

INSIGHTS

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Founded in 1975, Ferguson Wellman is a privately owned registered investment adviser, established in the Pacific Northwest. As of January 1, 2024, the firm manages more than \$8.4 billion for more than 990 clients that include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of \$4 million or more.

West Bearing Investments, a division of Ferguson Wellman, serves clients with assets starting at \$1 million.

Octavia Group, Ferguson Wellman's private family office, provides fee-based services for clients with \$10 million managed by our firm.

INVESTMENT EXCELLENCE
LIFELONG RELATIONSHIPS

IS YOUR INSURANCE RIGHT FOR YOU?



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AS WE NAVIGATE THE COMPLEXITIES OF wealth planning, insurance plays a critical role in protecting your assets and providing a safety net against unforeseen events. At its core, insurance is about risk management—identifying potential risks to your financial security and finding ways to mitigate them. Without proper insurance coverage, even the most meticulously crafted investment strategies can be derailed by unexpected events.

Life is unpredictable, and events such as illness, accidents or natural disasters can result in significant financial setbacks. Insurance provides a layer of protection, ensuring you and your family are financially supported during difficult times. Depending on the situation, different types of insurance are better suited for certain challenges. For instance, life insurance can provide financial security for loved ones in the event of your untimely passing, while health insurance reduces the financial strain of medical emergencies. In the event of a prolonged medical need, disability or long-term care insurance can provide a much-needed financial supplement.

For individuals with large estates or complex assets, such as a business or real estate, life insurance can be an important tool in legacy planning. For example, it can provide liquidity to fund buyout agreements between business

owners or cover estate taxes and preserve unique family assets for the next generation. Insurance can also be used as an equalizing mechanism if certain assets will be left to specific heirs. Depending on individual circumstances, incorporating tools such as irrevocable life insurance trusts (ILITs) can keep the insurance value from increasing the size of your estate and avoid corresponding estate tax.

Whether planning for your children's education, your retirement or the continuation of a family business, the right insurance can help maintain your financial trajectory ... even when life throws a curveball. Regular reviews with your professional advisors regarding the appropriateness of your insurance coverage and policies ensure that your insurance continues to meet your needs and provides appropriate protection.



Our Ferguson Wellman logo is based on a bronze coin of Marcus Aurelius Antoninus, emperor of Rome from A.D. 161 to 180. According to historian Edward Gibbon, he was the only person in history in which, "the happiness of a great people was the sole object of government." Marcus Aurelius was the author of a series of personal writings and meditations that revealed a mind of great humanity, natural humility and wisdom.



PROPER STRUCTURING OF AN IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

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IN THE WORLD OF TRUSTS AND ESTATE

planning, irrevocable life insurance trusts (ILIT) are a versatile tool. This unique type of trust can provide multiple benefits, including asset protection, estate tax mitigation and efficient wealth transfer. ILITs have received renewed attention in recent years due to several factors, including appreciated real estate values that expose more families to state estate taxes and potential upcoming changes to the federal estate tax exemption.

WHAT IS AN IRREVOCABLE LIFE INSURANCE TRUST (ILIT)?

An ILIT is a legal entity created with the specific purpose of owning life insurance policies on behalf of the trust’s beneficiaries. Unlike a revocable trust, which can be amended or revoked by the grantor (the individual(s) who create and fund the trust), an ILIT is typically irrevocable. Once established, the grantor relinquishes control over the trust assets, including the life insurance policies held by the trust.

HOW DOES AN ILIT WORK?

The basic process of establishing an ILIT involves several key steps:

1. Creation

The grantor initiates the establishment of the ILIT by drafting the trust agreement with a qualified attorney.

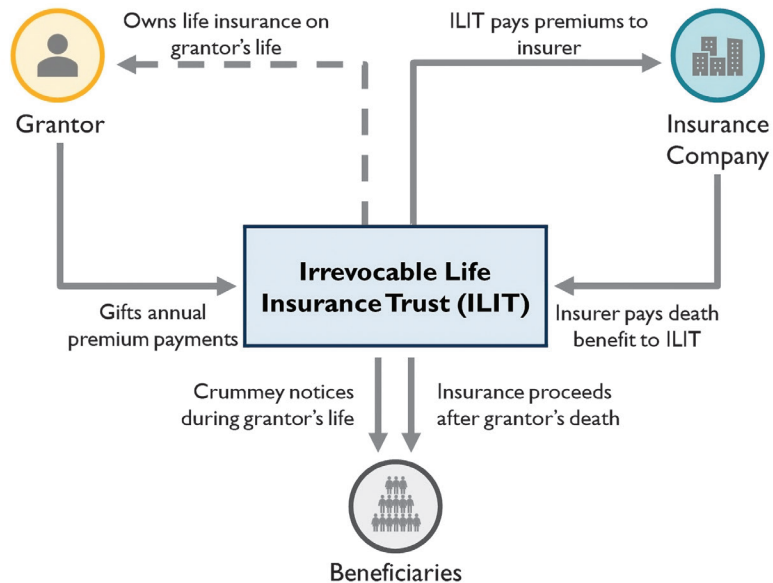
2. Selection of trustees and beneficiaries

The grantor names a trustee with a legal obligation to manage and administer the trust. The grantor will also identify the beneficiaries who will ultimately receive the trust’s assets.

3. Funding

The ILIT is funded by transferring ownership of existing life insurance policies to the trust or purchasing a new life insurance policy with the grantor as the insured party. The trust is named as the policy beneficiary, thus ensuring that the proceeds are distributed according to the trust’s terms upon the grantor’s death.

Proper Structuring of an Irrevocable Life Insurance Trust (ILIT)



The laurel is part of our Octavia Group branding. Octavia the Younger was one of the most prominent women in Roman history. She was respected for her nobility and humility. Octavia was hailed as a “marvel of womanhood” and was a political advisor between her brother and husband. She was immune from the “tutela,” which placed in her the unique position of managing her own finances.

4. Ongoing administration

The trustees are responsible for managing the trust according to the terms of the agreement and ensuring that the assets are distributed to the beneficiaries per the grantor's wishes, including directing the trust to make any necessary premium payments to the insurance company. Depending on the size of the premiums, the trustees may also be responsible for sending the beneficiaries "Crummey notices" informing them of the limited period that they could access the premiums. These "notices" are structured to ensure premiums are not subject to transfer taxes.

REASONS TO USE AN ILIT

Below are several reasons that individuals, families and business owners might choose to use an ILIT.

Estate tax mitigation

One of the primary benefits of an ILIT is its ability to minimize estate taxes. Since the trust rather than the grantor owns the life insurance policy, the policy proceeds are not considered part of the grantor's taxable estate, resulting in significant tax savings, especially for individuals with substantial estates. With the federal estate tax exemption scheduled to decrease from \$13.61 million in 2024 to an estimated \$7-to-8 million in 2026 after the Tax Cuts and Jobs Act expires, there's growing interest in ILITs among those with large taxable estates.

Liquidity for estate tax

The benefit of having liquidity upon the grantor's passing to cover an estate tax liability is closely related to estate tax mitigation. Individuals with significant real estate or other illiquid assets can benefit from ILITs to ensure their heirs are not forced to sell assets to cover an estate tax liability. This is particularly important for residents of states with an estate tax, which frequently have lower exemption than the federal estate tax. Furthermore, ILITs are not subject to probate, so the proceeds are often available relatively quickly for the grantor's heirs.

Asset protection

Assets held within an ILIT are generally protected from creditor claims against the beneficiaries, a valuable feature if beneficiaries face liabilities, such as lawsuits or bankruptcy.

Control and flexibility

Although the ILIT is irrevocable once it is in place, the grantor can exert a degree of control over the trust and its assets by strategically crafting its terms and selecting trustees who will act in accordance with their wishes. Additionally, the grantor can work with their attorney to draft the agreement that specifies how and when trust assets are distributed to beneficiaries, providing a level of flexibility in estate planning.

Privacy

Unlike assets passing through probate, which can delay the distribution of assets to the beneficiaries and become part of the public record, assets held within an ILIT can be distributed privately to beneficiaries. Avoiding court involvement can increase expediency and maintain confidentiality.

Business owners

Business owners who desire the continuity and ongoing success of their business and financial security for their families may use ILITs to fund buy-sell agreements or provide liquidity for estate taxes. In the event of their death, the life insurance proceeds can be used to buy out their business interests or provide income for their families without disrupting the business operations.

Providing for special needs beneficiaries

Families with special needs beneficiaries may find ILITs valuable. By working with qualified and experienced attorneys, an appropriately structured trust can ensure that the beneficiary's eligibility for government benefits is not compromised while providing supplemental support through the trust, with sufficient funding through the insurance policy.

CONCLUSION

Irrevocable life insurance trusts offer a powerful strategy for estate planning, providing numerous benefits such as estate tax reduction, asset protection and control over asset distribution. Individuals can effectively leverage this estate planning tool to achieve their financial goals and provide for their loved ones in a tax-efficient manner. However, due to the complexity of estate planning and tax laws, it is essential to work with experienced advisors, including attorneys and tax professionals, to ensure that an ILIT is structured appropriately to meet individual needs and objectives.

Our West Bearing logo is inspired by the American bison, an iconic creature symbolizing resilience, grace and the western path to growth and opportunity. Most animals attempt to outrun inclement weather, prolonging their exposure to the elements and, in doing so, weaken their conditions. Only bison instinctively turn to face the storm, often bearing west, to find the quickest path to clear skies.



OLD LIFE INSURANCE POLICY: WHAT SHOULD I DO?

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IT'S THAT TIME OF YEAR WHEN

the days are longer, and the nights are warmer. You may even feel inspired to do some cleaning with the extra daylight. As with any cleaning session, it's common to run across old financial information. One such item is old life insurance policies which may have been purchased years

earlier when life circumstances were different. Their utility may no longer be the same, and the question is, what to do with them?

First, identify whether they are term or permanent life insurance. Term insurance has a defined expiration date. At the end of the term, your coverage expires. All other life insurance is considered permanent.

TERM INSURANCE

Addressing an old term policy can be simple. If you still need coverage, retain the policy. If the policy is no longer needed, cancel it. However, if you are currently uninsurable (medically unable to purchase more insurance), think carefully before cancelling the policy.

Note that all term policies have guaranteed renewability, an option to continue premiums and keep the policy in force. These premiums are stated in the policy and are higher than the premiums you have been paying because the insurance company assumes you would only keep the policy if you were medically unable to purchase other insurance coverage.

PERMANENT INSURANCE

Permanent insurance policies come in various forms, including whole life, universal life, and variable life. These policies come with unique benefit riders, cash or investment values and tax consequences. Given the breadth of policy options, it is not possible to succinctly summarize them here. The unique nature of each policy is why one must take care before making a decision to cash out your policies.

BENEFIT RIDERS

Even if you no longer need life insurance, the policy may have benefits or conversion features that itself could be useful, such as long-term care benefits. While the policy may no longer serve its original purpose, the long-term care benefit may be worth keeping.

Guarantees within the policy should also be considered. Typically found in universal and variable life insurance, these guarantees

revolve around the investment value of the account offering a minimum rate of return or future payout. Even if the policy has not performed well, these guarantees may have value and should be evaluated.

EXCHANGE / CASH OUT

A popular option is to exchange the old policy for a new policy, assuming you are medically insurable and able to purchase insurance from a new carrier. The new policy will likely have better insurance benefits and riders due to advances in the insurance industry and updates to the federal mortality tables. The exchange upgrades your old policy to something that is more applicable to your current circumstances. The new policy is funded, via tax-free exchange, using the cash or investment value from your old insurance policy. Depending on the value of your old policy, you may or may not need to pay additional premiums.

In some cases, cashing out the policy will be the best option. However, keep in mind that the cash or investment value of an insurance policy contains tax-deferred income. Cashing out will create ordinary income on your tax return and should be done thoughtfully to avoid any tax surprises.

TRANSFER

One final option to consider is to transfer the policy to a new owner. This is typically done in a situation where:

1. Life insurance is no longer needed personally
2. The insurance policy is still of value, and
3. You have a taxable estate

By transferring the policy out of your estate, you can avoid paying estate taxes on the value of the death benefit. Typically, you would transfer the policy ownership into a trust to avoid estate inclusion.

Transferring a policy is considered a taxable gift and will require a gift tax return. The value of the gift is different from the policy's cash or investment value and needs to be requested from the insurance company.

CONCLUSION

The question of what to do with your old policy is not one to treat lightly. There are multiple considerations and the intersection of insurance, tax, law, and financial planning means that this should be done with the full involvement of your legal and tax professionals as well as your portfolio manager and insurance professional. This team approach will help you understand all your options so you can select the one most beneficial for you.