Maximizing Tax Benefits with Stretch Accounts

Stretch accounts

offer flexibility and control over how annuity funds are distributed, making them a valuable option for estate planning, retirement income strategies, and overall financial planning.

Understanding Stretch Accounts

A stretch account refers to a strategy where beneficiaries can extend the distribution of annuity payouts over a longer period than required. This allows beneficiaries to “stretch” the payments over their lifetime or a predetermined period, rather than receiving a lump-sum or five-year payout.

By stretching the distribution, beneficiaries can potentially reduce tax implications and manage their income more effectively. This strategy is particularly useful for maximizing the long-term growth potential of the annuity, minimizing tax burdens, and providing a steady income stream for beneficiaries.

Non-Qualified vs. Qualified

Previously, American National Insurance Company only offered Qualified stretch accounts for spousal beneficiaries, but recently we've expanded our offerings to include non-spousal beneficiaries as well, regardless of the date of death. In addition, we now offer Non-Qualified stretch accounts.

Non-Qualified

Non-Qualified stretch accounts allow beneficiaries to receive annuity payouts over an extended period, potentially reducing tax liabilities by spreading out distributions. This strategy can be advantageous for those looking to minimize the immediate tax impact and maximize the long-term growth potential of the annuity.

Qualified

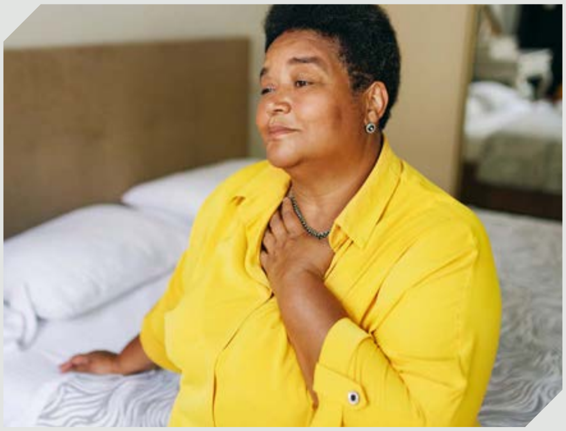
Qualified stretch accounts provide similar benefits but are specifically designed for retirement accounts like IRAs or 401(k)s. By stretching distributions over a beneficiary's life expectancy, Qualified stretch accounts offer a tax-efficient way to preserve and grow retirement assets while ensuring a steady income stream.

Both Non-Qualified and Qualified Stretch Accounts are now available for:

- Strategy Index 7
- Strategy Index 10
- Rate Certainty Annuity
- Palladium® Single Premium Immediate Annuity
- Palladium® MYG
- Palladium® MYG Match

A Non-Qualified Annuity Left to a Designated Beneficiary

CASE STUDY



Julie and her husband, Frank, were diligent savers throughout their lives and decided early on they wanted to set each other up for financial success in the event one of them passed away before the other.

As part of their retirement plan, Frank purchased a Non-Qualified annuity with $250,000 and named Julie as the beneficiary. Through consistent contributions and favorable market conditions, the value for the annuity they purchased was now $325,000. When Frank passed away, Julie sought a way to maximize her retirement income while minimizing the tax burden.

After consulting with her financial advisor, Julie learned about the stretch payout option. The stretch payout would allow her to withdraw funds over an extended period, thus spreading out the tax liability associated with her annuity.

Instead of taking a lump-sum distribution, which would be fully taxable in the year withdrawn, the stretch payments allowed her to receive smaller, regular payments over a longer duration which significantly reduced her taxable income each year.

How it works:

In order to determine Julie's annual payout amount for the stretch distribution her financial advisor took the total amount of the annuity and divided it by her life expectancy.
$325,000 / 19.2 years = $16,927 per year

Julie's financial advisor then informed her that she wouldn't actually pay taxes on the entirety of her annual payout amount. Instead, there was an excludable amount that is calculated by dividing the original amount invested – otherwise known as the cost basis – by her life expectancy.
$250,000 / 19.2 years = $13,021

Julie's advisor continued by explaining that each year the distribution amount would be recalculated but the exclusion amount would remain the same.

The excludable amount would then be subtracted from the annual payout amount, and only the remaining value would be subject to taxes.
$16,927 - $13,201 = $3,902

A Qualified Annuity Left to a Designated Beneficiary

CASE STUDY

Emily, 41, faced a significant life change when her father passed away. Along with the emotional impact of losing a parent, Emily inherited two key financial assets: her father's defined pension plan and a Qualified annuity.

The original investment amount of the annuity was $100,000 and steadily grew over the years to a total value of $275,000. As Emily navigated her inheritance, she faced numerous concerns regarding the tax implications and how to best manage these assets for her financial future.

Emily met with her financial advisor and discussed her concerns. Her advisor informed her that she would need to account for the additional income from her inheritance in her tax returns. Unfortunately, the extra income could potentially push Emily into a higher tax bracket, affecting her overall tax liability.

Understanding Emily's financial situation, her advisor suggested the stretch account option which would allow the distribution of the annuity payout to extend beyond the standard five-year regulatory period for Qualified funds. By choosing this strategy, she would be able to distribute or "stretch" the disbursement over her lifetime, thereby spreading the tax liability associated with her annuity.

How it works:

In order to determine Emily's annual payout amount for the stretch distribution her financial advisor took the total amount of the annuity and divided it by her life expectancy.

$275,000 / 37.9 years = $7,256 per year

Emily's advisor continued by explaining that each year the distribution amount would be recalculated.

Emily liked this strategy because it didn't necessitate paying all her taxes upfront. Instead, the stretch account strategy allowed her to distribute these payments over time. Her advisor confirmed that this was the optimal approach for her financial future. Allowing her to concentrate on managing her pension payments.

Unlocking Financial Potential

Stretch accounts offer the unique opportunity for individuals to optimize their financial potential. By allowing beneficiaries to extend the tax-deferred growth of inherited funds over their lifetimes, it creates opportunities for increased financial security and wealth preservation.

American National History

Chartered on March 17, 1905, by American National Insurance Company's founder, W. L. Moody Jr., the company began operations with $100,000 of capital and $20,000 surplus. Mr. Moody envisioned a company that would flourish for centuries. His conservative business approach created a unique corporate culture that remains the heart of the company.

American National Life Insurance Company of New York, a wholly owned subsidiary of American National Insurance Company, was incorporated under the laws of New York in October 2009.

Over the last 115 years this culture has helped American National persevere through wars, hurricanes, economic volatility, extraordinary technological advancements, evolving products, and the changing needs of contract holders and agents.

As of May 2022, American National is now owned by Brookfield Reinsurance, a forward-looking company established for long-term participation in the insurance and reinsurance industries. Brookfield Reinsurance is committed to build on the enduring value and security provided by American National to its clients and will continue to manage its business driven by its corporate vision to be a provider of financial services for current and future generations.

Form Series: RCA24, SPIA22, MYG20, MYGFI23, FPIA19, LIR19, (Idaho forms ICC24 Form RCA24, ICC 22 Form SPIA22, ICC20 Form MYG20, ICC23 Form MYGFI23, ICC19 Form FPIA19, ICC19 Form LIR19, IA13(NY), MYGNQ(NY), MYGPQ(NY), ANY-NSPA. Forms may vary by state. American National Insurance Company, headquartered in Galveston, Texas is licensed to conduct business in all states except New York. Business is conducted in New York by American National Life Insurance Company of New York, headquartered in Glenmont, New York. Each company has financial responsibility only for the products and services it issues. Neither American National Insurance Company nor its representatives give legal or tax advice. Agents can only discuss general benefits of conversion and must refer clients to their tax advisor or attorney for tax or legal advice.

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