

When naming your ILIT trustee, did you make the easy decision or the right decision?



Sometimes the worst decisions we make are made because of two reasons - first, they are easy to make and second, the decision does not cost us anything – we can make

that decision without incurring a cost.

Nowhere is this more evident than in the naming of a trustee for your ILIT.

The easy decision is to name a friend, a family member or a business associate as the trustee. And why not? Who else would look out for us better than a loved one, a dear friend or someone that has shared the business wars with

us and won? After all, we shared much of life's trial and triumphs with this person

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so who better than to captain a portion of our assets to the next generation? And the decision does not cost us anything now – though, in the long run, it may require a lot.

But naming a non-professional is a mistake for many reasons:

1. They do not have the requisite knowledge needed to manage a life insurance policy. Maybe your friend is a banker, your relative is a successful investor, or your business partner is the financial genius behind your company's success, that does not mean that their admittedly exceptional skills in other areas will translate to managing a policy efficiently. Life insurance is a very different and sophisticated financial vehicle, unlike any other and to handle it takes specialized skill and knowledge that few have.
2. They do not have the time. Even if the non-professional trustee chosen had some experience, do they have the time to administer the trust correctly? Think of yourself – how much time would you have to take out of your busy days to ensure that the trust was managed successfully? And the trust is for the benefit of *your* beneficiaries, so it would be a higher priority.
3. They do not have a procedure in place to manage your ILIT. Trust administration and management – even decision making – is all about the process. A professional trustee has the process in place to make a decision – and it is that process that is the key to making sure that the decisions made are prudent – ones that can stand the test of time – no matter what the outcome.
4. They do not have the wherewithal to understand the trust document. It is the rare layperson who can decipher the legalese in a trust document to guarantee that the trust is administered and handled appropriately. Your friend, relative or business partner is not equipped to handle all the legal requirements that you may be asking of them. Many will not even read the trust document, and those that do will not grasp the nuances of the trust.

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5. They have trouble being unbiased about beneficiaries. A non-professional trustee is by definition: someone with a background in your life. And that background can cause the decision-making process to become something less than neutral. The first responsibility of a trustee is to remain impartial – to stand above family squabbles and changing situations to make all decisions in a fair and equitable way – for all beneficiaries. Is it fair to put this person in a no-win situation that can damage their personal relationships with beneficiaries – or even with you?
6. You are putting your friend, family member or business associate in a position with potential liability. While a non-professional trustee may not be held to the same standard as a professional trustee, they can still be sued. What happens if after you pass away, your beneficiaries decide that the death benefit in the policy could have been more significant if appropriately handled? As grantor, you do not even have the standing to sue your trustee – but your beneficiaries do. Do you want to subject someone dear to you to that possibility?
7. Humans are not immortal. Unlike a corporate trustee, a non-professional trustee may pass away long before you do and if they do who will take over? That person will be coming in after the fact and attempting to manage an asset they are unaware of. Professional trustees provide the continuity that non-professional trustees simply cannot.

Continuity is one of the most important benefits of a corporate trustee, but certainly not the only one. A corporate trustee can provide you with the confidence that the goals of your trust will be met and deliver a sense of comfort that the asset in the trust will be managed professionally. The institutional trustee provides many advantages over a non-corporate trustee, including:

1. Experience and scale. A professional trust-owned life insurance (TOLI) trustee is trained in dealing with trust administration. They understand the need for documenting the Crummey powers and other trust responsibilities, and because they are managing many ILITs, they have the system in place to house the documentation. The fact that they are managing many ILITs gives them a significant advantage over the non-professional managing just one. The knowledge that comes from experience is invaluable.
2. A rigid, regulated process. All trustees managing ILITs have standards that they must adhere to, and they operate with policies and in-house procedures that assure that the administration is held to those high standards. Within every trust organization is an audit practice that acts as a backstop further ensuring that the policy and the trust are handled prudently, with a trust committee made up of seasoned professionals that provide further oversight.
3. Specialized skills. Life insurance is unlike any other financial asset, and the vast array of products and policy nuances requires an expert staff to manage your policy to obtain maximum benefit. Life insurance is not a static asset. It must be monitored annually with an eye to possible future problems that only a skilled professional can see.
4. Annual reports. A TOLI trustee will not only monitor your policy but will provide you with an annual report that will allow you to track your policy's performance. An in-house remediation team will lay out succinct options to maximize your

Why a Corporate Trustee?

1. Experience & Scale
2. Rigid Regulated Process
3. Specialized Skills
4. Annual Reports
5. Fiduciary Standards
6. Documented Decisions
7. Perpetuity
8. Cost Efficient

policy's value, so you will clearly see why the trustee is making the decisions that are made.

5. Your trustee is held to the highest standard. Unlike a non-professional trustee, a corporate trustee is held to the highest standards. They must make prudent decisions based on all the information gathered, and those decisions cannot be colored by any favoritism. The decisions that are made will guarantee that the asset in the trust will be maximized and passed on to your beneficiaries precisely as you had intended.
6. All decisions are documented. Not only is a corporate trustee making decisions in a prudent matter, but they are recording those decisions in a trust file that can be referred to next year or even ten or twenty years from now. This minimizes the chances of any issues down the road as all decisions will be explained to all pertinent parties, and the reasoning will be spelled out and memorialized.
7. The trustee will live on. A corporate trustee will not pass away but will be there to administer the trust until the benefit is paid which guarantees that the asset in the trust is passed on according to your desire.
8. A corporate trustee is cost-efficient. While not "free," the corporate trustees are inexpensive relative to the services provided and the value brought to the trust.

The Life Insurance Trust Company was created to provide the best in TOLI trust services. We administer and manage only one type of asset - life insurance. That specialization allows us to provide the best of breed services. To find out how we can help you to maximize your life insurance benefit to the next generation, contact Leon Wessels at (605) 574-1703 or lwessels@lifeinsurancetrustco.com.



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