

Reposition your excess retirement assets to transfer wealth more tax-efficiently

If you've saved more than you'll need in your tax-advantaged retirement accounts, you may want to think about repositioning those assets so more goes to your beneficiaries and less goes to paying taxes.

While terrific for accumulating wealth, tax-deferred assets like IRAs, 401(k)s and annuities often aren't the most tax-efficient way to transfer wealth to the next generation. If left in your estate, these assets may be subject to federal (and possibly state) estate taxes, as well as income and generation-skipping transfer (GST) taxes. Instead, you may want to consider repositioning those assets.

How asset repositioning works

The strategy involves:

- 1 Setting up an irrevocable life insurance trust (ILIT) that purchases a permanent life insurance policy with a death benefit. The trustee becomes both the owner of the policy and the beneficiary of the death benefit proceeds — effectively removing them from your taxable estate.
- 2 You then make annual allowable tax-free gifts to the trust using the income stream from your annuity or the required minimum distributions from your IRA to pay the annual insurance policy premiums.
- 3 Upon your death, the policy proceeds pass to your beneficiaries outside of probate (getting the money to them without delays) and free of income and generation-skipping transfer taxes — increasing the value of your legacy.

Multiple levels of income tax and estate tax on IRAs and deferred annuities could potentially significantly reduce the inherited value.

You can also gift other taxable assets such as highly appreciated stocks, mutual funds and ETFs, as well as municipal bond portfolios, to the trust. The trustee then uses those assets to pay the premiums on a policy covering either your life or (for a larger death benefit) a second-to-die life insurance policy on both you and your spouse.



Who should consider asset repositioning?

Investors who:

- Are age 60+ and focused on wealth transfer
- Have more assets than they need to cover retirement and long-term medical expenses
- Are confident they won't need those assets and want to pass them on to heirs
- Are concerned about the impact of taxes on their legacy
- Have available gift tax exemptions and generation-skipping tax exemptions

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Important repositioning considerations

Before pursuing any repositioning strategy, make sure you understand that:



Once you establish an irrevocable trust, you cannot make changes to the trust structure, including its beneficiaries or the insurance policy it holds.



All gifts made to an irrevocable trust are permanent and can't be reclaimed; so this strategy should only be used if you are confident you won't need the assets for other purposes.



Asset repositioning is just one of many wealth transfer strategies you can employ. You should consult with your tax attorney and financial advisor to evaluate all your options in light of your financial situation and your wealth transfer goals before making any decision.

Don't wait to take action

For 2025, the lifetime estate and gift tax exemption amount is \$13.99 million for individuals and \$27.98 million for married couples. Without congressional action, however, this exemption amount will reset to \$7 million (\$14 million for married couples) in 2026. The current high exemption amount creates a unique window of opportunity to transfer more assets before the window potentially closes.¹

Learn more

For more information about strategies for enhancing your legacy and more effectively transferring assets to your heirs, contact your Merrill advisor.

¹ "Preparing for Estate and Gift Tax Exemption Sunset." Merrill, www.ml.com/articles/estate-gift-tax-exemption-sunset.html. Accessed 9 Apr. 2025.

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.

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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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