FUNDING OPTIONS FOR LIFE INSURANCE HELD IN AN IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

There are many ways to fund premiums for life insurance policies owned by an Irrevocable Life Insurance Trust. The following table briefly describes some of the most common ways to fund the premiums. Note that multiple strategies are often combined. All strategies require coordination with tax and legal counsel to determine the strategies and assets that integrate with overall planning objectives and best fit your tolerance for complexity, economic or tax risk, loss of asset control, debt, and other factors.

APPROACH	DESCRIPTION	ASSET TYPE FIT	PROS	CONS
TRUST ASSETS	Use existing or future trust assets to pay premiums. Future assets may be from GRATs, Sales to Trust, or loans to trust	Cash, liquid, or income generating assets.	Avoids or reduces gift issues. Leverages existing trust assets. Simplicity.	Depletion of trust assets that may be needed for other trust needs.
GIFTING	Annual exclusion gifts, lifetime exemption, and/or taxable gifts	Cash, liquid, or income generating assets.	Simplicity. Gift-splitting with spouse.	Loss of control of gifted assets. Limits on exemptions. Risk of tax law change. Gifts may be desired for other planning needs.
PRIVATE FINANCING	Intra-family loan to ILIT for premiums or possibly loan from another trust.	Cash, liquid, or income producing assets.	Flexibility in terms, low AFR rates, friendly lender. Can be annual or lump sum.	Requires use of personal cash or liquid assets to loan to ILIT. Need exit strategy to repay note (GRAT, CLAT, other). Loan balance in estate.
SALE TO A DEFECTIVE GRANTOR TRUST	Grantor sells asset to trust in exchange for note. Trust uses income to fund life insurance.	Income generating assets or discounted business interests.	No income tax to grantor on interest received. Estate freeze for asset sold. Policy may be used as collateral.	Loss of control over future asset growth. Need exit strategy to repay note. Must seed trust with gift.
PREMIUM FINANCING	Third party commercial lender provides funds to ILIT for life insurance premiums.	Illiquid assets with little or no income.	Bridges short term liquidity gaps. Policy may be used as collateral.	Collateral required. Limited product choices with aggressive designs marketed. Need non-policy exit strategy. Uncertain loan renewal. Downside risks may have income or gift tax implications. Interest rate risk on loan.
DUAL LOAN	Third party loan to Grantor coupled with Grantor loan to ILIT.	Illiquid assets with little or no income.	Renewal risk shifted from ILIT. Friendly lender to trust. ILIT loan may be repaid from death benefit.	More complex. Policy can't be used as collateral for third party loan. Trust loan balance in estate.
PRIVATE SPLIT DOLLAR	Grantor pays premium for ILIT. ILIT owes Grantor greater of cash value or premiums paid.	Cash, liquid, or income producing assets.	Lower gift tax cost in economic benefit rates.	Economic benefit rates rise materially over time. Need exit strategy for non-death repayment of note. Part of death benefit in estate.
LOAN REGIME SPLIT DOLLAR	Business or Grantor lends ILIT policy premiums.	Business cash flow. Cash or liquid personal assets.	Recovery of loaned assets by lender keeps an element of control. Loan may be repaid from death benefit	Loan interest must be paid and may have gift implications. Need exit strategy to repay the note. Loan balance may be in taxable estate.