Extended IRA and nonqualified annuity stretch strategies

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Agenda

- What, Why, Who and How
- Define the Terms
- Death Distributions Options
  - Spousal Beneficiary
  - Non-spousal Beneficiary
  - Trust as Beneficiary
- Important Additional Information
- Case Study

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What is the Extended Strategy?

- It is a concept not a product
- Extend payments over the life expectancies of IRA and nonqualified annuity beneficiaries using IRS proscribed life expectancy tables
- This strategy does not guarantee returns or insulate the beneficiary from loss, including loss of principal and be aware that inflation erodes purchasing power

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Why Consider the Extended Strategies?

- Can provide for extension of tax deferral
- Allows for more tax-efficient transfer of assets
- Opportunity to better manage distributions
- Part of an estate plan
- Encourages long-term planning
- Provides legacy to heirs

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Who Should Consider the Extended Strategies?

- Age 50 and older
- Accumulated excess retirement assets
- Desires to provide for beneficiaries
- Concerned about tax ramifications
- Wants to maximize tax deferral

How is an Extended Strategy Put in Place

1. Beneficiary Designation Planning by Owners

2. Beneficiary Decision Making Upon Death of Owner

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Define The Terms

- Primary Beneficiary
- Contingent Beneficiary
- Successor Beneficiary
- Beneficiary Restriction

Death Distribution Options – Spouse as Beneficiary

- IRA
  - Rollover the IRA assets into surviving spouses name
  - Leave in the name of the deceased spouse for benefit of (FBO) the surviving spouse – a.k.a. Spousal Inherited IRA

- Nonqualified Deferred Annuity
  - Continue the contract in the surviving spouse’s name

Death Distribution Options – Non-spouse as Beneficiary

- **IRA – Death of Owner before required beginning date* (RBD)**
  - Distribute over the life expectancy of the designated beneficiary; or,
  - Five-year rule

- **IRA – Death of owner on or after RBD - Longer of either:**
  - Beneficiary's life expectancy; or,
  - Owner's remaining life expectancy

- **Nonqualified Deferred Annuity**
  - Five-year rule; or,
  - Distribute over the life expectancy of the designated beneficiary

*RBD is April 1 of the year following the year the owner turns age 70 ½

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Death Distribution Options – Trust as Beneficiary

- IRA
  - The extended concept can be used by an IRA with a trust named as beneficiary
  - The trust must meet certain requirements
  - Age of oldest beneficiary of the trust is used as the measuring life expectancy
- Nonqualified Annuity
  - Only five-year rule is available
  - Extended concept is not available when a trust is the beneficiary of a nonqualified deferred annuity

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Important Additional Information

- IRA
  - September 30
  - October 31
  - December 31
  - RMD must be taken by owner or beneficiary in year of death, if owner is past RBD

This case study is hypothetical and is not meant to portray a particular client or client situation. All references to rates of return are provided in order to demonstrate mathematical concepts and are not a projection or prediction of future returns, nor do they represent the returns of any specific investment.

- This extended IRA examples assumes that tax laws and IRS rules will remain constant for the life of the IRA and nonqualified annuity.
- These extended concepts examples do not incorporate inflation which will erode the purchasing power of your investment.
- Market rates can vary. If rates are lower than represented here, the value of the total gross distribution will be less.

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Extended IRA Case Study – Spousal Rollover then to Kids

- John and Linda
- John age 68 and Linda age 67
- John has a $200,000 IRA
- They have two children Jason (41) and Susan (37)
- They have saved and invested well and now have excess assets they don't intend to use for retirement

The individuals shown are fictitious. The concerns attributed to them are intended to portray typical financial situations faced by a number of people.

Extended IRA Case Study – Spousal Rollover then to Kids

John's IRA
IRA Value in 2015 - **$200,000**
IRA Value at John's Death (77) - **$251,863***

Linda rolls over John's IRA into her name - **$251,863**
IRA Value at Linda's Death (86) - **$248,850***

Linda takes $208,199 in Required Minimum Distributions during her lifetime

Jason (62) and Susan (58) split the IRA into separate shares upon Linda's death and start taking distributions* based on their own life expectancies.

Distributions over Jason's Life Expectancy (23.5 Years) - $289,965**
Distribution over Susan's Life Expectancy (27 Years) - $330,055**

*Assumes a 6% net rate of return
**Distributions are subject to income tax, only gross distributions are shown

Extended Nonqualified Annuity Case Study – Spousal Rollover then to Kids

- John and Linda
- John age 68 and Linda age 67
- John has a $200,000 nonqualified annuity
- They have two children Jason (41) and Susan (37)
- They have saved and invested well and now have excess assets they don't intend to use for retirement

The individuals shown are fictitious. The concerns attributed to them are intended to portray typical financial situations faced by a number of people.

Extended Nonqualified Annuity Case Study – Spousal transfer then to Kids

John's Nonqualified Annuity
Annuity Value in 2015 - **$200,000**
Annuity Value at John's Death (77) - **$352,990***

Linda transfers John's Annuity into her name - **$352,990**
Annuity Value at Linda's Death (86) - **$632,151***

Jason (62) and Susan (58) split the Annuity into separate shares upon Linda's death and start taking distributions* based on their own life expectancies.

Distributions over Jason's Life Expectancy (23.5 Years) - $736,596**
Distribution over Susan's Life Expectancy (27 years) - $838,436**

*Assumes a 6% net rate of return
**Distributions of gain are subject to income tax, only gross distributions are shown here

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