Stretch Your Annuity's Benefits for Generations

HOW THE STRETCH FEATURE ON INHERITED NON-QUALIFIED ANNUITIES WORKS

When planning your legacy, what if you could...

- Help avoid a large taxable event for your beneficiary, and even a successor beneficiary?
- Continue growing your money, tax deferred?
- Offer your beneficiary complete access to funds as needed?

The stretch feature is available on our non-qualified inherited annuities not held in an IRA or other qualified retirement accounts, and where a guaranteed lifetime income rider has not been elected.

- **Fixed Annuities***
- **Select Fixed Index Annuities ***
- **Variable Annuities**

A strategy is available that may help preserve and extend more of your wealth to your beneficiaries through the non-qualified annuity stretch feature.

With a non-qualified annuity (purchased with after-tax dollars), you can pass your contract's value, tax-deferred accumulation status, and tax-advantaged distributions to your beneficiaries.

Typically, beneficiaries can choose to receive a lump sum payment or take up to five years to receive the contract balance. Income from the gains within the contract (in the form of interest, interest credits or returns from underlying investments) could place them into a higher tax bracket.

With our non-qualified annuities, your beneficiary can choose to stretch distributions over his/her lifetime, and any remaining stretch distributions to his/her successor beneficiary over the remainder of the primary beneficiary's life expectancy. Your loved ones can benefit from paying taxes over the long term, while retaining access to the contract value, the contract's investment options, and its tax-deferred accumulation status.

Stretch Option

The "stretch" option on our non-qualified annuities provides a number of advantages to your beneficiaries (including non-spousal beneficiaries).

- Beneficiary only pays taxes each year on the amount of taxable gains distributed, instead of on a lump sum distribution. This could lower the total amount of income tax paid.
- The account remains invested, allowing for potential growth based on the allocations, underlying investment choices, or guaranteed rates the account offers.
- Continue benefiting from the tax-deferred accumulation of the account.

*Fixed and Fixed Index Annuities not available in the state of New York.

How the non-qualified annuity stretch feature is different from the default five-year rule

Five-year Rule

By default, beneficiaries can take up to five years (measured from the date of the contract owner's death) to liquidate the contract.

- Distributions and lump sum withdrawals are considered death distributions, so any early distribution federal tax penalties or early withdrawal charges do not apply.
- Beneficiaries are responsible for taxes at time of distributions. Gains from the contract are paid first, and are fully taxable.
- With a lump sum distribution, the beneficiary pays all the taxes up front, while the five-year rule allows the beneficiary to spread out the distributions, and thereby the taxes, over that period of time.
- During this five-year period, the beneficiary retains full access to the contract value and can withdraw funds as they wish.

Non-qualified Stretch

Both spousal and non-spousal beneficiaries can stretch distributions from a non-qualified annuity over their lifetimes. Additionally, with any remaining stretch distributions, their successor beneficiary(ies) can continue stretch distributions over the remainder of the primary beneficiary's life expectancy.

- Stretch withdrawals are considered death distributions, so early distribution federal tax penalties or early withdrawal charges do not apply.
- The primary beneficiary can choose to stretch the non-qualified annuity over his/her lifetime (based upon life expectancy), thereby "stretching" the tax obligation over that period of time.
- Any remaining contract value can be passed on to the beneficiary's successor beneficiary, who will receive the balance of the remaining withdrawals over the primary beneficiary's life expectancy — thereby continuing to stretch both withdrawals and tax obligations for potentially longer than the five-year rule — even for the successor beneficiary.
- In each scenario, the beneficiary retains full access to the contract value and may withdraw funds as he/she wishes.

Hypothetical Scenario: Linda, her daughter Toni, and Toni's daughter Olivia

Linda's non-qualified annuity

Original Contract Purchase: $150,000 | **Value at Death:** $300,000 | **Gains:** $150,000

Toni's age at Linda's death: 55 | **Life Expectancy:** 31.6 years

When Linda passes away, her daughter Toni has three options with her death benefit of $300,000. In this scenario, we show how stretching her distributions over her lifetime could increase her after-tax distributions by more than $416,000 compared to a lump sum withdrawal.

Lump Sum	Distribution Over Five Years	Stretch Option
Before Taxes: $300,000 **Tax Rate:** 28% **Tax on Gains:** $42,000 **Net Distribution:** $258,000	**Before Taxes:** $338,226 **Tax Rate:** 28% **Tax on Gains: $52,704** **Net Distribution: $285,522**	**Before Taxes:** $839,758 **Tax Rate:** 24% **Tax on Gains: $165,542** **Net Distribution: $674,216**
Consideration: Taking a lump sum could place Toni into a higher income tax bracket – she may have to pay more in taxes than she expects. In this example, we show a 28% income tax rate.	**Consideration:** Taking only five distributions could place Toni into a higher income tax bracket – she may have to pay more in taxes than she expects. In this example, we show a 28% income tax rate.	**Consideration:** Required distributions are calculated on Toni's life expectancy of 31.6 years.* Taking smaller distributions over her lifetime could keep her in a lower income tax bracket, while allowing her contract value to grow each year. In this example we show a 24% tax bracket instead of the 28% tax on the lump sum and five-year distribution examples. Toni retains full access to the contract and may withdraw funds as needed. The additional years of tax-deferred growth, paired with a potentially lower tax rate than with a lump sum or five-year distribution could mean more income over the long term.

Assumptions:

For illustrative purposes only; does not reflect any specific annuity product. Distribution amounts assume an annual growth rate of 6%, and do not reflect any applicable annuity or underlying fund fees or charges during either the five-year or stretch period.

5-year option: Assuming an annual 0% rate of return, gross distributions would be $300,000.

Stretch Option: Assuming an annual 0% rate of return, gross distributions would be $300,000, and do not reflect any applicable annuity fees or underlying fund or charges. Keep in mind that investments within a variable annuity involve risk and the assumed rate of return is not guaranteed.

By using the stretch feature, both the beneficiary and the successor beneficiary can take advantage of spreading out taxes over time, allowing more of the remaining contract value to grow.

How the stretch concept can extend to Linda's granddaughter

If Toni passes away before her life expectancy and has named her daughter Olivia as successor beneficiary to the contract, she may continue her mother's stretch distributions over the remainder of her mother's life expectancy.

* When taking only the required distribution, the first minimum distribution must be taken within 12 months of date of death, and every year throughout the beneficiary's life expectancy.

Your path *To and Through Retirement®* begins here.

Talk to your financial professional to learn more about the non-qualified annuity stretch option or contact us at 800.888.2461.

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TO AND THROUGH RETIREMENT

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