How to stretch a Non-Qualified SecureLiving® Index Annuity Contract

When the owner of a non-qualified annuity contract dies, the beneficiary typically has three basic payout options:

- lump sum
- complete distribution within five years or
- payments over a period of time not exceeding the beneficiary's life or life expectancy.[1]

The third option above allows the beneficiary to spread receipt of the death proceeds—and the corresponding tax burden—over many years, and is offered on all Genworth non-qualified deferred annuity contracts through annuitization. In addition, with Genworth's SecureLiving® Index Annuity contracts, a beneficiary may stretch his or her payout over life expectancy without having to annuitize the death proceeds.

The Stretch Payout Option

By electing the stretch payout option at the death of the contract owner, the beneficiary ("beneficial owner") receives required distributions through withdrawals each year, yet may withdraw more if their needs require.

Advantages:

- **Allocation Flexibility.** The beneficial owner may select among all allocations available within the index annuity contract.
- **Payment Flexibility.** With an annuity payout option, payments are fixed; a stretch, though, generally allows the beneficial owner to take more than the minimum payment if he or she wants to.[2]
- **Continued Income Tax Deferral.** Any gain in the contract remains tax deferred until the beneficiary receives it. Distributions from a stretch are generally treated first as coming from gain, last from basis. Taking stretch payments can significantly defer the beneficiary's tax on contract gain compared to a lump sum or 5-year payout.[3]
- **Spendthrift Protection.** Prior to death, the original contract owner can use the Restricted Beneficiary Payout Designation for SecureLiving Index Annuities form to restrict the payout of death proceeds for one or more beneficiaries, other than the surviving spouse. If a beneficiary is restricted to taking a Minimum Annual Income over life expectancy (stretch), then no acceleration of payment amounts would be allowed.
- **Multiple Generations.** Under a stretch, if the first beneficiary (beneficial owner) dies before the contract value reaches zero, the successor beneficiary has the right to continue stretching distributions over the first beneficiary's remaining life expectancy.

Considerations:

- **Internal Only.** We will not offer a stretch payout to the beneficiary of a different non-qualified annuity contract. That is, we will not accept a beneficiary 1035 exchange.
- **Payments Not Guaranteed.** While payments taken are based on the beneficiary's life expectancy, whether payments continue for that long depend on the amount of withdrawals, as well as the performance of the allocations.
- **Stretch Payments Forced Out.** Unlike the case with qualified stretches, Genworth will automatically force out required distributions on their annual due date.
- **Deferred Only.** Contracts that have been annuitized are not eligible for stretch.
- **Ownership.** The beneficial owner must be a natural person.
- **Multiple Beneficiaries.** Multiple individual beneficiaries are considered "beneficial owners" as to their respective interests in the death proceeds; the contract is split, and each beneficiary selects his/her own payout option.
- **No Riders.** Any optional riders under the original contract end at the owner's death. No new riders are permitted.
- **Ordinary Income.** Stretch payments are considered withdrawals, not annuity payments. Withdrawals are generally taxable as ordinary income to the extent that the contract value exceeds the investment in the contract.[4] There is no 10% penalty tax, even if the beneficial owner is under 59½.
- **Surrender Charges.** Surrender charges and market value adjustment (MVA) do not apply to any amounts paid after the owner's death.
- **No New Compensation.** Commissions/trails payable on account of the original purchase are not affected by the owner's death or election of the stretch option.

155730 05/17/14

Genworth®

Stretch Payments

- **Electing Stretch.** The beneficial owner may elect a stretch payout using the claim form. As long as the beneficial owner has not elected a payout option and 350 days have not elapsed since the date of the owner's death, the beneficial owner may still elect a stretch.
- **First Stretch Payment.** The first stretch payment is based on the contract value as of the date of the first stretch payment. The contract value is then divided by the beneficial owner's life expectancy, based on the beneficial owner's age on the date of the first stretch payment and as determined by the Single Life Table. The first required minimum withdrawal must be taken within 350 days[4] after the original owner's death.
- **Subsequent Payments**. Required minimum withdrawals must be taken annually thereafter, no later than December 31 of each year. Required withdrawal amounts are determined by dividing the contract value at the end of the preceding year by the beneficiary's life expectancy used to calculate the first stretch payment, minus one for every year that has elapsed since (i.e., the "minus one" method). Payments will continue until the contract value is reduced to $0.

Hypothetical Examples

Max age 67, died on July 15, 2012, leaving his son, Demitri, as the beneficiary of his $400,000 non-qualified SecureLiving index annuity. Demitri elected to take distributions under the stretch payout option beginning February 15, 2013, when he turned age 45.

The account value as of December 31, 2012 was $425,000. Demitri received his first required distribution of $10,954 ($425,000 contract value / 38.8-year life expectancy at age 45) on February 15, 2013. His next required minimum distribution will be made on February 15,2014. If the contract value as of December 31, 2013 is $440,000, Demitri's required distribution amount is $11,640 ($440,000 / 37.8).

1 A spousal beneficiary may also continue the contract as his/her own.

2 Under a period certain annuity payout option, the beneficiary does have the right to take a commuted lump sum. No commutation is available with the life annuity payout option.

3 Except for premiums paid before August 14, 1982 for a contract that was exchanged for the deceased Owner's contract. The most tax-efficient way for a beneficiary to take distributions is through annuitization – which provides an exclusion ratio for the payments. With an exclusion ratio, part of each payment is ordinary income; part is return of cost basis. Once all basis is paid out, all of the payment would become ordinary income.

4 While federal tax law requires the first payment to be made no later than 1 year after the date of the owner's death, we shorten this period to 350 days to allow time for processing.

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

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.	