IS YOUR LIFE INSURANCE STILL FULFILLING ITS OBJECTIVE?

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Do you want to establish a trust? There are many different reasons people do so:

- Some people do it for the management aspects to make sure their assets will be properly invested and not squandered away by a spendthrift child or spouse. Other people want to make sure that, if sued, their assets are protected from the claims of a creditor – and others do it for tax purposes.
- A parent or grandparent may establish a life insurance trust to provide an inheritance earmarked for the next generation, or to make certain that their child's assets are protected in the event of a divorce.
- Trusts can also be set up to provide for the welfare of a child with or without special needs for a variety of reasons such as providing for their educational fund or giving birthday, graduation or wedding gift even after the grantor has passed away.
- A trust is also an excellent way to make a charitable bequest to assure your legacy and what is important to you will always be remembered.
- While there are many factors for an individual or family to consider the benefits of establishing a trust, it is equally important that grantor's/parents review the trusts they have chosen *and* make certain that the trustees are knowledgeable about their duties and are continuously still operating in the beneficiary's best interest.
- Just as a grantor should carefully consider the attributes and skills of a trustee, a trustee should carefully consider the duties and fiduciary responsibilities they assume when they agree to serve in the capacity of an amateur trustee.
- One very common form of a trust is an **Irrevocable Life Insurance Trust** (ILIT)**,** whose purpose is to provide the proceeds of a life insurance policy to a beneficiary without having to pay a federal estate or state inheritance tax. Many times, an attorney or accountant will suggest that a friend or family member serve as trustee for their **Trust-Owned Life Insurance** (TOLI) policy. However in many instances, that 'unskilled' trustee, often the eldest child, doesn't have an understanding of how a life insurance policy works, nor do they have the specialized training or knowledge to know what they should do to keep the life insurance policy they're responsible for from expiring prematurely. As a result, they become vulnerable to disputes and lawsuits by other family members and often find themselves in the center of an uncomfortable, preventable financial situation: as many as 25-30% of these life Insurance policies are expiring years earlier than originally anticipated.

- This most often occurs when a parent/grantor is in their mid to late 80s, and receives notification from their life insurance company stating that their policy, based on the current interest rates and premiums, will expire without value within the next 12 months unless a higher premium is paid. “How can that be,” asks the client, “I’ve paid all of my premiums on time and I never borrowed any of my cash value.”
- What they, or their sons and daughters acting as unskilled trustees, don’t understand is that 65% of the life insurance policies that they and others purchased privately or in a trust over the last 25+ years weren’t guaranteed to last a lifetime – and just because they paid their initially billed premium, doesn’t mean that it was sufficient to have the policy last for the rest of the insured’s lifetime. Since the trustee was 100% responsible for the performance risk of their policy, any shortfalls in earnings as a result of **reduced interest rates** over the last 25 years should have been made up by the trustee each and every year. Unfortunately, neither trustees nor their advisers realized that if that shortfall wasn’t made up, it would cause their life insurance policy to expire years earlier than originally anticipated.
- Many advisors are beginning to educate their clients and their client’s children acting as amateur trustees about the necessity of a life insurance portfolio evaluation to determine whether their policy is sufficiently funded to last for a parent’s lifetime.
- You, the parent/grantor or trustee, need to ensure that your future life insurance inheritance is not endangered as a result of interest rates, inexperience, or neglect, and that those assets you’ve earmarked for the next generation, actually get there.

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