Transamerica℠

Proper titling gives annuities their direction

Guide to titling annuitant-driven contracts

Annuities may lose value and are not insured by the FDIC or any federal government agency. They are not a deposit of or guaranteed by any bank, bank affiliate, or credit union.

Annuity benefits live on

Transamerica's Guide to Annuity Titling

Annuities can provide beneficial and creative wealth-accumulation and wealth-transfer solutions. However, proper titling on an annuity contract is critical to ensure specific financial objectives are met. Understanding proper annuity titling can assist in the proper implementation of annuities and may help avoid potential mistakes.

Proper annuity titling is important because it designates the names of the owner, the annuitant, and the beneficiary right from the start. This clearly defines who gets what in the case of death of one of the three parties. Some instances can be pretty clear-cut. If there's a single beneficiary who dies first, for example, then a new beneficiary must be named and little else changes. Not so tricky.

The example above is straightforward, but when considering other factors such as joint ownership, marriage or remarriage, adoption, birth, and other cases of death, things get more complicated. Well-directed titling can assist in proper delivery of benefits and may help avoid potential mistakes.

There are two types of annuity contracts – annuitant-driven and owner-driven. Because different insurance companies issue different types of contracts, each contract should be carefully reviewed to ensure it meets the intended objectives. This guide will focus exclusively on annuitant-driven contracts as we describe proper titling.

Three parties to an annuity

Owner:

Legal title holder of the contract who is responsible for all tax obligations (income, estate, and gift). The owner holds all legal powers over the account, including the power to request withdrawals, elect optional benefits, name the beneficiary, and make changes to the account.

Annuitant:

Measuring life for living and death benefits. Holds no legal powers over the account and cannot make changes to the account.

Beneficiary:

Receives the death benefit distribution at the death of the annuitant. The beneficiary is superseded by a surviving owner.

Proper titling can reduce stress

Wealth transfer and annuities

Proper annuity titling can be a powerful, stress-saving directive that protects wealth and ensures it goes to the right person (or people).

Objectives can be achieved through:

- **Death benefits:** Annuities may offer optional death benefits at an additional charge that pay out a guaranteed value* after the death of the annuitant. Death benefits can help protect a legacy against poor investment performance, or guarantee that a larger inheritance is left to the beneficiaries.
- **Spousal continuation:** Spousal beneficiaries have the option to continue an annuity contract at the death benefit value. The additional death benefit value can supplement the surviving spouse's income, or assist in meeting future expenses.
- **Probate avoidance:** The insurance company pays proceeds of death benefits directly to the designated beneficiary, bypassing the potential delays and expenses of the probate process.
- **Legacy control:** Clients with concerns about their beneficiary's ability to handle an inheritance can complete a restricted-beneficiary form to control their beneficiary's access to proceeds after death.

* Guarantees are based on the claims-paying ability of the insurance company.

Some insights on this overview

Death benefit value vs. contract value

It is important to note that there is a difference between a contract value and a death benefit value. The death benefit value should not be confused with the contract value, which is the current surrender value of a contract, or the amount that the owner can walk away with. The value of the death benefit is determined by the terms of the contract and may be higher than the contract value. The death benefit value is only triggered by the death of the annuitant. If an owner dies before the annuitant, the death benefit does not pay out. Instead, the beneficiary or surviving owner must begin liquidating the contract value – not the death benefit value.

Liquidation requirements

Different types of beneficiaries have different post-death liquidation options:

Spouse

Has the exclusive right to continue the contract, without forced liquidation, through spousal continuation. A spouse may also elect one of the liquidation options listed below.

Non-Spouse

Must begin liquidation of the contract value or death benefit proceeds through one of the options listed below.

Liquidations options:

- A lump-sum distribution
- A liquidation of the account by the end of the year containing the fifth anniversary of the owner's death for annuities issued in connection with qualified plan/assets. Liquidation of the account by the fifth anniversary of the annuitant's death for annuities issued in connection with non-qualified assets.
- A life-expectancy systematic withdrawal referred to as the nonqualified stretch or stretch IRA for Eligible Designated Beneficiaries
- 10-Year delay for Non-Eligible Designated IRA Beneficiaries
- An annuitization option

Entity

Liquidation must occur in either a lump sum or by the fifth anniversary of the annuitant's death. A trust beneficiary may be permitted to elect a stretch IRA for Eligible Designated Beneficiaries or a 10-Year delay for Non-Eligible Designated IRA Beneficiaries if certain requirements are met.

Why ownership is important

It is important to note that the death of the owner or the annuitant will trigger the liquidation of assets held in the contract. It is possible to have an annuitant pass away while the owner of the contract is still alive with a third person listed as the primary beneficiary. Generally, anytime the annuitant dies before the owner, the surviving owner supersedes the listed primary beneficiary as the recipient of the death benefit value.

If the owner dies before the annuitant, specific ordering rules apply upon the death of the owner to determine which party on the contract registration will be treated as the new owner.

Determining the new owner

Even though the owner and annuitant can be different, careful review of the client's financial objectives is suggested to avoid unintended contract liquidation upon the death of the owner. Optional benefits may necessitate that the owner and the annuitant be the same. Also, there must be a relationship between the owner and the annuitant prior to contract issuance.

Ownership of annuities

Ownership of annuities can be held in many forms. The titling of an annuity contract is impacted under different ownership structures. Below are common ownership structures and how the contract titling is impacted under each structure.

Single ownership

Single ownership, same annuitant

Owner = Father
Annuitant = Father
Beneficiary = Son
Contract value: $100,000
Death benefit value: $125,000

Father's death: The $125,000 death benefit triggers and is payable to the son. The son must begin liquidating the $125,000 death benefit.

Single ownership with a different annuitant

(may not be available for contracts with additional benefits)

Owner = Father
Annuitant = Brother
Beneficiary = Son (as long as the Father is alive, the Son is treated as a contingent beneficiary)
Contract value: $100,000
Death benefit value: $125,000

Father's death: Son becomes the new owner and must begin liquidating the policy's $100,000 contract value. The $125,000 death benefit does not trigger.

Brother dies first: The $125,000 death benefit triggers and the Father must begin liquidating the death benefit.

[1] Spouses have the option of continuation.

Joint Ownership

Joint ownership (spouse) with a single annuitant

Owner = Husband and wife
Annuitant = Husband
Beneficiary = Son (as long as the husband or wife is alive, the son is treated as a contingent beneficiary)
Contract value: $100,000
Death benefit value: $125,000

Wife dies first: No death benefit triggers. The husband becomes the successor owner and can elect to continue the contract. Under spousal continuation, liquidation is not required.

Husband dies first: The $125,000 death benefit triggers and the wife becomes the successor owner. She can elect to continue the policy under spousal continuation, or elect to liquidate the $125,000 death benefit.

Both spouses die simultaneously: The $125,000 death benefit triggers and is paid to the son, who must then liquidate the death benefit.

Joint ownership (non-spouse) with a single annuitant

Owner = Father and son
Annuitant = Father
Beneficiary = Daughter (as long as the father or son is alive, the daughter is treated as a contingent beneficiary)
Contract value: $100,000
Death benefit value: $125,000

Son dies first: The father becomes the successor owner and must begin liquidation of the $100,000 contract value. The $125,000 death benefit does not trigger.

Father dies first: The son is paid the death benefit and must begin liquidation of the $125,000 death benefit.

Father and son die simultaneously: The $125,000 death benefit triggers and is paid to the daughter, who must then liquidate the death benefit.

These hypothetical examples are not indicative of any specific investment and do not reflect the impact of fees or expenses. The examples are shown for illustrative purposes only.

Individual retirement accounts (IRAs)

IRA contracts (held directly with the insurance company)

Owner = Husband
Annuitant = Husband
Beneficiary = Wife
Contract value: $100,000
Death benefit value: $125,000

The owner and annuitant must be the same for IRA contracts.

Husband dies first: The $125,000 death benefit triggers and is paid to the wife. As a spousal beneficiary of an IRA, the Wife can either continue the contract in her own name or distribute the proceeds and roll them over into another IRA in her name.

Wife dies first: The contract does not change. The husband continues to own the contract at the same contract value and death benefit value. The husband should name a new beneficiary.

Custodial IRA contracts (held through a custodial account)

Owner = Better brokerage custodian FBO husband IRA
Annuitant = Husband
Beneficiary = Better brokerage custodian FBO husband IRA
Contract value: $100,000
Death benefit value: $125,000

The custodian holds a separate beneficiary designation that directs the proper beneficiary of the account. To avoid conflicts between beneficiary designations, the beneficiary of a custodial IRA must be the custodian. The custodian is responsible for all tax reporting.

Husband dies: The $125,000 death benefit triggers and is paid to the custodian. The custodian will pay out the death benefit to the beneficiary of record on their account through the options the custodian makes available.

Simplified employer pension (SEPS) and simplified incentive match plans for employees (Simple)

Titling considerations

- Each participant must be listed as the owner and annuitant on their own contract
- Spousal continuation is permitted if the spouse is listed as the sole primary beneficiary
- Transamerica will accept existing SAR-SEPs (will be titled as an SEP)
- Contributions must satisfy contract minimums at inception

Inherited accounts: Inherited IRAs

(For deaths occurring after 12/31/2019)

Stretch IRAs (Available to eligible designated beneficiaries only)

Owner = Husband (deceased) Inherited IRA FBO widow (beneficiary)
Annuitant = Widow
Beneficiary = Widow chooses new beneficiary
Contract value: $100,000
Death benefit value: $125,000

Because the surviving spouse is an eligible designated beneficiary she can elect a life expectancy payout, often referred to as "stretch." Transamerica does not allow optional benefits or enhanced death benefits to be added to stretch contracts. The Return of Premium Death Benefit and Annual Step Up Death Benefit are available on stretch contracts.

Widow dies: The death benefit is triggered and pays to the widow's chosen beneficiary, The widow's chosen beneficiary can elect to take the account in a lump sum or liquidate over 10 years. If the widow's chosen beneficiary is an eligible designated beneficiary, they may have additional options.

10-Year delay

Owner = Mother (deceased) Inherited IRA FBO Son (beneficiary)
Annuitant = Son
Beneficiary = Son's wife
Contract value: $100,000
Death benefit value: $125,000

Son dies: If the son dies before the 10-year delay period is over, the death benefit is triggered and pays to the son's wife. As the son was not the original IRA owner, the son's wife cannot elect spousal continuation. Rather, the son's wife can elect to take the account in a lump sum or continue the remainder of the original 10-year delay period.

Inherited IRA: A non-spouse beneficiary of an IRA can transfer their inherited account from one custodian to another through a direct trustee-to-trustee transfer. A non-spouse beneficiary is not afforded a 60-day rollover, so any transfer must occur directly between the two IRA custodians involved. Any amounts paid directly to the beneficiary cannot be rolled over and may be immediately taxable.

Inherited accounts: Nonqualified stretch

Owner = Father (deceased) FBO Son (beneficiary) Nonqualified stretch
Annuitant = Son
Beneficiary = Son's wife
Contract value: $100,000

Nonqualified stretch distributions increase each year as the beneficiary's life expectancy decreases. For this inherited asset, required minimum distributions are required annually and determined based on the age on the beneficiary. Transamerica does not allow optional benefits or enhanced death benefits to be added to stretch contracts. The Return of Premium Death Benefit and Annual Step Up Death Benefit are available on stretch contracts.

Son dies: The death benefit is triggered and pays to the son's wife. The son's wife can elect to take the account in a lump sum or continue the distributions over the deceased son's remaining life expectancy.

Nonqualified Stretch: A non-spouse beneficiary of a nonqualified annuity may 1035 Exchange the proceeds to a new carrier. The original carrier must allow the 1035 Exchange and the proceeds must still be liquidated over the beneficiary's life expectancy. In order for the nonqualified stretch to be available, the first distribution must occur within one year from the date of death.

Small business qualified plan ownership

Owner = Better Business Qualified Plan
Annuitant = Plan Participant (individual)
Beneficiary = Better Business Qualified Plan
Contract value: $100,000
Death benefit value: $125,000

The qualified plan holds a separate beneficiary designation that directs the proper beneficiary of the plan assets. To avoid conflicts between beneficiary designations, the beneficiary of a qualified-plan-owned contract must be the plan itself. The qualified plan is responsible for all plan administration and tax reporting.

Any optional benefits added to the contract are based on the annuitant. Joint benefits are not available for contracts owned by a qualified plan.

Participant dies: The $125,000 death benefit triggers and is paid to the qualified plan. The plan will pay out the death benefit to the beneficiary of record with the plan through the options made available through the plan.

Plan participant separates from service: Once the plan participant separates from service, they can request the account be retitled to their IRA. The retitling does not trigger taxes or any changes to the contract or optional benefits. The participant can select their own beneficiary on the change of ownership.

Transamerica annuities issued within qualified plans

IRC section 401(a) Employer sponsored qualified plans

- Profit Sharing Plans (PSPs)
- Defined Benefit Pension Plans (Solo DB Plans, Cash Balance Plans)
- Defined Contribution Pension Plans (Money Purchase Pension Plan (MPPP), Target Benefit Plan, Combination MPPP/PSP)

Transamerica does not accept list bills. Contributions must satisfy contract minimums at inception.

Additional requirements for employer-sponsored qualified plans:[2]

- Completed Qualified Plan Certification and Acknowledgment form with each qualified plan application

Titling considerations for employer-sponsored qualified plans:[2]

- The qualified plan must be the owner and the beneficiary

Transamerica will not issue variable, registered index linked, or fixed index annuities within:

403(b) | 457(b) | 457(g) | 412(i)[3] | 412(e)[3] | Keogh | ESOP

[2] Check with Transamerica for the types of employer-sponsored retirement plans it currently accepts as owner.
[3] Transamerica will issue fixed annuities within 412 plans.
These hypothetical examples are not indicative of any specific investment and do not reflect the impact of fees or expenses. The examples are shown for illustrative purposes only.

Trust ownership

Owner = Trust
Annuitant = Wife
Beneficiary = Trust
Contract value: $100,000
Death benefit value: $125,000

Wife dies: The $125,000 death benefit triggers and is payable to the beneficiary. As an entity beneficiary, the trust must liquidate the contract by the fifth anniversary of the annuitant's death.

Titling consideration for revocable trusts:

- The death of the grantor whose Social Security number is used for the trust is treated as the death of an owner for liquidation purposes
- The annuitant must have a bona fide relationship to the trust
- The annuitant will be used to determine the eligibility and payment of benefits under the contract
- The ownership can be changed from the revocable trust to the individual whose Social Security number is used for the trust; this change of ownership does not result in a taxable event and may be made without impacting contractual benefits

Titling consideration for irrevocable trusts:

- The annuitant must have a bona fide relationship to the trust
- The trust must be listed as the sole primary beneficiary
- The annuitant will be used to determine the eligibility and payment of benefits under the contract
- The ownership can be changed from the irrevocable trust to the annuitant without a taxable event or impacting contractual benefits

Additional requirements for trust accounts
(in addition to the standard new business requirements):

- Copy of the first page (title page) and the signature page of the trust document.
- Completed copy of the Trustee Certification of Trust Document and Trustee Powers form

These hypothetical examples are not indicative of any specific investment and do not reflect the impact of fees or expenses. The examples are shown for illustrative purposes only.

Entity ownership

Owner = Better Business Corp.
Annuitant = Owner
Beneficiary = Better Business Corp.
Contract value: $100,000
Death benefit value: $125,000

Annuitant's death: The $125,000 death benefit triggers and is payable to the beneficiary. As an entity beneficiary, the corporation must liquidate the contract by the fifth anniversary of the annuitant's death.

Titling considerations:

- Entity-owned contracts do not receive the benefit of tax deferral
- The entity is responsible for reporting taxable income from the contract in accordance with applicable tax laws
- The annuitant must have a bona fide relationship to the entity
- The entity must be listed as the sole primary beneficiary
- The annuitant will be used to determine the eligibility and payment of benefits under the contract

Additional requirements for entity-owned accounts
(in addition to the standard new business requirements):

- Completed copy of the Authorized Representative Certification of Entity Document and Entity Powers form with each entity application – do not complete this form if the owner is a trust or qualified plan
- Copy of the Authorization form, identifying authorized representatives
- Copy of the first page (title page) and signature page of entity organizational documents
- For foreign entities: If there is a non-resident alien owner or annuitant, complete the Enhanced Due Diligence Questionnaire

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Variable annuity fees and charges include Mortality and Expense Risk fee and Administrative charge, surrender charges, annual fee, and investment option management fees. Additional fees may apply to optional benefits, including living benefits, selected.

Any withdrawals, including those permitted under a living benefit reduce the annuity’s policy value, death benefits, and other values.

There is no additional tax-deferral benefit derived from placing IRA or other tax-qualified funds into an annuity. Features other than tax-deferral should be considered in the purchase of a qualified annuity.

Withdrawals of taxable amounts are subject to ordinary income tax and if taken prior to age 59½, a 10% federal tax penalty may apply.
Variable and registered index-linked annuities are subject to investment risk, including possible loss of principal. Annuities are long-term tax deferred vehicles designed for retirement purposes.

This information should not be construed as tax advice. Clients should consult a qualified tax advisor regarding annuity taxation as it applies to their specific situations.

Neither Transamerica nor its agents or representatives may provide tax or legal advice. Anyone to whom this material is promoted, marketed, or recommended should consult with and rely on their own independent tax and legal advisors regarding their particular situation and the concepts presented herein. All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.

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