CUNA MUTUAL GROUP

Non-Qualified Annuity Aggregation

OPPORTUNITY CONCEPT

» The purchase of multiple non-qualified annuities can be a strategy to capitalize on higher interest rates or more aggressive investments for longer time horizons, while segmenting shorter term objectives into conservative allocations for shorter time horizons. Strategies that utilize multiple annuity contracts are often referred to as laddering or bucketing strategies.

» But care must be taken implementing strategies when purchasing multiple deferred annuities with non-qualified funds. Specifically, the Internal Revenue Code calls for "serial" annuities to be considered aggregated as one contract for income tax purposes when calculating taxable distributions from any of the annuities if they are issued by the same company, to the same policyholder, in the same calendar year.

» Clients who are following laddering strategies can avoid unintended taxation if they manage the purchase and distributions from their annuity contracts properly.

IDEAL CUSTOMER

» Clients implementing strategies calling for the purchase of multiple deferred annuities with non-qualified assets.

DESCRIPTION

» Today, most distributions from non-qualified annuities are taxed on the earnings first. If your clients have purchased or are considering the purchase of multiple annuity contracts as part of their retirement plan you should discuss the risks of having these contracts considered "serial" annuities by the IRS.

» After considering the clients' needs and objectives, you should discuss with them these options that might help avoid their contracts being aggregated as serial annuities with the taxable gains in all the contracts being taxed first rather than being calculated on a contract-by-contract basis:

1. Apply under different ownership. Split ownership between spouses, for example.
2. Hold off on applying for the second contract until the next calendar year.
3. Place applications with different insurers.
4. Keep all non-qualified annuity investments under one contract. See How CUNA Mutual Group can assist on the following page.

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- It is important to remember that differences in Annuitants or Beneficiaries do not provide relief from inclusion in annuity aggregation. You should also be sure that the annuity contracts are structured in a way that meets clients' financial objectives.
- Remember, immediate annuities, annuities under payout options, and tax qualified contracts such as IRAs, are all exempted from aggregation rules.

IMPLEMENTATION PLAN

- If your client already has multiple annuities that will be aggregated and treated as one annuity for income tax purposes, you may want to suggest that they and their tax adviser consider these alternative solutions:
  1. Annuitizing any of the contracts for desired income will remove it from the series. Laddering or bucketing strategies would likely call for this step as part of implementation anyway. NOTE: this does not apply to Guaranteed Lifetime Withdrawal Benefit (GLWB) withdrawals.
  2. Avoid taking unplanned distributions from these sources. Tap other accounts for unexpected needs whenever possible.
  3. Replace contracts from prior aggregated series systematically in different calendar years as appropriate.

YOUR PRODUCT CONNECTION:

We provide annuity strategies for different needs of clients retirement phases – accumulation, income and legacy.

TIPS FROM NEW BUSINESS:

CUNA Mutual Group annuities can be structured to include multiple investment objectives under one contract. For example, our variable annuity offers our signature risk control index-linked cap and floor as an investment option in addition to equity, fixed income, and specialty fund sub-accounts.

Call the Annuity Solutions Sales Team for assistance with structuring appropriate multiple annuity contract strategies suitable for your client.

CUNA Mutual Group Annuity Sales Team:

877.345.GROW (4769) option 1

smartriskcontrol.com

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IMPORTANT DISCLOSURES

Annuities are long-term insurance products designed for retirement purposes. Clients should consider an annuity's investment objectives, risks, charges and expenses carefully before investing. Variable Annuities and Registered Index-linked Annuities are sold by prospectus which contains this and other information. Encourage clients to read it carefully.

All guarantees are backed by the claims-paying ability of the issuer and do not extend to the performance of the underlying accounts which can fluctuate with changes in market conditions.

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