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A checklist for irrevocable life insurance trusts (ILITs)

Irrevocable life insurance trusts (ILITs) are one of the most common estate planning tools but all too often they do not receive the attention and care they need. No estate plan will work if it isn't administered properly and revisited regularly with a team of financial professionals.There can be significant variation between ILITs so consider the following checklist when implementing and managing one. Note: This information is for educational purposes only and is not intended to be construed as tax or legal advice.

File: The grantor, trustee, and all financial professionals should have a current, complete copy of all information and documents so that all parties can fulfill their roles effectively.

Life insurance: Even though the life insurance owned by the trust might have made sense when it was purchased, it may no longer meet the needs of the grantor. It is important to review it at least every few years if not annually.

Tax ID number (TIN): If not a grantor trust, where the grantor's Social Security number is sufficient, each ILIT should have its own TIN.

Investments: Although most ILITs primarily hold life insurance policies, there are situations where investment plans may be used to prefund the trust, etc. If this is the case, be sure that the investments are being properly managed, and the plan is being followed.

Bank account: An ILIT should have its own bank account. Personal and trust funds should never be commingled.

Gifts and Crummey letters: When a gift is made to the trust, most trusts require that the trustee give written notice to the beneficiaries to qualify the gifts for the annual gift tax exclusion (i.e., Crummey letters). Review exactly what the trust says about these and be sure to save copies of the letters each year in case they are needed for future documentation.

Gift tax returns: Even if only annual gifts up to the annual gift tax exclusion amount with Crummey powers were made, it might be beneficial to report them on a gift tax return to run the statute of limitations on audit.

Plan review: Review the plan at least every few years to determine if the insurance coverage and trustee are still appropriate, if the trust jurisdiction could be moved to a more advantageous state, if it makes sense to decant or merge the trust, etc.

ILITs can vary widely and be complex, with many steps, to ensure your clients' plan is carried out appropriately. However, keeping this checklist in mind and maintaining communication with the client and all their financial professionals will help ensure the plan will be successful!