Estate planning using life insurance

With the right life insurance strategy, you can safeguard who and what you care about while creating opportunities for your wealth to go further.
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<tr>
<th>Are Not FDIC Insured</th>
<th>Are Not Bank Guaranteed</th>
<th>May Lose Value</th>
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<td>Are Not Deposits</td>
<td>Are Not Insured by Any Governmental Agency</td>
<td>Are Not a Condition to Any Banking Service or Activity</td>
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Why life insurance?

You may already own life insurance or be aware of its primary use — providing money to your family or other beneficiaries when you are no longer here. Yet, the value that life insurance can bring to a comprehensive, integrated estate plan goes far beyond providing cash liquidity through the payment of death benefits.

Whether you want to leave a legacy to your family for generations to come, assure the continuation of a business you have built or make a significant impact through philanthropy, the strategic use of life insurance can help you address your goals. Your advisor, working together with insurance specialists, trust specialists and your attorney, can help you identify the right life insurance strategy for you.
Why life insurance? (continued)

Benefits of life insurance

Life insurance can be a versatile tool and offer powerful benefits to enhance your legacy and complement your overall financial strategy.

<table>
<thead>
<tr>
<th>Diversification</th>
<th>Guarantees</th>
<th>Competitive rate of return</th>
<th>Tax-advantaged death benefit</th>
<th>Tax-deferred growth potential</th>
<th>Liquidity</th>
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<tr>
<td>As part of a well-balanced estate plan, life insurance offers the potential for the diversification of non-correlation to traditional market-driven investment vehicles.¹</td>
<td>Certain permanent life insurance policies can provide guaranteed lifetime protection, as long as the premiums are paid, excess withdrawals are not taken and the policy remains in-force. Other assets that are tied to market conditions cannot be relied upon to assure you of the value of the wealth you transfer in that way.²</td>
<td>Upon the insured's death, the death benefit paid to beneficiaries is not income taxable. Therefore, the potential rate of return on the premiums you pay can be competitive compared to taxable investments, potentially ensuring more money for the people you love and the things you care about.</td>
<td>When properly structured in an irrevocable trust, life insurance death benefit proceeds are distributed to heirs free of income, gift and estate taxes.³</td>
<td>Besides death benefit coverage, permanent life insurance may include a cash-value element that builds tax-deferred over time. You can access the cash value through tax-advantaged loans or cash withdrawals. This can be beneficial for supplementing your lifetime income needs.⁴</td>
<td>As long as a beneficiary is named on the policy, life insurance death benefit proceeds are paid out in cash without the potential delays of probate, and thus become quickly available to heirs to cover immediate expenses. The death benefit proceeds can help to pay estate taxes, purchase assets from your estate to prevent a forced sale or lend money to the estate.</td>
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¹ Diversification does not ensure a profit or protect against loss.
² All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. They are not backed by Merrill or its affiliates, nor does Merrill or its affiliates make any representations or guarantees regarding the claims-paying ability of the issuing insurance company.
³ Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions, such as when a life insurance policy has been transferred for valuable consideration. There is a three year look-back period that may apply after policy transfer. If the transfer takes place within the three years before death, the proceeds from the policy are counted in the estate for tax purposes.
⁴ Loans and withdrawals reduce policy cash value and the death benefit, may have tax consequences and may cause the policy to lapse. Policies that are structured as Modified Endowment Contracts (MECs) do not have the same tax advantages as non-MEC designs and are not suited to this purpose.
Why life insurance in an irrevocable trust?

Creating a tax-efficient pathway for wealth transfer

Life insurance can be used to maximize your wealth and pass it on to the people or causes that are important to you with less risk and the potential for greater tax efficiency.

One of the most common ways of using life insurance in a wealth transfer plan is by using it in conjunction with an irrevocable trust. When owned by a properly structured irrevocable trust, the death benefit from a life insurance policy can provide liquidity to offset federal or state wealth transfer taxes and it can prevent a forced sale by purchasing assets from your estate or by lending money to the estate. Specific types of irrevocable trusts can be drafted by your attorney to help meet your family, business and philanthropic goals.

The trust becomes the owner and beneficiary of an insurance policy on your life, allowing the death benefit to pass outside of the estate and be distributed based on your wishes, as dictated by the trust.

Life insurance and trusts, together, provide powerful opportunities to help pursue your estate planning goals.
How life insurance in an irrevocable trust works

The first step is to establish an irrevocable trust, which will serve as the owner and beneficiary of a life insurance policy insuring your life. As grantor of the irrevocable trust, you name another party or parties to serve as trustee. Once established, the trustee can use trust assets to pay life insurance premiums. In addition to life insurance, an irrevocable trust can own almost any kind of asset: cash, stocks, bonds, mutual funds and real estate.

It is important to remember that it is irrevocable, and you will typically be unable to change its terms without legal proceedings once it has been established. Additionally, the assets that you transfer to the irrevocable trust are no longer your assets. The trustee will manage the trust assets, and the individuals who have been named as beneficiaries will receive those assets pursuant to the terms of the trust.

Because the assets, including the insurance policy on your life, are no longer your own, any benefits received by you from the trust could nullify the purpose of the trust and bring the life insurance death benefits into your taxable estate. Therefore, living benefits, such as those from long-term care and chronic illness coverage, are not typically included.

Did you know?

The benefits of purchasing life insurance in an irrevocable trust can be even greater if a married couple has the trustee purchase a second-to-die life insurance policy. Generally, the cost will be less than two single-life policies, so for the same premium, you may be able to purchase a larger amount of coverage.
Ways to fund the purchase of life insurance in a trust

Depending on your current financial situation, you may want to consider various strategies for funding an irrevocable trust to purchase life insurance.

Gifting

Gifting assets to pay the life insurance premiums held in a trust provides an opportunity to leverage the value of the annual gift tax exclusion or lifetime gift exemption. If the trustee uses gifts to pay for life insurance, the death benefit can often be substantial as compared to the value of the original gift — thus maximizing the wealth you pass on.

Shaping your wealth transfer plan to help minimize transfer taxes

<table>
<thead>
<tr>
<th>You</th>
<th>Beneficiaries</th>
<th>Education/healthcare</th>
<th>Charitable entities</th>
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<tr>
<td></td>
<td>Marital deduction: Unlimited tax-free transfers to spouses who are U.S. citizens</td>
<td>Annual exclusion: $15,000 per recipient per year</td>
<td>Payments made directly to a provider (such as a school or physician) for qualified tuition or healthcare expenses are not considered taxable gifts</td>
</tr>
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<td></td>
<td>Lifetime gift exemption: Allows aggregate lifetime gifts up to $11.58 million in 2020 free of federal gift tax</td>
<td>Charitable deduction: Unlimited tax-free transfers to qualified charities5 (Income tax deductions may be limited in certain situations)</td>
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<tr>
<td></td>
<td>Taxable transfer: At gift tax rates</td>
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Federal gift, estate and GST exemption amounts

<table>
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<tbody>
<tr>
<td>2015</td>
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<td>2026</td>
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* Subject to an annual inflation adjustment from 2010.

The Tax Cuts and Jobs Act of 2017 (2017 Tax Act) increased the allowable lifetime gift tax exemption amount through 2025, after which it will revert to pre-2018 levels adjusted for inflation. This creates a potentially limited window of opportunity to gift more.
Ways to fund the purchase of life insurance in a trust (continued)

Personal loans

Another tax-advantaged way of paying life insurance premiums within an irrevocable trust is through a personal loan between you, as grantor, and your irrevocable trust. Because you are lending, rather than gifting, money to the trust for the purchase of the life insurance, higher amounts may be utilized without triggering gift taxes. The loaned funds must be repaid with interest at a rate determined by the IRS\(^6\) to be considered an arm’s length transaction. You should work with an attorney to develop a lending agreement.

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Did you know?

If your current assets exceed what is necessary to support your retirement lifestyle, you may be able to increase your legacy with an asset repositioning strategy using life insurance. The investments you have accumulated for retirement may not be the most efficient vehicles for transferring wealth to your heirs. Assets such as IRAs, annuities and municipal bonds held in your estate at death may be subject to taxation. Incorporating life insurance has tax benefits that could increase the overall value of wealth transferred.

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\(^6\) Internal Revenue Code Section 1274(d) governs the determination of the interest rate associated with private loans. These Applicable Federal Rates (AFRs) are published monthly by the IRS. (Source: https://apps.irs.gov/app/picklist/list/federalRates.html)
What’s important to you?

When it comes to wealth transfer planning, you have your unique perspective and priorities about who and what you want to take care of and the legacy you wish to leave behind. Begin exploring how life insurance can help you with what matters most.

Family
Life insurance solutions can help meet your legacy goals and maximize the benefit your family receives.

Business
A well-structured plan funded with life insurance can help protect your business and your business legacy.

Philanthropy
Combining life insurance and charitable giving strategies can allow you to make a tax-advantaged gift while maintaining what you transfer to your heirs.
Maximize your wealth to take care of those who matter most

If you have loved ones you want to make sure are well taken care of, it’s important that you take every possible measure to maximize the real value of the wealth you have created. Perhaps you even wish to assure the welfare of generations of your family into the distant future. Life insurance, properly structured within various trust instruments, can help you achieve those important goals.

Or maybe you want to address a special family situation that presents particular challenges when planning for wealth transfer, such as a special needs individual who will require continual care or members of a blended family whom you want to treat individually but fairly.

Trusts remain one of the fundamental and most effective wealth structuring tools to help you address such situations. And, when appropriate, life insurance can be incorporated into a trust to help you reach your goals.

It’s important to me...

To provide for my spouse during my lifetime and after by minimizing tax burdens
- Spousal Lifetime Access Trust
- Leveraged Credit Shelter Trust

To have a wealth transfer plan that prioritizes my special family situation
- Life insurance for blended families
- Special Needs Trust

To secure my legacy by my standards
- Dynasty Trust
- Incentive Trust

That my heirs get the maximum value from the assets I leave behind
- Grantor Retained Annuity Trust
- Intentionally Defective Grantor Trust
It’s important to me...

To provide for my spouse during my lifetime and after by minimizing tax burdens

Minimizing taxes on the estate that will pass on to your spouse can make a significant difference in the net amount he or she will inherit. By properly structuring assets within an irrevocable trust, you can protect those assets from estate taxes. Life insurance in a trust can further protect assets from income taxes. Life insurance can be combined with specific types of trusts to address particular needs, such as assuring the financial comfort of a spouse.

Spousal Lifetime Access Trust (SLAT)

A SLAT is an irrevocable trust used by married couples who want to maintain their current lifestyle and the lifestyle of the surviving spouse, and also leave a final legacy.

Funding a SLAT with your gift tax exemption allows the trustee to use those funds to purchase a life insurance policy on your life with your spouse as beneficiary. Your spouse can take federal income tax-preferred loans or cash withdrawals from the policy during your lifetimes to help supplement future income or fund other long-term goals.

After your death, the death benefit and other assets are passed on to your spouse outside of your taxable estate. Upon the death of the second spouse, the assets owned by the trust, including the life insurance death benefit proceeds, will pass to the designated beneficiaries and will potentially remain outside the taxable estate of the second spouse, leaving a larger legacy to those important to you. Proceeds can also be used to purchase assets from the estate or lend money to the estate to offset estate taxes.

Leveraged Credit Shelter Trust

A leveraged credit shelter trust helps married couples take advantage of the full estate tax exemptions of each spouse to maximize what is finally left for children and other heirs after they both pass away.

If you die without a trust in place, your spouse can use a credit shelter trust (sometimes called a bypass trust) to pass along assets so they are not considered part of his or her estate and liable for estate taxes. These assets are used to purchase a life insurance policy on the surviving spouse with the credit shelter trust as the owner and beneficiary of the life insurance policy. Upon the death of the second spouse, the assets owned by the trust, including the life insurance death benefit proceeds, will pass to the designated beneficiaries and will potentially remain outside the taxable estate of the second spouse, leaving a larger legacy to those important to you.
It's important to me...

To have a wealth transfer plan that prioritizes my special family situation

When it comes to families, each has its own makeup and unique circumstances. A properly structured trust provides the control to accommodate different family scenarios. In a variety of instances, a life insurance policy within an irrevocable trust holds the key to securing a specific wealth transfer amount while minimizing taxes.

Life insurance for blended families

*You may be part of a “blended family” because you’ve remarried after a divorce or as a result of widowhood. Blended families may include children who are far apart in age, with some requiring provisions for their continued care and education, while others are grown and self-sufficient.*

If certain trust assets, such as the family home or education funds, are earmarked for younger children, life insurance within the trust can be used to provide a specific, equalized amount for older children, while minimizing taxes. Similarly, if one child will take over your business upon your death, other children can inherit similar, guaranteed amounts through permanent life insurance policies held in a trust.

Special Needs Trust

*If caring for a special needs child or other heir is important to you, a properly structured special needs trust with life insurance offers unique benefits.*

A special needs trust funded with life insurance can help you maximize the assets devoted to this goal without impacting other goals, including funding your own retirement or providing for other heirs. After your death, the death benefit proceeds will be used by the trustee to make distributions to support the special needs individual and contribute to his or her quality of life. The assets pass free of gift, estate and income taxes, so a larger amount will be available for the welfare of the beneficiary. And because the assets are not owned by the beneficiary of the trust, they will not jeopardize benefits under the Supplemental Security Income program, including healthcare and other potential support programs.
It's important to me...
To secure my legacy by my standards

If leaving a legacy that assures financial security and ease for your current family and future generations, you will find there are trusts structured to help you build your dynasty. Additionally, a trust can provide you with a certain amount of control over your estate even after death by allowing you to set parameters that influence how your legacy is used. In conjunction with life insurance, certain trusts may protect your assets from multiple levels of transfer, estate and income taxes.

Dynasty Trust

A dynasty trust is an irrevocable trust that serves as a resource to provide income and support to children, grandchildren and future generations.

With the assistance of an estate planning attorney, you can establish a dynasty trust in combination with life insurance. This combination can be used to leave a multi-generational legacy, up to limits imposed by the laws of the state which governs the terms of the trust. The assets held in the trust in the form of life insurance are protected from future federal gift and death taxes.

Incentive Trust

When it is important to you to influence the use or impact of assets you leave to heirs, an incentive trust can allow for certain conditions to be imposed upon beneficiaries of trust assets.

Perhaps you want to provide a certain amount of your wealth to a grandchild, for instance, but are concerned that inherited money might lessen the child’s drive to pursue a higher education or professional career. With this trust vehicle, you can specify that funds can only be dispersed once the grandchild graduates from college, or any other legally permissible requirement you, as grantor, might wish to impose. Combining an incentive trust with life insurance may serve to minimize the effects of taxes.
It’s important to me...

That my heirs get the maximum value from the assets I leave behind

Do you have assets...

• That could benefit from a valuation discount, such as a minority stake in a private company?
• That may appreciate substantially in value, such as ownership in a company that could be sold or taken public?
• That generate strong cash flow, such as commercial real estate?

If you wish to arrange for the transfer of your highly appreciating assets to your heirs while minimizing taxes on that transfer, consider the following trust solutions. Both potentially allow you to remove future appreciation from your taxable estate, leaving more for your heirs.

Grantor Retained Annuity Trust (GRAT)

The GRAT can help you minimize taxes and leave more to heirs by removing future appreciation from your taxable estate from assets such as commercial real estate or a successful business.

As grantor, you transfer specific assets into the trust, retaining the right to receive an annual annuity payment from the gifted assets for a certain number of years. As long as you outlive the GRAT, when it terminates, any property remaining in the trust passes to the remainder beneficiaries without any additional gift or estate tax consequences. Individuals using GRATs often pair the GRAT with a life insurance policy held in an irrevocable trust that will provide funds to offset any estate taxes that might be triggered if the assets are brought back into the grantor’s taxable estate as a result of an untimely death, but otherwise passes to the trust beneficiaries. The income from the transferred assets can be used to pay the life insurance premiums.

Intentionally Defective Grantor Trust (IDGT)

You can transfer rapidly appreciating assets to heirs with minimal or no transfer tax costs by structuring the transfer as a sale (or gift) to an IDGT.

With this strategy, you make an initial taxable “seed gift” to the trust and pay the income tax, reducing the tax burden for your heirs. The trust purchases or borrows additional assets from you that can be valued at up to nine times the value of the seed gift by issuing an installment note. Future appreciation of the assets sold to the trust is outside of your taxable estate. The estate includes any remaining portion of the note, effectively “freezing” the value of the estate. Income generated by trust assets can be used to purchase life insurance on the life of the grantor. Death benefit proceeds can be used for wealth transfer taxes and other costs at the grantor’s death.

2 The loaned funds must be repaid with interest at a rate determined by the IRS to be considered an arm’s length transaction. You should work with an attorney to develop a lending agreement. Internal Revenue Code Section 1274(d) governs the determination of the interest rate associated with private loans. These Applicable Federal Rates (AFRs) are published monthly by the IRS. https://apps.irs.gov/app/picklist/list/federalRates.html
Plan for the equitable transfer of your business and your wealth to heirs

It may be important to you that your family members who are active in the business can successfully take over after you are gone. You may also want to ensure that you pass on an equitable inheritance among family members who will carry on the business and heirs who are not involved in the business.

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It’s important to me...

That my business continues on and all my heirs are taken care of

- Buy/sell succession strategy
- Equalizing your estate
- Key person protection
It’s important to me...

That my business continues on and all my heirs are taken care of

Buy/sell succession strategy

A buy/sell succession plan defines how you and a partner will distribute interests in your jointly held business when one of you dies. Life insurance can be used as a tool to fund this plan.

Using life insurance to fund this plan ensures the transition will be smooth by providing cash from the death benefit, which enables the surviving owner to buy out the deceased partner’s interest from his or her heirs. Life insurance policies are purchased on each owner and can be paid for by the business or by each owner.

A buy-sell agreement funded with life insurance can help prevent difficult situations in which a partner finds him- or herself in business with a surviving spouse or other heirs who know little about the business or in which the business must be liquidated or sold in order to settle the deceased partner’s estate.

Key person protection

Life insurance can help your small business survive the death of a key employee by providing the funds needed to replace lost revenue while hiring and training a replacement.

Implementing a key person business continuation plan is easy. The business purchases life insurance policies for each key individual, pays the premium and receives the death benefit.

Key employees could include any employee whose death would create a disruption through the loss of their unique skills or experience.

Equalizing your estate

When your business represents a large portion of your estate, it can be challenging to ensure a fair inheritance to heirs who are not active in the business.

The liquidity created by the death benefit proceeds provides a legacy for those not involved or interested in your family business and avoids the forced liquidation of the business in order to fairly divide your assets.

The policy could be owned by you, your heirs or an irrevocable trust, depending on your business succession and wealth transfer objectives.
Making your wealth go further for the causes and people who mean the most

If philanthropy has been a way of life for you, you may want that legacy of giving to continue even after your passing. Perhaps you have been devoted to supporting a particular charitable organization and want to make sure that they are able to continue their work. Life insurance can be a potential solution to such concerns, assuring a guaranteed amount to the charity of your choice, while offering tax benefits to your estate and heirs.

Life insurance can also provide a way for you to take care of the charities that matter to you without significantly reducing the amount your heirs receive, providing you with a way to potentially guarantee inheritances and replace wealth earmarked for philanthropy.

It’s important to me...

To leave a significant gift to my favorite charity upon my death
Charitable gift of life insurance

To continue my impact through philanthropy while feeling sure my family is taken care of
Charitable Remainder Trust
It's important to me...

**To leave a significant gift to my favorite charity upon my death**

An outright gift of life insurance can increase your philanthropic legacy and provide a guaranteed amount to the charity of your choice, acting as an important part of your overall estate plan.

**Charitable gift of life insurance**

**Charitable gifts of life insurance are usually structured in one of the following ways:**

| You can purchase a new life insurance policy where you are the owner and the charity is the beneficiary. You will not receive a charitable income tax deduction and death benefit proceeds will be included in your estate for tax purposes, however, proceeds will pass to the charity income tax-free. | You can pay premiums on a policy insuring your life that is owned by the charity, who is also the beneficiary. Premiums paid are considered tax deductible as charitable donations. | You can donate an existing policy insuring your life to a charity, so the charity is the owner and beneficiary of the life insurance policy. The donation of the existing policy, plus any ongoing premiums, will be considered tax deductible as charitable donations. |

Because the rules regarding charitable income tax deductions are complex, consult your legal and/or tax advisor to determine the amount of your deduction.
It’s important to me...

To continue my impact through philanthropy while feeling sure my family is taken care of

Charitable Remainder Trust

For many families, charitable gift planning comes with the concern that they will compromise the financial security they wish to provide for their spouse or heirs.

A Charitable Remainder Trust addresses this “split interest” by allowing distribution payments to the grantor, spouse or other designated beneficiary(ies) from interest-producing assets within the trust. Upon the death of the recipient or the end of a specified term not to exceed 20 years, the remaining trust assets are distributed to the designated charity(ies).

In addition to providing financially for your family and favorite causes, Charitable Remainder Trusts allow for a tax deduction⁸ and tax-deferral of the highly appreciated asset, allowing you to diversify a concentrated position without triggering immediate capital gains taxes.

Life insurance, when owned by a Charitable Remainder Trust, can be a useful tool in replacing wealth transferred to charity and preserve the value of the legacy intended for your heirs.

⁸ Charitable income tax deductions are based on the calculated value of the transferred assets to the trust. It is important to work with your tax advisor to determine the actual amount of the deduction.
Helping you pursue your goals with life insurance

A comprehensive strategy
Your advisor brings together a full understanding of your priorities and goals as well as your assets, liabilities, risk tolerance and other financial factors to help create a comprehensive strategy. With an advisor you trust and who understands what you’re trying to achieve, selecting a life insurance solution doesn’t have to be overwhelming.

Choice of insurance solutions
The insurance products we make available to you have gone through our due diligence, which means they meet our selection criteria based on factors such as ratings, financial strength and product innovation. Your advisor, along with our insurance specialists and your legal and tax advisors, will assess different features and benefits to find a potential solution that most closely aligns with your goals and preferences.

Contact your advisor today to identify life insurance solutions that may help you address your wealth transfer goals and priorities.
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Life insurance policies contain fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges and other charges or fees that will impact policy values. Life insurance death benefit proceeds are generally excludable from the beneficiary’s gross income for income tax purposes. There are a few exceptions, such as when a life insurance policy has been transferred for valuable consideration.

If you transfer existing life insurance to a trust, you may incur gift taxes. Also, the insurance policy must be transferred to the trust at least three years before death occurs in order for the proceeds to be excluded from your estate. The decision to transfer current life insurance to a trust should be reviewed in the context of the survivor’s needs and in conjunction with a qualified attorney.

Trusts should be drafted by an attorney familiar with such matters in order to take into account income and transfer tax laws (including generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds. Creating and funding a trust is a sophisticated estate planning technique and your legal and estate planning advisor(s) should be consulted prior to making any estate, tax, or investment decisions.

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Creating and funding a trust is a sophisticated estate planning technique and your legal and estate planning advisor(s) should be consulted prior to making any estate, tax, or investment decisions.

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