TRANSFERS, TAXES AND TURMOIL

THE IMPORTANCE OF ANNUITY TITLING

A CONTINUING EDUCATION PRESENTATION

For Continuing Education use only.

JMX1059CEPPT 06/10

A WORD FROM OUR ATTORNEYS

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An annuity is a long-term, tax-deferred vehicle designed for retirement. Earnings are taxable as ordinary income when distributed and, if withdrawn before age 59½, may be subject to a 10% federal tax penalty. Tax deferral may not be available if the annuity is owned by a "non-natural person" such as a corporation or certain types of trusts. If you are considering an annuity to fund a qualified plan, such as a 401(k) or an IRA, the tax-deferral feature of the annuity offers no additional value. Variable annuities involve investment risks and may lose value.

Guarantees are backed by the claims-paying ability of the issuing insurance company and do not apply to the principal amount or investment performance of the separate account or its underlying investments.

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BEFORE WE BEGIN

In response to recent concerns by both the financial industry and the general investing public, we would like you to know that this event is truly complimentary. Please note at some point an insurance product (such as an annuity or life insurance) may be discussed by your representative during this meeting. While we would like to earn your trust and your business and your representative may follow up with you to solicit your business, you are under absolutely no obligation to set up an appointment or to purchase any products or services.

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AN ANNUITY REGISTRATION MISTAKE

- Ron Jung owned an annuity jointly with his second wife Dianne.
- Ron named his children from a previous marriage as primary beneficiaries on the contract.
- Ron and Dianne had agreed through a formal marriage agreement that the annuity would pass to Ron's children.
- However, when Ron died, the proceeds went to Dianne and the children sued Dianne for the funds.
- The children were disinherited because the contract registration was inconsistent with the financial plan.

Estate of Ronald E. Jung, Deceased v. Dianne Jung No. 99-1211. Court of Appeals of Wisconsin, June 14, 2000.

WHY IS TITLING IMPORTANT?

THE REGISTRATION OF AN ANNUITY CONTROLS:

- Taxation
- Death benefit options and payout
- Annuitization payout, and
- Estate or gift tax consequences

FAILURE TO PROPERLY TITLE AN ANNUITY CAN HAVE SEVERE CONSEQUENCES.

ANNUITY REGISTRATION

THE OWNER/JOINT OWNERS

(Triggers Death Benefit on Owner-Driven Contracts)

- Responsible party for taxation
- Lists annuitant and designates beneficiary
- Authorizes changes
- Holds all legal rights

ANNUITY REGISTRATION

THE ANNUITANT

(Triggers Death Benefit on Annuitant-Driven Contracts)

- Measuring life of the contract
- Must be a living person
- Holds no legal rights to the contract

ANNUITY REGISTRATION

THE BENEFICIARY

- Contractual recipient of the death benefit
- May be changed
- Beneficiary type establishes death benefit distribution options

OWNER VS. ANNUITANT DRIVEN

OWNER DRIVEN

- Taxable to owner
- Death of owner triggers **DEATH BENEFIT**
- Death of annuitant triggers **NOTHING**

ANNUITANT DRIVEN

- Taxable to owner
- Death of owner triggers **DEATH BENEFIT**
- Death of annuitant triggers **DEATH BENEFIT**

OWNER- VS. ANNUITANT-DRIVEN CONSIDERATIONS

HAVING A DIFFERENT OWNER AND ANNUITANT ON AN ANNUITANT-DRIVEN CONTRACT

Who is death benefit payable to?

CHANGING THE ANNUITANT ON AN ANNUITANT-DRIVEN CONTRACT

May trigger income taxes

1035 EXCHANGE TO AN OWNER-DRIVEN CONTRACT

May impact financial or estate plan

OWNERSHIP CONSIDERATIONS

- Single vs. joint ownership with a spouse
- Owning a contract jointly with a non-spouse
- Changing the ownership
- Withdrawing from an annuity too early
- Overlooking trusts as owners
- Not using an annuity in an IRA

MISSING OUT ON $200,000

SPOUSAL JOINT OWNERSHIP

Account Value:	$500,000
Death Benefit Value:	$700,000

Owner:	Sean Jones, Age 49
Annuitant:	Sean Jones, Age 49
Beneficiary:	Cindy Jones, Age 47

CINDY TRAGICALLY DIES IN A CAR ACCIDENT.

Is there a death benefit paid?

WHAT IS THE ADVANTAGE OF SPOUSAL JOINT OWNERSHIP?

SPOUSAL JOINT OWNERSHIP

Owner:	Sean Jones, Age 49, Cindy Jones, Age 47
Annuitant:	Sean Jones, Age 49, Cindy Jones, Age 47
Contingent Beneficiary:	Trust

THE SURVIVING SPOUSE IS ALLOWED TO CONTINUE THE CONTRACT.

WHEN CINDY PASSES, SEAN HAS THE OPTION OF TAKING OVER THE CONTRACT OR DISCLAIMING HIS INTEREST WHICH WOULD THEN PASS TO THE TRUST.

JOINT OWNERSHIP

ADVANTAGES

- Continuation adjustments
- Benefits trigger on either death
- Ensures surviving spouse is not disinherited

DISADVANTAGES

- 2nd marriage
- Without planning, can be difficult to split the estate
- Both spouses have control

PLANNING POINTS

ANNUITY REVIEW

- Does the contract have a continuation adjustment?
- Are benefits based on both owners?
- What are the surviving joint owner’s options after first death?

TITLING REVIEW

- Do the titling and contract terms meet the needs of the client?

OWNING A CONTRACT JOINTLY WITH A NON-SPOUSE

NON-SPOUSAL JOINT OWNERS

OWNER:	Winston, Age 72
	Jake, Age 49
ANNUITANT:	Winston, Age 72
BENEFICIARY:	Jake, Age 49

JAKE PREDECEASES WINSTON!

- The death claim pays out on the first death.
- There is no continuation.
- Why non-spousal joint ownership?

HOW IT SHOULD HAVE BEEN & ANNUITY REPAIR

OWNER:	Winston, Age 72
ANNUITANT:	Winston, Age 72
BENEFICIARY:	Jake, Age 49

ANNUITY REPAIR:

- Can change annuitant at any time.
- Can change beneficiary.
- What about ownership?

CHANGING OWNERSHIP: DOUBLE WHAMMY!

OWNER:	Winston, Age 72, changes owner to Jake
ORIGINAL INVESTMENT:	$200,000
CURRENT VALUE:	$500,000
TAXABLE AMOUNT:	$300,000
SUBJECT TO GIFT TAX:	$500,000

CAN I CHANGE OWNERSHIP?

CHANGING OWNERSHIP

- Income Taxes
- Gift Taxes

EXCEPTIONS:

- Revocable Living Trusts
- Spouses

PREMATURE WITHDRAWALS

WITHDRAWING AN ANNUITY PRIOR TO AGE 59½

OWNER:	Jake, Age 54
ANNUITANT:	Jake, Age 54
BENEFICIARY:	Winston, Age 77

JAKE WITHDRAWS MONEY FROM THE

ANNUITY TO HELP PAY FOR WINSTON'S EXPENSES.

WHEN IS TOO YOUNG TO OWN AN ANNUITY?

- Minors
- Immediate Annuities
- Pre-59½
  - 72(t)/(q) Distributions

PREMATURE WITHDRAWALS

PLANNING POINTS

72(t)/(q) Distributions

- Layoffs
- Early retirement
- Income source

MISUNDERSTANDING NON-NATURAL OWNERSHIP

IRC SECTION 72(u)

- IRC Code Section that deals with non-naturally owned annuities.
- Non-naturally owned contracts generally do not receive tax deferral.
- Annuities are meant for retirement savings and receive tax deferral only when used to benefit a living person.

NON-NATURAL OWNERSHIP

IRC SECTION 72(u)

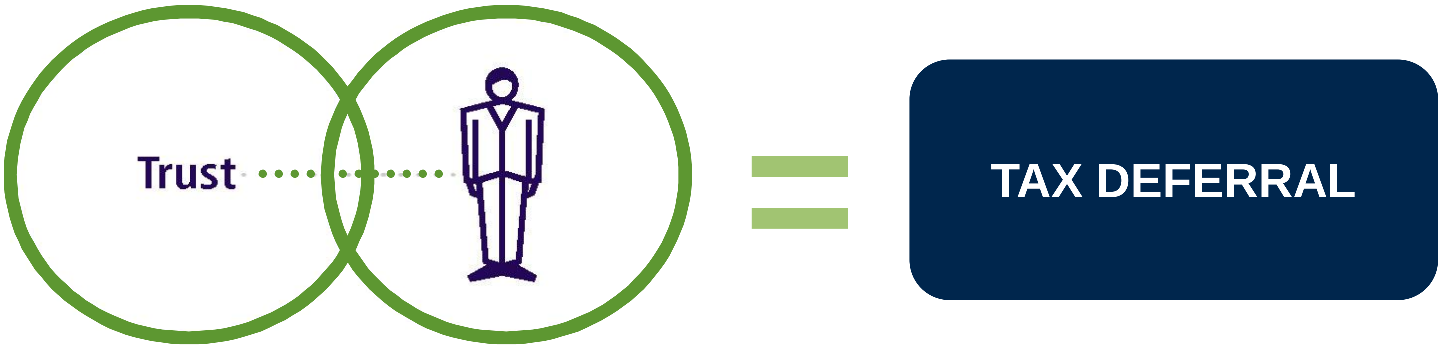
- Deferred annuities used for a business interest will generally not receive tax deferral.

BUSINESS INTERESTS INCLUDE:

- Charities (CRTs)
- Businesses
- Foundations
- Family Limited Partnerships (FLPs)

THE IRS THROWS A CURVE BALL

- A trust that owns an annuity can receive tax deferral.
- The trust must simply be a nominal owner for an identifiable living person.
- This person is referred to as a beneficial owner.



TRUST OWNERSHIP AND INCOME TAXES

MARRIED TAX BRACKET

Earned Income	Bracket
$0 - $16,750	10%
$16,751 - $68,000	15%
$68,001 - $137,300	25%
$137,301 - $209,250	28%
$209,251 - $373,650	33%
$373,650+	35%

TRUST TAX BRACKET

Earned Income	Bracket
$0 - $2,300	15%
$2,301 - $5,350	25%
$5,351 - $8,200	28%
$8,201 - $11,200	33%
$11,200+	35%

TRUST REGISTRATION

OWNER:	Irrevocable Trust
ANNUITANT:	Mr. Income
BENEFICIARY:	Irrevocable Trust

WHAT HAPPENS WHEN THE
ANNUITANT/BENEFICIAL OWNER DIES?

TRUST REGISTRATION

COMMON TRUSTS

- Credit Shelter Trust
- Charitable Remainder Trust

HOW THE CREDIT SHELTER TRUST WORKS

HYPOTHETICAL SCENARIO

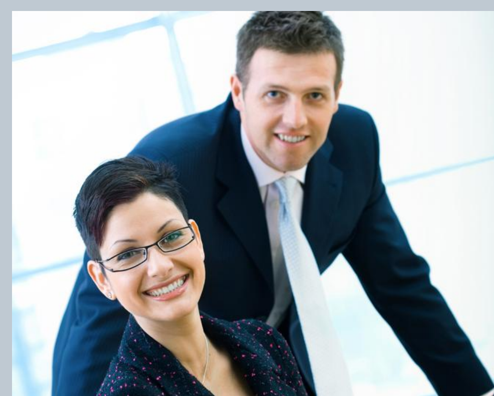
$1 MILLION TAXABLE ESTATE

-$450,000 Lost to Estate Taxes

BOB & JUDY

$4.5 MILLION ESTATE

Tax Free to Judy



ADAM & JANE

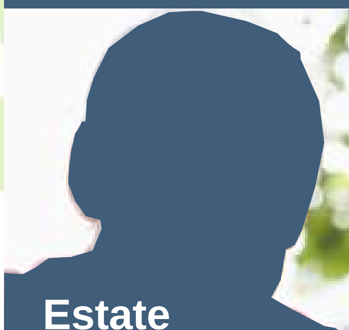
After-estate Taxes

$4,050,000

This illustration is purely hypothetical and is based on 2009 estate tax numbers.

HOW THE CREDIT SHELTER TRUST WORKS

BOB



Estate
Tax Free

$3.5 Million

CREDIT SHELTER TRUST

$0 ESTATE TAXES DUE

JUDY

$1 Million

HEIRS: ADAM & JANE

$0
in Estate Taxes

After-estate Taxes

$4,500,000

This illustration is purely hypothetical and is based on 2009 estate tax numbers.

ANNUITIES AND CREDIT SHELTER TRUSTS

- One contract for each child

Owner: CST

Annuitant: Child

Beneficiary: CST

PASS IN KIND

PLANNING POINTS

Irrevocable Trust funding considerations:

- Tax Control
- Pass in Kind
- Death Benefit

ANNUITIES AND CHARITABLE REMAINDER TRUSTS

- Donor gifts highly appreciated assets to the Charitable Remainder Trust (a split interest trust).

In return the donor receives:

  - A charitable deduction
  - Avoidance of capital gains taxes
  - Removal of the assets from their estate
  - An income stream

- At the death of the owner or the end of the trust term, the remainder passes to charity.

TRUST OWNERSHIP

PLANNING POINTS

CRT Funding

- Income Control - NIMCRUT
- Diversification
- Death Benefit

NOT USING AN ANNUITY IN AN IRA

Common Concern

- Using an annuity inside an IRA is redundant and you are paying for a feature that you don't need.

Keep in Mind

- The tax deferral of an annuity is part of the tax code and is not a consideration when choosing to place an annuity in a qualified plan.
- Annuities in IRAs provide death benefits and guarantees[1] other products cannot.

[1] Guarantees are backed by the claims-paying ability of the issuing insurance company and do not apply to a variable annuity's separate account or its underlying investments.

ANNUITIES IN QUALIFIED ACCOUNTS

LIVING BENEFITS AND RMDs

AGE	FACTOR	PERCENT	AGE	FACTOR	PERCENT	AGE	FACTOR	PERCENT
70	27.4	3.65	**76**	22.0	4.55	**82**	17.1	5.85
71	26.5	3.77	**77**	21.2	4.72	**83**	16.3	6.13
72	25.6	3.91	**78**	20.3	4.93	**84**	15.5	6.45
73	24.7	4.05	**79**	19.5	5.13	**85**	14.8	6.76
74	23.8	4.20	**80**	18.7	5.35	**86**	14.1	7.09
75	22.9	4.37	**81**	17.9	5.59	**87**	13.4	7.46

AGE	FACTOR	PERCENT	AGE	FACTOR	PERCENT	AGE	FACTOR	PERCENT
88	12.7	7.87	**94**	9.1	10.99	**100**	6.3	15.87
89	12.0	8.33	**95**	8.6	11.63	**101**	5.9	16.95
90	11.4	8.77	**96**	8.1	12.35	**102**	5.5	18.18
91	10.8	9.26	**97**	7.6	13.16	**103**	5.2	19.23
92	10.2	9.80	**98**	7.1	14.08	**104**	4.9	20.41
93	9.6	10.42	**99**	6.7	14.93	**105**	4.5	22.22

Source: Department of the Treasury Internal Revenue Service, Individual Retirement Arrangements (IRAs), Publication 590, January 7, 2010.

PLANNING POINTS

Funding IRAs with Annuities

- Living Benefits
- Death Benefits
- Customization

BENEFICIARY CONSIDERATIONS

- Not understanding the rules.
- Making a common beneficiary designation mistake.
- Naming a trust.

THE RULES

HOW ARE MOST NON-QUALIFIED ANNUITIES PAID TO BENEFICIARIES?

- Lump sum
- Out in five years
- Annuitization

THERE IS ANOTHER WAY!

NON-QUALIFIED STRETCH*

OWNER'S DEATH

↓

Death benefit remains in contract

↓

Any potential growth is tax deferred

↓

A required minimum distribution (RMD) each year

↓

RMD = year-end balance divided by non-recalculated life expectancy

↓

Taxes only due as earnings are withdrawn each year

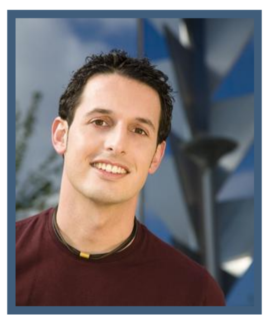
* There is a required minimum distribution each year. However, a beneficiary is able to take more. This stretch of non-qualified assets is referred to as an Irrevocable Systematic Withdrawal (ISW). Earnings, when withdrawn, are taxed as ordinary income.

CONTROL FROM THE GRAVE: THE GRANT FAMILY

FATHER, JOEL
Non-qualified Annuity

SON, MATT
AGE 22

Joel restricts Matt to stretch minimums until age 37.



SON, JOHN
AGE 33

Elects to stretch his inheritance, can take any amount over the minimum at any time.

PLANNING POINTS

NQ STRETCH

- Provides clients with a simple legacy planning tool
- Platform to control spendthrift beneficiaries
- Tax control, continued growth, flexibility

WHAT ARE THE MOST COMMON BENEFICIARY MISTAKES?

1. **Naming the Estate as the Beneficiary**
   - Assets subject to probate
2. **Naming a Minor Outright as a Beneficiary**
   - Company cannot pay death claim directly to minor
3. **Not Naming Proper Contingent Beneficiaries**
   - Assets may be subject to probate
4. **Neglecting the Beneficiary Designation**
   - Disinheritance

PLANNING POINTS

BENEFICIARY DESIGNATION MISTAKES

- Beneficiary designation review
- Understand beneficiary options
- Maximize stretch options

NAMING A TRUST AS A BENEFICIARY

TRUST TYPES

Trusts

- Probate avoidance
- Control
- Management

Revocable: Flexible

Irrevocable: Rigid

TRUST AS BENEFICIARY

CAN I NAME MY TRUST?

Non-qualified: Stretch option is forfeited

Qualified: Stretch option available

- Valid under state law
- Irrevocable at death
- Beneficiaries are identifiable from trust document

TRUST AS BENEFICIARY

PLANNING POINTS

- Evaluate trust and determine objectives
- Consider individual beneficiaries
- Qualified funds – ensure trustee and custodian understand rules regarding stretching through a trust

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