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STRETCHING YOUR INHERITED NONQUALIFIED ANNUITY

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How It Works

- When the owner of a nonqualified annuity dies, a distribution option from the annuity must be chosen.
- If the beneficiary is the surviving spouse, the spouse may want to continue the contract as his or her own annuity, or the spouse may choose a beneficiary option.
- If the beneficiary is not a surviving spouse, then the beneficiary must take the account value as a lump sum, over 5 years, or either “annuitize” or “stretch” over his or her life expectancy.
 - “Annuitization” over life expectancy means converting the account balance into a stream of income payments that generally ends upon the death of the annuitant unless death occurs before a specific period has passed or a specific amount has been paid.
 - “Stretch” usually means taking withdrawals (subject to a minimum amount) from the account balance over the beneficiary’s life expectancy without annuitization. If withdrawals have not depleted the account balance upon the beneficiary’s death, the remaining account balance may be paid to another beneficiary.

When Stretch Is Used

- The annuity beneficiary or beneficiaries want to delay payment of income taxes as long as possible and maintain the greatest amount of withdrawal flexibility.

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Where An Annuity Fits

- Annuities can be fixed or variable. Depending upon the type of annuity, they may be used as a vehicle for either annuitized or stretch payments.

Advantages

- Flexibility – By choosing the “stretch” option, the beneficiary can withdraw more than the amount of the required minimum distribution. This flexibility allows withdrawals without being restricted to a fixed payment each year.
- Growth Potential – There is greater growth potential for the

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Stretching Inherited Nonqualified Annuity

Reference Center

Case Design

beneficiary because more of the annuity balance can remain invested.

- Tax Deferral – Under a stretch, the beneficiary may be able to take a smaller payment than a lump sum or 5-year distribution because the minimum payout is based on life expectancy. In a year when a beneficiary's income tax rate is high compared to other years, a smaller payment could create less of a tax burden.

Disadvantages

- The "stretch" option may not provide as much protection against "longevity" risk as annuitization. Longevity risk is outliving your retirement savings.
- Because of the longer distribution period, withdrawals may be smaller which may not suit the needs of all beneficiaries.

Key Tax Considerations

- Balances within an annuity remain income tax deferred until removed from the plan.
- Distributions are taxable to the extent of any gain in the contract.
- Generally, distributions taken from the annuity are included in taxable income in the year they are received.
- A 10% federal penalty tax may be imposed on premature distributions prior to the date the contract owner reaches age 59½, unless an exception applies. One exception is distributions to beneficiaries following the death of the annuity owner.

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