PACIFIC LIFE

WEALTH-TRANSFER STRATEGIES

Nonqualified Stretch Provision

Annuities can be powerful estate-planning tools, with a variety of distribution options for beneficiaries that can have a great effect on the amount of money they receive. One method of distribution, the nonqualified stretch provision, allows beneficiaries to "stretch" the proceeds of an inherited nonqualified annuity over a period of time, not to exceed their life expectancies. This provision ensures distribution requirements are met, while providing beneficiaries flexibility and control over the contract with continued potential for growth.

HOW IT WORKS

- The first annual distribution must occur no later than one year from date of the death.
- The contract stays in the name of the deceased for the benefit of the beneficiary.
- Proceeds are not annuitized.
- Annual distributions are determined by the contract value of the previous year's ending balance (on 12/31) and the beneficiary's single life expectancy.
- Mortality and expense risk fees, investment option charges, and administrative fees of the contract may continue to apply. The contract value is subject to market risk.

BENEFITS TO BENEFICIARIES

- **Growth Potential and Tax Control.** Beneficiaries can continue the tax-deferred growth potential of any remaining contract value and control when they pay taxes through the timing of withdrawals. In addition, they can make decisions based on their own investment preferences and can even choose to stretch distributions over their lifetimes.
- **Flexibility.** Each designated living beneficiary can elect to take payouts based on their own respective life expectancy. Beneficiaries also can withdraw more than the required minimum distribution (RMD) in any year without incurring federal tax penalties.
- **Options:** Beneficiaries who already elected the stretch option on an existing contract may be able to choose a new annuity contract by executing a post-death 1035 exchange for a more appropriate product.[1]

WHO SHOULD CONSIDER THIS STRATEGY?

Contract Owners:

- With legacy contracts that do not allow for the nonqualified-stretch provision as a beneficiary claim option.
- Without a trust but need estate-planning consideration.

Beneficiaries:

- Who are inheriting more than one nonqualified contract from the same decedent.
- Looking for a more appropriate contract for their annuity benefit proceeds.
- Seeking growth and/or tax control of their annuity benefit proceeds over their lifetimes.

[1]In private letter ruling (PLR) 201330016, a taxpayer was allowed a tax-free 1035 exchange of the beneficiary benefit proceeds from five deferred annuity contracts to a new variable annuity contract. It is important to understand, however, that a PLR is directed only to the taxpayer who requested it, and not all annuity companies may process the transaction. A beneficiary benefit may be referred to as a death benefit in the contract summary.

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Annuities are long-term contracts designed for retirement. Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal income tax may apply. A withdrawal charge also may apply and a market value adjustment (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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