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Avoiding common annuity mistakes

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Some things you need to know

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- Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
- Not insured by any federal government agency • May lose value

Agenda

- Contract Structure
- Beneficiary Designations
- Annuitant
- Ownership

Annuity Contract

Mistake # 1

- They are all the same

How to Avoid:

- Read and understand the annuity contract!

Annuity Contract – Death of Owner

Mistake # 2

- Not Understanding the Difference Between Annuitant and Owner Driven

How to Avoid:

- Owner and Annuitant are the same

Contract Structure – Death of Annuitant

Mistake # 3

- Gift from Owner to Beneficiary

How to Avoid:

- Keep Owner & Annuitant Same

Sample Contract Structure



Beneficiary – The Estate

Mistake # 4

- No Beneficiary or Naming the Estate as Beneficiary

How to Avoid:

- Name specific people as beneficiaries or, when appropriate, a trust
- Utilize Spousal Continuation
- Keep Beneficiaries up-to-date

Beneficiary - Contingent

Mistake # 5

- No Contingent Beneficiary

How to Avoid:

- Name a Contingent Beneficiary

Sample Beneficiary Arrangement

Primary Beneficiary



Spouse

Contingent
Beneficiary



Children or Trust

Beneficiary - Minor

Mistake # 6

- Naming a Minor as a Beneficiary

How to Avoid:

- Name a Trust for the Minor's Share
- If Appropriate, UTMA

Ownership – Joint Owners

Mistake # 7

- Multiple Owners – Confusion with Joint Ownership with Rights of Survivorship

How to Avoid:

- One Owner

Ownership – Non-Natural Owners

Mistake # 8

- Loss of Tax-Deferral Because a Business is the Owner

How to Avoid:

- Don't Name a Business as Owner

Ownership – Revocable Trusts

Mistake # 9

- Making the Revocable Living Trust the Owner when it is Unnecessary

How to Avoid:

- Leave Ownership in the Individual's Name to Keep it Simple

Ownership – Irrevocable Trusts

Mistake # 10

- Not Understanding the Type of Trust Being Named as Owner

How to Avoid:

- Have Client Seek Competent Legal Counsel for Direction
- Understand Type of Trust and Consequences

Ownership – Changing Owners

Mistake # 11

- Taxes when Changing Ownership

How to Avoid:

- Don't Change Ownership

Ownership – Assignments

Mistake # 12

- Taxes when Assigning Ownership

How to Avoid:

- Don't Assign; Use Other Collateral

Ownership – Charitable Gifts

Mistake # 13

- Unintended Tax Consequences from Gift to Charity

How to Avoid:

- Name Charity as Beneficiary

Ownership – Surrender Charges

Mistake # 14

- Incurring CDSC or Surrender Charges

How to Avoid:

- Consider the Costs of Surrendering

Ownership – Issue Date & Taxes

Mistake # 15

- Not Paying Attention to the Issue Date & Combining Annuities

How to Avoid:

- Know When the Annuity is Issued

Ownership – Owning More Than One

Mistake # 16

- Selling Two Annuities to the Same Person in the Same Tax Year From the Same Insurance Company

How to Avoid:

- Different Owners, Different Tax Years, Different Insurance Companies

Ownership – 10% Penalty

Mistake # 17

- Annuitizing a Deferred Annuity or doing a 1035 Exchange to an Immediate Annuity before age 59 1/2

How to Avoid:

- Remember the Exceptions to the 10% Premature Distribution Penalty

Ownership – Surrender or 1035

Mistake # 18

- Not Knowing When to Surrender or to 1035

How to Avoid:

- Consider the Tax Consequences
- 1035 Exchange to Save Basis

Ownership – Surrender or 1035

Mistake # 19

- Buying a New Annuity too Soon After Surrendering an Annuity

How to Avoid:

- Consider the Tax Consequences and the “Wash Sale” Rules

Ownership – Partial Exchanges

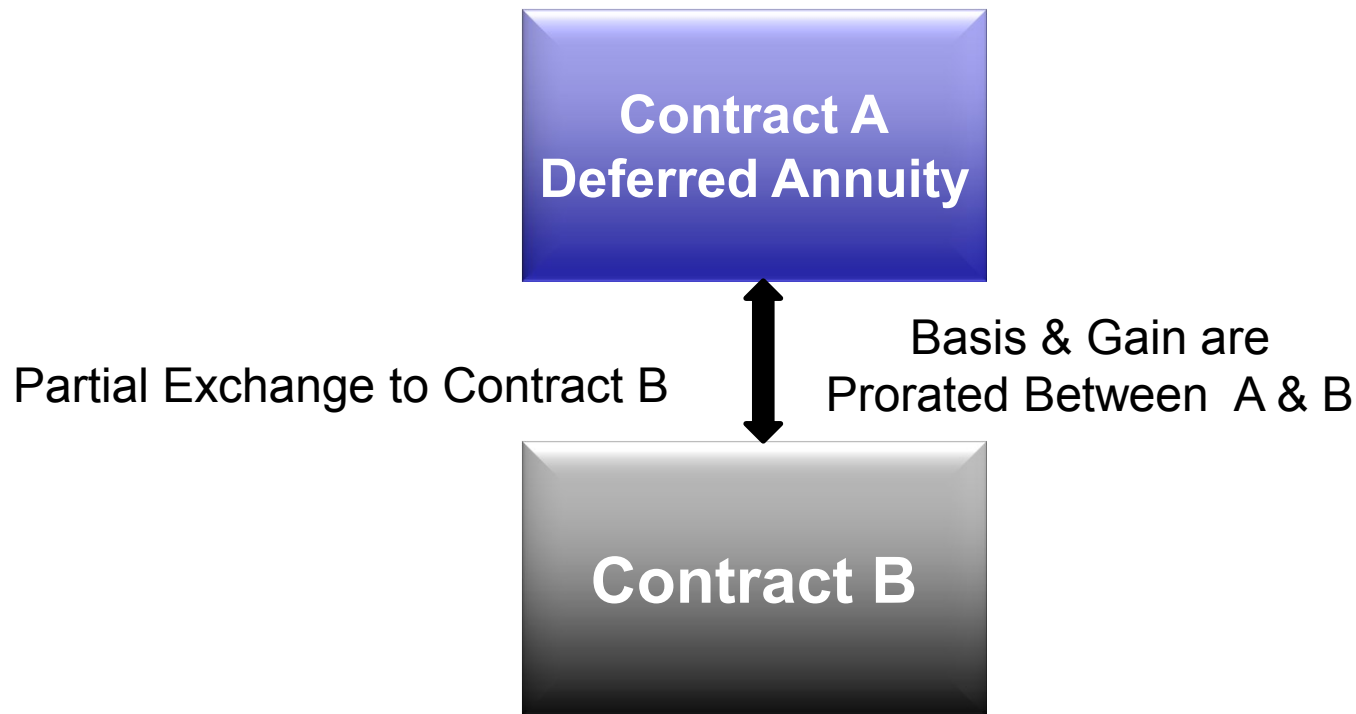
Mistake # 20

- Unintended Tax Consequences From Partial Exchanges and Withdrawals

How to Avoid:

- Don't Withdraw for a 180 Days After the Exchange

Ownership – Partial Exchanges



May a withdrawal be taken from contract A within 180 days of the exchange without negative tax consequences? **NO!**
Wait until the **181st** day.

Ownership – 1035

Mistake # 21

- Loss of Benefits & Guarantees

How to Avoid:

- Read the Existing Annuity Contract
- Compare Benefits & Guarantees

Ownership – 1035

Compare Features and Benefits

- Guaranteed Interest Rates
- Death Benefit
- Guaranteed Income Benefit
- CDSC or Surrender Charges
- Annuitization Payout Rates
- Costs



Summary

- Read the Contract or Prospectus
- Coordinate With Client's Other Planning
- Understand Tax Consequences
- Understand Benefits & Features of Current and Proposed Annuity
- Whenever Possible, Keep It Simple
- Ask for Help

Thank You!



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