

# Leaving behind a legacy

When planning for retirement, people will typically consider how to meet their everyday income needs once they reach that milestone. But sometimes it's essential to go beyond that to ensure that loved ones are taken care of in the event of the unexpected. The death benefit options available in many annuities can help.<sup>1</sup>

## Annuities and legacy protection

Although many annuities are purchased for their income guarantees, you should not overlook the value of death benefit provisions that may be included in the contract. Unlike life insurance, annuities are not medically underwritten and can provide an option for those who cannot obtain life insurance and want to leave a legacy.

Death benefit provisions vary depending on the annuity. Beneficiaries generally have several options for receiving death benefit payments, which typically equal the annuity's remaining Accumulated Value or Minimum Guaranteed Contract Value, whichever is greater. Depending on the annuity contract, these options may include:

- A single lump sum payment
- A series of regular income payments
- Deferring the payments until a time in the future (generally a death benefit must be paid out within 5 years or over the lifetime of the beneficiary)

Knowing how to structure this benefit properly can help your beneficiary avoid unintended tax consequences and make the most out of a legacy.



This material is provided by Athene Annuity and Life Company (61689) headquartered in West Des Moines, Iowa, which issues annuities in 49 states (excluding NY) and in D.C., and Athene Annuity & Life Assurance Company of New York (68039) headquartered in Pearl River, New York, which issues annuities in New York.

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## Taxation of annuity death benefits

The death of an annuity owner typically results in the termination of the annuity contract. However, there are some instances where the beneficiary may be able to assume ownership of the annuity contract. If you name your spouse as the beneficiary, a spousal continuation option preserves tax-deferred growth as long as the contract remains in force. Any gains that are paid out to your surviving spouse would then be taxed as income. Your spouse would also have the option to assume the contract and surrender it in the future, take a lump sum of funds, or take a guaranteed income stream.

An option available to non-spousal beneficiaries is an inherited Individual Retirement Account (IRA). This method also allows you to leave a lasting legacy and delay the tax burden for your loved ones. When a beneficiary inherits an IRA, he or she must take Required Minimum Distributions (RMDs) based on his or her life expectancy.<sup>2</sup> In this way, a beneficiary has the potential to stretch the distributions over his or her own lifetime – allowing funds to compound tax-deferred for a longer period and avoiding a larger initial tax bill.

If the annuity, through the use of an optional income rider, has already been paying out an income stream and your spouse is the sole beneficiary, then he or she may have similar options upon your death. Your beneficiary may choose to take the funds out of the annuity as a level income stream over his or her own life expectancy – or over their own and a joint individual's life span such as their own spouse.

They also have the option of a lump sum death benefit, spousal continuation, or inherited IRA. Keep in mind that the availability of these options depends on the annuity contract. In some circumstances, the income stream cannot be continued.

On the other hand, if your spouse inherits the annuity prior to any income being taken, they may opt to treat the annuity as their own, rather than as an inherited annuity. This can allow your spouse to continue deferring the annuity – which can, in turn, continue to maximize the tax deferred growth of the funds that are inside the contract.

## Additional death benefit considerations

When considering an annuity death benefit option, there are some additional factors to keep in mind. These include:

- **Tax / Fee Criteria** – There may be additional tax advantages or drawbacks, depending on who the beneficiary is and how they opt to take the funds. For example, naming your spouse as the primary beneficiary may allow them the option to assume the annuity without incurring a surrender charge. Also, if you name your children as the beneficiaries, and they take the death benefit in annual installments paid out for their life expectancies, they could spread out the tax liability over a much longer period of time versus paying the taxes all at once.

- **Annuitization Options** – At the time income payments are to begin, it may be necessary to select the option for how your beneficiaries will receive their funds in case of death. This is not automatic, so it is important that you be aware that this takes place. For example, if you select a life only income option, payments will continue for the rest of your life only and there will be no death benefit or continued payments to your beneficiaries. If however, you select an income option that allows for a death benefit or continued payments, those payments made to your beneficiary after your death will be consistent with the settlement option you selected.

## The advantages of leaving a legacy

With longer life expectancies, a guaranteed lifetime income can offer peace of mind. But you should be prepared for the unexpected as well. By considering the death benefit feature annuities may provide, you can help make sure your loved ones will be taken care of – regardless of what happens in the years ahead.

This valuable benefit can ensure that your beneficiaries will still be able to recoup the funds that were paid into the annuity contract – including any interest earned (less any withdrawals or fees or charges assessed by the insurer).

Owning annuities can not only provide a retirement income you cannot outlive, but may also allow you to leave a lasting legacy to loved ones. With an annuity death benefit, you can provide your beneficiaries financial support, ensuring that future generations are provided for in the years ahead.



**For more information about the benefits of an annuity or how a death benefit works, contact your financial professional today.**

<sup>1</sup> Death Benefit provisions vary by contract. Please review the contract's Certificate of Disclosure for details.

<sup>2</sup> Required Minimum Distribution as defined by Internal Revenue Code Section 401(a)(9).

Guarantees provided by annuities are subject to the financial strength and claims paying ability of the issuing insurance company. Guaranteed lifetime income is available through annuitization or an income rider. Income riders may be built in to the contract or optional for a charge.

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Under current tax law, the Internal Revenue Code already provides tax deferral to qualified money, so there is no additional tax benefit obtained by funding a qualified contract, such as an IRA, with an annuity; consider the other benefits provided by an annuity, such as lifetime income and a Death Benefit.

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