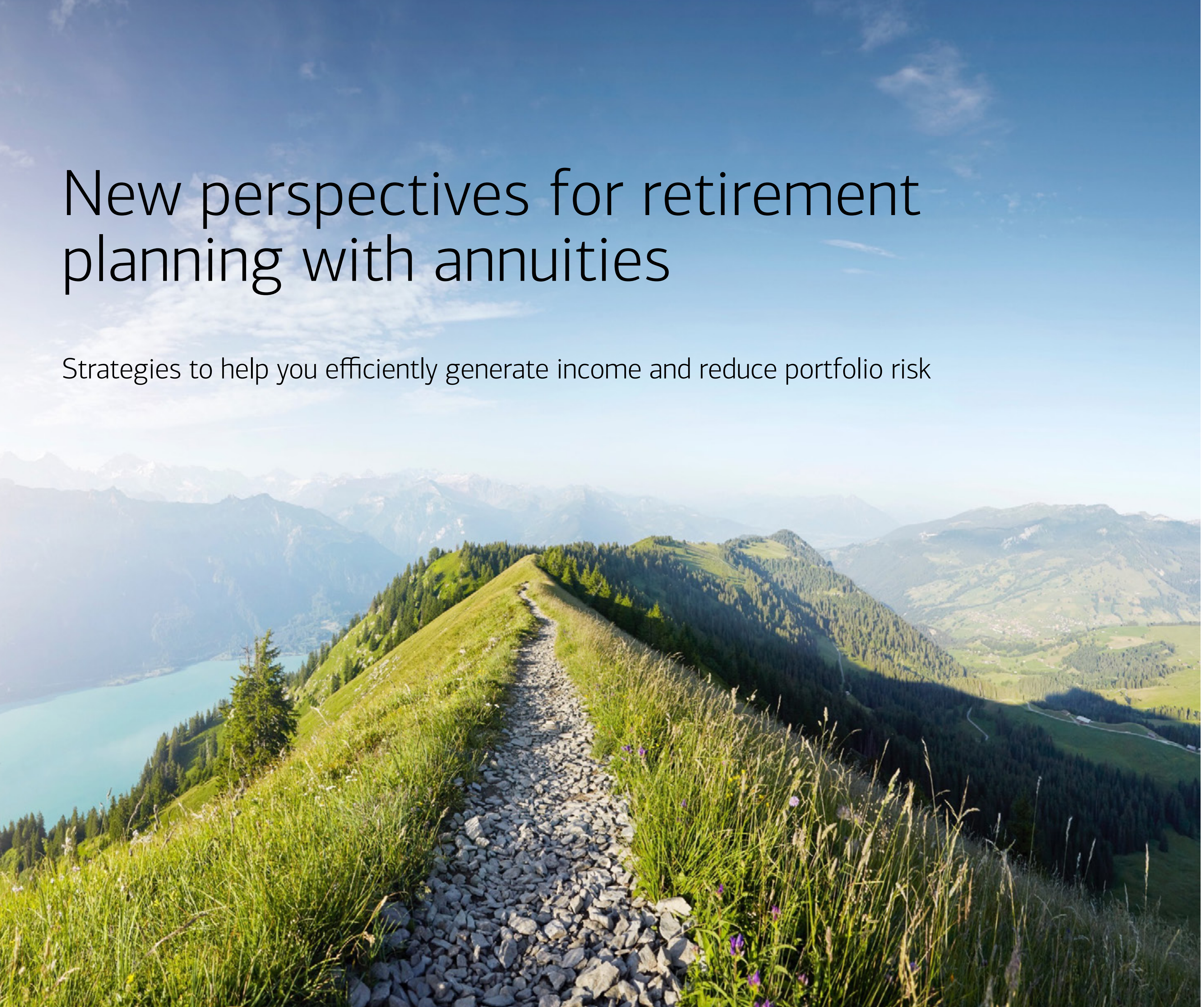
New perspectives for retirement planning with annuities

Strategies to help you efficiently generate income and reduce portfolio risk



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4 key risks as you move into retirement

Regardless of your goals, expenses or wealth level, there are a handful of risks that take on special significance as you approach and enter retirement.

1

Longevity risk

The risk of outliving your assets

2

Inflation risk

The risk of your income not keeping pace with inflation, particularly with the soaring costs of healthcare

3

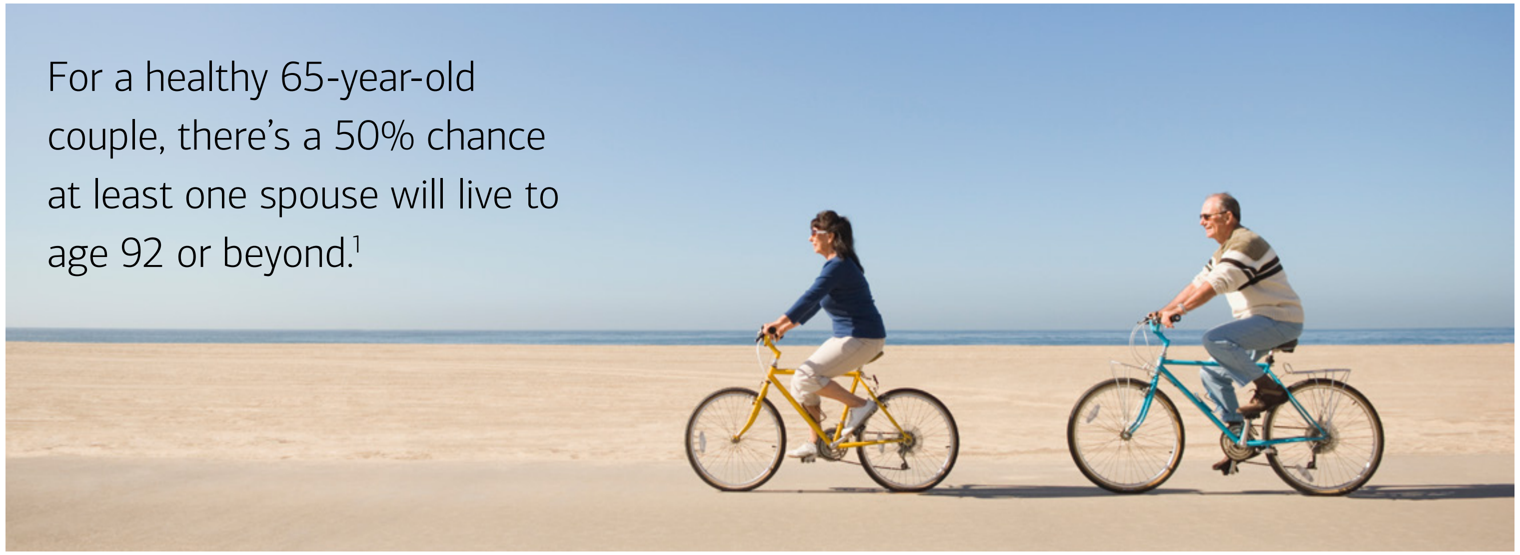
Sequence of returns risk

The risk that market losses early in retirement will deplete your portfolio and impact your ability to generate future income

4

Withdrawal risk

The risk of spending too quickly and running out of money



Longevity risk is particularly problematic as it amplifies all other retirement risks including healthcare and long-term care costs, as well as the effects of inflation and market turbulence.

"Prudence suggests that you should not plan to averages; after all, living to 100 is a real possibility for many."

—Merrill Chief Investment Office

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[1] Merrill Chief Investment Office, calculations based on Society of Actuaries, 2012 Individual Annuity Mortality Tables, Basic.

How annuities may fit into your retirement plan

Annuities can act as important retirement plan building blocks by helping you meet these important goals:

Lifetime income

Annuities can be structured to provide a vital extra source of predictable, guaranteed retirement income for as long as you live to help meet day-to-day expenses that will support your retirement lifestyle.

Downside protection

Some annuities offer protection from market volatility by guaranteeing all or part of your original investment while still allowing you to participate in market gains.

Tax efficiency

Earnings from investments held in an annuity grow on a tax-deferred basis; meaning you are taxed only when you make withdrawals or receive income.

Annuities can add valuable resiliency to your retirement plan — helping you better weather some of the key risks you face in retirement.

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What are annuities?

Annuities are long-term investments, specifically designed to help you meet the challenges of the risks you face in retirement. There are different types of annuities, each offering a different approach to investing along with various liquidity and income options.

Fixed rate annuities

Offer a pre-established, guaranteed rate of return for a specified period – with a variety of timeframes to choose from, so you can select a guarantee period that is right for you. At the end of each period, you can opt to withdraw your savings or elect a new guarantee period at the current rates being offered.

Variable annuities

Enable you to participate in the markets through a wide range of professionally managed investment options, also called subaccounts, that can be aligned with your risk tolerance and time horizon. You can periodically rebalance your investment options or change your asset allocation while continuing to defer taxes on any growth within the annuity. Variable annuity contract values will fluctuate and your investment may be worth more or less than its original cost.

Indexed annuities

While not a direct investment in the stock market, these annuities offer investment growth potential through returns tied to the performance of a market index (for example, the S&P 500®) over a selected time horizon. They offer full or partial downside protection, which is offset by a preset cap on potential gains.

Income annuities

Offer an income stream for life that begins on a future date selected by you at purchase. These annuities are designed for income purposes only. Unlike other types of annuities, they have no savings component or liquidity. Once purchased, you give up access to your principal in exchange for an income stream guaranteed by the insurance company.

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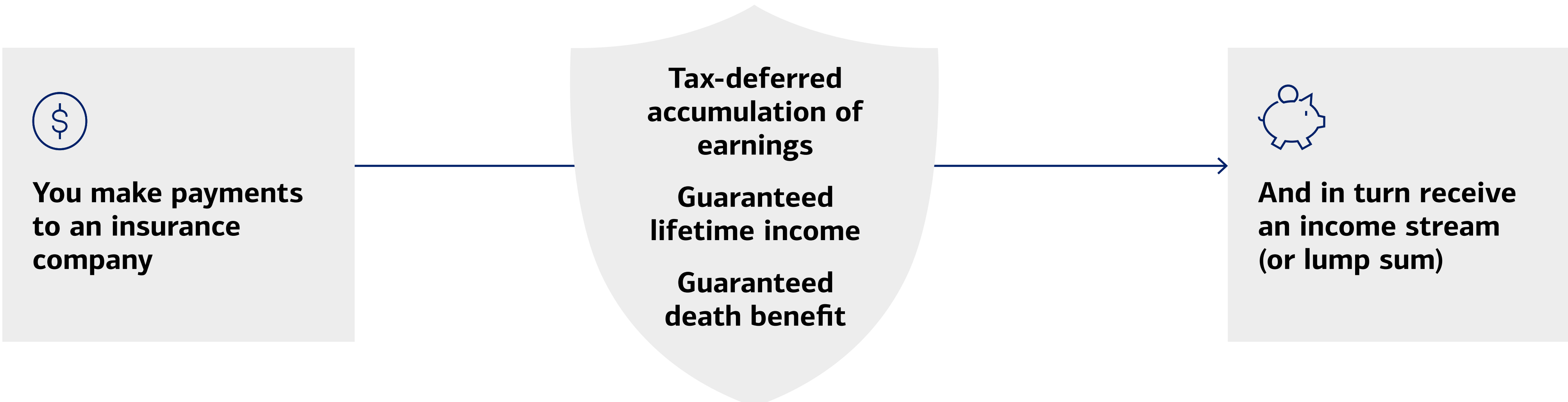
How annuities work

When you purchase an annuity, you make payments to an insurance company (either over time or in a single payment). In turn, the insurance company agrees to guarantee you an optional annuitized income stream or a lump-sum amount at a future date. Over time, the annuity can provide you with tax-deferred earnings (based on the type of annuity and your choice of available underlying investment options), guaranteed lifetime income[1] through systematic withdrawals and a death benefit.



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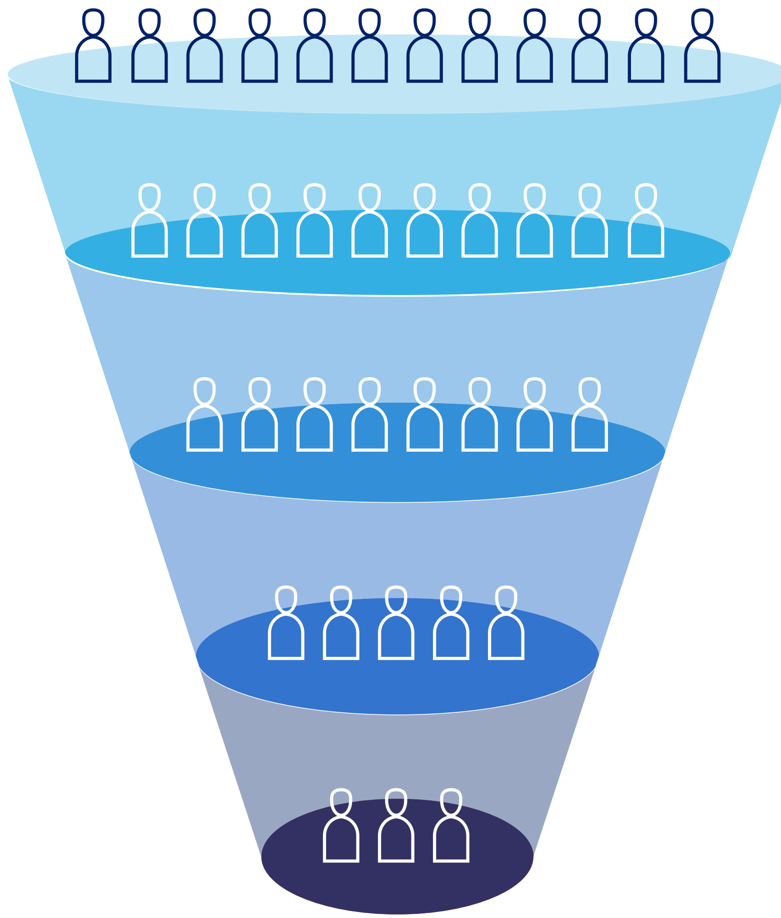
All annuity contract and rider guarantees, including optional benefits and any fixed subaccount crediting rates or annuity payout rates are backed by the claims-paying ability of the issuing insurance company. They are not backed by Merrill or its affiliates, nor does Merrill or its affiliates make any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

[1] Guaranteed income in variable annuities and indexed annuities may be based on purchasing an optional benefit that is available for an additional cost that guarantee a minimum level of income to you regardless of the performance of the underlying Investments in the annuity, even if the value of the annuity falls to zero. The living benefit base value is a different value than the annuity contract cash surrender value. The living benefit base that provides income can only be accessed through the income stream and generally is not available for a lump sum withdrawal. If you purchase these benefits, they may be irrevocable and there may be some restrictions, such as limitations on your investment options in a variable annuity, age limitations and limits on the amount that can be withdrawn each year.

How insurers guarantee income for life

By pooling the risk from a large number of investors, insurance companies are able to offer more income to each annuitant — income that's guaranteed for life.

It's how these companies are able to efficiently and effectively manage their risk (the foundation of their business) knowing that a large enough investor pool will have an average life expectancy (even though some of those investors may live much longer).



By pooling risk

Insurance companies can offer more income to each annuitant

And guarantee that income for life

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Generating lifetime income

As you approach and enter retirement, your attention needs to shift from building wealth to efficiently converting that wealth into a stream of lifetime income that can help sustain the retirement lifestyle you've always envisioned.

In addition to other income sources like Social Security and pensions, an annuity can be structured to provide you with income in retirement for as long as you live. And it can be established for one or two lives, so married couples can establish an income stream that continues even after one spouse dies.

This dependable income stream can provide a greater degree of confidence that you will be able to meet your day-to-day lifestyle expenses. You may also feel that your portfolio will be able to weather a variety of market conditions over the course of a retirement that may last 30 years or longer.

No other investment is able to convert retirement assets into income as efficiently as an annuity, generating more income per investment dollar — income that's guaranteed for life. This is accomplished through risk pooling, the process of applying principal from those who die early to those who die later in order to guarantee more money to the longer-living group for life. By allocating a portion of your retirement portfolio to an annuity with sufficient guaranteed income, you can potentially reduce your risk of running out of money.

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How does annuitization work?

Annuitization is the process by which your annuity assets are converted into a lifetime income stream. While annuitization generates the maximum amount of guaranteed lifetime income, it does require you to give up liquidity and turn over control of your assets to the insurance company.

Annuitization options

Period Certain

You or your surviving beneficiary receive income for a predetermined time period.

Single Lifetime Income

You receive regular income payouts as long as you live. You can also opt for *Income with a Period Certain* (typically ranging from 5 to 30 years) so that if you die before then, your beneficiary will continue to receive income payments until the end of the period. Alternatively, you can choose *Income with Cash Refund* where you receive income until your death, and any excess premium paid is then distributed to your beneficiary as a lump sum refund.

Joint Lifetime Income

When one spouse dies, the other receives a predetermined percentage of the previous payout (for example, 50%, 75% or 100%) for the rest of his or her life. As with Single Lifetime Annuities, you can opt to add a Period Certain or Cash Refund feature.

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What are living benefits?

Optional living benefit riders are designed to help protect your income payouts, withdrawals or account values against the effects of inflation, investment losses and/or unexpected longevity. Although typically not providing as much initial lifetime income as annuitization, living benefits provide a potential for both investment and income growth depending on the performance of the underlying investments. These riders can be added (for an additional cost) to many fixed indexed and variable annuities. And unlike income annuities or annuitization, they allow you to retain control of your assets and provide the flexibility to take full or partial withdrawals to meet liquidity needs.

There are a variety of different rider types available, but one of the more commonly used are Guaranteed Lifetime Withdrawal Benefit (GLWB) riders, where three elements combine to determine your lifetime income payment from the annuity:

The **benefit base**, which is the underlying value of the rider and equal to either the initial premium or the current contract value if the rider is added at a later date.

The benefit base can be increased through a **roll-up** feature, which is essentially a specified rate (such as 5% annually) by which the base will increase over a predetermined number of years.

A **step-up** feature increases the benefit base at specified intervals (typically annually) by locking in any market gains. The benefit base is reset or "stepped-up" to equal the current contract value, if higher.

How living benefits work

Consider a hypothetical married couple (aged 66 and 64) who purchase a $500,000 variable annuity with an optional guaranteed lifetime withdrawal benefit (GLWB) rider covering two lifetimes and automatic annual step-ups.

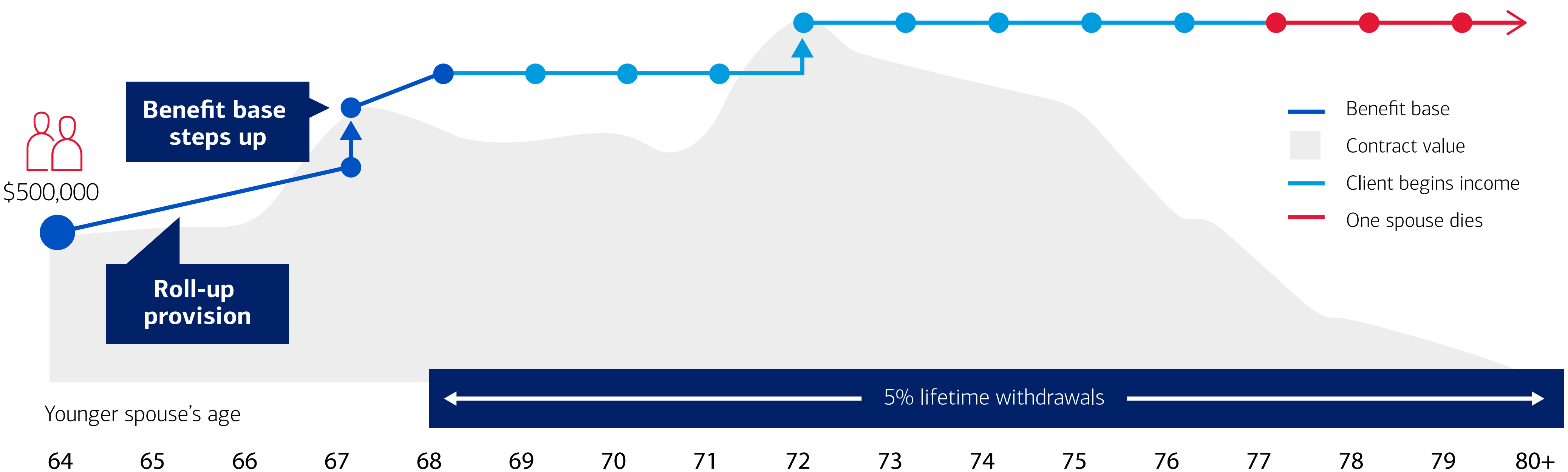
For each of the first three years their benefit base increases by 5% through annual "roll-ups."

In year four, the investment performs well and the contract value exceeds the benefit base, so the base "steps up" to the higher contract value.

When younger spouse reaches age 68, couple begins taking a 5% annual withdrawal (roll-up feature ends).

The benefit base continues to step up to current contract value, if higher (increasing annual withdrawal amount).

When younger spouse is age 77, older spouse dies; survivor chooses between annuity death benefit or continuing guaranteed annual lifetime withdrawals.



Examples are for illustrative purposes only and do not represent any actual investments.

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Providing downside protection

Volatility in the market can bring added complexity to your retirement planning. Many investors worry about the security of their retirement portfolio — and ultimately their ability to generate enough income to last throughout a possible 30+ year retirement. Allocating a portion of your retirement portfolio to certain types of annuities can provide valuable downside protection against potential market losses.

Fixed annuities

- Offer a guaranteed fixed rate of return for a specified period of time
- Provide 100% principal protection

Fixed indexed annuities (FIAs)

- Offer market-like growth (capped on the upside) by linking your investment to a particular market index (e.g., the S&P 500)
- Provide 100% principal protection

Variable indexed annuities (VIAs)

- Offer market-like growth linked to a particular market index; higher caps on growth than FIAs
- Provide some downside protection primarily through the use of buffers

Even if the market experiences a major downturn, these annuities can offer downside protection with limited or no market risk to your investment principal — while still delivering:

- Growth potential
- Tax-advantaged earnings
- Guaranteed death benefits
- A range of investment choices linked to different market indexes (FIAs and VIAs)
- Optional living benefits (FIAs only)

How indexed annuities work

Indexed annuities offer a degree of downside protection, while also allowing you to participate in market growth (without investing directly in the markets).

Any potential gains are linked to the performance of an underlying market index. And interest crediting helps lock in gains — so your investment earns a minimum rate of return, regardless of market performance. Index-linked interest can be credited based on several factors.

With a **Point-to-point index**, a cap serves to limit your upside potential for each index period by setting a maximum return, while a **buffer** offers critical downside protection by setting a floor.

With a **Performance trigger**, if the index return for the index period selected is greater than or equal to zero, the indexed interest credit is equal to the declared trigger rate (or specified rate).

Upside potential: Downside protection

Your premiums are allocated to an index-linked strategy.

At the end of each index period (typically 1 – 2 years for fixed indexed annuities or 1 – 6 years for variable indexed annuities), you receive credits based on the underlying index's performance.

With fixed indexed annuities, you can choose to allocate a portion of your premium to a fixed rate account that provides a guaranteed minimum interest rate.

Typically, interest is credited based on a predetermined formula such as an index cap rate (i.e., a maximum rate of interest your annuity can earn).

When comparing indexed annuity products in the market, it's important to review the indexing methodologies. Some products incorporate the following, which may reduce the performance of the contract:

Participation rate – a fixed percentage of the index's gain that is used to compute your annuity's return. For example, if the index rises 9% and your participation rate is 110%, the return credited to your annuity would be 9.9% (9% x 110). Merrill requires all participation rates to be 100% or greater.

Spread fee – (currently not available at Merrill) is a fixed percentage that is deducted from the index's gain that is used to compute your annuity's return. If the index gained 10% and the spread fee is 3%, then the return credited to your annuity would be 7%.

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Understanding caps and buffers

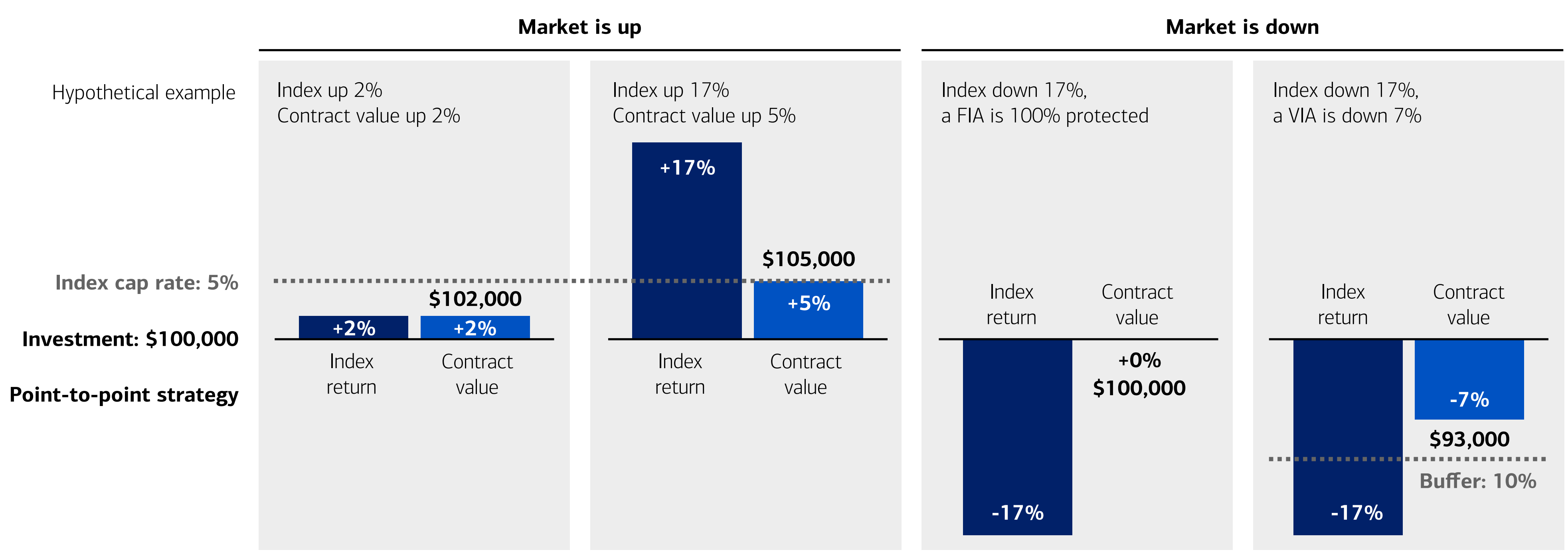
Hypothetical examples

You purchase a $100,000 fixed indexed annuity with a 5% cap. If the index increases, any positive returns in the underlying index (up to that 5% cap) would be fully realized.

Because of the cap, however, any gains in the underlying index beyond 5% would not be realized. If, for instance, the underlying index returned 17%, your growth would still be limited to a maximum of 5%.

In exchange for that cap, though, your contract value is 100% protected from any losses that the index might experience. Let's assume the index falls 17%. Instead of your investment value decreasing to $83,000, it would still be worth $100,000.

Alternatively, you could opt to use the $100,000 to invest in a variable indexed annuity with a higher 10% cap but also a 10% downside buffer. If the index experienced a 17% increase, you would capture more of the growth (up to the 10% cap). Whereas in the case of a 17% loss, your account value would only decrease by 7% (17% loss – 10% buffer).



Examples are for illustrative purposes only and do not represent any actual investments.

Taxes can significantly reduce your potential returns

Taxes can have a significant impact on investment returns:

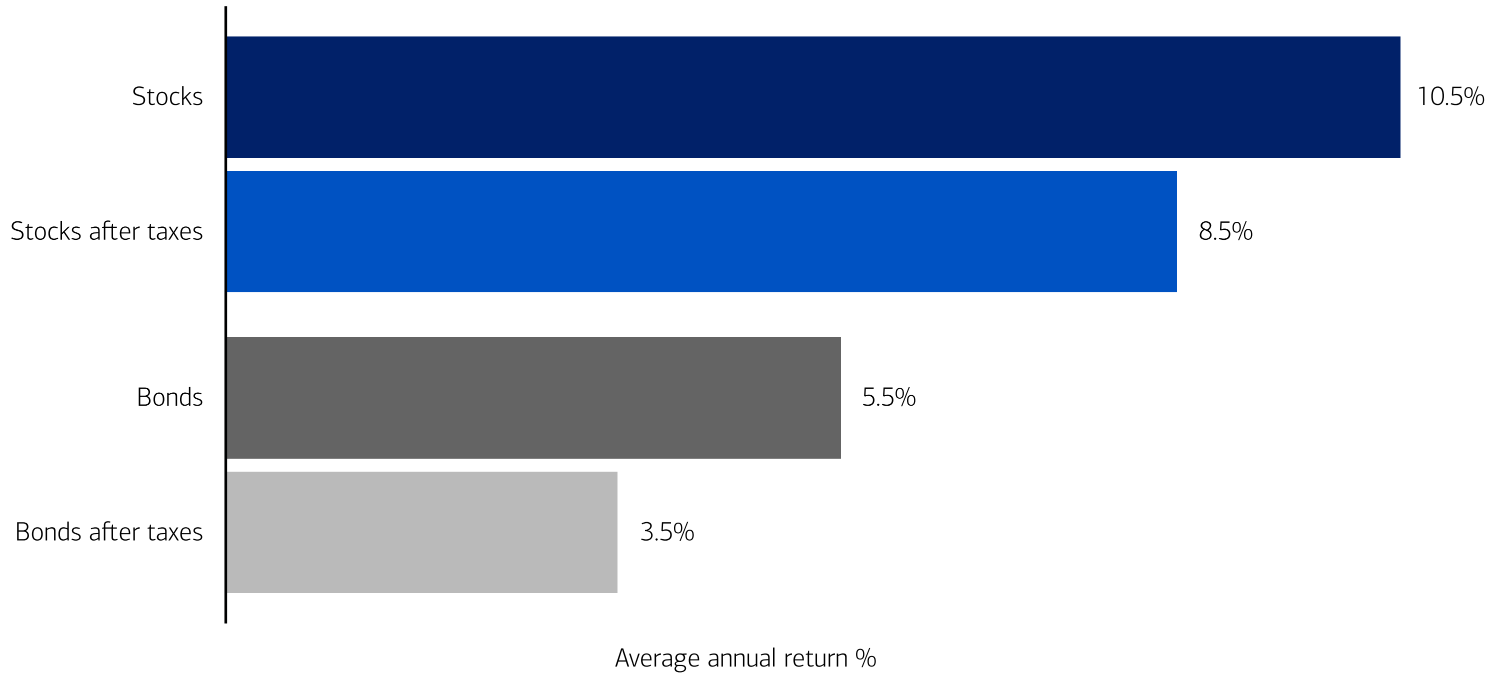
A nearly 20% reduction in equity returns

More than a 36% reduction in fixed income returns

Earnings from investments held in an annuity, however, grow on a tax-deferred basis. That means you're taxed only when you make withdrawals or receive income.[1]

This can help reduce the impact of taxes on your portfolio while you're saving and putting more of your money to work.

Impact of taxes on investment returns — 1926-2021



Income from annuities is usually taxed at ordinary income tax rates — although some annuities treat a portion of your income as a return of premium payment (which isn't taxed).

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[1] Keep in mind that annuity gains are taxed as ordinary income upon withdrawal (plus any Medicare surtax, state and local taxes), and a 10% IRS penalty may apply to withdrawals taken before age 59½.

Source: Morningstar, Inc. 2022. **Past performance is no guarantee of future results.** Example is for illustrative purposes only and not indicative of any specific investment. Stocks are represented by the Ibbotson Large Company Stock Index. Bonds are represented by the 20-year U.S. government bond. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not consider transaction costs.

Increase tax-deferred savings with annuities

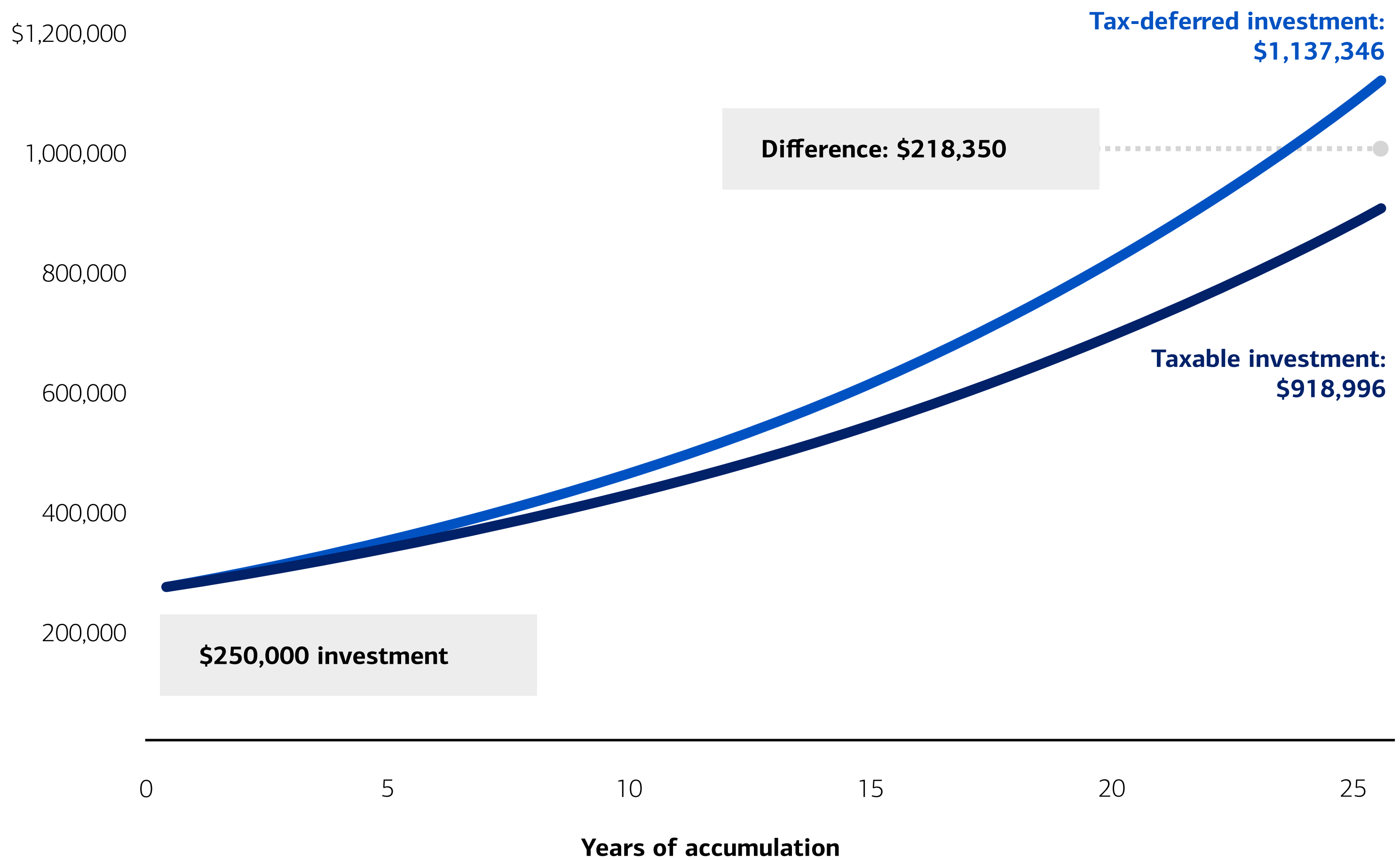
As you save for retirement, you're probably already taking advantage of tax-deferred retirement accounts, such as a 401(k) or 403(b) plan and IRAs. But these accounts come with limits as to how much you're allowed to set aside each year.

Nonqualified annuities, on the other hand, offer an additional way to save an unlimited amount for retirement — tax deferred.

And by using a **strategic asset allocation** approach, you have the ability to put tax inefficient assets inside a tax-deferred structure.

For example, alternative investments are increasingly recommended as part of a balanced asset allocation strategy for a long-term investment horizon. But they often generate considerable income that's subject to both short-term and long-term capital gains taxes. By holding these investments within your Investment Only Variable Annuities (IOVA), you can defer taxes on any potential growth until withdrawn.

The power of tax deferral: Building more savings over time



Assumptions: 6% annual growth, 15% capital gains tax on taxable investment.

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Source: Bank of America, Investment Solutions Group calculations, 2023.

Leaving a legacy

Annuities can also offer you a number of estate and legacy planning tax advantages. If you've planned well and don't need all your retirement savings to support your lifestyle, an annuity can help you pass assets to your spouse, children and grandchildren tax-efficiently.

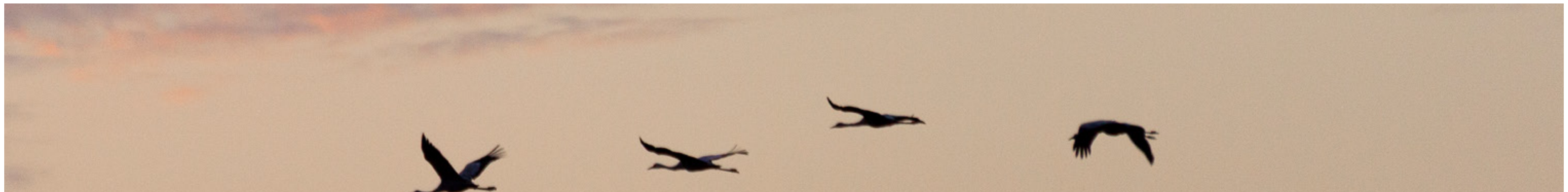
While placing assets inside a properly structured trust is a common strategy for tax-efficient wealth transfer, using an annuity inside the trust can offer additional benefits including:

Tax-deferred accumulation	Ability to regulate annuity income as needed
Make asset allocation changes without triggering a taxable event	Annuity assets can pass in kind to annuitant with no step-up in basis

If you plan to transfer annuity assets to a loved one as part of your estate plan, it's important to understand that non-spouses inheriting these assets must take all distributions within 10 years. This limits the recipient's ability to spread the ordinary income tax liability over a longer period of time. But because most annuities allow you to name a beneficiary, those assets are free to pass directly to the individual outside of probate.

Inherited annuities

Some annuity contracts have a death-benefit provision which allows the owner to designate a beneficiary to inherit any remaining annuity payments when they die. If you're the beneficiary of this type of annuity, you will need to choose a payout structure — which along with your status (e.g., spouse, non-spousal beneficiary or trust) will affect how any annuity earnings are taxed.



4 payout options

Lump-sum distribution

You receive the annuity's entire remaining value as a single payment.

Five-year rule

Lets you spread withdrawals at any time and frequency over a five-year period, as long as all remaining funds are distributed by the end of the fifth year.

Nonqualified stretch provision

Unlike inherited IRAs, inherited annuities are not subject to the same ten-year stretch rule limitations requiring the account to be depleted within a decade. You can instead opt to receive annual payments based on your own life expectancy.

Spousal continuation

Enables an inheriting spouse to assume ownership of the annuity contract and preserve tax-deferred growth for as long as the contract remains in force.

Types of annuities

There are a range of annuity types — each offering a different approach to investing, as well as various liquidity and income options.

Type of annuity	May be appropriate if you are seeking	What are the costs
Fixed annuity	Protection of retirement assets through guaranteed returns	Fixed annuities do not have separate fees. The insurance company includes their costs when establishing their interest rates.
Fixed indexed annuity	Growth potential with full protection of retirement assets or lifetime income	Fixed indexed annuities do not have separate fees unless optional features are elected. The insurance company includes their costs when establishing their caps rates. Additional fees may apply if optional guarantees are selected.
Variable indexed annuity	Growth potential with partial protection of retirement assets	The insurance company typically includes their costs when establishing their cap rates. However, some products may have distinct fees which result in higher cap rates.
Variable annuity	Lifetime income with potential for the income to grow through professionally managed investment options, death benefit protection for beneficiaries or tax-deferred growth potential	Variable annuities do have separate fees, which will vary depending on the terms of the contract, investments options and optional features you select.
Income annuity	Maximum income and do not need to access your funds in the future	Income annuities do not have separate fees. The insurance company includes their costs when establishing their interest and income rates.

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Let’s connect and build your plan

Whether you’re still saving for retirement or getting ready to shift your focus from building wealth to generating retirement income, it’s important to create a disciplined retirement income plan built around your goals and priorities. An annuity could play a vital role in that plan — providing an additional source of guaranteed lifetime income, downside protection during times of volatility and valuable tax efficiency.

To learn more about how we can help you pursue your retirement goals or to explore if an annuity may fit your particular needs, contact your Merrill advisor or visit ml.com to find an advisor near you.

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Annuities are long-term investments designed to help meet retirement needs. They are a contractual agreement where a client makes payments to an insurance company, which, in turn, agrees to pay out an income stream or a lump sum amount at a later date. Annuities typically offer (1) tax-deferred treatment of earnings; (2) a death benefit; and (3) annuity payout options that can provide guaranteed income for life. There are contract limitations, fees and charges associated with annuities which include, but are not limited to mortality and expense risk charges, sales and surrender charges, administrative fees, charges for any optional benefits, and charges for the underlying investment options in variable annuities. In addition, variable annuity contract values will fluctuate and are subject to market risk including the possible loss of principal. It is possible to lose money in a variable annuity purchased with an optional protection rider. Variable annuities have holding periods, limitations, withdrawal charges, exclusions, termination provisions, and terms for keeping them in force. Optional riders may be irrevocable and expire without use. Early withdrawals may be subject to surrender charges, and taxed as ordinary income, and in addition, if taken prior to age 59½ an additional 10% federal tax may apply. Withdrawals reduce annuity contract benefit, values and optional guarantees in an amount that may be more than the actual withdrawal. Past performance should not be a representation of future performance.

For non-qualified and stand-alone qualified annuity contracts, annuitization must occur by the annuitant's age 95. At that date, any guaranteed minimum death benefit no longer will apply. Clients should contact the issuing insurance company prior to the maturity date to discuss options, including changing the annuitant, if permitted by the annuity contract. For custodially held qualified contracts, as a distributor Merrill will not require annuitization at age 95.

An indexed annuity offers allocation options called index-linked strategies. Index-linked strategies offer clients some level of downside protection combined with upside potential linked to the price return (excludes dividends) of an index, such as the S&P 500®. The level of downside protection differs between fixed indexed and variable indexed annuities. The upside potential is typically capped for each index period and these cap rates are declared in advance by the insurance company. Generally, fixed indexed annuities will offer clients more downside protection and less upside potential than variable indexed annuities. Indexed annuities are not a direct investment in the stock market.

Indexed annuities are not a direct investment in the stock market. They provide the potential for interest to be credited based in part on the performance of the specified index, with limited downside protection. Your principal is only at risk on market losses that exceed the downside buffer. Index annuities may not be suitable or appropriate for all clients.

Owners could see a substantial loss during an index period if the index declines more than the level of downside protection. If an owner does see a substantial loss during an index period, the owner may not be able to participate fully in a subsequent market recovery due to the capped upside potential in subsequent index periods.

Some fixed indexed annuities offer optional living benefits for an additional cost that guarantee a minimum level of income to you regardless of the performance of the annuity. The living benefit base value is a different value than the annuity contract cash surrender value. The living benefit base that provides income can only be accessed through the income stream and generally is not available for a lump sum withdrawal. If you purchase these benefits there may be some restrictions, age limitations and limits on the amount that can be withdrawn each year.

It is important to note that indexed annuity contracts commonly allow the insurance company to change the participation rate, cap rate, and/or spread rate on a periodic — such as annual — basis. Such changes could adversely affect your return. No single index crediting method will provide the highest interest credit in all market scenarios. The guaranteed minimum cap rate/maximum spread rate are established when the annuity is purchased and disclosed in the annuity contract. Read your contract carefully to determine what changes the insurance company may make to these features.

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