Inadequate Structure + No Will = Unintended Result

Ben and Julie Jones, both 65, purchased a deferred annuity primarily so funds could be available during their lifetimes. Their second objective was to leave any remaining assets, once they both were gone, to Ben's three daughters from a former marriage. The annuitant-driven contract was structured with Ben as owner and Julie as annuitant. They named Ben's daughters as the annuitant's beneficiaries. No owner's beneficiary was named.

Ben died without a will four years after Ben and Julie purchased their annuity.

All retirement annuities, owner- or annuitant-driven, require payout of the annuity value when the contract owner dies. Unfortunately, Ben and Julie didn't understand that this Internal Revenue Code rule governs all deferred annuities — both owner- and annuitant-driven.

The terms of the contract required that the surrender value of the annuity be paid to the owner's beneficiary at the owner's death. Because Ben died without a will, his estate assets were distributed according to the laws of Ben's state of residence.

The terms of the Jones' contract required that the surrender value of the annuity be paid to the owner's beneficiary at the owner's death. Since no owner's beneficiary was designated, the annuity surrender value was paid to Ben's estate. And, because Ben died without a will, his estate was probated and his assets distributed according to the laws of intestate succession (the state law that mandates how assets are distributed when a person dies without a will). The laws in the Jones' state dictated that slightly more than half of the annuity's surrender value go to Julie, with the balance paid to Ben's children. This surprise ending to the ownership and use of the Jones' annuity was one neither Ben nor Julie had planned.

(Continued)

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RISK MANAGEMENT FINANCIAL SOLUTIONS

What Ownership and Beneficiary Designation Structure Would Have Achieved the Result Ben and Julie Wanted?

If the Joneses had structured their annuity as shown on the diagram below, Julie would have had the greatest number of options available to her at Ben's death.

Ben
Annuity Owner
Annuitant

Julie
Annuitant's Beneficiary
Owner's Beneficiary

With this ownership arrangement, if Ben dies before Julie, Julie has the following options:

- Succeed Ben as the annuity owner and annuitant.
- Receive the death benefit under the terms of the annuity contract in the following ways:
  a. Receive a lump-sum payment.
  b. Defer payment of part or all of the death benefit for up to five years from the date of Ben's death.
  c. Annuitize the death benefit for a period not to exceed Julie's life expectancy.
  d. Take systematic withdrawals over a period not to exceed her life expectancy.

Naming Julie as the annuity owner and annuitant, and Ben as the owner's beneficiary and annuitant's beneficiary could also be an appropriate structure for the Jones' annuity.

Make certain your clients' contracts are properly structured. This will help assure their objectives are met, build trust and rapport with clients, and perhaps open doors to additional financial services opportunities.

For more information, contact:

Your Representative