SECURITY BENEFIT LIFE INSURANCE COMPANY

Non-Qualified Stretch Annuity Guide

As a beneficiary of a non-qualified annuity (one purchased with after-tax dollars and not part of a qualified retirement account), you can take your death benefit as a single lump-sum payment or multiple payments over a longer period, such as your lifetime. The second option is known as the non-qualified stretch option. A non-qualified stretch annuity (available on Security Benefit fixed, variable and select fixed index annuities not held in a qualified retirement account) can help minimize the total amount of income tax you pay and potentially grow the total amount of money you receive by keeping unpaid funds in the tax-deferred annuity.

In this guide, we:

- Explain how the Security Benefit non-qualified stretch option works and how your required distributions are taxed
- Provide tips for successfully transferring an annuity death benefit from one non-qualified annuity to another
- Share an additional tax-friendly distribution option available on select Security Benefit variable annuities
- Compare distribution options

How the Non-qualified Stretch Option Works

This option allows you to receive the annuity death benefit in the form of required distribution payments spread over your life expectancy. The total annual required distribution amount is based on your life expectancy, and is the minimum amount you must withdraw from the non-qualified stretch annuity each year. While you receive payments over time, the unpaid funds can continue to grow tax deferred. Certain changes cannot be made once the non-qualified stretch annuity contract is issued, including a change of owner, beneficiary, or annuitant. The non-qualified stretch option is available on fixed annuities, variable annuities, and select fixed index annuities issued by Security Benefit that are not held in a qualified retirement account.

How do I know if I am eligible to elect the Security Benefit non-qualified stretch option?

To elect the non-qualified stretch option, you must be the recipient of a non-qualified annuity death benefit, and you must be a natural person. Security Benefit does not offer the non-qualified stretch option to non-natural person beneficiaries such as a trust, estate, or business entity.

Is there a deadline for electing the non-qualified stretch option?

The first required distribution payment must be taken within one year of the original non-qualified annuity owner's date of death.

If you miss this deadline, you forfeit your eligibility for the stretch option at Security Benefit.

What forms are required?

Eligible beneficiaries (including the beneficiary of an existing Security Benefit non-qualified annuity) must purchase a Security Benefit non-qualified stretch annuity contract using the death benefit proceeds. You must complete an annuity application and all required new business paperwork. If you're transferring the death benefit from another insurance carrier, complete the *Incoming Inherited IRA (Traditional or Roth)/Non-Qualified Stretch Annuity* form. If the death benefit proceeds are from an existing Security Benefit annuity, complete an *Annuity Proof of Death* form.

Can I contribute additional money?

Any additional purchase payments must (1) be death benefit proceeds from one or more non-qualified annuities, and (2) come from non-qualified annuities owned by the same deceased person. Also, the annuity contract must permit more than one purchase payment, and payments are subject to any purchase payment limitations in the annuity contract.

Required Distribution Payments

How is the required distribution payment amount and frequency determined?
The total annual required distribution amount is determined based on your life expectancy and the IRS life expectancy table that applies. You choose the frequency of required distribution payments: monthly, quarterly, semi-annual, or annual.

There may be charges associated with required distribution payments taken during the first year you own the Security Benefit non-qualified stretch annuity. Because of this, you may want to consider taking your first required distribution payment from the original non-qualified annuity prior to transferring the death benefit to the Security Benefit non-qualified stretch annuity.

Can I take more than my required distribution payment?
Yes. Additional withdrawals are not subject to the IRS 10% early distribution penalty. However, additional withdrawals may be subject to contract charges. Most Security Benefit non-qualified stretch annuity contracts allow you to make penalty-free withdrawals of up to 10% of the contract value each year after the first contract year. Amounts above that threshold may incur a surrender charge on a declining schedule, a market value adjustment (if applicable), and any applicable bonus recapture.

Can I take required distribution payments over a five-year period (also known as the Five-Year Rule)?
Security Benefit does not offer the Five-Year Rule as a non-qualified stretch payout option.

What happens if I die before I've taken all my required distribution payments?
Any required distribution payments that remain in your Security Benefit non-qualified stretch annuity at the time of your death are paid in a lump sum to your designated beneficiary. The taxable returns are subject to ordinary income tax in the year of receipt. A spousal beneficiary is not permitted to continue the non-qualified stretch annuity contract after your death.

Taxation[1]

How are required distribution payments taxed?
Required distribution payments are taxed the same as withdrawals from a regular non-qualified annuity, which follow the LIFO (Last In, First Out) rule. A non-qualified annuity is made up of after-tax dollars used to purchase the contract (known as the "cost basis") and tax-deferred interest credited to the contract (known as "returns" under federal tax law). The IRS treats tax-deferred returns as the first dollars withdrawn, and they are taxed as ordinary income. Your required distribution payments will be fully taxable until all returns have been distributed. After that, payments are a non-taxable return of the cost basis. However, unlike withdrawals from a regular non-qualified annuity, required distribution payments are not subject to the 10% IRS penalty that applies to withdrawals before age 59½.

Is there a non-LIFO option?
With Security Benefit EliteDesigns® and EliteDesigns® II Variable Annuities, beneficiaries may annuitize using the Fixed Period Annuity Option and selecting a fixed payout period (between 5 and 30 years) that does not exceed their life expectancy. These annuity payments are the beneficiary's required distribution payments. Annuity payments are taxed using an exclusion ratio, splitting each payment into taxable returns and a non-taxable cost basis. This typically produces a lower annual tax bill than distributions under the LIFO rule.

[1] Security Benefit does not provide accounting, legal, or tax advice and nothing contained herein should be construed as such advice. Please consult your own accounting, legal, or tax advisor.

Distribution Options at a Glance

	Lump Sum	Non-Qualified Stretch Annuity Life Expectancy Payments	Non-Qualified Stretch Annuity Fixed Period Annuity Payments as Life Expectancy Payments[2]
Timing of tax liability	All returns taxed immediately	Returns are taxed first, but tax liability is spread out over a longer period (LIFO)	Returns are taxed over a fixed period between 5 and 30 years based on a tax exclusion ratio
Potential for tax-deferred growth	None	Unpaid funds grow tax-deferred	Unpaid funds grow tax-deferred
Control over unpaid funds	None	Unpaid funds can be allocated among available interest crediting/underlying investment options	Unpaid funds can be allocated among available underlying investment options
Income flexibility	None — one-time payment	Must take required distribution payments but can take additional withdrawals as needed	Must take required distribution payments (Annuity Payments) but can take additional withdrawals as needed

[2] Available only on EliteDesigns and EliteDesigns II Variable Annuities

Seeing the Difference: Sarah's Story

Sarah is 55 years old. Her mother recently passed away and left her a non-qualified annuity death benefit worth $300,000. Of that, $200,000 is her mother's original after-tax cost basis, and $100,000 is accumulated interest that has never been taxed.

If Sarah takes a lump sum, the $100,000 in interest is added to her income all at once, pushing her into the 35% federal bracket and triggering the 3.8% Net Investment Income Tax (NIIT)—a combined 38.8% rate. She receives a gross distribution of $300,000, pays $38,800 in federal income tax, and walks away with $261,200. The annuity contract is terminated.

If Sarah elects the non-qualified stretch option, she takes smaller distributions based on an initial life expectancy factor of 31.6 years. Her smaller distributions keep her in the 24% federal bracket. Assuming the account earns a hypothetical 5% annually, the balance continues to grow even as she takes withdrawals.

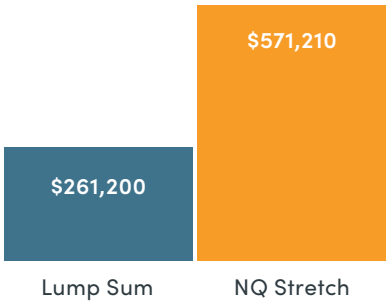
Let's assume Sarah passes away in year 29 after receiving her required distribution payment. Over those 29 years, she collects $591,671 in gross distributions and pays $117,224 in total federal income tax.

At the time of Sarah's passing, her remaining Account Value of $96,763 is paid to her designated beneficiary as a lump sum.

	Lump Sum	Non-Qualified Stretch Annuity[3]
Death benefit	$300,000	$300,000
Cost basis (already taxed)	$200,000	$200,000
Taxable accumulated interest	$100,000	$100,000
Federal tax rate applied	38.8% (35% + 3.8% NIIT)	24%
Total gross distributions	$300,000 (all in Year 1)	$591,671 (over 29 years)
Total federal tax paid	$38,800 (all in Year 1)	$117,224 (over 29 years)
Total after-tax money received	$261,200	$474,447
Remaining balance (to designated beneficiary)	$0	$96,763[4]
Total after-tax value	$261,200	$571,210

The Difference:

Sarah's total after-tax value with the non-qualified stretch annuity option is **$571,210** compared to **$261,200** with the lump sum distribution—more than double the amount from the same $300,000 death benefit.



[3] Hypothetical illustration assumes 5% annual growth. Lump sum taxed at 38.8% (35% federal + 3.8% NIIT). Stretch assumes 24% federal rate on smaller annual distributions. State taxes and annuity fees not reflected. This does not represent any specific contract or guaranteed return.

[4] Remaining account balance paid as a lump sum to the designated beneficiary; designated beneficiary taxation not reflected in totals.

Important Considerations

- You must take your first required distribution payment within one year of the original owner's death.
- Required distribution payments are taxed under the LIFO rule.
- The Fixed Period Annuity Option offers distributions under a non-LIFO rule using the tax exclusion ratio (only available with the EliteDesigns and EliteDesigns II Variable Annuities).
- Required distribution payments are subject to all applicable annuity charges.
- Work with your financial professional to determine which distribution strategy works best for your goals.

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

Talk to your financial professional to learn more about the Non-Qualified Stretch Annuity option or contact us at 800.888.2461.

Security Benefit®
TO AND THROUGH RETIREMENT

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You should carefully consider the investment objectives, risks, charges, and expenses of the variable annuity and its underlying investment options before investing. You may obtain a prospectus for the variable annuity and prospectuses or summary prospectuses (if available) for the underlying investment options by calling 800.888.2461, or visiting SecurityBenefit.com/Performance. You should read the prospectuses carefully before investing. Investing in variable annuities involves risk and there is no guarantee of investment results.

The EliteDesigns Variable Annuity (form V6029) and the EliteDesigns II Variable Annuity (form V6029) are flexible purchase payment deferred variable annuities issued by **Security Benefit Life Insurance Company** (SBL). The EliteDesigns Variable Annuity, [policy form no. FSB 242 (1-07)], is a flexible purchase payment deferred variable annuity issued by **First Security Benefit Life Insurance and Annuity Company of New York** (FSBL), Albany, NY, which is solely responsible for all contractual obligations.

Services and securities are offered through **Security Distributors,** a subsidiary of SBL. SBL and FSBL are affiliates and subsidiaries of SBL Holdings, Inc. (Security Benefit).

Annuities are long-term investments suitable for retirement investing. The investment return and principal value of an investment in the EliteDesigns and EliteDesigns II Variable Annuities will fluctuate and you may have a gain or loss at redemption. See the prospectuses for complete product details.

Fixed index annuities are not stock market investments and do not directly participate in any equity, bond, other security, or commodities investments. Unless otherwise indicated, indices do not include dividends paid on the underlying stocks and therefore do not reflect the total return of the underlying stocks. Neither an index nor any fixed index annuity is comparable to a direct investment in the equity, bond, other security, or commodities markets.

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SB-10005-99 | 2026/07/13