



Nationwide®
is on your side

Stretching a
nonqualified deferred
annuity death benefit

Case study

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 and how will your wealth be spent?

These are valid questions, especially since 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 Wealth Transfers: How To Reverse The 70% Failure Rate, <http://www.forbes.com/sites/carolynrosenblatt/2011/12/09/wealth-transfers-how-to-reverse-the-70-failure-rate/>, December 2011.

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 he passes away, the death benefit is \$250,000. Mary is his daughter and 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 only pays income taxes on the amount of taxable gain distributed, every year, which may result in lower income taxes paid.



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 existing IRC and IRS tax rules, which 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 Annuities offer owners the option to restrict how annuity death benefits are paid to nonspouse beneficiaries. 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 has two death benefit options

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

\$594,437³

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 the 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

\$208,000³

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 non-qualified 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 federal tax rate of 28% on the tax-deferred growth of \$150,000. Total 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 where 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 federal tax penalty
- Annuities offer several ways to generate income, including systematic withdrawal 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 fees and 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; 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 35, the second year minimum distribution is based on 34 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 they understand the long-term value of keeping their inheritance tax-deferred.



This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

Tax laws are complex and subject to change. Since neither Nationwide® nor its representatives can give tax or legal advice, please talk with your attorney or tax advisor for answers to your specific questions.

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