

ILIT: Trustee Responsibility & Duty



As a Trustee, you play an important role in the administration of Irrevocable Life Insurance Trusts (ILITs). It is the duty of a Trustee to ensure the assets held in an ILIT are properly managed to avoid potential risks and meet the needs of the beneficiaries.

Many Trustees limit ILIT management to paying annual premiums and sending out Crummey letters. However, this approach may fall short of the duty of care required by law. It is well established that Trustees have a fiduciary duty to manage the assets in a trust for the best interests of the beneficiaries. The majority of states have adopted the Uniform Prudent Investor Act (UPIA), in whole or in part, which defines the standard of care required of fiduciaries. Trustees who violate this standard of care run the risk of being held personally liable for trust losses.

According to the UPIA, “A Trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the Trustee shall exercise reasonable care, skill, and caution.”

TRUSTEE BEST PRACTICES FOR ILIT MANAGEMENT:

- ◆ Conduct a comprehensive review of the ILIT's investments
- ◆ Perform financial health reviews of the insurance company
- ◆ Provide ongoing performance reviews of the insurance policy
- ◆ Assure that the insurance will still be in-force if the grantor outlives their expectancy
- ◆ Ensure the suitability of the investment for the Grantor's intent and Beneficiary's needs
- ◆ Diversify investments unless imprudent
- ◆ Review trust assets annually



The Life Insurance Audit Solution



There is a clear duty on the Trustee to manage trust assets prudently. However, states that have adopted the UPIA may permit a “prudent delegation” of these duties to a qualified advisor. Partnering with IPA will help alleviate some of the stressful demands that have been placed on you and help shield you from liability. IPA can provide you with the personal attention and professional expertise needed to manage the life insurance held inside your clients’ ILIT.

IPA is uniquely qualified to meet your ILIT needs.

- ◆ We are able to properly assess the rate class and corresponding mortality changes to determine appropriateness in today’s market.
- ◆ We assess the appropriateness of the current life insurance policy by evaluating the product choice, projected performance and funding based on stated objective.
- ◆ We identify strengths and weaknesses of the current policy and provide insight of possible opportunities to improve current policy performance based on stated objective.
- ◆ We evaluate alternative products available in today’s market to identify possible opportunities for performance improvement.
- ◆ We continuously monitor insurance company financial ratings.
- ◆ We have relationships with 80+ insurance companies.
- ◆ We have 15+ in-house medical underwriters and one Medical Director on staff.