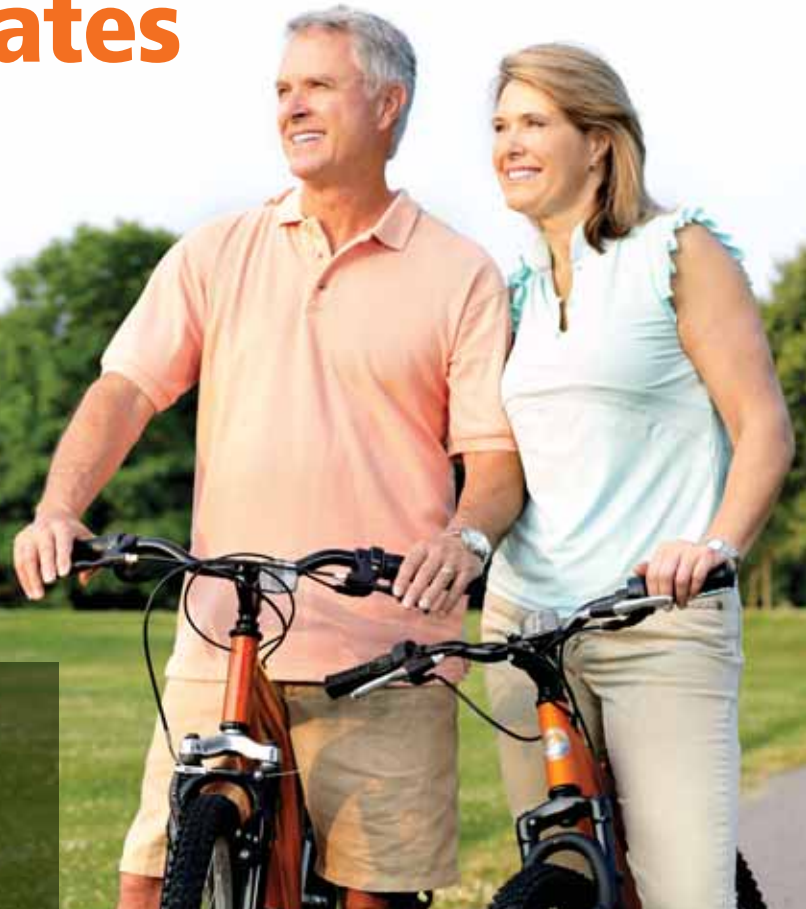


Kick Start Your Clients' Estate Planning by Taking Advantage of **Low Interest Rates**



If you have clients who have been putting off their estate plans, now may be the time to move forward. Interest rates today are low. Really low. Historically low. And this presents an opportunity for you and your clients to take action on their estate plans.

Take a look at how low interest rates are today compared to this time last year.

	December 2008	December 2009	December 2010
Short Term Rate	1.36%	0.69%	0.32%
Mid-Term Rate	2.85%	2.64%	1.53%
Long Term Rate	4.45%	4.17%	3.53%
1 -year LIBOR Rate	2.38%	0.99%	0.79%
Section 7520 Rate	3.40%	3.20%	1.80%

Sources: Rev. Rul. 2008-28, Rev. Rul. 2009-16, Rev. Rul. 2010-29

LIFE INSURANCE



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Life Insurance and ILITs

Life insurance can provide wealthy clients with funds to pay estate taxes at exactly the time those funds are needed— after death. This makes life insurance an attractive tool for providing “estate liquidity”—i.e., funds that can be used to pay taxes and expenses at death without forcing heirs to sell off assets. But if the death benefit proceeds are included in an individual’s estate they could actually increase the total amount of taxes owed. This would, in essence, make the IRS a co-beneficiary of the life insurance!

Clients may avoid this planning pitfall by making use of an irrevocable life insurance trust (or “ILIT”). The ILIT is designed to keep life insurance proceeds “outside” of the insured’s estate by vesting all incidents of policy ownership in the Trustee.

Once a client has made the decision to incorporate an ILIT into the estate plan, the question becomes how to fund the ILIT. In other words, how does the client contribute funds to the ILIT without incurring gift taxes?

The most common way to fund ILITs is through annual gifts that include withdrawal rights (sometimes called “Crummey powers”) for trust beneficiaries. This strategy may not work, however, where the gifting needed to fund the desired life insurance policy exceeds the client’s maximum available annual exclusion amount or where the client has already committed to using annual gifts elsewhere in the estate plan.

Where a client is unable or unwilling to make use of annual exclusion gifts to fund an ILIT, private financing, premium financing, and GRATs offer funding alternatives. And these alternatives are especially attractive in today’s low interest environment.

Many estate planning techniques which are designed for flexibility or to minimize gifting are indexed to current interest rates. The following are estate planning techniques which may be more efficient in low interest rate environments:

- **Private Financing** (intra-family loans);
- **Premium Financing** (funding life insurance with loans from a commercial lender); and
- **GRATs** (selling assets to a trust in exchange for annuity payments).

With interest rates at historical lows, now may be the time for your clients to move forward with their estate plans using one or more of these three strategies.



Private Financing

Private Financing involves a series of split dollar loans from a client to an ILIT. The ILIT purchases and owns the life insurance independently. The client helps the ILIT pay insurance premiums by making annual loans to the ILIT. Then, depending on the size of the loans, the client may forgive the annual interest or the interest may be accrued and added to the principal of the loans. Thus:

- The policy death benefit will be received by the ILIT outside of the estate, but a portion of the proceeds will be used to repay the loans and that loan repayment will be included in the client’s estate.



Private Financing (continued)

- Annual interest payments will either be treated as taxable gifts or will be accrued and added to the outstanding loan amount.

And, of course, the lower the interest rate applied to the loans, the less the client has to account for in gifting. Thus, today's low interest rates may make long-term private financing arrangements an attractive estate planning strategy.

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Premium Financing

Premium financing is an alternative to private financing. Essentially, "premium financing" means borrowing money from a commercial lender to pay life insurance premiums. Of course, this means taking on debt, something that many clients are reluctant to do. But premium financing arrangements can be efficiently designed so that—based on current assumptions and assuming expected mortality—they may be less expensive than paying life insurance premiums outright. Moreover, even where borrowing to pay premiums is less efficient than paying them outright, premium financing may offer a cost-effective life insurance solution to clients without immediately liquidating otherwise illiquid assets.

As with private financing, clients using the premium financing strategy will have the choice to make interest payments by making annual taxable gifts to the ILIT or to accrue the interest. In either case, the lower the interest rates, the less gifting potentially required by your client. (Gift tax consequences could also arise to the extent the client offers guarantees for the loan.)

3

GRATs

The Grantor Retained Annuity Trust ("GRAT") is a flexible planning tool which can be used by wealthy clients to potentially (i) reduce estate and gift taxes through an estate "freeze," (ii) reduce gift taxes that could be incurred when funding an ILIT, or (iii) as an "exit strategy" for other estate planning techniques such as premium financing or private split-dollar.

A GRAT is a wealth transfer technique where an individual (the "Grantor") transfers assets to an irrevocable trust (the "GRAT") in exchange for a stream of payments (an "annuity") and designates remainder beneficiaries who will receive any assets left over in the trust at the end of the annuity term. In essence, a transfer to a GRAT is like a sale, only the payments for the property are characterized as an annuity that lasts for a term of years rather than as payments of principal and interest. The tax treatment of the transfer to a GRAT depends on the value of the annuity payments retained by the Grantor. If the grantor sets the annuity payments at a high enough rate, the value of the GRAT remainder will be zero and no gift taxes will be due on the formation of the GRAT (this is sometimes referred to as a "Walton GRAT").

At the end of the GRAT term, any assets remaining in the trust are transferred to the remainder beneficiary(ies) free of gift taxes. By naming an ILIT as the remainder beneficiary, clients can use GRATs to help fund future premium payments or to help the ILIT pay off the loan balance incurred through a private financing or premium financing arrangement.

Determining the amount of GRAT payments needed to keep the gift taxes at zero depends upon the annuity discount rate set by the IRS. This rate (the § 7520 rate) is based upon the interest rate applied by the IRS to mid-term loans. The lower the current § 7520 rate, the lower the payments a grantor has to receive from a GRAT to keep the gift taxes at zero. Thus, GRATs – like private financing and premium financing – are most effective when interest rates are low.

The principal risk in using a GRAT strategy is the risk that the grantor predeceases the term of the GRAT annuity interest. In such an event, some or all of the GRAT assets will be includible in the grantor's estate.

Summary

Life insurance is a key tool for funding a well-designed estate plan. ILITs are a key tool for keeping the death benefits from life insurance outside of the insured's estate. Private financing, premium financing, and GRATs are all strategies for funding ILITs that work best when interest rates are low.

Today's interest rates are low. Really low. Historically low. If you have clients that have been putting off their estate planning, now may be the best time to talk to them about getting started.

Where Can I Learn More?

To learn more about private financing, premium financing, or GRATs, contact your ING Life Companies' representative, or call ING Life Sales Support at 866-ING-SELL (866-464-7355).

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