

## 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 within one year of the owner’s passing and then must take a required minimum distribution each year based on their (the beneficiary’s) life expectancy, which is determined by IRS Table I. Assets they don’t withdraw can stay invested.
- **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.†

\*Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA and may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

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

Jackson® is the marketing name for Jackson Financial Inc., Jackson National Life Insurance Company®, and Jackson National Life Insurance Company of New York®.

Not FDIC/NCUA insured • May lose value • Not bank/CU guaranteed • Not a deposit • Not insured by any federal agency

### 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

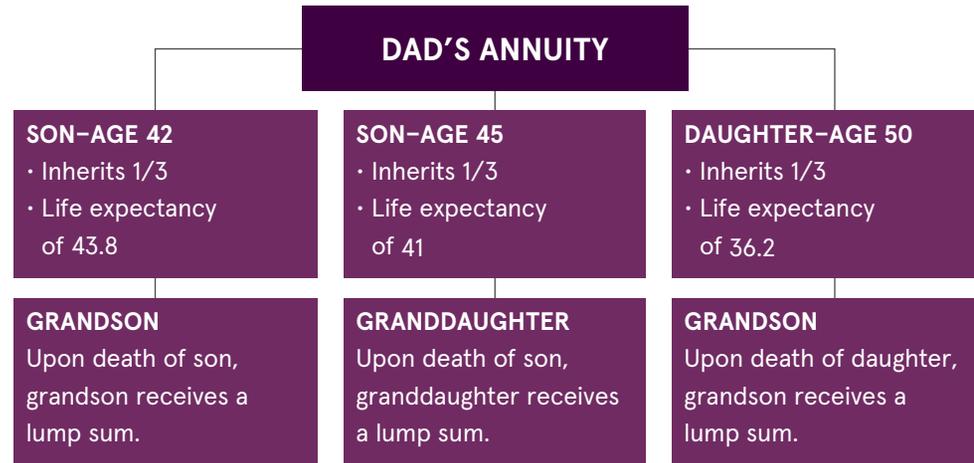
- Helps create a legacy
- Tax control
- Continued tax-deferred\* growth potential
- Flexibility
- Preselected death benefit



## Nonqualified Stretch

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

To utilize 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.



<sup>2</sup> IRS, Federal Register Vol. 85, No. 219, "Updated Life Expectancy and Distribution Period Tables Used for Purposes of Determining Minimum Required Distributions," November 12, 2020.

For more information, please contact your financial professional.

<sup>1</sup> Department of the Treasury, Internal Revenue Service, PLR 200151038, December 21, 2001.

**Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of the variable annuity and its underlying investment options. The current contract prospectus and underlying fund prospectuses, which are contained in the same document, provide this and other important information. Please contact your financial professional or the Company to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.**

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Annuities are long-term, tax-deferred vehicles designed for retirement. Variable annuities involve risks and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.

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