Estate planning
Wait-and-See Two Policy strategy

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Minnesota Life Insurance Company
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Providing flexibility to preserve your legacy

You've worked hard to create a sizable estate, and you deserve to pass it on. Recent changes to tax laws may not be permanent. It might be to your advantage to build in flexibility to adjust your estate plans throughout your life. Although Irrevocable Life Insurance Trusts (ILITs) help solve many estate planning issues, they cannot be changed once established.

The Wait-and-See Two Policy strategy provides a flexible approach — one that uses life insurance and trusts to adjust throughout life's changing circumstances. So you can wait and see what life brings.

The Wait-and-See Two Policy strategy can be used by:

- Married couples who want a life insurance death benefit to pay estate taxes should they need it.
- Younger people who need the ability to adapt their estate plans to changing circumstances and taxes.
- Couples who require a first-to-die death benefit for income replacement or other legacy needs.
- Couples in community property states.

GLOSSARY

ILIT
A trust that enables a donor to control the disposition of life insurance proceeds from the taxable estate of the donor.

How the Wait-and-See Two Policy strategy works:

- A couple applies for **two individual life insurance policies.** Each policy is owned by the other spouse.

Husband's Estate (a)
Insured: Wife
Owner: Husband

Wife's Estate (b)
Insured: Husband
Owner: Wife

- When the husband dies, the policy insuring the wife (a) is placed in a **Credit Shelter Trust** (c) under the husband's estate. The death benefit from his life insurance policy (b) is paid to the wife. She can use these funds for income replacement or other legacy needs.

Husband's Estate at death

Wife's Estate
Death benefit from husband's policy (b)

Husband's death

Credit Shelter Trust (c)
Insured: Wife
Owner: Credit Shelter Trust
Beneficiary: Credit Shelter Trust

Wife's Marital Share (d)

- Credit Shelter Trusts are typically funded with assets that equal up to the **Federal Estate Tax Exclusion.** When the assets are placed in the trust, they are valued at the fair market value at the time of the husband's death. The surviving spouse may have limited access and control to the assets once they are funded in the trust.
- The fair market value of an asset is determined at the time of the owner's death.
  - The fair market value of a life insurance policy is not the **death benefit,** but an amount close to the policy's **cash value.**
  - Credit Shelter Trusts are typically funded with assets that appreciate in value. This is because all proceeds in the Credit Shelter Trust, including any appreciation, pass estate and gift tax-free to the beneficiaries upon the wife's death.
- The remaining assets in the wife's estate and the **Marital Share** (d) can be used as a source of income for ongoing expenses.
- Upon the wife's death, her life insurance (a) pays a death benefit, further funding the Credit Shelter Trust (c).
- Estate taxes are assessed on the wife's estate and the Marital Share (d).
- The proceeds from the Credit Shelter Trust help pay any estate tax due on the wife's estate and the Marital Share (d).
- The remaining value passes tax-free to her beneficiaries.

Wait-and-See Two Policy strategy

Benefits

Prior to the first death:

- Access to the life insurance policy's cash value for supplemental retirement income or emergencies.
- Flexibility to make changes throughout your lifetime. Because you own the policy, you can increase or decrease the death benefit and premiums.
- Control over the funding of your policy. You can fund your policy today without giving up control of your assets – which can happen with other estate planning approaches.
- The opportunity to minimize the impact of federal estate taxes.

Considerations

- Can only be used with married couples.
- Specific drafting in your estate planning documents needs to be completed to implement the strategy.
- Possible inclusion of death benefit proceeds in your estate.
- Fees and expenses associated with the purchase of life insurance. Policy must be maintained in order to ensure success of strategy.
- If you live in a community property state, you and your spouse should sever respective community property interests in the life insurance policy owned by the other spouse. Please consult your local legal counsel on this issue.

GLOSSARY

Credit Shelter Trust
A testamentary trust found in an individual's will or revocable trust. Its purpose is to take advantage of the applicable credit exclusion afforded the first spouse to die.

Federal Estate Tax Exclusion
The amount an individual can pass free of estate tax at death. As of 2024, this amount is $13.6 million, indexed to inflation.

Death benefit
The money beneficiaries receive upon death of the insured, typically tax-free.

Cash value
A portion of your premium payment that can grow tax-deferred over time and may be used throughout your lifetime.

Marital Share
The amount which qualifies for the unlimited marital deduction resulting in no estate taxes.

Discussion points

Think about these questions and discuss them with your financial professional. Your answers will help determine if the Wait-and-See Two Policy strategy is right for you:

- Are you unsure if your estate will be subject to estate taxes in the future?
- Would you like the option to access cash value from your life insurance policy?
- Do you want the ability to change your policy throughout your life?
- How do you plan to take care of estate taxes at your death?
- Do you want your spouse to receive a lump sum of cash at your death without estate tax implications?

Put the future in your hands

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Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

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Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first fifteen years of the contract. You should consult your tax advisor when considering taking a policy loan or withdrawal.

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