

Structuring Annuity Contracts



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When setting up (or structuring) an annuity contract, the questions about who should be the owner, annuitant or beneficiary are often asked. Unfortunately, there is not one simple answer. While there are some general rules to be aware of, annuity contract structuring should reflect the client's specific situation and needs. In addition, annuity contract structuring may vary depending on the annuity contract being considered as they tend to vary from company to company.

While it is important to discuss structuring questions with the company whose contract is being considered, keep in mind that Pacific Life Insurance Company, and its representatives do not give legal or tax advice. Clients should consult their tax advisor and attorney regarding their specific situation.

Continuing Education Requirements

- Complete the *Sign-in/out Sheet* and *Request for Certificate of Completion*.
- Sign in at the beginning of the session.
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- Turn off cell phones.
- In order to receive credit, you must remain in the room for the entire session.



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First, before getting started, to receive CE credit, let's review some requirements.

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Continuing Education Requirements

- Some states have a state-specific sign-in/out form.
- The following states and CE for CPAs require that an evaluation form be distributed: AL, DE, MN, NH, NY, TX, VA, and WY.
- Please place photo I.D. on desk for I.D. verification.
- CE certificates will be e-mailed to you or may be printed from www.RegEd.com.



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SSN Requirements

- Some states require a SSN in order to report CE credits:
 - CA, CT, FL, IL, LA, MA, MO, NJ, NC, SC, TN, VA, and DC.
 - NY requires last four digits only.
- RegEd will make one call to obtain missing SSN.
- RegEd must manually file CE if SSN is missing.
- Delay and denial of CE credits may occur.



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SSN Requirements

- CA is the only state that requires the SSN on the sign-in sheet.
- Pacific Life does not require that you put your SSN on the form.
- Pacific Life will file the forms in a timely manner that will allow RegEd sufficient time to conduct manual filings.



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Disclosure

This presentation discusses various issues associated with the structuring of annuity contracts. Some of the information discussed pertains to income, gift and estate tax matters. Careful consideration is required when changing the structure of an existing annuity contract.

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The federal and state income tax laws regarding variable annuities are complex and subject to change. Representations made herein are neither complete nor necessarily up-to-date.

The information presented to you today is for educational use only. Other companies may have annuity products that work differently than what we will discuss today.

Agenda

- Contract structuring basics
 - Parties to the contract
 - Important terms
- Tax issues
 - Changes in ownership
- Q & A



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First, we'll discuss the basics of annuity contract structuring—the different parties involved and their roles, as well as the difference between annuitant-driven and owner-driven contracts. We'll also look at some examples to illustrate the basic concepts of contract structuring.

Then, we'll review some tax issues such as the impact of a change of ownership and the non-natural person rule.

Finally, we'll cover some commonly asked questions when discussing structuring issues.

Parties To A Contract

- Owner
 - Has all the rights to the contract
- Joint owner
 - Applicable for nonqualified contracts



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Contract structuring means determining the different parties to a contract. When filling out an application, you will need to decide who should be owner, annuitant, and beneficiary.

The owner buys the annuity by paying a sum of money (often called a purchase payment or investment) to an issuing insurance company. The owner makes the decisions about the annuity—how much money to invest and how it should be allocated. The owner names the annuitant and beneficiary. It is the annuitant's life expectancy that is used to set the dollar amount of future annuity income.

The owner can buy the annuity jointly with another person. In this case, decisions made about the annuity may require the consent of all owners and there may be tax consequences.

Parties To A Contract

- Annuitant
 - Live person
 - Has no rights to the contract
 - The measuring life for the contract
 - Cannot be changed after contract issue
- Joint annuitant
 - Not allowed by every company
- Contingent annuitant
 - Not equal to joint annuitant



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The annuitant is the person whose life expectancy is used as the basis for setting the dollar amount of future annuity payments. Annuitants do not make contract decisions, unless they are also the contract owner.

Joint annuitants are also an option in nonqualified plans, but may not be allowed by every company.

Whether the contract has sole or joint annuitants, your client may choose a contingent annuitant. The contingent annuitant will not have any contract benefits, including death benefit proceeds, until becoming the sole surviving annuitant.

Parties To A Contract

- Primary beneficiary
 - May have rights to the death benefit proceeds
- Contingent beneficiary
 - In the event primary beneficiary predeceases owner or disclaim



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Typically, if the owner or annuitant dies before annuity payments begin, the beneficiary is the one to receive the death benefit. The beneficiary can be a person (or persons), a charity, or a trust.

A contingent beneficiary or beneficiaries can also be named in the event that the primary beneficiary predeceases the owner.

Naming a beneficiary is often an overlooked detail by some annuity owners and applicants. If no beneficiary is named, the money in the annuity could end up going to the estate, which could make it subject to probate. As a result, the distribution of assets may have to be determined in court.

Today, we will be focusing primarily on the structuring issues of nonqualified annuities. When dealing with nonqualified annuities, the decision regarding who will be owner and annuitant can be complicated. It is important to know the goals of the owner and any relevant information. However, keeping the structuring simple is generally a good idea. Complex structuring could result in unintended consequences.

Basic Questions

- When will a contract pay a death benefit?
 - Death of first owner
 - Death of last annuitant
- How much will be paid?
 - Depends on who dies and the type of contract
- Who will receive the death benefit?
 - Depends on who dies and the contract language



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Clients will generally ask these questions, so it is a good idea for a financial professional to be able to answer them. With respect to how much will be paid and who will receive the death benefit, there isn't one universally correct answer; the answers will vary according to the contract being used.

Definition Of Terms

- Guaranteed death benefit
 - The greater of contract value, premiums paid adjusted for withdrawals, or highest step-up adjusted for withdrawals
- Contract value
 - May be called the standard death benefit
- Owner-driven, annuitant-driven









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Annuities often seem to have their own special language and, in fact, they do. Although there are many common terms that annuity companies and financial professionals use, there are not always commonly accepted definitions of these terms—one word can have different meanings depending on who is using it. For purposes of this discussion, we will be using the following definitions for these commonly used terms:

- Guaranteed death benefit is the greater of contract value, premiums paid adjusted for withdrawals, or highest step-up adjusted for withdrawals.
- Contract value is the value of the contract and may also be called the standard death benefit.
- Owner-driven, annuitant-driven—let's look at an illustration of these terms next.

Owner-Driven Vs. Annuitant-Driven

	Owner-driven	Annuitant-driven
Owner		
Annuitant		
Beneficiary		



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Owner-driven and annuitant-driven are terms describing two different types of contracts. Remember, each insurance company has a certain amount of latitude in the development of an annuity product. Some companies have products that are owner-driven and others have products that are annuitant-driven. Generally, what these terms refer to is not **when** a death benefit will be paid, but rather **how much** the death benefit will be. That is, will the contract pay the guaranteed death benefit or contract value?

An owner-driven contract means that the guaranteed death benefit is available at the death of the first owner who may or may not be the annuitant (in this example they are not the same person). However, if the death of the annuitant comes first, the contract will pay contract value.

With an annuitant-driven contract, on the other hand, the guaranteed death benefit payout amount is available at the death of the last annuitant or at the death of an owner who is also an annuitant. However, at the death of an owner who is not an annuitant, the contract will pay contract value. Contracts with non-natural owners will provide a death benefit upon the death of the first annuitant.

Generally, Pacific Life has annuitant-driven contracts. The examples we will be looking at and discussing will be annuitant-driven contracts.

Recapping Owner- Vs. Annuitant-Driven



- Determines how much will be paid, not when
- Generally, owner-driven will pay guaranteed death benefit at death of first owner
 - Contract value at death of annuitant
- Generally, annuitant-driven will pay guaranteed death benefit at death of last annuitant or first owner who is also an annuitant
 - Contract value at death of owner who is not an annuitant
 - Death of first annuitant if non-natural owner



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Simple Structuring

Owner	
Annuitant	
Beneficiary	



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Here's an example of what we mean when we say "keep the structuring simple." In this case, the husband is both owner and annuitant with his spouse as beneficiary. If husband and wife both want to be owners, they can be joint owners, and joint annuitants.

The reason why it is important to keep the structuring simple is because it gives you a better chance to control and plan the way the annuity contract will work when there is a death.

Simple structuring means you don't have to guess or try to predict who will die first, and you don't have to worry about when or how much the contract will pay out (the death benefit).

Recapping Simple Structuring




- Owner and annuitant are the same person
 - Example: Name husband as owner and annuitant, wife as primary beneficiary, kids as contingent beneficiaries
- If husband and wife want to be joint owners, also make them joint annuitants
 - Example: Husband and wife named as joint owners/joint annuitants, surviving joint owner/spouse as primary beneficiary, kids as contingent beneficiaries



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Complex Structuring

Owner	
Annuitant	
Beneficiary	



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Here's an example of complex structuring. In this case, the grandmother is the owner, her daughter is the annuitant and her grandson is the beneficiary.

The death of the grandmother will trigger the death benefit payout, in the amount of the contract value, payable to the grandson as the beneficiary.

If the daughter dies before the grandmother then the death benefit payout would be the guaranteed death benefit payable to the grandmother as the owner.

Complex structuring usually involves an owner and annuitants who are not the same person or even in the same generation. Complex structuring may involve trying to predict who will die first or result in unintended consequences, such as income, and gift tax issues, if the wrong person dies first.

Recapping Complex Structuring




- Owner and annuitant are two different people, sometimes even in different generations
- May result in unintended consequences if the wrong person dies first
 - Example: Contract value vs. guaranteed death benefit amount
 - Example: To whom is death benefit paid?



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Structuring Basics Example #1

Owner	
Annuitant	
Beneficiary	

Spousal continuation is an option



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Generally speaking, keeping contract structuring simple is the safest way to go. For example, with a sole owner, make the owner and annuitant the same person. If there is a spouse, the spouse will often be named as primary beneficiary, depending, of course, on the clients' goals and objectives. In this example, the death of the owner/annuitant will trigger the contract to make a death benefit payout and pay the guaranteed death benefit amount.

Recapping Example #1

- Sole owner/annuitant
- Owner/annuitant dies
- Beneficiary has many options:
 - Lump sum
 - Distribute entire account within five years of owner/annuitant's death
 - Annuitize/distribute over beneficiary's lifetime
 - If beneficiary is spouse, continue contract (spouse becomes new owner and annuitant)
 - Disclaim to named contingent beneficiary



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The traditional death benefit options are available: lump sum, distribute the account within five years of the owner/annuitant's death, or distribute over the beneficiary's life expectancy. In addition, since the spouse is the primary beneficiary, the spouse can continue the contract (thus not taking the death benefit) by stepping in as the new owner/annuitant. Keep in mind, in this example, the death of the wife as beneficiary would NOT trigger a death benefit payout.

If a surviving spouse who is a beneficiary chooses to continue the contract, it will continue at the guaranteed death benefit amount (thus no death benefit will be paid out) and the spouse will become the owner/annuitant. This option may be appropriate if the wife does not have a current need for money. Because the contract continues, the surrender charge (if applicable) may be grandfathered and the gain in the contract will continue to grow tax deferred. The new owner/surviving spouse should be sure to name a new beneficiary.

If the beneficiary is a non-spouse, there is no option for spousal continuation.

Structuring Basics Example #2

Joint Owners/Annuitants

Owner		
Annuitant		

Spousal continuation is an option



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If clients are husband and wife and they both want to be named on the contract, they can be joint owners and joint annuitants. In this scenario, what happens when one of them dies?

If either one dies, the contract will pay the guaranteed death benefit to the surviving spouse/joint owner, or they can continue the contract at the guaranteed death benefit amount.

If the surviving spouse/joint owner continues the contract, they become the new sole owner/annuitant.

Don't forget, as new owner/annuitant, they'll need to name a new beneficiary (primary and contingent)!

At the second spouse's death, the contract will pay out the guaranteed death benefit to the primary beneficiary.

Recapping Example #2




- Joint owners/joint annuitants
- Either one of the owners/annuitants die
- Options for surviving owner/annuitant/spouse:
 - Lump sum
 - Distribute account within five years of owner's death
 - Annuitize/distribute over beneficiary's lifetime
 - Continue contract (spouse becomes new owner and annuitant)
 - Disclaim to named contingent beneficiary



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Structuring Basics Example #3

Owner	
Annuitant	
Beneficiary	



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Now we'll look at an example of structuring that could cause unwanted results. Here we have an owner and annuitant who are not the same, although they are spouses. Their child is the named beneficiary.

Let's see what happens in two scenarios: when the wife (annuitant) dies first and when the husband (owner) dies first.

The death of the wife (annuitant) will trigger the death benefit payout, and the payout amount would be the guaranteed death benefit. Generally, the death benefit would be paid to the husband (owner) since he is still alive and not to the child (beneficiary).

If the husband (owner) dies first, the death benefit payout would be triggered, and the payout amount would be the contract value, payable to the child (beneficiary). This could be an undesirable outcome if the wife needed the money or if the couple wanted spousal continuation.

Recapping Example #3

- Owner and annuitant are different people
- Annuitant dies
 - Guaranteed death benefit to owner
- Owner dies
 - Contract value paid to beneficiary



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If the owner and the annuitant are not the same person, the death of the annuitant would trigger the death benefit payout and the payout amount would be the guaranteed death benefit; that is, the higher of premiums paid, contract value or an applicable step-up. Generally, the death benefit would be paid to the owner, since the owner is still alive, and not to the beneficiary.

If the owner and annuitant are not the same person and the owner dies, the death benefit payout would be triggered and the payout amount would be the contract value. In this example, at the death of the owner, the death benefit would be paid to the beneficiary (the child). This could be an undesirable outcome if the wife needed the money or if the couple wanted spousal continuation.

Change Of Annuity Ownership

- Generally, it is a taxable, reportable event
- Exceptions
 - Most changes between husband and wife
 - Most changes between person and their revocable living trust



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Generally, a change of annuity ownership is a taxable, reportable event. But, if faced with a structuring situation where the owner and annuitant are not the same person, but are husband and wife, changing the owner to be the same as the annuitant would generally be a nontaxable, nonreportable change of ownership.

Keep in mind that only the owner could be changed, because with annuitant-driven contracts the annuitant cannot be changed after the contract is issued.

A simple change of ownership could make the structuring cleaner, simpler and help avoid unwanted results.

It might be a good idea to change the beneficiary at the same time you change the owner and make the non-owner spouse the primary beneficiary. That way they will have the option for spousal continuation. The child or other heirs could be named as contingent beneficiaries.

Natural Person Rule

- Internal Revenue Code § 72(u)
- Provides that non-natural persons who are owners of deferred annuities will not receive tax deferral
- Examples of a non-natural person
 - Corporations
 - Partnerships
 - Some trusts



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We know that deferred annuity contracts provide for tax-deferred growth potential within the annuity. But are there any circumstances where tax-deferred growth is not available?

The Tax Reform Act, effective February 28, 1986, provided that an annuity contract owned by a non-natural person would not receive tax deferral (IRC § 72(u)).

Non-natural persons generally include corporations, partnerships and some trusts.

Therefore, a corporation can own an annuity contract; however, any growth is recognizable as income and thus taxable each year. Since the growth is considered ordinary income, a corporation might want to consider more tax-efficient investments that produce capital gains or tax-exempt income.

Natural Person Rule

- What about a trust?
- Exception to § 72(u)
 - If an agent for a natural person
 - May be allowed to defer growth
 - Private letter rulings (PLRs)



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There is an exception carved out from the non-natural person description for some trusts, under IRC § 72(u). For instance, there is an exception for a trust that is acting as an agent for a natural person. Although that may sound simple enough, it can be a complicated issue, because it is not always clear whether a trust is acting as an agent for a natural person. Certainly, one must know the trust purpose as well as who the trust beneficiaries are in order to determine whether the trust is acting as an agent for a natural person. If there is a situation where a trust is, or will be, the owner of an annuity contract, clients should seek the advice of their legal counsel to determine whether the trust as annuity owner will be eligible to receive tax deferral.

In an effort to clarify when a trust is acting as an agent for a natural person, many taxpayers have received private letter rulings (PLRs) regarding the topic of trusts and tax deferral. PLRs are binding only for the parties to whom they have been issued. Nonetheless, sometimes PLRs can provide an indication of the Internal Revenue Services' intentions. For instance, a PLR was issued that indicated that although "natural person" is referred to in the singular, "natural persons" would also be acceptable. However, PLRs may not be relied upon by anyone other than the parties for whom they were issued.

Structuring Basics Example #4

Owner	
Annuitant	
Beneficiary	



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Here is an example of a trust-owned annuity contract. It is structured so that the owner is the trust, the annuitant is a person and the beneficiary is the trust. When naming a trust as owner of an annuity contract, it is important to know the purpose of the trust—who has the rights to act on behalf of the trust (the trustee), when and how will the trust distribute its assets, and who are the beneficiaries of the trust.

The person named as annuitant of the trust-owned contract should generally be the person at whose death the trust terminates or distributes its assets to the trust beneficiaries. If the trust/owner is a revocable living trust, for example, the annuitant is generally the person who created the revocable living trust. If the trust/owner is a bypass trust, the annuitant is generally the surviving spouse.

Some trusts, such as a marital trust, may be designed to provide income to the husband and wife, therefore the husband and wife are named as joint annuitants. Keep in mind trust-owned contracts will provide a death benefit upon the death of the first annuitant.

Recapping Example #4

- Trust is owner and beneficiary
- Annuitant is person at whose death trust distributes
- When does the trust distribute?
 - Contract pays out at death of first annuitant
 - Trust (contract owner) cannot die



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Distributions from the annuity taken by the trust may be taxed at the trust rate.

At the death of the first annuitant, the death benefit proceeds will be paid to the trust, generally in a lump sum or with the five-year deferral. However, distributions over a life expectancy or spousal continuation may not be available, depending upon the language and terms of the trust and whether the annuity company provides these options.

In the case of joint annuitants, the death of the first annuitant will trigger the death benefit payout of the annuity contract.

If someone other than the person at whose death terminates or distributes its assets to the trust beneficiaries is named as annuitant and that annuitant dies, the trust would have to surrender the contract. This could be an undesirable event as the contract would be surrendered at contract value and subject to any applicable surrender charges. Again, it is very important to know the purpose of the trust and to make sure that the annuity contract will work in concert with the trust.

Annuity Tax Issues

- Distributions from an annuity are taxed on a last in, first out (LIFO) basis
 - Since TEFRA, effective date 8/14/82
 - Pre-TEFRA contributions grandfathered
- Same person, same calendar year, same company, multiple contracts—treated as one contract for tax purposes
 - Aggregation rule—TAMRA, effective date 10/21/88



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When working with annuities, there are some important tax issues of which you should be aware.
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Q & A: *Joint Owners*

What if joint owners on an annuity contract are not spouses?

- There may be gift/estate tax issues when non-spouses establish a contract or are added as joint owners
- Clients should consult with their tax advisors



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Q & A: *The 10% Penalty*

Is the 10% early withdrawal penalty based on the owner's age or the annuitant's age?

- The owner's age



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If the owner is a non-natural person, such as a trust, the annuitant's age would generally be used to determine the 10% penalty.

Q & A: *Trusts and Probate*

Does a trust have to own the annuity in order to avoid probate on the annuity assets?

- No, annuity contracts pay out directly to beneficiaries and avoid probate if properly structured
 - Don't name estate as beneficiary
 - Beneficiaries named are living persons or e.g., existing 501(c)(3) entities



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In many cases, an attorney will suggest that an individually owned annuity be transferred to the person's revocable living trust in order to avoid probate. Annuity contracts, however, pay death benefit proceeds directly to the named beneficiary and avoid probate. As long as the beneficiary is a living person or an existing entity, such as a charity, the proceeds will bypass probate. Naming an estate as beneficiary or not having a beneficiary named, however, would cause the proceeds to be put through probate.

Therefore, it is very important to review the beneficiary designations on annuity contracts. In addition, it is also a good idea to name contingent beneficiaries in case the primary beneficiary predeceases the owner or if they die in a common accident.

Q & A: *Other Non-Natural*

Can qualified plans own variable annuities and be eligible for tax deferral?

- Yes, qualified plans are an exception allowed under 72(u)
 - Qualified plan is owner and beneficiary
 - Participant is annuitant

No attempt is made to describe the tax rules related to IRAs and qualified plans. Pacific Life does not provide administration services for qualified plans and does not act in a fiduciary capacity.



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A qualified plan is an exception to the tax-exempt person rule (IRC § 72(u)). Proper structuring is to name the qualified plan as owner and beneficiary and the participant as the annuitant.

The participant will have provided beneficiary information to their benefits department when signing up for the plan; the participant's beneficiaries should not be named on the annuity contract.

Qualified plans include 401(a) plans, such as profit sharing plans and money purchase plans, Keogh (HR 10) plans and 401(k) plans. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, an annuity should only be used to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income, death benefit options, and the ability to transfer among investments without sales or withdrawal charges. Because of important tax issues, it is very important to seek the advice of tax and legal professionals regarding the use of variable annuities in qualified plans.

Q & A: *Other Non-Natural*

Can tax-exempt entities own variable annuities and be eligible for tax deferral?

- Growth will not be tax-deferred
- Growth will be tax exempt
 - Tax-exempt entity is owner and beneficiary
 - For example: Board member is annuitant
- May be UBTI issues



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A tax-exempt entity can own an annuity contract. For instance, a tax-exempt entity with a nonqualified deferred compensation plan might want to own an annuity contract.

If a tax-exempt entity is the owner, any growth will not be tax-deferred; however, growth will be tax exempt.

Some tax-exempt entities, however, generate Unrelated Business Taxable Income (UBTI) if they use an annuity as an investment (for example, country clubs, or entities under IRC §§ 501(c)(9), 501(c)(13), 501(c)(19), or 501(c)(20)), so it is always a good idea for a tax-exempt entity to consult with their accountants prior to purchasing an annuity.

Q & A: CRTs

Can a Charitable Remainder Trust (CRT) own an annuity?

- Yes, CRT is owner and beneficiary
- Income beneficiaries are annuitants



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Q & A: CRTs

If a Charitable Remainder Trust (CRT) owns an annuity, is it eligible for tax-deferral?

- Technically, no
- Administratively, yes
 - NIMCRUT
 - Trust must contain language defining income to include growth within annuities
 - Advisable to name Special Independent Trustee



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A CRT is not a trust that falls within the IRC § 72 (u) exception for trusts, because it is acting as an agent for a non-natural entity (i.e. the charity) and not acting as an agent for a natural person. Therefore, any growth inside the contract is taxable, except that CRTs are tax-exempt. Distributions taken by the CRT are not taxable. Distributions from the CRT to the income beneficiary are taxable but are not subject to the pre-59½ 10% federal tax penalty.

Should sole or joint annuitants be named? If there are two income beneficiaries of the CRT, then typically, joint annuitants would be appropriate. However, as stated earlier in the presentation, a death benefit will become payable upon the death of the first annuitant. If the CRT is a NIMCRUT, this would be particularly important. If there were a NIMCRUT with a substantial makeup account and two income beneficiaries, yet only one of them was named as annuitant, the death of the annuitant would trigger the annuity contract to pay the death benefit to the NIMCRUT. The makeup account would be, by definition, income to be distributed to the remaining income beneficiary. This would not necessarily be an intended financial strategy for that remaining income beneficiary.

Remember, although Pacific Life allows joint annuitants, many other annuity companies DO NOT ALLOW joint annuitants.

CRTs involve fairly complex accounting and legal issues. In addition to their financial representative, clients should consult with accountants and attorneys who have experience with CRTs.

Q & A: *Contingent Beneficiaries*

Is it a good idea to have a contingent beneficiary?

- Yes



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It's a good idea to name contingent beneficiaries in case the primary beneficiary predeceases the owner or if they die in a common accident.

Q & A: *Contingent Beneficiaries*

When would they be entitled to the death benefit proceeds of the annuity?

- If the primary beneficiary predeceases the owner or doesn't want the money and makes a qualified disclaimer, the contingent beneficiary would be entitled to the death benefit proceeds



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Q & A: *Multiple Beneficiaries*

Can each of my beneficiaries choose a different payment option?

- Each may choose among the available death benefit options
 - Lump sum
 - Distribute entire account within 5 years of owner's death
 - Distribute over life expectancy
 - Annuitization
 - Nonqualified stretch



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Earlier we reviewed the options available to beneficiaries for distributions of the death benefit proceeds. What if there is more than one beneficiary?

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In the case where not all beneficiaries want their share of the death benefit proceeds distributed in the same way, this flexibility is quite an attractive benefit. Beneficiaries who choose to take distributions over their life expectancy can reduce their current tax liability and potentially create an income stream for life.

Additionally, the ability of the beneficiary to choose how to receive an inheritance is an important difference between an annuity and other investments.

Q & A: *Owner Control*

Can an owner choose the method of distribution of the death benefit proceeds for a beneficiary?

- Yes, many companies offer predetermined beneficiary payout options that allow an owner to elect the method of distribution that a beneficiary must take



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[Read slide]

Q & A: *Trust as Beneficiary*

If a trust is the beneficiary, can each beneficiary of the trust choose a different death benefit payment option?

- Generally, a trust has only two options
 - Lump-sum
 - Defer for up to five years
- Some trusts can “look through” and let trust beneficiaries take over their life expectancies



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When a trust, which by its nature does not have a life expectancy, is the beneficiary of a nonqualified annuity contract, the trust would be limited to an immediate distribution or distribution of the entire balance within five years of the owner's death.

There have been situations, however, where the IRS has allowed a trust to “look through” the trust to the beneficial owner in order to make distributions over a life expectancy.

Also, there have been situations where a trust has “looked through” to a surviving spouse and the surviving spouse has been able to continue the annuity contract.

Whether a trust will be able to “look through” to allow the beneficial owners of the trust to act as if they had been named directly as beneficiaries depends on the language and provisions of the trust.

If such trust questions exist, clients should consult their attorneys or tax advisors regarding their specific situation. Remember that Pacific Life and its representatives do not give legal or tax advice.

Q & A: *No Beneficiary*

If there is no beneficiary named on the annuity contract or the beneficiaries that are named predecease the sole owner, to whom are the death benefit proceeds paid?

- To the owner's estate



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If no beneficiary is named or if there is no surviving beneficiary (primary or contingent), the death benefit proceeds will be paid to the owner's estate. It is always important to consult the annuity company regarding specific contracts in order to confirm what would happen under these circumstances.

Q & A: *IRC Section 1035*

In order to effect a 1035 tax-free exchange of an existing annuity contract from one company to another company, must it be a “like for like” exchange?

- Yes, the owner and annuitant of the original contract must be the same for the new contract
- This may create a problem if the original contract was owner-driven and the new contract is annuitant-driven



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[Read slide]

Summary

- Be aware of clients' goals
- Review existing contracts
- Confer with clients' attorneys
- Document clients' decisions
- Be familiar with the annuity company and contracts you are working with



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Your clients' owner, annuitant and beneficiary designations on their annuity contracts are important. Annuity contract structuring can be easy, but in order for it to also be effective, it is very important to be aware of your clients' needs, goals, and expectations. A valuable added service that you can provide to your clients would be a review of their existing contracts to make sure that the structuring meets their goals and objectives.

Working with your client's team of professionals may help you gather additional information and perspective regarding your client's situation.

Remember that annuity companies have latitude in the design of their annuity contracts and that not all annuity contracts work the same way regarding structuring and death benefit payouts. It is very important to work with annuity companies and annuity contracts that you know and understand.

Additional Resources

Advanced Marketing Team

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Or

Retirement Resource Group

RRG@PacificLife.com



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Finally, several of the issues that we discussed here today may be confusing. Please feel free to contact the Advanced Marketing team at Pacific Life if you have additional questions.

Investors should carefully consider a variable annuity's risks, charges, limitations, and expenses, as well as the risks, charges, expenses, and investment objectives of the underlying investment options. This and other information about Pacific Life Insurance Company are provided in the product and underlying fund prospectuses. These prospectuses should be read carefully by clients before investing.



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Thank You

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