Global Atlantic FINANCIAL GROUP

Non-Qualified Stretch: Leaving a Lasting Legacy[1]

The death of a loved one can be a trying time for family members and heirs. There are important decisions to be made. If the deceased owned an annuity with non-spouse beneficiaries, the beneficiaries generally must decide how the death benefit is distributed. The choice can impact the amount of payment, taxes and have other implications. It is important for the beneficiaries to know what options are available, and to choose the most appropriate depending on the situation. Non-Spouse individual beneficiaries of non-qualified annuities have four options if they elect to receive the death benefit:

Lump Sum	Annuitization	Out in 5 years
- Beneficiaries receive the entire death benefit immediately and is taxed on the contract gain, which is treated as ordinary income. - This could push the beneficiary into a higher income tax bracket resulting in a less than desired net inheritance. - Many beneficiaries may not be equipped to handle and/or make prudent decisions with a lump sum benefit.	- Annuitized life expectancy distributions must typically start no later than 1 year after the death of the annuity holder-owner *(IRC Section 72(s)(2))*. Distributions will be subject to an exclusion ratio, where part of the payment is deemed interest and part of the payment is return of principal. Income tax is payable by the beneficiary. - Annuitization is irrevocable and lacks flexibility. Little or no upside potential	- Beneficiary must typically liquidate the account and pay income taxes within 5 years. - Beneficiary may take discretionary amounts during the 5-year period and/or wait until the 5th year to liquidate the entire annuity proceeds. - Distributions are "Last in First Out" (LIFO). Interest is deemed to be withdrawn first and the income tax is payable by the beneficiary. - Existing insurance carrier may limit options or only offer a low yielding account for the balance

Non-Qualified Stretch: Greater Control and Flexibility

This option allows an individual non-spouse beneficiary to "stretch" the death benefit payments out over his/her own life expectancy versus receiving the entire death benefit in one lump sum or by the fifth anniversary of the decedent's death. Note: The decedent must have died prior to annuitizing for a beneficiary to choose this payment option.

- Stretch payments satisfy IRS distribution requirements while offering greater flexibility and control. Taxes are payable by the beneficiary only on the amounts distributed annually. Taxes are calculated on a *Last in First Out* (LIFO) basis. Interest/Gain in the policy is deemed to be distributed first. Assets not withdrawn remain invested and have the potential to grow tax deferred.
- The beneficiary has ownership rights. They may determine the annuity product and investment options.[2] They may also name a successor beneficiary but cannot transfer ownership.
- The beneficiary must typically elect the Stretch Option and take the first payment within 1 year of the Owner's passing. They must take a distribution each year based on the beneficiary's life expectancy, which is determined by IRS Single Life Expectancy Table I. The initial payment is calculated by dividing the contract value by the **beneficiary's** life expectancy factor. The life expectancy factor is based on the beneficiary's attained age in the year of the owner's death. Each subsequent year, one is subtracted from the prior year's life expectancy factor.

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Non-Qualified Stretch: Greater Control and Flexibility *(continued)*

- If a Stretch is chosen, each individual beneficiary may establish their own stretch account and use their own life expectancy factor to calculate the required distributions.

How the Stretch Payment is Calculated

The initial account value is determined on the day of the first payment. However, the value of all subsequent payments is based on the year-end (typically December 31st) value from the previous year. See Illustration at right.

Annuity Death Benefit: $100,000

Beneficiary Age: 55

Beneficiary Life Expectancy (IRS Table I): 31.6

$100,000 / 31.6 = **Before Tax RMD of $3165**

The following year the Life Expectancy Factor would be 30.6 and they would use the December 31st Contract Value.

Benefits/Limitations of a Non-Qualified Stretch

Income Tax Control: Beneficiaries only pay taxes on the amounts distributed annually. The balance remains invested and has the potential to grow tax-deferred.

Flexibility: Beneficiaries may take withdrawals in addition to the required amount. Additional distributions are taxable in the year distributed, may impact future annual distributions and may be subject to a surrender charge.

Pre-Selected Death Benefit: the original annuity owner may elect to restrict the distribution to the required amount by completing a Predetermined Death Benefit Election Form.

Helps Create a Legacy: Beneficiaries receive payments for as long as there is a Contract Value. In the event of a beneficiary death, the payouts can be transferred to their named beneficiary. The payouts must continue based on the original beneficiary's remaining IRS life expectancy factor or be paid in a lump sum.

Suitability/Best Interest: Annuities may not be suitable or desirable in all situations. Careful consideration and comparison to other financial products that may be taxed differently and/or have different features should be discussed. Consider consulting with financial, tax and legal professionals familiar with these options to ensure this is appropriate for your individual circumstances.

Non-Qualified Stretch Example

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 premium 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 required distributions only and a constant net growth rate of 2.5% which reflects an assumed hypothetical 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.

Parent (Mike) Annuity: Original Contract Value $100,000. Contract Value at Death $250,000

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Beneficiary is Daughter (Carla) age 55. Her Life Expectancy = 31.6. First Payment $7912

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Total gross potential distributions assuming Carla lives to age 85 = $374,131

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Carla passes away at age 75 – before all annuity contract value is depleted. Her Daughter (Megan) is the successor beneficiary

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Megan may receive the balance of the payments over the original beneficiary's life expectancy (Carla's) of 11.6 years or may receive the remaining balance in a lump sum

Talk to Your Financial Professional to Learn More About the Benefits/Limitations of a Non-Qualified Stretch

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IRS Single Life Expectancy Table I

Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy
0	84.6	25	60.2	50	36.2	75	14.8	100	2.8
1	83.7	26	59.2	51	35.3	76	14.1	101	2.6
2	82.8	27	58.2	52	34.3	77	13.3	102	2.5
3	81.8	28	57.3	53	33.4	78	12.6	103	2.3
4	80.8	29	56.3	54	32.5	79	11.9	104	2.2
5	79.8	30	55.3	55	31.6	80	11.2	105	2.1
6	78.8	31	54.4	56	30.6	81	10.5	106	2.1
7	77.9	32	53.4	57	29.8	82	9.9	107	2.1
8	76.9	33	52.5	58	28.9	83	9.3	108	2.0
9	75.9	34	51.5	59	28.0	84	8.7	109	2.0
10	74.9	35	50.5	60	27.1	85	8.1	110	2.0
11	73.9	36	49.6	61	26.2	86	7.6	111	2.0
12	72.9	37	48.6	62	25.4	87	7.1	112	2.0
13	71.9	38	47.7	63	24.5	88	6.6	113	1.9
14	70.9	39	46.7	64	23.7	89	6.1	114	1.9
15	69.9	40	45.7	65	22.9	90	5.7	115	1.8
16	69.0	41	44.8	66	22.0	91	5.3	116	1.8
17	68.0	42	43.8	67	21.2	92	4.9	117	1.6
18	67.0	43	42.9	68	20.4	93	4.6	118	1.4
19	66.0	44	41.9	69	19.6	94	4.3	119	1.1
20	65.0	45	41.0	70	18.8	95	4.0	120+	1.0
21	64.1	46	40.0	71	18.0	96	3.7		
22	63.1	47	39.0	72	17.2	97	3.4		
23	62.1	48	38.1	73	16.4	98	3.2		
24	61.1	49	37.1	74	15.6	99	3.0		

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[1] State and local tax and estate laws may differ. Consider consulting a qualified tax and legal professional for more state specific rules

[2] Age and Product limitations may apply. Please contact your Financial Professional for details.

[3] RMD's for the current calendar year must be taken prior to issuing the new contract with Forthought. The funds must be 1035 exchanges. Personal checks are not accepted. Please see Non-Qualified Stretch Form FA5348 for details.

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