

Problem:

The Mitchells believe they will need $2,000,000 to provide them a comfortable lifestyle for the balance of their days. They would like to position the remaining $2 million to pass on as much income and estate tax free wealth as possible to their five children. They are both in standard health.

Solution:

After a discussion with their legal and tax advisors, they developed an estate planning strategy using an ILIT. Bob will be the grantor and use $10,000 of his gift tax annual exclusion for each child. The trustee will purchase a $2,500,000 survivorship life insurance policy insuring both lives. Premiums will be $50,000 annually until both have died. If Bob dies first, Mary will have to provide funds for the premiums through gifts or loans. As long as premiums are paid and the policy remains in force, at the surviving spouse's death the policy will pay $2,500,000 to the trust. Here's how it works:



Note: The hypothetical 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:

By using an ILIT in their estate plan, the Mitchells' death benefits may be structured to be paid income and estate tax free. They also will be able to significantly increase the value of the funds they pass on to their children and grandchildren. Most importantly, the Mitchells will be able to achieve peace of mind in knowing that they've provided financial security to their family.

For more information, please call your ING financial professional.

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