

Inherited distribution option

Creating a financial future



Annuity

Inherited distribution option

Many people spend much of their working life building their retirement nest egg through the use of individual retirement accounts (IRAs). The savings can be a significant part of their security throughout the retirement years. When retirement time arrives, the plan is simple: utilize these accounts for a steady and dependable source of income, which will help supplement other sources of income. For many individuals, this is exactly what they will do.

For others, IRAs are a source of potential income that may not be needed. Converting these accounts into income often means a tax burden that is not necessary. One would rather pass this power of income with tax deferral onto their heirs, essentially creating a legacy of growth and income for multiple generations.

For anyone who has an IRA, qualified distributions are required to begin by age 70½. The owner may always choose to take out more if they need, but they have to take out a minimum based on their life expectancy. If you are fortunate enough to need only the required minimum distribution (RMD), you may find yourself in the position to leave a significant amount to your heirs.

An opportunity

The Internal Revenue Service (IRS) has made significant changes to the tax law, making it easier to set up and pass on an IRA to your heirs. They have also defined how the wealth may be distributed once you pass on. Due to the structuring of the payout process, the beneficiary(ies) are allowed to “stretch” the distributions over their own life expectancy. This will allow them to spread out their tax liability as long as possible, which allows that legacy to continue to grow tax deferred and provide income for a number of years.

This concept is called an inherited distribution option, and it can be provided to you and your heirs by North American.



Features

- Help to ensure an income stream to you and your heirs, while offering continued tax deferral on your IRA. This creates a legacy for your retirement nest egg.
- You have the ability to name multiple primary and contingent beneficiaries. These can be changed at anytime until death of the contract owner.
- Gives the beneficiary the ability to spread out the taxable liability over a number of years, as well as take additional amounts of income from the account if needed.

The time is now

The old saying is “there is no time like the present”, and in this case it is very true. No one knows what tomorrow may bring, and for that reason it is important to start planning now. Why delay making a decision that may profoundly affect not only you, but also those dearest to you? While it may seem impossible to know where to start, there are a few simple steps you can make to begin. All of the items listed below are important things to consider. Addressing these now can help make the rest of the process easier.

1. Think about who you want your beneficiaries to be, and in what percentages you wish them to benefit.
While these choices are not irrevocable, it is still wise to have a clear idea about how this should be structured.
2. Gather records for all your retirement accounts. This will help gain a more comprehensive picture of your needs.
3. Contact your North American Representative in order to set up the inherited distribution option for your future.

While most of the ideas and information are reasonably easy to understand, it may seem overwhelming to put all of the pieces together. That is why we recommend you work closely with a representative of North American. This person can help with the paperwork and further explanation of the concepts for you to review. Together you will find out that an inherited distribution option from North American could assist in your preservation of wealth, and creation of an income legacy for you and your future generations.

Uniform lifetime table		Beneficiary life expectancy table			
Age	Life exp. divisor	Age	Life exp. divisor	Age	Life exp. divisor
70	27.4	0	82.4	58	27.0
71	26.5	1	81.6	59	26.1
72	25.6	2	80.6	60	25.2
73	24.7	3	79.7	61	24.4
74	23.8	4	78.7	62	23.5
75	22.9	5	77.7	63	22.7
76	22.0	6	76.7	64	21.8
77	21.2	7	75.8	65	21.0
78	20.3	8	74.8	66	20.2
79	19.5	9	73.8	67	19.4
80	18.7	10	72.8	68	18.6
81	17.9	11	71.8	69	17.8
82	17.1	12	70.8	70	17.0
83	16.3	13	69.9	71	16.3
84	15.5	14	68.9	72	15.5
85	14.8	15	67.9	73	14.8
86	14.1	16	66.9	74	14.1
87	13.4	17	66.0	75	13.4
88	12.7	18	65.0	76	12.7
89	12.0	19	64.0	77	12.1
90	11.4	20	63.0	78	11.4
91	10.8	21	62.1	79	10.8
92	10.2	22	61.1	80	10.2
93	9.6	23	60.1	81	9.7
94	9.1	24	59.1	82	9.1
95	8.6	25	58.2	83	8.6
96	8.1	26	57.2	84	8.1
97	7.6	27	56.2	85	7.6
98	7.1	28	55.3	86	7.1
99	6.7	29	54.3	87	6.7
100	6.3	30	53.3	88	6.3
101	5.9	31	52.4	89	5.9
102	5.5	32	51.4	90	5.5
103	5.2	33	50.4	91	5.2
104	4.9	34	49.4	92	4.9
105	4.5	35	48.5	93	4.6
106	4.2	36	47.5	94	4.3
107	3.9	37	46.5	95	4.1
108	3.7	38	45.6	96	3.8
109	3.4	39	44.6	97	3.6
110	3.1	40	43.6	98	3.4
111	2.9	41	42.7	99	3.1
112	2.6	42	41.7	100	2.9
113	2.4	43	40.7	101	2.7
114	2.1	44	39.8	102	2.5
115	1.9	45	38.8	103	2.3
		46	37.9	104	2.1
		47	37.0	105	1.9
		48	36.0	106	1.7
		49	35.1	107	1.5
		50	34.2	108	1.4
		51	33.3	109	1.2
		52	32.3	110	1.1
		53	31.4	111+	1.0
		54	30.5		
		55	29.6		
		56	28.7		
		57	27.9		

Source: Tax Facts 2015

Reasons why

1. The calculations themselves have been simplified. IRA owners are required to use the most current Uniform Lifetime Table to calculate their required minimum distribution. In most cases the use of the current table means that the required distributions will be less than they would have been under prior rules, allowing for more long-term growth potential. The only exception to using this table comes if the spouse is more than ten years younger. In this situation, a joint life expectancy table is used.
2. Over time there have been significant change to beneficiary rules. No longer are the beneficiary designations irrevocable. Now, IRA owners may change their beneficiary designation(s) at any point during their lifetime without negatively affecting their RMD amount. This allows the beneficiary designation to change as the contract owner's family needs change.
3. As for those owners who are already taking distributions, they may also change beneficiaries and use the current table. This is significant because existing IRAs can, in effect, become an inherited distribution. In some cases allowing of the current rules may dramatically slow down the payout of an existing IRA, while preserving the benefits of tax-deferred growth.

How it works

Let's say that you are the owner of an IRA in which your daughter is the primary beneficiary. Once you reach age 70½, if you elect to take only the RMD each year, you in effect choose to stretch out the retirement account. At the time your daughter inherits the account she would be able to resume taking the RMD, but the distributions would now be based in part on her life expectancy. The calculation in future years remains simple. The account balance is divided by the new factor, which gives the amount of the annual RMD.

The result is a substantially lower distribution to your daughter, spread out over a longer period of time, which could lower her potential tax burden. Also, because there is no annuitization required, the IRA may continue to earn tax-deferred interest while these distributions are taken. If your daughter had been forced into a lump sum settlement, more than one-third may have been consumed in taxes.

Below is an example of how a payout might work under the inherited distribution option. We will assume that a husband is 65 and has an IRA. His wife is age 55 and their daughter is age 22 at the time. Additionally, we will also assume that the husband will live to be age 73 and the wife will live to be age 72. Let's also assume that over the entire period the IRA is paying out, it will be earning a 4% interest rate. These examples are hypothetical, and not intended to predict or project future performance, and are calculated before taxes. Actual results may be higher or lower.

Since the required minimum distribution for any year is based on the account value as of the end of the immediately preceding calendar year and the RMD must be taken by Dec. 31 of each year, these calculations assume an end of year withdrawal of the RMD calculated based on the account value at the beginning of that calendar year and assumes the contract year and calendar year are the same for the purpose of these examples.

Husband							The husband leaves \$244,846 at his death to his wife. The wife inherits the IRA account and begins RMDs based upon her life expectancy at age 70½.
Year	Age	Beg. account value	RMD life exp.	Interest	RMD WD	End account value	
1	65	200,000		8,000		208,000	
2	66	208,000	N/A	8,320	-	216,320	
3	67	216,320	N/A	8,653	-	224,973	
4	68	224,973	N/A	8,999	-	233,972	
5	69	233,972	N/A	9,359	-	243,331	
6	70	243,331	27.4	9,733	8,881	244,183	
7	71	244,183	26.5	9,767	9,214	244,736	
8	72	244,736	25.6	9,789	9,560	244,965	
9	73	244,965	24.7	9,799	9,918	244,846	

Wife / mother							The wife leaves \$311,890 at her death to her daughter. The daughter continues RMDs based on her life expectancy using the beneficiary life expectancy table following the year of her mother's death.
Year	Age	Beg. account value	RMD life exp.	Interest	RMD WD	End account value	
10	64	244,846		9,794		254,640	
11	65	254,640	N/A	10,186	-	264,826	
12	66	264,826	N/A	10,593	-	275,419	
13	67	275,419	N/A	11,017	-	286,436	
14	68	286,436	N/A	11,457	-	297,893	
15	69	297,893	N/A	11,916	-	309,809	
16	70	309,809	27.4	12,392	11,307	310,894	
17	71	310,894	26.5	12,436	11,732	311,598	
18	72	311,598	25.6	12,464	12,172	311,890	

Daughter							Payments will continue to the daughter for the remainder of her life, or until the account balance is depleted. At the daughter's death, payments can continue to her named beneficiary based upon the above table. In example, the husband's initial premium of \$200,000 totaled a payout of \$930,702 "stretched" over multiple generations. This can be compared to the daughter electing to take a lump sum settlement at the mother's death, which would have resulted in a payout of \$384,674 (accumulation value at the wife's death including previous RMDs).
Year	Age	Beg. account value	RMD life exp.	Interest	RMD WD	End account value	
19	40	311,890	43.6	12,476	7,153	317,212	
20	41	317,212	42.6	12,688	7,446	322,455	
21	42	322,455	41.6	12,898	7,751	327,602	
22	43	327,602	40.6	13,104	8,069	332,637	
23	44	332,637	39.6	13,305	8,400	337,542	
24	45	337,542	38.6	13,502	8,745	342,299	
25	46	342,299	37.6	13,692	9,104	346,888	
26	47	346,888	36.6	13,876	9,478	351,285	
27	48	351,285	35.6	14,051	9,868	355,469	
28	49	355,469	34.6	14,219	10,274	359,414	
29	50	359,414	33.6	14,377	10,697	363,094	
30	51	363,094	32.6	14,524	11,138	366,480	
35	56	376,447	27.6	15,058	13,639	377,865	
40	61	377,984	22.6	15,119	16,725	376,378	
45	66	361,679	17.6	14,467	20,550	355,596	
50	71	319,238	12.6	12,770	25,336	306,671	
55	76	239,112	7.6	9,564	31,462	217,215	
60	81	104,240	2.6	4,170	40,092	68,317	
61	82	68,317	1.6	2,733	42,698	28,352	
62	83	28,352	-	1,134	29,486	-	

Now let's assume that the daughter, instead of inheriting the IRA, chooses to disclaim it. It would then pass on to the next in line, which for this illustration is the daughters son, or the husband's grandson. At the time of inheritance the grandson is 20, and he is the sole contingent beneficiary. Again we will assume the IRA is paying a 4% interest rate. These examples are hypothetical, and not intended to predict or project future performance, and are calculated before taxes. Actual results may be higher or

Husband						
Year	Age	Beg. account value	RMD life exp.	Interest	RMD WD	End account value
1	65	200,000		8,000		208,000
2	66	208,000	N/A	8,320	-	216,320
3	67	216,320	N/A	8,653	-	224,973
4	68	224,973	N/A	8,999	-	233,972
5	69	233,972	N/A	9,359	-	243,331
6	70	243,331	27.4	9,733	8,881	244,183
7	71	244,183	26.5	9,767	9,214	244,736
8	72	244,736	25.6	9,789	9,560	244,965
9	73	244,965	24.7	9,799	9,918	244,846

The husband leaves \$244,846 at his death to his wife. The wife inherits the IRA account and begins RMDs based upon her life expectancy at age 70½.

Wife / grandmother						
Year	Age	Beg. account value	RMD life exp.	Interest	RMD WD	End account value
10	64	244,846		9,794		254,640
11	65	254,640	N/A	10,186	-	264,826
12	66	264,826	N/A	10,593	-	275,419
13	67	275,419	N/A	11,017	-	286,436
14	68	286,436	N/A	11,457	-	297,893
15	69	297,893	N/A	11,916	-	309,809
16	70	309,809	27.4	12,392	11,307	310,894
17	71	310,894	26.5	12,436	11,732	311,598
18	72	311,598	25.6	12,464	12,172	311,890

The wife leaves \$311,890 at her death to her daughter. Her daughter disclaims the retirement account, and it passes to the wife's contingent beneficiary, her grandson. The grandson continues RMDs based on his life expectancy using the beneficiary life expectancy table following the year of the grandmother's death.

Grandson						
Year	Age	Beg. account value	RMD life exp.	Interest	RMD WD	End account value
19	20	311,890	63.0	12,476	4,951	319,415
20	21	319,415	62.0	12,777	5,152	327,040
21	22	327,040	61.0	13,082	5,361	334,760
22	23	334,760	60.0	13,390	5,579	342,571
23	24	342,571	59.0	13,703	5,806	350,468
24	25	350,468	58.0	14,019	6,043	358,444
25	26	358,444	57.0	14,338	6,288	366,493
26	27	366,493	56.0	14,660	6,545	374,609
27	28	374,609	55.0	14,984	6,811	382,782
28	29	382,782	54.0	15,311	7,089	391,005
29	30	391,005	53.0	15,640	7,377	399,267
30	31	399,267	52.0	15,971	7,678	407,560
35	36	440,788	47.0	17,632	9,378	449,042
40	41	481,335	42.0	19,253	11,460	489,128
45	46	518,454	37.0	20,738	14,012	525,180
50	51	548,636	32.0	21,945	17,145	553,437
55	56	566,956	27.0	22,678	20,998	568,636
60	61	566,584	22.0	22,663	25,754	563,494
65	66	538,113	17.0	21,525	31,654	527,983
70	71	468,588	12.0	18,744	39,049	448,283
75	76	339,917	7.0	13,597	48,560	304,954
80	81	124,892	2.0	4,996	62,446	67,442
81	82	67,442	1.0	2,698	70,139	-

Payments will continue to the grandson for the remainder of his life, or until the account balance is depleted. At the grandson's death, payments may continue to his named beneficiary based upon the above table. In this example, the husband's initial premium of \$200,000 totaled a payout of \$1,503,520 "stretched" over multiple generations. This can be compared to the grandson electing to take a lump sum settlement at his grandmother's death, which would have resulted in a payout of \$384,674 (accumulation value at the wife's death including previous RMDs).

Protect your assets and those you love with an industry leader

North American Company for Life and Health Insurance® is a leading insurance company in the U.S. Throughout our 100-plus year history, we've focused on providing growth, income, and financial protection to the clients we serve. Our insurance and annuity products have consistently provided value to our clients – in all types of market and economic environments.

North American has continued to earn high ratings, based on our financial strength, operating performance, and ability to meet obligations to our policyholders and contract holders. North American currently holds the following ratings:

A.M. Best ^{A,B}	S&P Global Ratings ^{B,C}	Fitch Ratings ^D
“A+” (Superior) (Second category of 15) Superior ability to meet ongoing obligations to policyholders	“A+” (Strong) (Fifth category of 22) Very strong financial security characteristics	“A+” (Stable) (Fifth category of 19) Strong business profile, low financial leverage

A.M. Best is a large, third-party independent reporting and rating company that rates an insurance company on the basis of the company's financial strength, operating performance, and ability to meet its obligations to policyholders. S&P Global Ratings is an independent, third-party rating firm that rates on the basis of financial strength. Ratings shown reflect the opinions of the rating agencies and are not implied warranties of the company's ability to meet its financial obligations. The ratings above apply to North American's financial strength and claims-paying ability. **a)** A.M. Best rating affirmed on Aug. 2, 2018. For the latest rating, access ambest.com. **b)** Awarded to North American as part of Sammons® Financial Group Inc., which consists of Midland National® Life Insurance Company and North American Company for Life and Health Insurance®. **c)** Standard & Poor's rating assigned Feb. 26, 2009 and affirmed on Sept. 10, 2018. **d)** Fitch Ratings, a global leader in financial information services and credit ratings, on April 24, 2018, affirmed an Insurer Financial Strength rating of A+ Stable for North American. This rating is the fifth highest of 19 possible rating categories. The rating reflects the organization's strong business profile, low financial leverage, very strong statutory capitalization and strong operating profitability supported by strong investment performance. For more information access fitchratings.com.

Premium Taxes: Contract holder values will be reduced for premium taxes as required by the state of residence.

Neither North American, nor any agents acting on its behalf, should be viewed as providing legal, tax or investment advice. Consult with and rely on your own qualified advisor. Under current law, annuities grow tax deferred. Annuities may be subject to taxation during the income or withdrawal phase. The tax-deferred feature is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and lifetime annuity payments are appropriate for your needs.



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