

**IRREVOCABLE LIFE INSURANCE TRUST  
WITH INCENTIVE PROVISIONS**

**(INCOME TO SPOUSE, WITH CHILDREN AS SUCCESSOR BENEFICIARIES)  
(FUNDING: LIFE INSURANCE POLICY)**

**HIGHLIGHTS OF THE PLAN**

This specimen irrevocable life insurance trust with incentive provisions is designed to be the owner of a life insurance policy, in a policy, that insures the life of the Grantor. The trust may own assets other than life insurance; however, to prevent the Grantor from being taxed on trust income, it is best to leave assets other than life insurance out of the trust until after the death of the Grantor.

After the Grantor's death, the policy proceeds will be paid into this irrevocable life insurance trust to benefit the Grantor's spouse for the spouse's lifetime and then for the benefit of the Grantor's children and descendants throughout their lives. Using incentive provisions, trust income and principal are made available to the children at the sole discretion of the Trustees to provide the following benefits for the beneficiaries of the trust after the surviving parent's death:

1. A financial safety net that provides for a beneficiary's food, clothing, shelter, medical and educational needs, all supplemental to any government benefits to which a beneficiary is entitled.
2. Incentive rewards based upon criteria provided by the Grantor or imposed by the Trustees. These may include an income matching feature and cash rewards for attending school, attaining certain grades at school, pursuing certain professions, participating in certain types of charitable work, providing a stay-at-home parent for grandchildren and other descendants of the Grantor, etc.
3. A source of investment capital and/or loans for family members to buy a house, start, operate or expand a business, create a charitable enterprise, etc.

The trust should be used in circumstances where:

1. After the death of the Grantor and the Grantor's spouse, the Grantor's children and other descendants are to be the direct beneficiaries of the trust.
2. After the death of the Grantor and the Grantor's spouse, the Grantor wants to provide a financial safety net for family members and financial incentives to spur family members on to greater achievement, without spoiling them with too large an inheritance.

The specimen trust form is intended to be used to create an irrevocable trust which is unfunded except for the life insurance policy, in a policy, either of which is to be owned by and payable to the trust. Some Trustees will also keep a minimum balance bank account in which to deposit contributions by the Grantor and to make policy premium payments. The specimen trust form contemplates that the trust will not have taxable income during the Grantor's lifetime.

The incentive for use of such trusts is the potential for removing life insurance proceeds from the estate of both the insured and the insured's spouse. In order to help accomplish this, it is recommended that the trust be the original applicant/owner of the life insurance policy. If not, it is certain that there will be a three-year waiting period to keep the policy proceeds out of the insured's estate.

The specimen trust form incorporates Crummey withdrawal provisions in order to qualify contributions to the trust for the annual gift tax exclusion. It is important to note that the specimen trust form contains Crummey withdrawal provisions that are limited to the \$5,000 or 5% lapse protection amount under IRC Sections 2514(e) and 2041(b)(2).

The specimen trust illustrates just one method of providing for the Grantor's children and their descendants; however, the trust provisions must be designed to fit the individual circumstances of each case.