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Manhattan Life & Western United Life Annuities

Stretch Annuities

Q: What is an Inherited Annuity?

An inherited annuity is an account opened by a non-spouse beneficiary when the original owner passes. The beneficiary usually has a couple options on how they can take the value of the annuity as a death claim. One of the options is to "stretch" the payments over their lifetime. The conversation below is specifically speaking about deferred annuities only.

Beneficiaries of WULA or MLIC annuity contracts have the option to take a Single Sum payment or elect a settlement option from the contract (aka Annuitization). If they elect to take Single Life Expectancy (SLE) payments, funds must be transferred to a new annuity contract.

Q: What is a Stretch IRA?

A stretch IRA is an estate planning method, not an IRA account or product. The name "stretch IRA" comes from the method of "stretching out" the financial life of an existing IRA once the owner passes away. The owner of an IRA simply names one or more beneficiaries that they expect to outlive them. After the owner's passing, the beneficiaries inherit the IRA. They are not able to make contributions to the IRA or move funds into their own IRA account, but they can take withdrawals. Taking just the required minimum distributions (RMD) (aka Single Life Expectancy) will allow the IRA to continue growing for years, possibly even generations, to come.

Q: What is a Stretch NQA?

A stretch NQA is an estate planning method for Non-Qualified Annuities. After the owner's passing, one of the options for the beneficiaries is to begin taking just the Single Life Expectancy (SLE) payments. Once again, this allows the annuity to continue growing for years.

Q: What else do I need to know?

	Qualified Plans (IRA)	**Non-Qualified**
When must a beneficiary begin to take payments?	By December 31st of the year following the date of death. If the owner had not taken out the RMD for the year of their death, the RMD payment must be taken out before 12/31 of that year.	No later than one year from the date of death
How is the taxable portion of each distribution calculated?	100% of the distribution is taxable (possible exceptions apply)	Gain (interest) must be paid out first, which is taxable. The Cost Basis (original investment) is tax-free.

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Q: How are stretch payments calculated?

The age of the beneficiary is used to calculate an annual Single Life Expectancy (SLE) using the IRS Single Life Table. Starting with the beneficiary's life expectancy factor at the end of the year following the year of death, one is subtracted each subsequent year. The younger the beneficiary, the lower the SLE.

On Stretch IRAs, payments can continue to the next generation. Payments are not recalculated based on the second-generation beneficiary's life expectancy. Instead, the inherited annuity continues to calculate the SLE distributions using the remaining life expectancy of the first beneficiary.

Q: What is the difference between choosing a deferred annuity with SLE payments instead of electing a settlement option?

With a deferred annuity, the contract continues to accrue interest, and a beneficiary can always take additional withdrawals if they wish. When a settlement option is elected, additional withdrawals cannot be made. Deferred annuities can be transferred into a new contract at the end of a guarantee period to obtain a higher rate if applicable; annuitized contracts must continue for the term elected.

There is no tax advantage to electing a settlement option on Stretch IRA accounts.

There may be some tax advantages to choosing a settlement option on Non-Qualified accounts, because the interest and cost basis are pro-rated into each payment. Plus, payments then can continue to the next generation(s).

Future tax law changes may potentially alter the tax-deferred benefits of beneficiaries spreading payments through a Stretch strategy.

Neither Manhattan Life nor Western United Life is authorized to provide legal or tax counseling. We have published this summary of our understanding of a few crucial laws and regulations. Your clients should consult their tax advisor to obtain more accurate information regarding their circumstances.

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