

## The Non-Qualified Stretch: A Simplified Solution to Legacy Planning

Taxes and poor financial decisions can take a big bite out of a family legacy. According to research from Accenture<sup>1</sup>, an estimated \$30 trillion will be passed from Baby Boomers and Gen Xers to their heirs over the next 30-40 years. It's imperative you know all options available to transfer your wealth in the most tax-efficient way — avoiding the sting of unnecessary taxation.

One such option is the non-qualified stretch provision. In order to understand how the non-qualified stretch payout options works, let's first explore the five death benefit options available to Monument Advisor Owners and their beneficiaries (heirs):

### Lump Sum

With the lump sum payout, the beneficiary receives his/her inheritance in a single payment. However, receiving a large sum of money can put you in a higher tax bracket thus generating a greater tax burden. For example, if the account size was \$500,000 and you withdrew this in a lump sum, you would be taxed at the highest rate of 39.6%.<sup>2</sup>

### 5-Year Option

The five-year option distributes funds to the beneficiary over a span of five years. With this option, the money gets moved to a fixed account which will earn interest at the minimum statutory interest rate, which is currently 1%.

### Annuitization

Annuitization creates an income stream based on the account value and the beneficiary's life span. However, the money does not stay invested in the market, and while there are four different payout options, you are locked in once you make your selection, which can make this option limiting.

## Non-Qualified Stretch

The Non-Qualified Stretch payout option offers a way to maintain assets across generations by providing a lifetime income stream for your beneficiary. The beneficiary is required to take at least the required minimum distribution (RMD) every year over their expected lifespan. If the owner chooses to restrict the stretch option, then the beneficiary is only allowed to take the RMDs. With this option, payments are made over time lessening the tax burden, and the money stays invested in the market allowing for compounded, tax-deferred growth. Stretching is suitable for beneficiaries who do not have immediate need of the assets. As with all securities, there are risks associated with stretching, such as changes to tax laws and impact of inflation.<sup>3</sup> The chart below provides an at-a-glance view of the different payout options and the benefits each provide:

	LUMP SUM	5-YEAR PAYOUT	ANNUITIZATION	NON-QUALIFIED STRETCH	'RESTRICTED' NON-QUALIFIED STRETCH
<b>Tax Benefits</b>		X		X	X
<b>Receive payments over lifetime</b>			X	X	X
<b>Account continues to grow tax-deferred</b>		X		X	X
<b>Assets remain invested in the market</b>				X	X
<b>Owner has control over how assets are distributed</b>					X

## What are RMDs?

The IRS mandates that qualified accounts pay out RMDs beginning at age 70 1/2. For non-qualified accounts (tax-deferred investments funded with after-tax dollars), these RMD payments begin as soon as death benefits are paid out via the stretch option, and are based on the age of the beneficiary, and their expected lifespan. The RMDs grow over time as the intention is to liquidate the account by the end of the beneficiary's expected life span.

## What are the benefits of choosing the non-qualified stretch option?

- Tax Deferral
- Legacy Planning
- Simplicity
- Control

## Tax Deferral

Through the non-qualified stretch payout option, payments may be stretched over many years which allows the remaining investment to accumulate and continue to grow tax-deferred. These investment horizons can span many decades, and because Monument Advisor's fee remains flat, the compounding effect of that low-cost tax deferral grows more and more valuable over time.

## Legacy Planning

With the non-qualified stretch payout option, your beneficiaries may receive a lifetime stream of income through annual required minimum distributions. The non-qualified stretch provision also allows the inherited wealth to be passed on once more. In other words, the original beneficiary may further hand the Monument Advisor contract down to their own heirs, meaning your legacy could live on for generations.<sup>3</sup>

## Simplicity

Other legacy planning structures can be costly, complex and may require teams of attorneys. But, with our non-qualified stretch option, there is no extra cost as this is an option built into the variable annuity account. You can even revise as needs arise by simply filling out a new beneficiary form.

## Control (Restricted Stretch)

If you choose to 'restrict' distributions to only the non-qualified stretch payout option, they may only take the annual RMDs, allowing for a lifetime stream of income. This affords you peace of mind knowing that your wishes will be carried out accordingly.

## Who should elect to 'restrict' the non-qualified stretch?

While restricting the non-qualified stretch may be appropriate for many individuals, it may especially be useful if you:

- Are concerned about overspending or misuse.
- Want peace of mind knowing that your legacy is being passed down according to your wishes.
- Want similar benefits of other legacy planning vehicles but without the cost and complexity.



## NON-QUALIFIED STRETCH

Learn more. Contact your Financial Advisor or a Monument Advisor Specialist at **866-667-0564**. Or by visiting **jeffnat.com**.

<sup>1</sup>Source: Accenture: [https://www.accenture.com/us-en/~/\\_media/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Industries\\_5/Accenture-CM-AWAMS-Wealth-Transfer-Final-June2012-Web-Version.pdf](https://www.accenture.com/us-en/~/_media/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Industries_5/Accenture-CM-AWAMS-Wealth-Transfer-Final-June2012-Web-Version.pdf)

<sup>2</sup><http://taxfoundation.org/article/2016-tax-brackets>

<sup>3</sup>The RMDs are based on the first beneficiary's life expectancy.

**An investor should carefully consider the investment objectives, risks, charges and expenses of the investment before investing or sending money. For a prospectus and underlying fund prospectuses containing this and additional information, please contact your financial professional.** Read it carefully before investing. The summary of product features is not intended to be all-inclusive. Restrictions may apply. The contracts have exclusions and limitations, and may not be available in all states or at all times.

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10350 Ormsby Park Place | Louisville, Kentucky 40223 | 866.667.0564 | [www.jeffnat.com](http://www.jeffnat.com)

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