NONQUALIFIED ANNUITY DISTRIBUTION OPTIONS FOR YOUR BENEFICIARIES

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NONQUALIFIED DEFERRED ANNUITY

Getting Started

Beneficiary distribution options tied to annuity assets may differ depending on the types of retirement assets as well as the relationship of the beneficiary to the owner. Nonqualified annuities are investments purchased for retirement outside of an employer-sponsored plan or IRA. Nonqualified annuities are unique from other types of investments in that:

- **Nonqualified** (after-tax) funds may grow tax-deferred, although the contributions do not receive any initial income-tax deductions.

When these assets pass to your beneficiaries, it is important for you to understand the available distribution options, including those that offer continued tax deferral, to help beneficiaries avoid unnecessary taxes.

Consider an Annuity

An annuity is a long-term contract between you and an insurance company that can help you:

- **Grow your retirement** savings through the power of tax deferral.
- **Provide retirement income** for life.
- **Leave a financial** legacy through a guaranteed death benefit.

Guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company and do not protect the value of the variable investment options, which are subject to market risk.

Death Benefit Distribution Options	Spousal Beneficiary	Non-Spousal Beneficiary	Trust Beneficiary
Lump Sum	o	o	o
Five-Year Rule Distribute entire contract value within five years of the owner's death	o	o	o
Lifetime Payments[1] Such as systematic withdrawals or annuitized payments	o	o Not available for non-living beneficiaries (such as trusts, charities, and estates)	
Spousal Continuation Spouse becomes the new owner of the contract	o		

[1]A post-death 1035 exchange of nonqualified assets may be available for beneficiaries. In private letter ruling (PLR) 201330016, a taxpayer was allowed a tax-free 1035 exchange of the death proceeds from five deferred annuity contracts to a new variable annuity contract. It is important to understand, however, that a PLR is directed only to the taxpayer who requested it, and not all annuity companies may process the transaction.

THE POWER OF TAX DEFERRAL

When your beneficiaries choose a distribution option, it is important to consider the power of tax deferral. By allowing earnings to grow without taxation each year, your beneficiaries may receive a larger financial legacy.

The graph below illustrates the benefits of tax deferral. A $100,000 initial purchase payment, compounded at 5% annually over 10 and 20 years, grows with taxes deferred. If the full amount is withdrawn after 20 years and taxes are paid on the lump-sum distribution, the amount would be $212,424—more than the $195,169 accumulated in a taxable investment over the same time frame.

Tax-deferral assumptions: Hypothetical example for illustrative purposes only. Assumes a nonqualified contract with a cost basis of $100,000. The full amount before taxes equals the purchase payments plus interest, $265,330. The amount withdrawn after taxes are paid is calculated by taking the full amount and subtracting the cost basis; it is then multiplied by 0.68 (32% ordinary income-tax rate) and adding back in the cost basis, for a total of $212,424 after taxes.

Assumes a 32% ordinary income-tax rate, assessed yearly on the taxable investment and at period-end on the tax-deferred example. Actual tax rates may vary for different taxpayers and assets from that illustrated (e.g., capital gains and qualified dividend income). Actual performance of your investment also will vary. Lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance in the examples shown. Consider your personal investment time horizon and income-tax brackets, both current and anticipated, when making an investment decision. Hypothetical returns are not guaranteed and do not represent performance of any particular investment. If withdrawal charges were included (9% maximum withdrawal charge), the tax-deferred performance would be significantly lower.

To learn more about beneficiary distribution options,
please talk to your financial and tax professionals today.
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Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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