

Extended IRA

A quick reference guide

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Key highlights

- The strategy
- Target market
- Key terms
- What you need to know to use the concept
- Why do extended IRA business with Nationwide

Extended IRA is a concept not a product. It is a way for the beneficiaries of IRAs to ease the tax burden of taking required distributions from inherited IRAs and maximizing the deferral period for the money in that account. This strategy does not guarantee returns or insulate the beneficiary from loss, including loss of principal and be aware that inflation erodes purchasing power.

The strategy

Extend payments over the life expectancies of IRA beneficiaries using an IRS proscribed life expectancy table.

It can be created by the IRA owner using our **Beneficiary Designation Form** or by the beneficiary upon the death of the IRA owner using our **Beneficiary Election Form**. The most likely scenario for the use of an Extended IRA strategy is when a non-spouse is the beneficiary of the IRA.

Target market

Owners of IRAs who will not need the money from this account for their own retirement needs and who want to ease the tax burden to beneficiaries and increase the tax-deferral period for the account after they die.

Beneficiaries of IRAs who would like to ease the tax burden of receiving required distributions from inherited IRAs and maximize the tax-deferral period for this inherited account.

Key terms

- **Stretch IRA** — Alternate name for the Extended IRA concept
- **Inherited IRA** — An IRA that is now owned by the beneficiary. Also known as a beneficial IRA.
- **Required Minimum Distributions (RMDs)** — The minimum payment, based on life expectancy, a beneficiary must take from an inherited IRA.

- **Designated Beneficiary** — A living person whose life expectancy can be used to extend the required payments from an inherited IRA. The term may also apply to a properly drafted trust.
- **Successor Beneficiary** — A beneficiary who can take over payments if a designated beneficiary dies after starting to receive RMDs. The original IRA account owner can designate the successor or, if the owner doesn't name one, the beneficiary can name a successor. RMDs paid to the successor beneficiary are based on the original designated beneficiary's remaining life expectancy.

What do I need to know to use the concept?

Knowing the distribution options available to beneficiaries upon the death of the IRA account holder is the key to using the Extended IRA strategy. Use the Extended strategy to capitalize on IRA sales opportunities — both with the account holder when setting up an IRA or with the beneficiary when they're trying to understand their options after an account holder has died. Federal tax laws are complex and subject to change. Neither Nationwide nor its representatives give legal or tax advice. Please tax with your attorney or tax advisor to answer specific questions.

Distribution options — Death of owner prior to the required beginning date		
Beneficiary	Options	Taxation* and special considerations
Non-spousal	Beneficiary life expectancy method This is the “extended IRA” option	The distributions are generally taxable to the beneficiary and are made at least annually using the beneficiary's life expectancy. First beneficial RMD must be taken by 12/31 of the year following the year of the IRA owner's death. **Trusts may also use this rule.
	Five year rule	Assets can potentially grow tax deferred for up to five years but must be distributed by December 31 of the fifth year following the IRA owner's death.
Spousal	Spousal inherited IRA	The 10% early withdrawal penalty tax will not apply to distributions from an inherited IRA. Distributions can be delayed until the deceased spouse would have turned age 70½; at that time, distributions would begin based on the surviving spouse's life expectancy.
	Spousal re-registration/rollover	Not a taxable event; required distributions would be based on surviving spouse's life expectancy and would begin when surviving spouse reaches age 70½, if they are not already over that age.
None designated Estate/Charity	Five-year rule	Assets can potentially grow tax deferred for up to five years but must be distributed by December 31 of the fifth year following the IRA owner's death.

Distribution options — Death of owner on or after the required beginning date		
Beneficiary	Options	Taxation* and special considerations
Non-spousal	Beneficial RMDs must be made over the longer of: (1) the beneficiary's life expectancy or (2) the owner's remaining life expectancy (1) is the "extended IRA" option	(1) The distributions are generally taxable to the beneficiary and are made at least annually using the beneficiary's life expectancy (2) Annual distributions may continue over what would have been the now deceased owner's remaining life expectancy **Trusts may also use this rule.
Spousal	Spousal re-registration/rollover	Not a taxable event; required distributions would be based on surviving spouse's life expectancy and would begin when surviving spouse reaches age 70½, if they are not already over that age.
	Spousal inherited IRA	The distribution period is generally the longer of either the surviving spouses' or deceased spouses' remaining life expectancy.
None designated Estate/Charity	Distributions may be made over a period not exceeding the owner's remaining life expectancy.	Annual distributions may continue over what would have been the now deceased owner's remaining life expectancy.
	Lump sum distribution	A lump sum distribution would be taxable as ordinary income to the estate. A lump sum distribution to a tax exempt charity would likely not be taxable.

* Distributions are generally subject to ordinary income tax at distribution, according to the beneficiary/recipient's tax situation.

** If a trust meets certain requirements within the regulations, the oldest trust beneficiary's life expectancy may be utilized to extend distributions. IRA owners should consult with an attorney and tax advisor before naming a trust as beneficiary.

Why do extended IRA business with Nationwide?

- We pay death benefits, subject to the claims paying ability of the company, on beneficially owned annuity contracts provided the money is new to Nationwide or an existing Nationwide contract is rolled over to a new Nationwide contract. Please be aware that there are multiple non-annuity funding options for stretch IRAs.
- Our beneficiary designation form makes it easy for IRA account owners to implement the strategy through a restriction
- Our beneficiary election form makes it easy for beneficiaries to understand their options, if no restriction is in place
- Like many other carriers, we accept beneficial IRA transfers
- We do not permit living benefits to be added to inherited IRA annuities

Beneficial contract set-up example:

Beneficially owned contract structure — Upon John Smith's death

Owner — John Smith, deceased FBO Mark Smith

Annuitant — Mark Smith

Successor Beneficiary — Susie Smith (Mark Smith's daughter) named by Mark



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When evaluating the purchase of a variable annuity, your clients should be aware that variable annuities are long-term investment vehicles designed for retirement purposes and will fluctuate in value and annuities have limitations. Using an annuity to fund an IRA does not provide any tax advantages beyond those already available with the IRA.

Neither the company nor its representatives give legal or tax advice. Please consult your attorney or tax advisor for answers to specific questions.

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