Aggregation of Non-Qualified Annuities

When recommending an annuity contract to a client, it's important to keep in mind the aggregation rule, outlined in Internal Revenue Code Section 72(e) (12) (A) (ii). The Code states that all non-qualified deferred annuity contracts issued by the same insurance company in the same calendar year are treated as a single annuity contract for tax purposes. Because of this, **annuity aggregation can result in unexpected tax liability for the contract owner.**

Consider this example:

In 2010, John purchases three deferred annuities from a Great American Insurance Group member company. Over time, John's account values grow as interest is accumulated. Time passes and John decides to take a $50,000 distribution from Annuity 1.

	Annuity 1	**Annuity 2**	**Annuity 3**
Purchase payment	$100,000	$100,000	$100,000
Interest accumulated by time of distribution	$20,000	$20,000	$20,000
Account value at time of distribution	$120,000	$120,000	$120,000

At the time of the distribution, each contract has earned $20,000 in interest. Because John purchased all three contracts in 2010, his earnings are aggregated. This means, for tax purposes he has earned a total of $60,000. Therefore, **John's entire $50,000 withdrawal is considered taxable.**

What circumstances are not subject to the aggregation rule?

The aggregation rule only applies to non-qualified deferred annuity contracts issued by a single company in a calendar year. Keep in mind, insurance carriers that are related to each other are treated as a single company. The following are not subject to the aggregation rule:

- Qualified plans
- Immediate annuities, unless issued as part of a 1035 exchange
- Annuities purchased from unrelated insurance carriers during the calendar year

Products issued by Annuity Investors Life Insurance Company® and Great American Life Insurance Company®.
For producer use only. Not for use in sales solicitation.

GREAT AMERICAN INSURANCE GROUP
Annuities