Qualified Annuity Distributions

WHAT IS REQUIRED MINIMUM DISTRIBUTION

When clients have qualified money, IRS Guidelines require they begin taking minimum distributions from these funds at age 70½. The Uniform Distribution Table is designed to help them calculate a Required Minimum Distribution (RMD) based on life expectancy (See Table I).

When Do They Start?

Tax laws require clients to begin receiving minimum distributions from their qualified contracts by April 1 of the year after they reach age 70½. For example, if 70½ on May 1, 2013, their initial distribution must be taken by April 1, 2014 and be based on the Contract Value as of December 31, 2013. Future distributions must be taken by December 31 of each year.

American Equity Can Help

Clients can take minimum distributions based on their life expectancy on all of American Equity's deferred annuities. A completed RMD Request Form 4083 is all we need to begin RMD's.

RMD Calculation Methods

The 2002 guidelines use one method and base minimum distribution on the life expectancy of the owner only, unless the sole beneficiary is a spouse who is more than 10 years younger. Life expectancy multiples were also expanded under the 2002 guidelines, allowing a smaller required distribution to be taken. In the early years of the clients RMD, it is possible the Contract Value will continue to grow (see Table I).

TABLE I

UNIFORM DISTRIBUTION TABLE

Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy
70	27.4 Years	81	17.9 Years	92	10.2 Years
71	26.5 Years	82	17.1 Years	93	9.6 Years
72	25.6 Years	83	16.3 Years	94	9.1 Years
73	24.7 Years	84	15.5 Years	95	8.6 Years
74	23.8 Years	85	14.8 Years	96	8.1 Years
75	22.9 Years	86	14.1 Years	97	7.6 Years
76	22.0 Years	87	13.4 Years	98	7.1 Years
77	21.2 Years	88	12.7 Years	99	6.7 Years
78	20.3 Years	89	12.0 Years	100	6.3 Years
79	19.5 Years	90	11.4 Years		
80	18.7 Years	91	10.8 Years		

EXAMPLE: **Year 1**

Contract Value $100,000

Starting Age 70

Life Expectancy ...27.4 Years

Distribution............ $\frac{\$100,000}{27.4}$ = **$3,650**

Interest Earned @ 6%* = $5,781

New Contract Value = $102,131

EXAMPLE: **Year 2**

Life Expectancy ...26.5 Years

Distribution............ $\frac{\$102,131}{26.5}$ = **$3,854**

Interest Earned @ 6%* = $5,897

New Contract Value = $104,174

* The assumed interest is for demonstration purposes only. The interest rate may be lower or higher than 6%.

WHAT ARE THE PAYOUT OPTIONS FOR BENEFICIARIES OF QUALIFIED PLANS?

The following options are available to beneficiaries of qualified plans:

- Lump Sum
- Spousal Continuation (spouse must be sole beneficiary)
- Annuitization (use form 4030)
- RMD "Stretch" IRA

The last option has drawn the most attention.

The last option is better known as **Multi-Generational** or **"Stretch" Payouts.** When retirement begins, many retirees utilize their qualified funds (i.e. IRA, TSA, Pensions etc.) for income purposes, but there are many others who do not have a need for these funds. The goal of these clients is to pass these dollars onto their heirs, creating a legacy for many generations to come.

"Stretch" Payouts work like this: When the Owner of the qualified annuity dies, the primary beneficiary may elect to "Stretch" out the distribution of the annuity by providing income equal to the Contract Value divided by the beneficiary's life expectancy. The beneficiary has reduced his/her tax burden by "Stretching" out the proceeds. If the primary beneficiary dies, the remaining contract balance can continue to earn tax deferred interest while the distributions are being "Stretched" to the next beneficiaries.

American Equity can process "Stretch" qualified distribution payouts. The primary beneficiary may elect a payout of either a lump sum, an annuitization, or a payout based on his/her life expectancy upon death of the owner of the qualified annuity. By choosing the latter, the primary beneficiary may avoid a significant tax burden that would be levied if a lump sum or a minimal annuitization period were chosen. Clients should consult their tax advisor for assistance.

American Equity Is Not a Trustee

A. The 2002 Life Expectancy tables allow owners and beneficiaries to stretch IRA's and TSA's (see Table II).

B. American Equity accepts qualified transfers on inherited IRAs, provided the original ownership is maintained.

TABLE II

SINGLE LIFE EXPECTANCY TABLE FOR INHERITED IRAS

Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy
0	82.4 Years	34	49.4 Years	68	18.6 Years
1	81.6 Years	35	48.5 Years	69	17.8 Years
2	80.6 Years	36	47.5 Years	70	17.0 Years
3	79.7 Years	37	46.5 Years	71	16.3 Years
4	78.7 Years	38	45.6 Years	72	15.5 Years
5	77.7 Years	39	44.6 Years	73	14.8 Years
6	76.7 Years	40	43.6 Years	74	14.1 Years
7	75.8 Years	41	42.7 Years	75	13.4 Years
8	74.8 Years	42	41.7 Years	76	12.7 Years
9	73.8 Years	43	40.7 Years	77	12.1 Years
10	72.8 Years	44	39.8 Years	78	11.4 Years
11	71.8 Years	45	38.8 Years	79	10.8 Years
12	70.8 Years	46	37.9 Years	80	10.2 Years
13	69.9 Years	47	37.0 Years	81	9.7 Years
14	68.9 Years	48	36.0 Years	82	9.1 Years
15	67.9 Years	49	35.1 Years	83	8.6 Years
16	66.9 Years	50	34.2 Years	84	8.1 Years
17	66.0 Years	51	33.3 Years	85	7.6 Years
18	65.0 Years	52	32.3 Years	86	7.1 Years
19	64.0 Years	53	31.4 Years	87	6.7 Years
20	63.0 Years	54	30.5 Years	88	6.3 Years
21	62.1 Years	55	29.6 Years	89	5.9 Years
22	61.1 Years	56	28.7 Years	90	5.5 Years
23	60.1 Years	57	27.9 Years	91	5.2 Years
24	59.1 Years	58	27.0 Years	92	4.9 Years
25	58.2 Years	59	26.1 Years	93	4.6 Years
26	57.2 Years	60	25.2 Years	94	4.3 Years
27	56.2 Years	61	24.4 Years	95	4.1 Years
28	55.3 Years	62	23.5 Years	96	3.8 Years
29	54.3 Years	63	22.7 Years	97	3.6 Years
30	53.3 Years	64	21.8 Years	98	3.4 Years
31	52.4 Years	65	21.0 Years	99	3.1 Years
32	51.4 Years	66	20.2 Years	100	2.9 Years
33	50.4 Years	67	19.4 Years		

Agent Instructions:

1. Qualified money only.
2. Complete Pre-59½ Distribution Form (#4077) to initiate distributions.
3. Distributions are available on a monthly, quarterly, semi-annual or annual basis.
4. When transferring funds from an existing qualified plan already in distribution, original quote must accompany.
5. If withdrawals exceed 10% in any year, penalties will apply.

INHERITED IRA ANALYSIS ("Stretch" IRA)

This is an example of how clients can turn a portion of their IRA funds into a lifetime income flow to their heirs. Assume a husband lives 20 years and the spouse, who inherits the remaining balance of the qualified funds, lives 10 more years. Assume the qualified annuity is earning 5%.

Mr. & Mrs. Smith (Ages 65 & 60)
IRA (12/31/2000) - $250,000
Projected IRA distributions from age 70 through his 20 year life expectancy
$243,515
Contract Value at Death:
$326,531

Mrs. Smith (Age 81)
IRA (12/31/2021) - $314,083
Projected IRA distributions over her life expectancy (10 Yrs.)
$308,556
Contract Value at Death:
$141,298

Beneficiaries (Children, Grandchildren)

Beneficiaries	Share	Balance	Life Exp.	IRA Distr.
Child 1 (Age 40)	60%	$84,779	46	$96,680
Grandchild 1 (Age 12)	20%	$28,260	71	$76,116
Grandchild 2 (Age 10)	20%	$28,260	73	$81,582
Total	100 %	**$141,298**	Total	**$254,378**

At the Death of the Beneficiaries the Contract Balances are:

Child (Age 86 at Death)	$44,768
Grandchild (Age 83 at Death)	$27,480
Grandchild (Age at Death)	$28,974
Total	**$101,223**

THE TOTAL DISTRIBUTIONS PAID OUT $724,868 STRETCHED OVER SEVERAL GENERATIONS!

WHAT ARE 72(T) PRE-59½ DISTRIBUTIONS?

A 10% penalty applies to distributions taken before age 59½ unless it is due to an exception, including but not limited to:

a. Death
b. Disability
c. First time homebuyer
d. 72(t)

The 10% premature distribution tax does not apply to distributions that are part of a series of "substantially equal periodic payments" made at least annually for the life or life expectancy of the individual or the joint lives or joint life expectancy of the individual and his/her designated beneficiary. The series of payments must continue for five years or until the individual reaches age 59½, whichever is longer. The IRS allows individuals to make a one-time change to their distribution for current and subsequent years under certain circumstances.

The IRS approved three methods under which payments are considered "substantially equal periodic payments":

1. RMD Method
2. Amortization Method
3. Annuity Factor Method

This document was not intended or written to be used, and cannot be used to avoid tax penalties or promote, market or recommend any tax plan or arrangement. You should seek advice based on your particular circumstances from your tax advisor.

life.american-equity.com

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

Call us at 888-221-1234

6000 Westown Pkwy, West Des Moines, IA 50266