

Irrevocable life-insurance trust has a few catches

by *Ohio.com*

The dreaded estate tax can take a chunk out of any life insurance payout you leave for your family.

If you have a policy that could push the value of your estate above the tax threshold (currently \$2 million), you can create an irrevocable life-insurance trust, a legal entity that will own the policy while you're alive and pay the proceeds to your beneficiaries after you die.

You'll need an experienced attorney to draw up the papers and you must convince the IRS you've given up ownership of the policy so you won't be able to change beneficiaries.

There are other catches: The trust must be active three years before you die. If you're transferring an existing policy, you'll have to pay gift tax on its cash value.

If you know you're likely to face the estate tax anyway, your trust can buy a policy just to cover that expense so your heirs won't have to sell off securities, real estate or a family business at distressed prices to cover the estate-tax payments.

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