Understanding Your Options as the Beneficiary of an Annuity

Nonqualified and IRA Annuities

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You've Inherited an Annuity—What Do You Do Next?

If you are the beneficiary of an annuity, you may be entitled to beneficiary benefit proceeds when the owner of the annuity passes away. You'll be asked to decide how you'd like the money you've inherited to be distributed to you. It's important to clearly understand your options because they can impact the amount of money you receive. These options include the ability to continue the annuity's tax-deferral feature, options to help minimize the amount you will be taxed annually on the annuity, and even the potential to grow the financial legacy you've inherited. With your financial professional's guidance, the process can be quite simple.

Choose a Payout Option

Whether you received your inherited money from an individual retirement account (IRA) or nonqualified annuity (an annuity funded with after-tax money), generally, there are four beneficiary benefit options available to non-spousal beneficiaries. There is also a fifth option that is available for a surviving spouse only.

<table>
<tr><th colspan="2">Beneficiary Benefit Payout Options: IRA Annuity for Individuals[1]</th></tr>
<tr><td>Lump Sum</td><td>The entire amount of your share of the annuity contract value is distributed to you immediately.</td></tr>
<tr><td>10-Year Period</td><td>Annuity payments must be fully distributed to you by 12/31 of the tenth year following the IRA owner's death. This option allows you to continue the tax-deferred growth potential of the contract value. If the IRA owner passed away after his or her required beginning date (RBD), the beneficiary is required to take distributions during the 10-year period.</td></tr>
<tr><td>Inherited IRA 10-Year Strategy</td><td>If IRA owner passes away before his/her RBD:
• This option generally must be fully distributed to you by 12/31 of the tenth year following the IRA owner's death. No annual RMD payments are required during the 10-year period. This option allows you to continue the tax-deferred growth potential of the contract value and gives you the flexibility to withdraw amounts at any time during the 10-year period.
If IRA owner passes away after his/her RBD:
• This option generally must be fully distributed to you by 12/31 of the tenth year following the IRA owner's death. Annual required minimum distributions (RMDs) must be taken during the 10-year period. You also have the flexibility to withdraw additional amounts at any time during the 10-year period.</td></tr>
<tr><td>Spousal Continuation (Surviving Spouse)</td><td>If you are the surviving spouse, this option allows you to become the new owner of the IRA contract. As a spouse, you also have the option to stretch payments over their life or life expectancy even if you do not elect to become the new owner of the IRA. It remains an inherited IRA, but you can stretch the payments if you wish.
You also have the option to elect an inherited IRA and stretch payments over your life or life expectancy.</td></tr>
</table>

[1]If the beneficiary is an entity, such as an estate or charity, contact your financial professional as other options apply.

Beneficiary Benefit Payout Options: Nonqualified Annuity for Individuals[1,2]	
Lump Sum	The entire amount of your share of the annuity contract value is distributed to you immediately.
Five-Year Period	The contract value is fully distributed to you within five years from the owner's passing. This option allows for the continued tax-deferred growth potential of the contract value.
Annuity Payments During Your Lifetime or over a Period That Does Not Exceed Your Life Expectancy	This option helps spread the tax liability. However, it may provide less flexibility regarding how the death proceeds can be invested. This option also includes exclusion ratio tax treatment.
The Nonqualified Stretch	This strategy creates scheduled withdrawals over your life expectancy. While you must take a minimum distribution each year, the annuity can continue to grow through the power of tax deferral. In addition, this strategy allows you the flexibility to withdraw additional amounts (or even the entire balance) at any time and helps minimize the amount of taxable income each year. If you wish to elect the nonqualified stretch option, you must make the election within 60 days from when you file a claim for the beneficiary benefit. You must take the first annual minimum distribution no later than one year from the date of the owner's death. If payments do not commence within one year from the date of death, the five-year payout will apply.
Spousal Continuation	If you are the surviving spouse, this option allows you to become the new owner of the contract and continue the tax-deferred growth potential feature.

Meet Carlos

When a loved one passes away, the grieving process can be complicated by financial decisions that must be made immediately. As his mother's beneficiary, Carlos may need help navigating how best to handle the options available to him. Let's explore a few scenarios Carlos might encounter after inheriting an IRA or a nonqualified annuity from his mother.

[1]If the beneficiary is a trust or entity, such as an estate or charity, contact your financial professional as other options apply.

[2]These options are available for non-annuitized contracts.

Case Study 1: Inherited IRA

Linda, age 83, passed away in 2022 and left a $500,000 IRA to her son, Carlos, age 62. Because Linda passed after her required beginning date (age 72[1]), Carlos must take required minimum distributions from the inherited IRA during the 10-year payout. He also must fully distribute the contract value of the inherited IRA by 12/31 of the tenth year following the anniversary of Linda's death. At that time, Carlos is 71, and he has taken distributions that total $657,824 from the inherited IRA annuity contract.

Year	Age	Balance (First Year)	Projected Growth	Distribution Divisor	Required Distribution	Contract Value (Final Year)
2023	62	$521,050	$21,936	10.0	$52,105	$490,881
2024	63	$490,881	$20,666	9.0	$54,542	$457,005
2025	64	$457,005	$19,240	8.0	$57,126	$419,119
2026	65	$419,119	$17,645	7.0	$59,874	$376,890
2027	66	$376,890	$15,867	6.0	$62,815	$329,942
2028	67	$329,942	$13,891	5.0	$65,988	$277,844
2029	68	$277,844	$11,697	4.0	$69,461	$220,080
2030	69	$220,080	$9,265	3.0	$73,360	$155,986
2031	70	$155,986	$6,567	2.0	$77,993	$84,560
2032	71	$84,560	0	1.0	$84,560	0

This hypothetical example assumes a 4.21% net fixed rate and is for illustrative purposes only.

Case Study 2: Nonqualified-Stretch Option vs. Lump-Sum Option

This example compares the lump-sum option to the nonqualified-stretch option.

Linda contributed a total of $350,000 to a nonqualified annuity. She designated her son, Carlos, as the beneficiary. At Linda's passing, the annuity had an annuity contract value of $500,000.

Lump-Sum Strategy	Lump Sum	Taxable Ordinary Income	Cost Basis (After-Tax Money)
	$500,000	$150,000	$350,000

Carlos chooses the nonqualified-stretch option for his $500,000 inheritance. When he inherits the annuity contract value at age 62, he can stretch his annual minimum distribution over a period of 25 years—helping to minimize the amount of taxable income each year. As the chart shows, at age 87, he has taken distributions from the nonqualified-stretch annuity that total $912,583, which is substantially more than he would have received if he had chosen to take.

[1]Starting in 2023, the RMD age is 73. In 2033, the RMD age will jump to age 75.

Year	Age	Single Life Expectancy	Minimum Distribution	Taxable Income	Remaining Cost Basis	Contract Value (Year-End)	Total Distributions for this Beneficiary
2023	62	25.4	$19,685	$19,685	$350,000	$501,367	$19,685
2024	63	24.4	$20,548	$20,548	$350,000	$501,926	$40,233
2025	64	23.4	$21,450	$21,450	$350,000	$501,607	$61,683
2026	65	22.4	$22,393	$22,393	$350,000	$500,332	$84,076
2027	66	21.4	$23,380	$23,380	$350,000	$498,016	$107,456
2028	67	20.4	$24,413	$24,413	$350,000	$494,570	$131,869
2029	68	19.4	$25,493	$25,493	$350,000	$489,898	$157,362
2030	69	18.4	$26,625	$26,625	$350,000	$483,898	$183,987
2031	70	17.4	$27,810	$27,810	$350,000	$476,460	$211,797
2032	71	16.4	$29,052	$29,052	$350,000	$467,467	$240,849
2033	72	15.4	$30,355	$30,355	$350,000	$456,792	$271,204
2034	73	14.4	$31,722	$31,722	$350,000	$444,301	$302,926
2035	74	13.4	$33,157	$33,157	$350,000	$429,849	$336,083
2036	75	12.4	$34,665	$34,665	$350,000	$413,281	$37 0,748
2037	76	11.4	$36,253	$36,253	$350,000	$394,427	$407,001
2038	77	10.4	$37,926	$37,926	$350,000	$373,106	$444,927
2039	78	9.4	$39,692	$38,814	$349,122	$349,122	$484,619
2040	79	8.4	$41,562	$14,698	$322,258	$322,258	$526,181
2041	80	7.4	$43,548	$13,567	$292,277	$292,277	$569,729
2042	81	6.4	$45,668	$12,305	$258,914	$258,914	$615,397
2043	82	5.4	$47,947	$10,900	$221,867	$221,867	$663,344
2044	83	4.4	$50,424	$9,341	$180,784	$180,784	$713,768
2045	84	3.4	$53,172	$7,611	$135,223	$135,223	$766,940
2046	85	2.4	$56,343	$5,693	$84,573	$84,573	$823,283
2047	86	1.4	$60,409	$3,561	$27,724	$27,724	$883,692
2048	87	0.4	$28,891	$1,167	$0	$0	$912,583

This hypothetical example assumes a 4.21% net fixed rate and is for illustrative purposes only.

What About Taxes?

Nonqualified Annuity Taxes

If you choose the lump-sum distribution option, you will pay ordinary income tax on the earnings in the annuity contract in the year the annuity is distributed to you. If the annuity is an IRA funded with pretax contributions, you will pay ordinary income tax on those contributions and on any earnings.

If, however, you elect to stretch your distributions over your life expectancy, the taxation of the initial amount withdrawn is based on a last-in, first-out basis. This means any earnings in that year are withdrawn before the tax-free return-of-principal part of the distribution. Any potential growth on the remaining contract value over your life expectancy continues growing tax-deferred.

IRA Annuity Taxes

Traditional IRA: If you choose the lump-sum distribution option, you will pay ordinary income tax on any pretax contributions and earnings of the IRA annuity. If, however, you elect to take distributions over the 10-year period, you will pay ordinary income tax on only the taxable amounts taken each year—thus spreading the amount of taxable income over each year.

Roth IRA: Qualified distributions are tax-free in a Roth IRA. A qualified distribution is any distribution that meets the five-year holding requirement and is taken as a beneficiary benefit distribution.

No IRS Additional 10% Federal Income Tax

Lastly, unlike distributions from some other financial instruments, all distributions to beneficiaries from inherited-IRA annuities and nonqualified-stretch annuities are considered beneficiary benefit distributions and are not subject to an additional 10% federal income tax for withdrawals prior to age 59½. If a surviving spouse elects to become the new owner of the IRA or to continue the nonqualified contract as the new owner, the beneficiary benefit distribution exception does not apply.

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