

ESTATE PLANNING GUIDANCE FOR FAMILIES

# Before You Name an Individual as Trustee

The trustee you name today will steward your family's financial legacy for decades. This decision carries legal, tax, and personal consequences that deserve careful consideration.

**46.5%**
of trust-owned policies now projected to lapse before maturity

**30+ yrs**
average trustee tenure — often surpassing an individual's capacity

**49.1%**
of no-lapse guarantees have been compromised

**100%**
of fiduciary liability falls on the individual trustee

Policy data: ITM analysis of more than 25,000 trust-owned life insurance policies.

## 6 Key Risks When Naming a Friend or Family Member as Trustee

### 1 No Life Insurance Expertise

Managing trust-owned life insurance requires ongoing policy monitoring, premium oversight, and in-force analysis — skills most individuals do not possess.

### 2 Personal Liability for Mismanagement

Trustees can be personally liable if a policy lapses, benefits are lost, or Crummey notices are improperly handled. Inexperience is not a defense.

### 3 Lack of Impartiality

Family members often default to the grantor's preferences over the beneficiaries' interests, which can breach fiduciary duty and lead to litigation.

### 4 Tax & Regulatory Compliance Failures

Missed Crummey notices, missed fiduciary tax returns, and improper gift tax reporting can unravel years of estate planning and draw IRS scrutiny.

### 5 No Long-Term Continuity

An individual trustee may retire, become incapacitated, or predecease the trust. The resulting gaps in administration can jeopardize beneficiaries.

### 6 Burdensome Administrative Duties

From premium payments and policy reviews to annual reporting and beneficiary communications, ILIT administration is time-intensive and technically demanding.

## REAL-WORLD CONSEQUENCES

### LACK OF IMPARTIALITY

**Paradee v. Paradee**

*Delaware Court of Chancery, 2010*

The grantor's widow named herself trustee, kept the trust hidden from his grandson and proceeded to let the $1.15M policy lapse.

**Trustee ordered to pay $1.15M for the lost policy, plus additional damages and fees**

### INVESTMENT FAILURE

**Estate of Collins**

*California Court of Appeal, 1977*

The grantor's business partner and lawyer, serving as trustees, put two-thirds of the trust into one unappraised second mortgage without vetting the borrowers.

**About $60,000 of an $80,000 trust lost; court ordered the trustees surcharged**

### ACCOUNTING & OVERSIGHT

**Law v. Law**

*Delaware Supreme Court, 2000*

A mother named her two adult children as trustees. They accepted a trust funded below what her will required and never filed the accountings the law required.

**Breach of trust found; beneficiaries had to go to court to protect their interests**

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PRIORITY RISK #1

## Tax & Regulatory Compliance

ILITs carry ongoing IRS and state law obligations. The most costly failure is the Crummey notice — without documented annual notices, the IRS can reclassify gifts as taxable, erasing the exclusions that make an ILIT beneficial.

### WHAT INDIVIDUALS MISS

- Crummey notice documentation
- Fiduciary tax returns (when required)
- K-1 issuance to beneficiaries
- Gift tax reporting on contributions
- Changes to state trust law

### HOW LITCO PROTECTS YOU

- Crummey notices sent & documented
- Annual fiduciary returns filed on time
- Continuous IRS & state law monitoring
- Audit trail on every action

PRIORITY RISK #2

## Long-Term Stability

The average ILIT trustee tenure exceeds 30 years. Over that span, individual trustees retire, become incapacitated, or pass away — leaving costly gaps and a burden on the family to find a replacement trustee.

### INDIVIDUAL TRUSTEE GAPS

- Premiums unpaid during vacancy
- Crummey notices missed for full year
- Court required to appoint successor
- No-lapse guarantees compromised

### LITCO'S INSTITUTIONAL CONTINUITY

- Uninterrupted administration
- Institutional memory across decades
- Active policy monitoring
- Fiduciary accountability assumed by LITCO

## 5 Reasons to Choose LITCO as Corporate Trustee

1. **LITCO Specializes in Trust-Owned Life Insurance Administration**

   With our affiliate ITM, we administer 25,000+ policies. Every trust is supported by insurance experts and a dedicated trust officer, giving your family an informed point of contact.

2. **Independent Fiduciary Oversight & Objective Decision-Making**

   As corporate trustee, LITCO provides independent fiduciary oversight focused on the interests of the trust beneficiaries.

3. **Tax & Regulatory Compliance Experts**

   Our compliance-focused process helps ensure relevant tax and trust administration requirements are satisfied.

4. **Complete Administrative Services**

   Premium payments, policy reviews, beneficiary communications — all managed by our team.

5. **Institutional Stability Across Generations**

   A corporate trustee never retires, becomes incapacitated, or predeceases the trust.

## Talk to Our Team

Find out more about how LITCO can work with you and your current advisors to protect your trust and your family's legacy.

CONTACT US TODAY
trustlitco.com
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To submit a new trust, email us at trustonboarding@lifeinsurancetrustco.com