How a SecureLiving® Index Annuity can be bought as a Beneficiary IRA

Do any of these scenarios sound familiar?

- Your client was the beneficiary of his father's individual retirement account. Since the father's death six months ago, the money has been invested in a money market account within that custodial IRA.
- Your client's grandmother died three months ago, leaving her as the sole beneficiary of her grandmother's deferred individual retirement annuity.
- Your client's uncle died one month ago with a substantial balance left in his 401(k) plan.[1] Your client is the sole beneficiary.

Payout options for non-spousal beneficiaries of IRAs and qualified retirement plans

As an alternative to taking a lump sum distribution,[2] a non-spousal beneficiary may take substantially equal distributions over life or a period of time not extending beyond the applicable life expectancy.[3] A distribution calculated on life expectancy could be accomplished either through annuitization or "stretch." With a stretch payout, the beneficiary will have a calculated minimum distribution each year, but he or she can also take out more than this amount if their needs require (surrender charges may apply to the amount of the excess withdrawal above the RMD amount). The flexibility to take more than the minimum distribution amount is often the deciding factor for a beneficiary who elects stretch over annuitization.

Using a SecureLiving Index Annuity as a Beneficiary IRA

The non-spouse beneficiary of an IRA or qualified retirement plan may be able to directly transfer/roll over their beneficial interest to a new SecureLiving Index Annuity Beneficiary IRA contract, as long as the beneficiary has not already elected lump sum or annuitization as their payout option. This contract will allow "stretch" payments to begin by the date required under federal tax law.

Requirements:

- **Qualified contract only.** Genworth will not accept a 1035 exchange from a beneficiary of a non-qualified annuity.
- **Eligible for transfer.** The transfer must be eligible for treatment as a Beneficiary IRA account (e.g., annuitized accounts are not eligible for stretch).
- **Original beneficial owner.** Must be age 75 or younger at time of application.
- **Successor beneficial owner.** If applying for a new Beneficiary IRA contract, then may be considered on an exception basis if at least 10 years of life expectancy remains at time of application.
- **Ownership.** The beneficial owner must be either a natural person, or a custodial IRA.[4]
- **Beneficiary IRA Information form.** The Beneficiary IRA Information form (#42580) will need to be completed and accompany any application for a Beneficiary IRA.

Advantages:

- **Withdrawal flexibility.** The beneficial owner can take more than the required distribution amount in a given year, though surrender charges may apply.
- **Multiple generations.** Under a stretch, if the beneficial owner dies before the contract is reduced to zero, their successor beneficiary will continue to have the right to stretch distributions.
- **New compensation.** Genworth pays commissions on the new contract.

Considerations:

- **Single pay.** No additional contributions are permitted.
- **No riders.** The Income Protection rider is not available.
- **No RMD computed for year of transfer.**
- **RMDs not forced out.** Unless we are instructed otherwise, we will automatically calculate and distribute the RMD payment annually beginning in the year after the contract is issued.

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- **New surrender schedule.** Since the contract is a new Genworth contract, new base surrender charges and any applicable Market Value Adjustment (MVA) will apply. A withdrawal greater than the free withdrawal amount is subject to any applicable surrender charges, MVA and loss of any unvested premium enhancement if included.
- **Taxation.** In most cases, distributions from a traditional Beneficiary IRA will be fully taxable as ordinary income.[5] In most cases, distributions from a Roth Beneficiary IRA will not be taxable income.[6] There is no 10% penalty tax on distributions from either a traditional or Roth Beneficiary IRA, regardless of how old the beneficiary is.

Stretch Payments

- **First stretch payment.** The first stretch payment will equal the contract value as of 12/31 of the year of death, divided by the applicable life expectancy. Different rules apply if the beneficial owner is the surviving spouse.[7]
- **Subsequent payments.** In each subsequent year, the minimum distribution is determined by dividing the contract value at the end of the preceding year by (a) the applicable life expectancy used to calculate the first distribution minus (b) one for every year that has elapsed since the first payment (i.e., the "minus one" method).[8] Payments will continue until the contract value is reduced to $0.
- **Beneficial owner's beneficiary.** If the beneficial owner dies before the contract value is entirely distributed, the beneficial owner's beneficiary will continue to receive required distributions based not on their own life expectancy, but on what the beneficial owner's life expectancy would have been using the "minus one" method.
- **Exceeding the minimum distribution.** As mentioned, a beneficial owner (or their beneficiary) can withdraw more than the required distribution, though surrender charges may apply.

[1] Retirement plans, including 401(k) plans, may offer non-spousal beneficiaries direct transfers to fund Beneficiary IRA accounts. They are required to offer direct rollovers to spousal beneficiaries. The difference is that a non-spousal beneficiary would obtain a Beneficiary IRA, subject to the limitations on inherited IRAs, and a spousal beneficiary would obtain an unrestricted IRA in his or her own name.

[2] The term "lump sum" also includes the right to take distribution within 5 years of death. This option is not available if the deceased original owner was past their RBD.

[3] Applicable life expectancy is always the beneficiary's life expectancy, if the beneficiary is younger than the deceased. Otherwise, if the deceased was taking RMD, applicable life expectancy would be the younger deceased's remaining life expectancy at death. Life expectancy is determined using the Single Life Table (Table I in Internal Revenue Service Publication 590). Payments over the applicable life expectancy would generally begin in the year following the year of the IRA owner's or plan participant's death. If the deceased was not already taking RMDs, a surviving spouse beneficiary could wait until the end of the year the deceased would have turned 70½ to begin taking distributions. A special rule applies for the year of death. If the deceased was over age 70½ and had not taken all of the RMD for that year, the beneficiary (who otherwise would not begin taking distributions until the following year) would need to take any remaining portion of the deceased's RMD by the end of the year of death. For a surviving spouse, applicable life expectancy is determined annually from Table I using age as of his or her birthday. For a non-spouse beneficiary (including a same-sex spouse), applicable life expectancy is similarly determined from Table I in the year after the IRA owner's or participant's death. One full year is then subtracted from the applicable life expectancy for each ensuing year. Applicable life expectancy for a trust is the life expectancy of the eldest trust beneficiary.

[4] We will allow ownership by a custodial Beneficiary IRA. If the custodian requests, we will use the applicable life expectancy of the IRA's beneficiary to determine minimum distribution amounts from our contract. In this situation, though, it is the IRA custodian who is responsible for tax reporting (including ensuring that IRS minimum distribution requirements are met), not Genworth.

[5] If there have been after-tax contributions, a proportionate share of the withdrawal may be income tax free.

[6] Money held in a Roth IRA for at least 5 years prior to the owner's death is considered qualified and distributions are income tax free. If not qualified, then distributions are subject to ordering rules and may or may not be taxable. Regardless of whether the distributions are qualified or non-qualified, there is never a 10% penalty applied to them. All Beneficiary Roth IRA accounts are aggregated for this purpose. The first non-qualified distributions that come out are regular Roth contributions made by the deceased; there is no tax on these withdrawals. The next dollars that come out are converted amounts that were already taxed. These conversion dollars won't be subject to income tax again. Non-taxable conversion dollars come out third and are income tax free. The last dollars to come out of the Beneficiary Roth IRA are earnings. Earnings come out income tax free, but only if the original deceased owner had a Roth IRA funded for at least 5 years at the time the Beneficiary removes earnings.

[7] See Footnote 3

[8] See Footnote 3

Issued by Genworth Life and Annuity Insurance Company, Richmond, VA

There is no additional tax deferral benefit for annuities purchased in an IRA, or any other tax-qualified plan, since these plans are already afforded tax-deferred status.

The other benefits and costs should be carefully considered before purchasing an annuity in a tax-qualified plan.

This is a brief product description. Consult the annuity contract for a detailed description of benefits, limitations and restrictions. Contract terms and provisions will prevail.

Although the contract value may be affected by the performance of an index, the contract is not a security and does not directly or indirectly participate in any stock or equity investment, including, but not limited to, any dividend payment attributable to any such stock or equity investment.

Insurance and annuity products:	**Are not deposits.**
Are not guaranteed by a bank or its affiliates.	**May decrease in value.**
Are not insured by the FDIC or any other federal government agency.	