

Fors Financial Consulting

1001 East Front Street

Port Angeles, WA 98362

360-457-6116

info@forsfinancialconsulting.com

<https://www.forsfinancialconsulting.com/>



What is a life insurance trust and why should I consider establishing one?

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A life insurance trust is a trust that has the power to purchase life insurance policies on the person who establishes the trust (the grantor), the grantor's spouse, or the trust beneficiaries. The trust owns the life insurance policy and collects the death proceeds when the insured dies. The trustee then distributes the death benefits to the trust beneficiaries according to the terms included in the trust document. The trust document will identify who the trust beneficiaries are, how and when trust beneficiaries may receive distributions from the trust, and how the money in the trust may be invested.

Your life insurance trust may be revocable, meaning that you may make changes or revoke it, or irrevocable, meaning that you may not revoke, alter, or amend the trust once it has been established. The type you choose depends on your individual needs.

Life insurance trusts may be established for a variety of estate planning purposes, including:

- To provide security for your family after your death while providing control over how the death proceeds are invested or distributed to your beneficiaries
- To provide liquidity to your estate to pay debts and obligations, such as estate taxes

However, if the trust is revocable, if you are the trustee, or if the trust is required to use the death proceeds from the life insurance to pay your estate taxes and debts, the entire death benefit may be included in your taxable estate. The resulting taxes can significantly reduce the amount of the death proceeds available for your family. For many, keeping the death benefit out of their taxable estate is a key advantage of establishing a life insurance trust.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

The information provided is not intended to be a substitute for specific individualized tax planning or legal advice. We suggest that you consult with a qualified tax or legal professional.

LPL Financial Representatives offer access to Trust Services through The Private Trust Company N.A., an affiliate of LPL Financial.

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