UNDERSTANDING TAXES

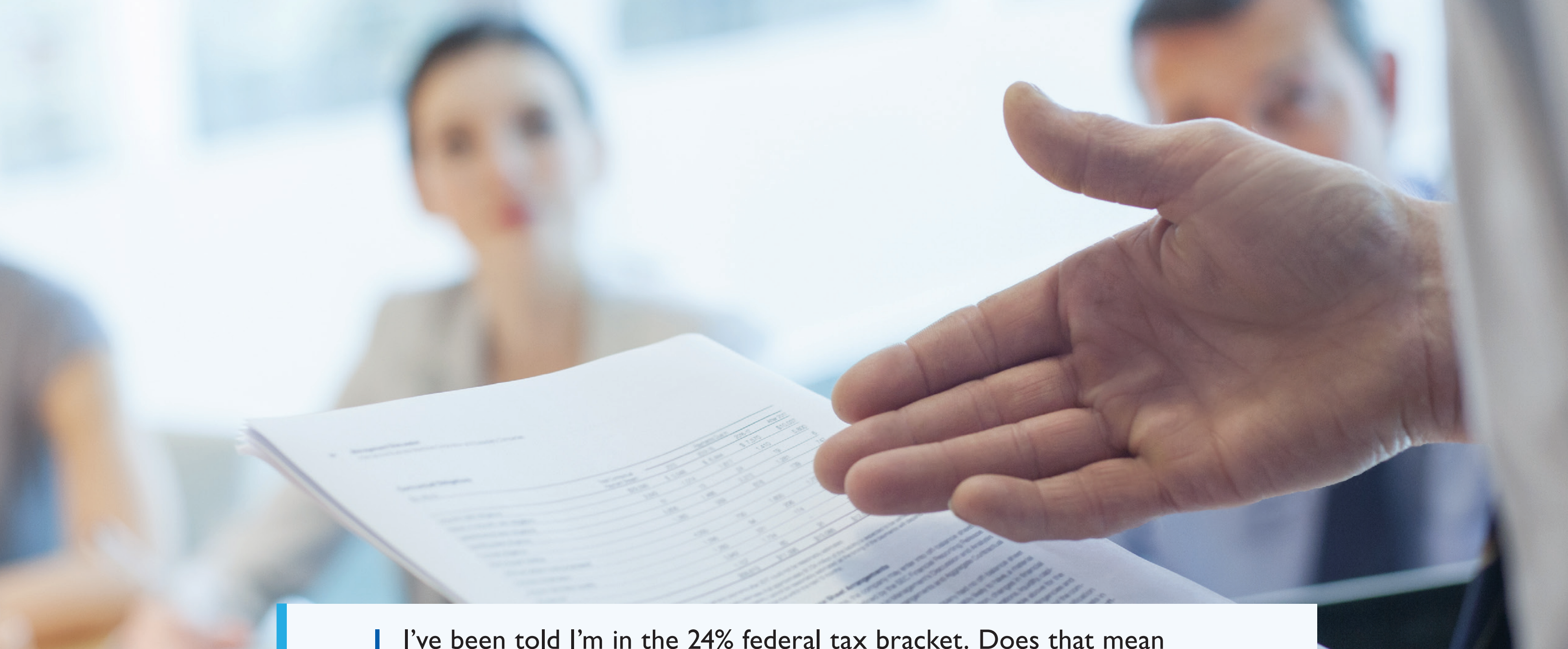
Answers to Seven Commonly Asked Questions

Planning Considerations for
Nonqualified Annuities and Other Investments

INCREASED TAX KNOWLEDGE MAY MEAN MORE MONEY IN YOUR POCKET

Often, a single, well-thought-out tax strategy can put you in a position to keep significantly more of your investment earnings. That's why it's important to know the tax implications of your investment decisions.

On the following pages are seven common questions and answers about taxes.



1 I've been told I'm in the 24% federal tax bracket. Does that mean all my income is taxed at 24%?

2 My tax professional uses the terms *marginal income-tax rate* and *effective income-tax rate*. What's the difference?

3 If I'm a high-income taxpayer, do I need to pay the Net Investment Income Tax?

4 Are all capital gains taxed at the same rate?

5 Are all distributions from my deferred annuity taxed equally?

6 If I take annuity distributions before age 59½, will I have to pay additional taxes?

7 What are the tax implications if my surviving spouse continues my annuity contract?

Your financial and/or tax professional may address additional questions you have, as well as discuss the kind of tax strategies that may be appropriate for you.

1

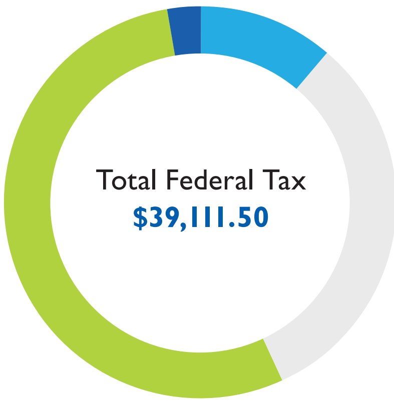
I've been told I'm in the 24% federal tax bracket. Does that mean all my income is taxed at 24%?

There is no single rate at which all your income is taxed. Your tax bracket reflects the highest rate at which you'll pay federal income taxes (also referred to as your marginal income-tax rate). However, some of your income will be taxed at lower rates. Here's how it works.

Hypothetical Example: Single Taxpayer with $175,000 of Taxable Income

Taxable Income (2024 Federal Tax Bracket)	**Is Taxed At** (Marginal Income-Tax Rate)	**Calculation**	**Resulting in Federal Taxes of**
$0 to $11,600	10%	$11,600 x 0.10	$1,160.00
> $11,601 to $47,150	12%	($47,150 – $11,600) x 0.12	$4,266.00
> $47,151 to $100,525	22%	($100,525 – $47,150) x 0.22	$11,743.50
> $100,526 to $191,950	24%	($191,950 – $100,525) x 0.24	$21,942.00

Your situation may be different. Higher tax brackets, rates, and filing statuses may apply.

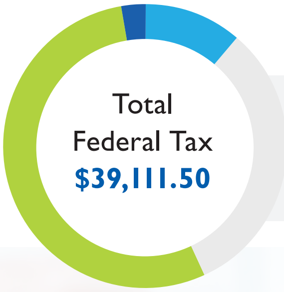


Planning Consideration—**Be aware of the amount of your taxable income and federal tax bracket thresholds.**

Consider deferring some income to keep yourself out of the next highest tax bracket.

2 My tax professional uses the terms *marginal income-tax rate* and *effective income-tax* rate. What's the difference?

The marginal income-tax rate is simply the highest rate at which your last dollar earned will be taxed. On the other hand, the effective income-tax rate is the actual amount of taxes you paid on all the income you earned. Using the results from the example on the previous page, please see the explanation below.



Taxable Income	Effective Income-Tax Rate	Marginal Income-Tax Rate
$175,000	**22.35%**	**24%**

Planning Consideration—**Use your effective income-tax rate when doing tax planning.**

Consider the effective income-tax rate when doing tax-planning exercises. The result will be closer to your actual taxes paid than using your tax bracket or marginal income-tax rate.

3 If I'm a high-income taxpayer, do I need to pay the Net Investment Income Tax?

The Net Investment Income Tax (NIIT) became effective January 1, 2013, to help fund the Affordable Care Act. This additional 3.8% federal tax can impact taxpayers who exceed the modified adjusted gross income (MAGI)[1] thresholds of $200,000 for single filers, and $250,000 for married couples filing jointly. The 3.8% NIIT applies to the lesser of net investment income or the excess of MAGI over the threshold amount. However, taxpayers may be able to avoid the NIIT by carefully managing their MAGI levels and net investment income levels.

Planning Considerations—**Consider strategies that lower MAGI and net investment income.**

- **Tax-deferred annuities:** If you do not need income now and would like tax-deferred growth potential for some of your assets, you may want to consider a nonqualified annuity. Because no income is being paid out, the growth will not be subject to NIIT. However, if you start taking distributions, the growth will increase your MAGI and may be subject to NIIT.
- **Charitable giving:** Gifts made to charities may lower your overall MAGI.
- **Roth IRAs:** Qualified distributions from Roth IRAs are not subject to income tax, so it will not increase your MAGI.
- **Municipal bonds:** Income from these bonds is generally not included in MAGI.
- **Your workplace retirement plan:** Distributions from most 401(k)s, 403(b)s, and other employer retirement plans are not considered net investment income, but will increase your MAGI.

[1]MAGI, for purposes of the NIIT, is generally defined as adjusted gross income (AGI) for regular income-tax purposes increased by the foreign earned-income exclusion and adjusted for certain deductions related to foreign earned income. For an individual taxpayer who does not exclude foreign earned income, the regular AGI will also be the MAGI.

4 Are all capital gains taxed at the same rate?

There are two types of capital gains:

- Short-term: Capital gains on assets held for one year or less. These are taxed at ordinary income-tax rates.
- Long-term: Capital gains on assets held for more than one year. These are taxed at capital-gains rates, which are more favorable than ordinary income-tax rates.

For 2024, long-term capital gains are applied to maximum taxable income levels for a Single filer as follows:

If Your Taxable Income Is	Your Long-Term Capital Gains Tax Rate Is
Up to $47,025	0%
$47,026 to $518,900	15%
More than $518,900	20%

Planning Considerations

- **Hold capital-gains-producing assets for one year or more.** Taxes on your gains will be taxed as capital gains instead of ordinary income.
- **Consider the effect of mutual funds in your capital-gains planning.** Holding mutual funds can be an effective way to diversify your holdings and benefit from professional fund management. However, the funds' managers determine when assets are bought and sold. If they are bought and sold quickly, this may result in short-term gains that are taxable to you at ordinary income-tax rates.

5 Are all distributions from my deferred annuity taxed equally?

In a nonqualified deferred annuity (that is neither an IRA nor part of an employer-sponsored retirement plan), there are two types of distributions you can elect, resulting in different tax treatments: withdrawals or annuitization.

In the following hypothetical example, let's compare the two. Let's say Bob, age 62, decides to retire and use his deferred annuity for retirement income. The example shows what his first five years would look like if he chose withdrawals versus annuitization.

Withdrawals

If taking withdrawals, all gains, which are taxable, will be withdrawn first. Basis,[1] which is after-tax dollars invested in a deferred annuity, is not taxable and is withdrawn last.

- Annuity contract value when income begins: $200,000.
- Annuity contract basis: $187,000.
- Annuity contract gain: $13,000.
- For illustrative purposes, this example assumes no yearly gain or rate of return, and annual withdrawals are made at the end of each year.
- Withdrawals end when the contract value is depleted.

For annuities, keep in mind that a withdrawal charge also may apply. Withdrawals will reduce the contract value and the value of the beneficiary benefits, and also may reduce the value of any optional benefits.

	Year 1	Year 2	Year 3	Year 4	Year 5
Withdrawal Amount	$5,000	$5,000	$5,000	$5,000	$5,000
Taxable Portion on Gain	$5,000	$5,000	$3,000	$0	$0
Tax-Free Return of Basis	$0	$0	$2,000	$5,000	$5,000
Remaining Contract Value	$195,000	$190,000	$185,000	$180,000	$175,000
Remaining Contract Basis	$187,000	$187,000	$185,000	$180,000	$175,000

A beneficiary benefit is referred to as a death benefit in the fixed or fixed indexed annuity contract summary, and the variable annuity prospectus.

[1]Basis: Also referred to as principal. Distributions of principal are not taxable.

Annuitization

This series of guaranteed income payments is taxed on an exclusion-ratio basis, which means a portion of each payment is tax-exempt and represents a return of the initial purchase payment rather than earnings or gains. Therefore, taxation is more evenly distributed throughout the years.

- Annuity payments may continue for your choice of:
  (1) Your entire life (as illustrated in this hypothetical example).
  (2) Your life plus the life of another person.
  (3) A fixed period, such as 5 or 10 years.
- Purchase payment amount: $200,000.
- Exclusion ratio: 76.8%.

	Year 1	Year 2	Year 3	Year 4	Year 5
Income Payment Amount	$11,327	$11,327	$11,327	$11,327	$11,327
Taxable Portion	$2,628	$2,628	$2,628	$2,628	$2,628
Tax-Free Return of Basis	$8,699	$8,699	$8,699	$8,699	$8,699

Planning Considerations

- For withdrawals after all gains have been withdrawn, your subsequent withdrawals will not be taxable. This may be a good strategy if you prefer to pay more taxes now to receive nontaxable income later.
- Annuitization spreads out taxation. It may be a good strategy if you prefer taxation that's more evenly distributed throughout your retirement years.

Note: Taxes are not the only consideration when choosing how to take income from an annuity. Consult your financial and tax professionals before deciding on the income option that's right for your personal circumstances and needs.

All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company.

6 If I take annuity distributions before age 59½, will I have to pay additional taxes?

Typically, the taxable portion of a distribution from a tax-deferred annuity that is taken prior to age 59½ will be subject to an additional 10% federal income tax.

However, here are some exceptions to this rule.

Death of the Owner

After the death of a deferred annuity owner, distributions to beneficiaries are not subject to the additional 10% federal income tax.

Disability

If you become disabled, the additional 10% federal income tax on distributions may not apply. Make sure the disability meets the IRS definition and adheres to Treasury regulations.

Substantially Equal Periodic Payments (SEPPs)

Distributions taken as SEPPs are free of the additional 10% federal income tax. The payments must continue to age 59½ or for five years, whichever is longer.

1035 Exchange

If, after careful consideration, you decide to exchange your current annuity contract for a new one, the additional 10% federal income tax may not apply. This 1035 exchange is not considered a distribution, so there are no tax consequences no matter your age.
To qualify:

- The owner(s) and annuitant(s) of both contracts must be the same.
- The exchange must take place directly through the insurance companies. Cashing out one contract to purchase another may be a taxable event.

You also can perform a partial 1035 exchange, which means a portion of your annuity contract is exchanged for another contract. However, be aware that if you take distributions from either contract within 180 days of the exchange, the IRS may consider the exchange "disqualified" (that is, no longer exempt from the additional 10% federal income tax).

7 What are the tax implications if my surviving spouse continues my annuity contract?

When a deferred annuity owner dies, his or her spouse, who is a joint owner and/or sole primary beneficiary, may choose to continue the annuity contract as its new sole owner. In that case, the additional 10% federal income tax may apply to distributions made before the surviving spouse reaches age 59½. However, if income is needed, the spouse can consider discontinuing the annuity contract and instead take lifetime distributions, which would be exempt from the additional 10% federal income tax.

Do You Have More Tax Questions?

The questions in this brochure represent only a sample of tax issues that may affect you. Talk to your financial and/or tax professionals about your circumstances and needs. Their knowledge and experience can be invaluable in helping you decide on tax strategies that are appropriate for helping you reach your long-term financial goals.

To learn more about investment options and their tax implications, speak with your financial professional or visit our website.
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