

Understanding life insurance trusts

From the very first premium payments, life insurance guarantees that the face value of the policies purchased will be available to support your family after your death.

Because the “instant” estate created by life insurance will have a vital family purpose—to replace a significant part of the insured’s earning power—it must not be invested carelessly or spent too fast. Yet the insurance money cannot serve its purpose if locked up beyond your family’s reach or hoarded too timidly.

To provide for the investment and special handling of insurance proceeds paid upon your death, we offer a special trust service: *the life insurance trust*.

Unfunded

In its simplest form, the life insurance trust is *unfunded*; you sign an agreement now, but the trust goes on inactive, standby status. There’s no immediate fund to manage. No management fees either. The most popular form of life insurance trust is *revocable*: That means that the trust agreement can be changed or cancelled; you retain all rights in the policies and can drop the policies at any time you wish.

The trust is activated upon your death. As trustee, we collect the proceeds, invest them and pay out income and principal to your family, following the instructions and guidelines contained in the trust agreement.

Funded

If you wish, you may choose to fund the trust now, with securities or cash available for investment. You may instruct us to pay the premiums on your life insurance and to distribute the remaining trust income to you.

By so doing, you can “preview” a part of your estate plan, assess our administrative and investment skills, and appraise how the trust functions. If necessary, you can amend the trust agreement in light of your findings.

In essence, you can gain a real opportunity to test and adjust the vehicle you have designed to carry out your plans for your family’s security.

Benefits

- **Protection.** We will invest the assets of the trust so as best to serve your family’s needs based upon our years of investment and trust experience.

- **Flexibility.** An insurance company must adhere to the payout provisions in the insurance contract. With a life insurance trust, you can direct that proceeds be paid in a lump sum to us as trustee. The guidelines as to payout of insurance proceeds that you give us can be broad and flexible, enabling us to take into account emergencies or any unusual situations.

- **Simplicity.** A life insurance trust does not do away with the need for a will, but it does make possible a much simpler will.

- **Estate consolidation.** The life insurance trust can become the receptacle into which other assets (a retirement plan distribution, for example) that you own are “poured” at your death. The life insurance trust brings together all estate assets into one simple, coordinated package.

- **Tax savings.** Ask us for details about how an irrevocable life insurance trust can achieve substantial estate tax savings.

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Any developments occurring after January 15, 2007, are not reflected in this article.