Day, Month, 2009

Dear Client:

Going forward to implementing a life insurance irrevocable trust (ILIT) the following steps take place:

1) Our application that both you and your wife will sign will be for underwriting purposes only to determine the rate for you both based on current and past health.
2) The ultimate applicant will be the Irrevocable Trust that you need to create with your attorney based on the sample language that I gave you.
3) You should have two trustees: a) a corporate trustee (like, your CPA or your attorney) and one of your children that you pick.
4) The will sign the subsequent application as owner of the policy titled the “Irrevocable Life Insurance Trust of Client and his wife”
5) The beneficiary of the trust will also be the trust with the trustee’s administrating the trust.
6) Payment of the premium, annually, comes from gifting the premium to the ultimate beneficiaries of the trust, like children and grandchildren and for 2009 the amount is $13,000 for each spouse ($26,000 jointly) for EACH child and/or grandchild. Example: two children and four grandchildren equal a total gifting of the annual exclusion of $156,000 per year. The Crummy rules specifically state that the recipients of the annual exclusion gift are NOT REQUIRED to donate the gift to the trust but an “understanding” should be in place that they do this, so the trust then has the money to pay the annual premium.
7) The proceeds of the insurance policy, upon the second death, will be paid directly to the trust and will be out of your taxable estate.
8) Your trustee’s will then use the proceeds to purchase assets from the estate to be distributed to your beneficiaries. Your estate will then use the cash left in your estate to pay the tax and the estate will get a deduction for the amount paid to the IRS.
9) If one spouse is NOT a grantor for the exclusion, the cash values can be accessed by the other spouse as a loan if cash is needed while living. The loan will accumulate with interest and be subtracted from the proceeds if not paid back by death.

10) Using the proceeds of the trust your trustee's (your son or daughter and/or your attorney or accountant) will be able to purchase assets from your estate at a discount since many of these assets will have a "lack of marketability discount" as provided by estate tax law.

I would suggest you make a copy of this letter and sent it to your attorney, along with the sample language of the trust that I e-mailed to you (although he'll have his own trust language..It's all on the internet or a "book of forms" these days.

In the meantime the next underwriting steps are being taken:

1) Your wife is going to get an exam on her own for the policy since we are insuring two people.
2) You will get a call from an examiner and you need to tell him to make copies of your exam in case we apply to multiple companies (however, I'm going with both New York Life and Pacific Life as choice number one here)
3) We will write to your doctor for your past records.

The big challenge will be to get you freed at an appropriate time to devote the hour or so for the comprehensive exam that we will need.

The ultimate size of your policy and the premium will be jointly determined by me, your attorney and accountant but we will apply for a 2.5mm policy with a $50,000 annual premium and determine if this is either too much or not enough.

You will have, starting in 2009, a joint exemption with your wife of 7mm for estate tax purposes and I expect that will continue after 2011 and amounts beyond that we expect will continue to be taxed at 45%

I hope this letter give you an overview of our process.

Sincerely,

Ron Rydell, CFP

Cc. wife of the insured