



A member of Western & Southern Financial Group

Nonqualified Stretch Spreading Out Income ... and Taxes ... For Non-Spousal Beneficiaries

Deborah A. Miner, J.D., CFP®, CLU®, ChFC®, RICP®
[month day, year]



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Upon Death of Owner of NQ Deferred Annuity

- Potential options:
 1. Lump-sum
 2. Annuitization
 3. 5-year deferral
 4. NQ stretch



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Upon Death of Owner of NQ Deferred Annuity

Death Benefit Options: Pros and Cons		
	Pros	Cons
Lump Sum	Immediate access to cash	All gain includable in income; no continued growth or tax deferral
Five-Year Deferral	Ability to spread any tax over five years; may access cash as needed	All gain must be includable in income within the five-year deferral period
Annuitization	Use of exclusion ratio, each payment is part gain and part return of basis; may elect guaranteed lifetime income	Lack of flexibility and liquidity



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Upon Death of Owner of NQ Deferred Annuity

Death Benefit Options: Pros and Cons		
	Pros	Cons
NQ Stretch	Allows most flexibility; can stretch payments and taxes over lifetime but can take more as needed ³	May not qualify for exclusion ratio

³ Taking more than the required amount will result in the loss of the exclusion ratio and remaining distributions will be taxed under the LIFO (gains first) method.



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

NQ Stretch Requirements

- Distributions taken over life or a period not longer than their life expectancy
- First distribution must begin within 1 year of owner's death
- Distributions must be taken at least annually
- May need to elect NQ stretch option within 60 days



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Not All Carriers Allow NQ Stretches

- No regulations under Section 72(s)
- PLR 200303016¹ – outlined 3 methods for satisfying requirements:
 1. RMD method
 2. Amortization method
 3. Annuitization method

¹ A PLR has no reliance value other than for the particular taxpayer receiving it.



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Upon Death of Owner of NQ Deferred Annuity

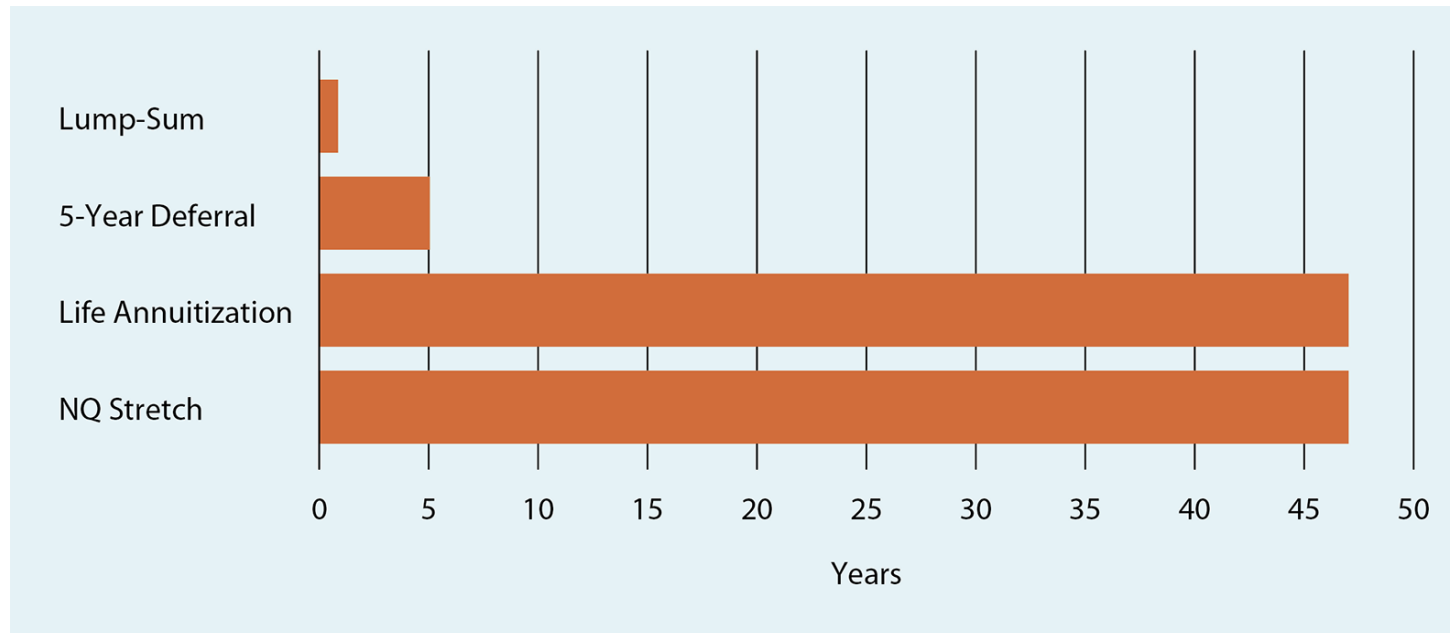
- PLR 201330016² – permitted a non-spousal beneficiary to do a 1035 exchange of one inherited NQ deferred annuity for another

² A PLR has no reliance value other than for the particular taxpayer receiving it.



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Two Forces: Time and Tax Deferral



Source for beneficiary's life expectancy of 47.6 years as illustrated for Life Annuitization and NQ Stretch from Table 1 (Single Life Expectancy; For Use by Beneficiaries); https://www.irs.gov/publications/p590b#en_US_2020_publink1000231236; accessed 6/15/2022.



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Revised RMD Factors

Distribution Years Before 2022		
Taxpayer's Age	Life Expectancy	Withdrawal Percentage
72	25.6	3.91%
73	24.7	4.05%
74	23.8	4.20%
75	22.9	4.37%

Distribution Years After 2021		
Taxpayer's Age	Life Expectancy	Withdrawal Percentage
72	27.4	3.65%
73	26.5	3.77%
74	25.5	3.92%
75	24.6	4.06%

- Bottom line: smaller RMDs



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

A Case Study

- Sarah's father was owner & annuitant of a NQ annuity
- Value at father's death: \$500,000 w/ \$250,000 cost basis
- Sarah is 55 & married
- Couple's combined annual taxable income of \$100,000 puts them in 22% federal tax bracket



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

A Case Study

- All options assume a 4% future value/interest rate
- Lump sum distribution assumes combined 30% net effective federal & state tax rate
- 5-year deferral distributions assume 27% combined net effective federal & state tax rate
- Stretch distributions assume 25% net effective federal & state tax rate
- All future values of distributions assume 25% combined net effective federal & state tax rate
- Portion of NQ Stretch account value still subject to income tax



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Upon Death of Owner of NQ Deferred Annuity: An Example

	Lump Sum	5-Year Deferral	NQ Stretch			
End of	Future Value of Distribution	Account Value + Future Value of Distributions	NQ Stretch Account Value		Future Value of Distributions	Total
Year 1	\$437,750	\$503,260	\$503,544	+	\$14,320	= \$517,864
Year 5	\$492,691	\$508,551	\$512,660	+	\$80,879	= \$593,539
Year 10	\$571,164	\$589,551	\$509,920	+	\$187,983	= \$697,903
Year 15	\$662,136	\$683,451	\$486,988	+	\$326,558	= \$813,546

All options assume 4% future value/ interest rate. Lump sum distribution assumes 30% combined net effective state and federal tax rate. 5-year deferral distributions assume 27% combined net effective state and federal tax rate. Stretch distributions assume 25% combined net effective state and federal tax rate. All future values of distributions assume 25% combined net effective state and federal tax rate on the growth in future value. Portion of NQ Stretch account value still subject to income tax. Hypothetical results for example only.

- Assuming all after-tax funds received are reinvested, in 15 years:
 - projected future value of NQ stretch account & its distributions totals \$813,546
 - compare to \$683,451 w/ 5-year deferral & \$662,136 w/ lump sum



Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

Upon Death of Owner of NQ Deferred Annuity: An Example

End of	Annual Distribution	Taxable Amount	Taxes	Net Distribution
Exclusion Ratio Taxation				
Year 1	\$16,456	\$8,544	\$2,136	\$14,320
LIFO Taxation				
Year 1	\$16,456	\$16,456	\$4,114	\$12,342

Assumes 4% future value/ interest rate on account value and 25% combined net effective state and federal tax rate on all distributions. Hypothetical results for example only.

- Use of exclusion ratio will allow for larger net distributions
- Required distributions may not always qualify for exclusion ratio
- Taking more than required amount will trigger LIFO taxation

Spreading Out Income ... and Taxes ... for Non-Spousal Beneficiaries

W&S Financial Group Distributors
A member of Western & Southern Life Insurance Company

Tax Efficiency

Understanding Death Benefit Options For Nonqualified (NQ) Annuities

Beneficiaries of NQ deferred annuities generally have multiple death benefit payout options. Availability depends on various factors, including:

- Contract language
- Tax rules regarding when death occurred
- Beneficiary relationship to the decedent

Four Death Benefit Options

- Lump Sum:** This provides immediate access to the entire death benefit, but any and all gain in the contract is taxed to the beneficiary in the year received.
- Five-Year Deferral:** This gives the beneficiary until the fifth anniversary of the date of death of the owner/annuitant to withdraw the death benefit. Partial withdrawals – or a full withdrawal – are permitted throughout the deferral period.
- Annuitization:** This permits the beneficiary to annuitize the contract. Generally, annuitization options can include a fixed period, a fixed amount or a life income option, either life only or life with a period certain.
- NQ Stretch:** This allows non-spouse beneficiaries to take distributions of the annuity death benefit over a period as long as their life expectancy. The first distribution must be taken within one year of the owner/annuitant's death. Distributions must be taken at least annually. The amount of the distribution is generally based on the life expectancy factor using the single life table used for required minimum distributions (RMDs) for qualified plans and IRAs.

Not all carriers offer a NQ stretch option. Some that don't, however, will allow a 1035 exchange to a carrier that does offer the NQ stretch option. As with any 1035 exchange, it's essential the carrier holding the annuity death benefit report the requested distribution/transfer as a 1035 exchange.

Death Benefit Options: Pros and Cons		
	Pros	Cons
Lump Sum	Immediate access to cash	All gain includable in income; no continued growth or tax deferral
Five-Year Deferral	Ability to spread any tax over five years; may access cash as needed	All gain must be includable in income within the five-year deferral period
Annuitization	Use of exclusion ratio, each payment is part gain and part return of basis; may elect guaranteed lifetime income	Lack of flexibility and liquidity
NQ Stretch	Allows most flexibility; can stretch payments and taxes over lifetime but can take more as needed ¹	May not qualify for exclusion ratio

1. To avoid inclusion of any lump sum payment offered under the contract, or election to take other than a lump sum payment must be made within 60 days of the date of death.
2. If a beneficiary elects a 5-year deferral, the beneficiary must report the death benefit distribution as income in the year of death.
3. Distributions must be taken at least annually. The amount of the distribution is generally based on the life expectancy factor using the single life table used for required minimum distributions (RMDs) for qualified plans and IRAs.

Issuers: Integrity Life Insurance Company | National Integrity Life Insurance Company | Western-Southern Life Assurance Company

CF-27-68020 FINANCIAL PROFESSIONAL USE ONLY – NOT FOR USE WITH THE PUBLIC ©2019 1/4

**DB Options for
NQ Annuities
CF-27-68020**

W&S Financial Group Distributors
A member of Western & Southern Life Insurance Company

Protecting Nonqualified Assets

Inheriting a Nonqualified Deferred Annuity? Consider Your Course of Action

As a non-spousal beneficiary of a nonqualified (NQ) deferred annuity, you may have several payout options. These options will generally be explained in a letter from the insurance company that issued the annuity.

Payout Options: Consider the Pros and Cons

Consider some of the advantages and disadvantages of these common payout options:

Payout Option	Advantages	Disadvantages
Lump Sum	Immediate access to cash	All gain includable in income in one year; no continued growth or tax deferral
5-Year Deferral	Ability to spread any tax over five years; may access cash as needed	All gain must be includable in income within the five-year deferral period
Annuitization	Each payment is part gain and part return of basis; may elect guaranteed lifetime income	Lack of flexibility and liquidity
NQ Stretch	Allows most flexibility; can stretch payments and taxes over lifetime but can take more as needed ¹	Treatment of each payment as part gain and part return of basis cannot be assumed

What's a Nonqualified Annuity?

A nonqualified annuity is one that was funded with after-tax dollars. The owner paid taxes on the money before it went into the annuity. When you as the beneficiary now take money out, only the annuity's earnings are taxable as ordinary income.

Issuers: Integrity Life Insurance Company | National Integrity Life Insurance Company | Western-Southern Life Assurance Company

CF-27-68028 FINANCIAL PROFESSIONAL USE ONLY – NOT FOR USE WITH THE PUBLIC ©2019 1/2

**DB Options for
NQ Annuities (Client)
CF-27-68028**

W&S Financial Group Distributors
A member of Western & Southern Life Insurance Company

RMD Single Lifetime Table

Single Life Expectancy Factors and Percentages: Quick Reference

Use to calculate Required Minimum Distributions from IRAs and qualified plans and Required Distributions under RBC Section 72(s) from nonqualified annuities **after** owner's death.

Temporal Age	Factor/Percentage	Temporal Age	Factor/Percentage	Temporal Age	Factor/Percentage
1	93.7/1.0%	41	66.8/1.22%	81	59.7/1.32%
2	92.7/1.21%	42	65.8/1.28%	82	58.7/1.39%
3	91.7/1.22%	43	64.8/1.33%	83	57.7/1.45%
4	90.7/1.24%	44	63.8/1.39%	84	56.7/1.51%
5	89.7/1.25%	45	62.8/1.44%	85	55.7/1.57%
6	88.7/1.27%	46	61.8/1.50%	86	54.7/1.63%
7	87.7/1.29%	47	60.8/1.56%	87	53.7/1.69%
8	86.7/1.30%	48	59.8/1.62%	88	52.7/1.75%
9	85.7/1.32%	49	58.8/1.68%	89	51.7/1.81%
10	84.7/1.34%	50	57.8/1.74%	90	50.7/1.87%
11	83.7/1.35%	51	56.8/1.80%	91	49.7/1.93%
12	82.7/1.37%	52	55.8/1.86%	92	48.7/1.99%
13	81.7/1.39%	53	54.8/1.92%	93	47.7/2.05%
14	80.7/1.41%	54	53.8/1.98%	94	46.7/2.11%
15	79.7/1.43%	55	52.8/2.04%	95	45.7/2.17%
16	78.7/1.45%	56	51.8/2.10%	96	44.7/2.23%
17	77.7/1.47%	57	50.8/2.16%	97	43.7/2.29%
18	76.7/1.49%	58	49.8/2.22%	98	42.7/2.35%
19	75.7/1.51%	59	48.8/2.28%	99	41.7/2.41%
20	74.7/1.53%	60	47.8/2.34%	100	40.7/2.47%
21	73.7/1.55%	61	46.8/2.40%	101	39.7/2.53%
22	72.7/1.57%	62	45.8/2.46%	102	38.7/2.59%
23	71.7/1.59%	63	44.8/2.52%	103	37.7/2.65%
24	70.7/1.61%	64	43.8/2.58%	104	36.7/2.71%
25	69.7/1.63%	65	42.8/2.64%	105	35.7/2.77%
26	68.7/1.65%	66	41.8/2.70%	106	34.7/2.83%
27	67.7/1.67%	67	40.8/2.76%	107	33.7/2.89%
28	66.7/1.69%	68	39.8/2.82%	108	32.7/2.95%
29	65.7/1.71%	69	38.8/2.88%	109	31.7/3.01%
30	64.7/1.73%	70	37.8/2.94%	110	30.7/3.07%
31	63.7/1.75%	71	36.8/3.00%	111	29.7/3.13%
32	62.7/1.77%	72	35.8/3.06%	112	28.7/3.19%
33	61.7/1.79%	73	34.8/3.12%	113	27.7/3.25%
34	60.7/1.81%	74	33.8/3.18%	114	26.7/3.31%
35	59.7/1.83%	75	32.8/3.24%	115	25.7/3.37%
36	58.7/1.85%	76	31.8/3.30%	116	24.7/3.43%
37	57.7/1.87%	77	30.8/3.36%	117	23.7/3.49%
38	56.7/1.89%	78	29.8/3.42%	118	22.7/3.55%
39	55.7/1.91%	79	28.8/3.48%	119	21.7/3.61%
40	54.7/1.93%	80	27.8/3.54%	120	20.7/3.67%

Issuers: Integrity Life Insurance Company | National Integrity Life Insurance Company | Western-Southern Life Assurance Company

CF-27-68038 FINANCIAL PROFESSIONAL USE ONLY – NOT FOR USE WITH THE PUBLIC ©2019 1/2

**RMD Tables:
Quick Reference
CF-27-68038**



We're Here to Help

[dynamic content: insert names, photos and contact info for relevant channel]

[National Accounts Team]

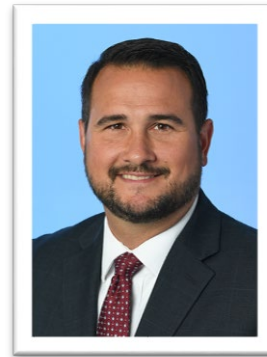
[800.804.4465] | [SalesSupport@wsfinancialgroup.com]



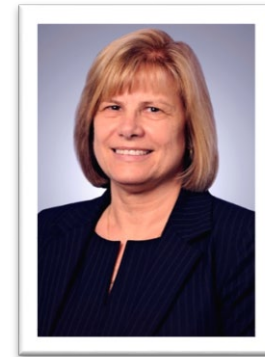
Paul Kruth, ChFC
VP & National Sales Manager
x8516



Kim Humbert
VP, Business Development
x8517



**Erik Long, CRPC,
CFP®, ChFC®**
VP, Business Development
x8518



**Debbie Miner,
JD, CFP®, CLU®,
ChFC®, RICP®**
AVP, Advanced Markets
x2183

Important Information

W&S Financial Group Distributors, Inc., Cincinnati, OH (doing business in CA as W&S Financial Insurance Services) is an affiliated life insurance agency of the issuer. Issuer has sole financial responsibility for its products. All companies are members of Western & Southern Financial Group (Western & Southern).

Tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. This material is not intended to be used, nor can it be used by any taxpayer, for the purpose of avoiding U.S. federal, state or local tax penalties. This material is written to support the promotion or marketability of the transactions addressed by this material. This material is being provided for informational purposes only. Western & Southern member companies and their agents do not provide legal or tax advice. Laws of a specific state or laws relevant to a particular situation may affect the application, accuracy, or completeness of this information. Federal and state laws and regulations are complex and are subject to change. Consult with an attorney or tax advisor regarding any specific legal or tax situation.

**No bank guarantee • Not a deposit • May lose value • Not FDIC/NCUA insured
Not insured by any federal government agency**

©2022 Western & Southern Financial Group. All rights reserved.

WSFinancialPartners.com