ADVANCED STRATEGIES

Nonqualified stretch

Leaving a lasting legacy for your loved ones is important. However, providing your beneficiaries with unrestricted access to funds, or ignoring the tax implications associated with certain distribution options, can result in expensive consequences.

A deferred annuity can be a powerful estate-planning tool, but not all annuity contracts are created equal. The manner in which an annuity death benefit is distributed can have a tremendous impact on the amount your beneficiaries actually receive. Ensuring that your annuity provides you with greater flexibility and the potential to grow your assets is essential for creating an effective wealth-transfer tool.

Stretching inherited nonqualified annuity proceeds

A unique method of distribution, the Jackson® nonqualified stretch option, permits beneficiaries of nonqualified annuities to "stretch" distributions over a period not to exceed their life expectancy. Stretch payments satisfy IRS distribution requirements while offering your clients greater flexibility and control.

- **Nonqualified stretch details.** The beneficiary elects stretch and takes a required minimum distribution within one year of the owner's passing. The beneficiary must then take a required minimum distribution each year based on their life expectancy, which is determined by IRS Table 1. Assets they don't withdrawal can stay invested.
- **New "stretch of a stretch" capability.** Jackson has expanded its nonqualified stretch option to allow for a potentially longer stretch period. If a beneficiary inherits a nonqualified annuity, stretches it, but then passes away with life expectancy remaining, then their beneficiary is able to continue the stretch for the entirety of the original beneficiary's life expectancy.*
- **Income tax control.** Beneficiaries pay taxes only as distributions are taken while the balance of the account remains invested, thus helping to reduce the tax burden.
- **Added growth potential.** Stretching income also allows your beneficiary to keep the account invested on a tax-deferred basis for a longer amount of time to potentially grow the contract value.
- **Accelerated distributions.** Unless restricted, beneficiaries can accelerate distributions and withdraw additional amounts in any year and even cash out at any time without incurring federal tax penalties. An excess interest adjustment (interest rate adjustment in New York) could still apply.
- **Preselected death benefit.** Jackson offers contract owners the ability to restrict how distributions are made to beneficiaries, especially those who lack the education or discipline to manage their assets. With a preselected death benefit, owners can restrict beneficiaries to the minimum "stretch" amount until the beneficiaries reach a specified age.†

Annuity death benefit distribution options

- Lump sum – Beneficiary receives the entire death benefit immediately, including the tax bill.
- Out in five years – The beneficiary must liquidate the account and pay taxes within five years.
- Annuitization – May provide a longer time frame to distribute the account and pay taxes but lacks flexibility.
- Nonqualified stretch – Allows a longer time frame to distribute the account and pay taxes while preserving flexibility and tax-deferred growth potential.

Benefits of the nonqualified stretch

- Helps create a legacy
- Tax control
- Continued tax-deferred‡ growth potential
- Flexibility
- Preselected death benefit

*Not available on all products.

† May be subject to any limitations under the Internal Revenue Code at the time of the owner's death.

‡ Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

JACKSON®

Nonqualified stretch

Jackson pioneered the nonqualified stretch option in their 2001 Private Letter Ruling.[1] Other companies may offer a nonqualified stretch but may not actually have an IRS Private Letter Ruling to support it.

To use the nonqualified stretch program, the designated beneficiary must be a living person. This program is not available for custodial accounts, as they do not allow for anyone other than the custodian to be named as beneficiary, for an "entity" beneficiary or a trust beneficiary. Since this is a death benefit distribution, there are no IRS premature distribution penalties. If there are multiple beneficiaries listed on the contract at the owner's death, each beneficiary is able to use their own respective life expectancy to determine the maximum stretch period. Unlike annuitization, if the beneficiary dies before the end of their stretch period, the remaining account balance is paid to their beneficiary in a lump sum or new "stretch of a stretch" option.

DAD'S ANNUITY

SON–AGE 42	SON–AGE 45	DAUGHTER–AGE 50
• Inherits 1/3 • Life expectancy of 43.8	• Inherits 1/3 • Life expectancy of 41	• Inherits 1/3 • Life expectancy of 36.2
GRANDSON	**GRANDDAUGHTER**	**GRANDSON**
Upon death of son, grandson may elect a lump sum or continue stretching using son's remaining life expectancy, if any.[§]	Upon death of son, granddaughter may elect a lump sum or continue stretching using son's remaining life expectancy, if any.[§]	Upon death of daughter, grandson may elect a lump sum or continue stretching using daughter's remaining life expectancy, if any.[§]

Source: IRS, Publication 590-B, "Distributions from Individual Retirement Accounts (IRAs)," 2022.

For more information, please contact your financial professional.

[§] Subject to product restrictions.

[1] Department of the Treasury, Internal Revenue Service, PLR 200151038, December 21, 2001.

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