

The document outlines the distribution options available to nonspouse individual beneficiaries of nonqualified deferred annuities upon the owner's death. Beneficiaries can choose from three primary options: the Five-Year Rule, Nonqualified Stretch (also known as the Life Expectancy Method), and Annuitization. Under the Five-Year Rule, the entire annuity balance must be distributed within five years, with the beneficiary having the flexibility to take all proceeds immediately, withdraw discretionary amounts during the five years, or wait until the end of the period. Any gains distributed are subject to income taxation in the year they are taken. If a trust, charity, or estate is the beneficiary, the Five-Year Rule is the only option available.

The Nonqualified Stretch allows beneficiaries to calculate annual required minimum distributions (RMDs) based on their life expectancy, potentially leading to tax deferral and smaller annual tax bills. The first RMD must be taken within one year of the owner's death, with subsequent distributions required by December 31 each year. The initial life expectancy factor is determined using the IRS Single Life Table, and beneficiaries can withdraw more than the required minimum. They also bear the investment risk and can name a successor beneficiary to continue distributions if they pass away before the annuity is fully distributed.

Annuitization is another option where beneficiaries can convert the inherited annuity into a guaranteed income stream, transferring investment risk to the insurance company. This method allows for an exclusion ratio treatment on distributions, where part of the income is treated as a gain and part as a return of investment. If the beneficiary lives beyond their life expectancy, subsequent distributions are treated as 100% gain.

Overall, the document emphasizes that nonspouse beneficiaries have various options to manage their inherited nonqualified annuities, with the Nonqualified Stretch potentially offering growth and tax benefits. It also notes that the information provided is not legal or tax advice and encourages consultation with financial professionals.