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is on your side

Protect your legacy

Address common concerns associated with wealth transfer using a nonqualified stretch concept

For many individuals, transferring wealth from generation to generation raises some important questions. How much money will your heirs receive? What portion of the money will be lost to taxes? How will your wealth be spent?

These are valid questions, especially when you consider that 70% of wealth transfer plans fail,[1] mainly due to communication breakdowns or failure to adequately prepare heirs.

Leave a financial legacy to your loved ones.

When planning to leave a nonqualified deferred annuity to your heirs, you may want them to consider using the nonqualified stretch concept instead of taking a lump sum.

Unlike many contracts offered by other companies, Nationwide® allows nonqualified annuity death benefit payments to be paid as systematic withdrawals over the life expectancy of the beneficiary — without having to annuitize.

The benefits of a nonqualified stretch concept based on life expectancy are:

- Helps your beneficiary avoid a single, large taxable event
- Allows the account balance to stay tax deferred
- Continues the potential for growth

[1] "Bridging Family Wealth, Generation To Generation," Heidi P. Werner, Fa-mag.com (Dec. 29, 2017).

Let's look at a hypothetical example with John and his daughter, Mary.

John purchases a nonqualified deferred annuity with $100,000. He doesn't need it for retirement income, and he wants to make sure the assets transfer to his beneficiary without going through probate.

Years later when John passes away, the death benefit is $250,000. Mary is his beneficiary, and she recalls her father's wishes regarding how to manage this part of the inheritance. The diagram to the right walks through Mary's options.

Stretching a nonqualified annuity death benefit has several advantages that work together to create a lasting legacy for your loved ones, including:

Tax efficiency

Your beneficiary pays income taxes only on the amount of taxable gain distributed each year, which may result in a lower tax liability.

Tax deferral

Taxes are deferred until the money is distributed, so more of the money remains invested, allowing for compounded accumulation.

Growth and flexibility

The account value stays invested in the annuity, allowing for continued growth potential. Your beneficiary can access the account value at any time, unless restricted.[2]

About the stretch concept

- Stretch withdrawals are death distributions, so federal tax penalties or early withdrawal charges do not apply
- The beneficiary must take the first minimum distribution from the annuity within one year (12 months) of the owner's death and every year after that throughout the beneficiary's life expectancy
- The stretch option is not available when a trust is the beneficiary
- The stretch option discussed in the hypothetical example is based on current tax laws; tax laws can change and impact the use of this strategy
- While distributions could last for the beneficiary's life expectancy, the length and amount may vary due to the performance of the annuity and the ability to take more than the minimum life expectancy-based payment at any time
- All guarantees and protections are subject to the financial strength and claims-paying ability of issuing insurance company

This strategy does not guarantee returns or insulate the beneficiary from loss, including loss of principal. Be aware that inflation erodes purchasing power. Lengthy distribution periods expose investors to significant market risk.

[2] Nationwide annuities offer owners the option to restrict how annuity death benefits are paid to nonspouse beneficiaries. For Nationwide annuities, restrictions cannot be placed on spousal beneficiaries.

John's nonqualified annuity

Original amount — $100,000

Value at death — $250,000

When John passes away, Mary chooses how to receive the nonqualified annuity death benefit

Stretch option

$250,000 death benefit

Mary is 52 and her life expectancy is 32.3 years

First annual distribution payment

$7,740

Mary elects to stretch the death benefit with systematic withdrawals that are based on her life expectancy

Total gross potential distributions

$594,437[3]

If Mary passes away at age 72 — before all the assets are depleted — her successor beneficiary may receive the balance of the payments

Mary's son, the successor beneficiary, may receive payments for Mary's remaining life expectancy of 12.3 years

Lump-sum option

$250,000 death benefit

Mary elects to receive a lump-sum death benefit of $250,000

After estimated taxes

$208,000[3]

Mary's net distribution

Assumptions:

This hypothetical example is for illustrative purposes only and does not reflect any specific annuity product. It is designed to show the power of tax deferral. It also assumes an initial investment of $100,000 of nonqualified money for an undetermined amount of time and a final death benefit of $250,000.

Gross potential distribution amount under the stretch option assumes RMD distributions only and a constant net growth rate of 5%, which reflects an assumed rate of return that is net of any fees or charges, if applicable, during the stretch period. Assuming a 0% rate of return, the total gross distributions would be $250,000.

Keep in mind that all investments involve inherent risks, and the assumed rate of return is not guaranteed.

[3] Assumes a tax rate of 28% on the tax-deferred growth of $150,000 and any future tax-deferred growth. Under the stretch option, the potential distribution after estimated taxes is $455,955.

Important information about annuities

Annuity contracts are designed for long-term retirement goals. They offer different types of guarantees, which are provided by the life insurance company from which the annuity is purchased. Annuities offer death benefits and tax deferral on any investment gain. They do have some rules and restrictions such as:

- Investment growth is tax deferred, but it is taxed when withdrawn or distributed, and withdrawals of taxable gains prior to age 59½ may incur an additional 10% federal tax penalty
- Annuities offer several ways to generate income, including systematic withdrawals and annuitization; annuitization is offered at no additional cost; prior to annuitization, the contract terms and investments remain the same as stated in the annuity
- Some annuities have charges that may include mortality and expense risk fees, administrative fees, contract fees and the expense of your investment options

The beneficiary's initial life expectancy factor is determined by using the IRS Single Life Table and is subject to change. Mary's life expectancy is 32.3 years based on her current age of 52 at John's death. To calculate her required minimum distribution payment, one year is subtracted from that life expectancy factor for each subsequent year. (For example, if the beneficiary's life expectancy is 32 years, the second year minimum distribution is based on 31 years; minimum distributions are calculated using the 12/31 balance of the previous year divided by the life expectancy of the beneficiary.) See IRS Publication 590 for details.

Your next steps

1. Ask your advisor to provide a customized illustration that shows how a stretch annuity might work for you and your beneficiaries.
2. Consider your current assets and beneficiaries to determine if stretching the death benefit of a deferred annuity is an important option for you and your beneficiaries.
3. Review the stretch concept with your beneficiaries so that they understand the long-term value of keeping their inheritance tax-deferred.

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