

## Swan Songs: Simplifying Irrevocable Life Insurance Trusts

Swan Songs is a series designed to explain important estate planning concepts to advisors and their clients in an easily digestible way.

Authors Date Topic

Holly Swan 3/28/2025 Tax Management

## Simplifying Irrevocable Life Insurance Trusts

An irrevocable life insurance trust (ILITs) is a specialized trust designed to hold life insurance policies outside of an individual's taxable estate. Once established, an ILIT can't be changed or revoked by the grantor. This permanence ensures that policies purchased directly by the trust—including the death benefits eventually paid out—aren't included in the grantor's estate. This approach can significantly reduce estate taxes upon death.

Policies owned by the grantor that are subsequently transferred into the ILIT are subject to a three-year lookback period for estate inclusion purposes. The lookback period is intended to prevent individuals from circumventing estate taxes by transferring their life insurance policies to an ILIT shortly before death. If the policyholder survives the three-year period after the transfer, the death benefits paid out from the transferred policies are generally not included in the grantor's taxable estate, allowing potential tax savings.

Premium payments for policies held within an ILIT can be funded through gifts. In order to use the grantor's annual gift-tax exclusion and avoid gift taxes, the gifts to the trust must be considered gifts of a present interest. ILITs can be drafted to meet this requirement by granting a limited withdrawal power to the beneficiaries, known as a *Crummey power*. Crummey powers and their associated notice requirements are complex—and if the requirements are overlooked, there could be unintended tax consequences.

Like most types of trusts, an ILIT allows the grantor to specify who will receive death benefits and under what conditions. These conditions can include designating beneficiaries other than the grantor's spouse or children and/or setting up specific terms for distributions. The trust can include various distribution strategies, allowing flexibility in how and when beneficiaries receive life insurance proceeds.

Allspring Global Investments does not provide accounting, legal, or tax advice or investment recommendations. Any tax or legal information on this page is merely a summary of our understanding and interpretations of some of the current income tax regulations and is not exhaustive. Investors should consult their tax advisor or legal counsel for advice and information concerning their particular situation.

ALL-03262025-hghkibgp

This material is provided for informational purposes only and is for professional/institutional and qualified clients/investors only. Not for retail use outside the U.S. Recipients who do not wish to be treated as professional/institutional or qualified clients/investors should notify their Allspring contact immediately.

THIS CONTENT AND THE INFORMATION WITHIN DO NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO AND SHOULD NOT BE CONSIDERED INVESTMENT ADVICE, AN INVESTMENT RECOMMENDATION, OR INVESTMENT RESEARCH IN ANY JURISDICTION.

INVESTMENT RISKS: All investments contain risk. Your capital may be at risk. The value, price, or income of investments or financial instruments can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Past performance is not a guarantee or reliable indicator of future results.

Allspring Global Investments<sup>TM</sup> (Allspring) is the trade name for the asset management firms of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. These firms include but are not limited to Allspring Global Investments Luxembourg, S.A.; Allspring Funds Management, LLC; Allspring Global Investments, LLC; Allspring Global Investments (UK) Ltd.; Allspring Global Investments (Singapore) Pte. Ltd.; Allspring Global Investments (Hong Kong) Ltd.; and Allspring Global Investments (Japan) Ltd.

Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated). Content is provided for informational purposes only. Views, opinions, assumptions, or estimates are not necessarily those of Allspring or their affiliates and there is no representation regarding their adequacy, accuracy, or completeness. They should not be relied upon and may be subject to change without notice.

© 2025 Allspring Global Investments Holdings, LLC. All rights reserved.