

FINANCIAL APPLICATIONS FOR ANNUITIES:

LEVERAGING A RESTRICTED BENEFICIARY DESIGNATION

WHO — PRIMARY DEMOGRAPHIC

Individuals who are unsure or have legitimate concerns about their heir's financial responsibility regarding financial matters.



WHAT IS A RESTRICTED BENEFICIARY DESIGNATION?

A feature that limits access to an inheritance through an annuity beneficiary designation. This "control beyond the grave" is often due to having a younger beneficiary, one who is a spendthrift, or one who has been granted other financial means of satisfying their current obligations.

For those who desire a limited amount of control at no cost, the Beneficiary Designation with Restricted Payout form (Transamerica form 81604539) may be right for their situation. For more complicated situations, a trust may be required.

HOW IT WORKS

At any point during the life of the policy holder, they may designate beneficiaries to the contract and restricts the payout options using the restricted beneficiary designation form. This form allows the owner to restrict payouts in the following ways:

- **Annuitization**

Under the annuitization option, the policy owner can select an annuity payout option to control the amount to the beneficiary. Available payout options are outlined on the form.

- **Restricted payout**

This option provides the most control in terms of limiting how much the beneficiary may receive, subject to the required minimum withdrawal amounts. The first option under the restricted payout is to simply send the minimum required each year. Beyond that, the owner may elect a certain dollar amount or percentage to be distributed to the beneficiary over the beneficiary's lifetime, for a set number of years, or until the beneficiary reaches a specified age.

For each option, the owner may restrict the frequency of payouts to monthly (default), quarterly, semi-annually, or annually.

Note:

The restrictions must adhere to the requisite tax laws regarding the policy type.

CONSIDERATIONS

PROS:

- Like other beneficiary designations, bypasses probate
- Allows the limited controls of a trust without the cost
- Can be updated or modified by the owner as circumstances change

CONS:

- Irrevocable at death of the owner
- May disinherit other heirs if not reviewed periodically
- Limited in the amount of control provided



USE CASE IN CLIENT PORTFOLIO



Owner and Annuitant
Ellen



33% to Suze
Unrestricted and can choose the distribution option that best satisfies her financial objectives

OTHER CLAIM OPTIONS



33% to James
Restricted to the minimum distributions until age 50



33% to Anna
Restricted to the minimum required distributions until age 30

Once the restrictions expire, both James and Anna would be able to continue the stretch or take lump sum distributions of the remaining balances.

This would only apply to a nonqualified annuity contract, whereas a qualified annuity contract's distribution options would have to follow noneligible designated beneficiary rules established by the SECURE Act.

Ellen

Ellen is a single mom with three adult children, Suze, James, and Anna. Suze is 31 and has a family of her own. She is a well-known financial blogger and is very astute with her finances.

James is 29 and has never shown a propensity towards financial responsibility. He spends money as quickly as he can earn it.

Anna is 22 and is still a student in college. Ever since Anna was younger, she's been very financially savvy and always preferred saving over spending.

Owner

Ellen

Annuitant

Ellen

Beneficiary

Suze (unrestricted), James (restricted), and Anna (restricted)

Due to James' spending habits, Ellen restricts his benefit upon Ellen's death until he is age 50. James will simply receive only required minimum payments from the policy until he is age 50. After attaining age 50, James can decide to continue taking distributions or distribute more from the policy. Should James perish prior to his life expectancy, any remaining balance will be distributed to the beneficiaries chosen by James.

On the same Beneficiary Designation and Restricted Payout form, Ellen decides that Anna should receive the minimum required distributions until age 30. At that time, Anna can choose to take a full distribution of the remaining proceeds or stretch the remainder over her expected lifetime. Should Anna's death occur prior to her life expectancy, any remaining proceeds would be distributed to the beneficiaries of her choosing.

Suze does not receive a restriction and decides to cash in her inheritance.

Restrictions are revocable while the owner is still alive should James or Anna change their respective habits. The restrictions can be removed by resubmitting the restricted beneficiary form and checking the box for no restrictions. Once the owner dies, however, the restrictions are irrevocable.

Annuities are long-term, tax-deferred vehicles designed for retirement purposes. They offer three main benefits: tax-deferred treatment of earnings, death benefit options, and lifetime payout options.

All taxable distributions from the annuity death benefit are taxed as ordinary income to the beneficiary.

Withdrawals of taxable amounts are subject to ordinary income tax and may be subject to a 10% additional federal tax if withdrawn before age 59½.

All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.

Transamerica Resources, Inc., is an Aegon company and is affiliated with various companies that include, but are not limited to, insurance companies and broker-dealers. Transamerica Resources, Inc., does not offer insurance products or securities. The information provided is for educational purposes only and should not be construed as tax, investment, legal, or financial advice or guidance. Please consult your personal independent professionals for answers to your specific questions.

09/23



TRANSAMERICA®

**When preparing for the future,
there's no time like the present.**



Visit: transamerica.com