

Money Matters

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Skloff Financial Group Question of the Month

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Q: We read ‘How a Gift Can Be a Tax Dream or a Tax Nightmare’ Part 1 and Part 2. We also read ‘How To (Legally) Avoid Taxes When Selling Your Home’ Part 1, Part 2 and Part 3. Furthermore, we read ‘How Gifting Versus Selling Your Home Can Be a Tax Dream or a Tax Nightmare’ Part 1, Part 2 and Part 3. Then, we read ‘How a Step-Up in Basis Can Be a Tax Dream’ Part 1, Part 2 and Part 3. Additionally, we read ‘How Community Property States Versus Separate Property States Can Be a Tax Dream or a Tax Nightmare’ Part 1, Part 2 Part 3 and Part 4. Furthermore, we read ‘How the Estate Tax Exemption Can Be a Tax Dream’ Part 1, Part 2 and Part 3. Lastly, we read ‘How an Irrevocable Life Insurance Trust Can Be a Tax Dream’ Part 1. Can you provide examples of Irrevocable Life Insurance Trusts?

The Problem – Irrevocable Life Insurance Trusts Can be Confusing

Without clear examples, the economics of an Irrevocable Life Insurance Trust (ILIT) can be confusing.

The Solution – Clear Examples of Irrevocable Life Insurance Trusts

Let’s look at a husband and wife, Bill (Insured) and Sue (Insured), who are each 55 years old, in good health (“Preferred”), have two adult children and reside in New Jersey. They want to maximize their 2024 gift tax exclusion per child. In 2024, they can gift up to \$18,000 per child without utilizing their lifetime gift tax exemption. As examined in ‘How an Irrevocable Life Insurance Trust Can Be a Tax Dream’ Part 1, the gifts can be made to the ILIT.

Bill and Sue - Life Insurance Only ILIT. They are each looking for a Life Insurance policy that has a guaranteed annual premium of \$36,000 (equivalent to \$18,000 for their two children) with a guaranteed death benefit through age 120. Upon Bill’s death, the Life Insurance policy will pay a \$2,156,447 tax-free death benefit to Bill’s ILIT. The ILIT will then pay \$2,156,477 tax-free to his children – **a tax dream**. Upon Sue death the Life Insurance policy will pay a \$2,494,085 tax-free death benefit to Sue’s ILIT. The ILIT will then pay \$2,156,447 tax-free her children – **a tax dream**. See the table below.

Bill and Sue – Hybrid Life Insurance with Chronic Illness Rider ILIT. They are each looking for a Life Insurance policy that has a guaranteed annual premium of \$36,000 (equivalent to \$18,000 for their two children) with a guaranteed chronic illness rider to pay for care through age 120 and a guaranteed death benefit through age 120. **Bill and Sue understand 7 in 10 people over the age of 65 will require long term care.** Policies that pay for care and provide a death benefit are called **Hybrid Policies**.

The care benefit can pay up to 4% of the death benefit per month. If the Insured does not receive distributions from the trust directly and the ILIT trustee is not required to pay the insured’s care expenses, the ILIT owned policy, and its proceeds will not be subject to estate taxes – **a tax dream**. For each \$1 of care the policy pays for, the death benefit is reduced by \$1. If no care is needed 100% of the death benefit is paid. When used in conjunction with the Protected IRA Plus (PIPP), they can gain additional estate planning benefits.

If Bill needs care at age 80 (the average age people need are), the policy will pay up to \$1,968,925 tax-free for care – **a tax dream**. If Bill does not need care, upon his death, the policy will pay a \$1,968,925 tax-free death benefit to Bill’s ILIT – **a tax dream**. See the table below.

If Sue needs care at age 80, the policy will pay up to \$2,203,360 tax-free for care – **a tax dream**. If Sue does not need care, upon her death, the policy will pay a \$2,203,360 tax-free death benefit to Sue’s ILIT – **a tax dream**. See the table below.

ILIT Owned Life Insurance Policy	Policy Insured Age - Health	Annual Premium	Care Percentage of Death Benefit	Monthly Care Benefit	Age 55 Total Care Benefits	Age 80 Total Care Benefits	Age 55 Death Benefit	Age 120 Death Benefit
Life Insurance Without Care Rider	Bill - 55 - Preferred Sue - 55 - Preferred	\$ 36,000 \$ 36,000	N/A N/A	N/A N/A	N/A N/A	N/A N/A	\$ 2,156,447 \$ 2,494,085	\$ 2,156,447 \$ 2,494,085
Life Insurance With Care Rider	Bill - 55 - Preferred Sue - 55 - Preferred	\$ 36,000 \$ 36,000	100% 100%	4% of Death Benefit	\$ 1,968,925 \$ 2,203,360	\$ 1,968,925 \$ 2,203,360	\$ 1,968,925 \$ 2,203,360	\$ 1,968,925 \$ 2,203,360

Action Steps

Work closely with your Registered Investment Adviser (RIA) to reduce your taxes, and grow and preserve your wealth.

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