

Non-Qualified Stretch Program FAQ



What does nonqualified stretch mean?

The Internal Revenue Code allows the death benefit from a nonqualified annuity to be paid out over a period of time based on the beneficiary's life expectancy. Stretch is a popular term used to describe this payment option, because the beneficiary can "stretch" the death benefit payments over his/her own life expectancy versus receiving the entire death benefit in one lump sum payment or by the fifth anniversary of the deceased's death. The deceased must have died prior to his/her annuity start date for a beneficiary to choose this payment option. A beneficiary must complete a product application to purchase a new annuity contract and review carefully the product prospectus before making any selections.

Can any beneficiary of a nonqualified annuity choose to stretch the death benefit?

No. The Nonqualified Stretch Program¹ at Sun Life Financial² is designed for nonspouse, person beneficiaries. Entity beneficiaries such as estates, charities, or trusts cannot choose this payment option. Under limited circumstances a spouse beneficiary may choose to stretch the death benefit. Please see the Q & A that follows for details.

Why is a spouse beneficiary not permitted to stretch the death benefit of a nonqualified annuity?

The Internal Revenue Code allows a spouse who is the sole beneficiary of a nonqualified annuity contract to continue the contract under the same terms and conditions that applied to the deceased owner. Basically, the surviving spouse is permitted to "step into the shoes" of the contract owner. This spousal continuance provides greater flexibility to the spouse than a nonqualified stretch. However, spousal continuance of the contract is allowed only once. Upon the death of the surviving spouse, if he or she has remarried, the new spouse beneficiary cannot continue the contract. The new surviving spouse beneficiary may choose to stretch the death benefit, and he or she will be treated as a nonspouse beneficiary for application of the stretch rules.

What is the designation for this annual payment?

Sun Life Financial refers to this annual payment as the *stretch payment*.

Is the stretch payment the same amount for each year?

No. The stretch payment for each calendar year varies in amount, because it is based on the account balance for each year and the beneficiary's remaining life expectancy for each year.

¹ The Nonqualified Stretch Program FAQ is designed to introduce you to the rules that may affect your individual circumstances. The rules are complex and contain conditions and exceptions that are not included in the FAQ. Since Sun Life Financial does not provide tax or legal advice, you may want to obtain advice from an independent adviser.

² Sun Life Assurance Company of Canada (U.S.) issues Regatta, Futurity and All-Star annuity contracts in all states except New York. New York contracts are issued by Sun Life Insurance and Annuity Company of New York. Both companies are members of the Sun Life Financial group of companies.

How is the stretch payment amount calculated?

The calculation is based on the following formula:

$$\text{Annual stretch payment} = \frac{\text{Account Balance}}{\text{Life Expectancy Factor}}$$

When is the account balance determined?

For the first stretch payment, the account balance is determined on the first payment date. For each subsequent calendar year, the account balance is determined on the prior December 31st.

When is the life expectancy factor determined?

The life expectancy factor is determined based on the beneficiary's attained age on the date of the first stretch payment. The life expectancy factor is fixed as of the first stretch payment date. For each subsequent calendar year, one is subtracted from that initial number for use in the calculation formula. This is referred to as the nonrecalculation method for determining life expectancy.

How often must the beneficiary withdraw funds from the account?

The beneficiary must withdraw the first annual payment by the first anniversary of the deceased's date of death. For each subsequent calendar year, the annual payment must be withdrawn by December 31st.

What are the consequences for failure to withdraw a stretch payment?

If a beneficiary fails to withdraw the first stretch payment by the first anniversary of the deceased's death, he/she cannot stretch the death benefit. The death benefit must be distributed entirely by the fifth anniversary of the deceased's death.

If a beneficiary fails to withdraw a stretch payment by the December 31st deadline for a calendar year, there will be negative tax consequences. The entire account balance in excess of the investment in the contract (cost basis), if any, may become taxable in the year of the missed payment.

Can the stretch payment be withdrawn in installments?

Yes. The stretch payment may be withdrawn in installments provided the first stretch payment is withdrawn entirely by the first anniversary of the deceased's date of death and each subsequent stretch payment is withdrawn by December 31st of each calendar year. Sun Life Financial offers monthly, quarterly, semi-annual or annual payment frequencies for stretch payments. The payment frequency election is in the Nonqualified Stretch Payments Request Form.

Can a beneficiary withdraw additional money from the account?

Yes. The stretch payment is the annual minimum amount of money that must be withdrawn for compliance with the Internal Revenue Code. Please note that withdrawal charges and/or market value adjustment as described in the contract and prospectus may apply to any nonstretch withdrawals. There is an exception to the "yes" answer. If the deceased preselected the death benefit payment option for the beneficiary, then the beneficiary cannot withdraw money in addition to the stretch payment.

Can a beneficiary contribute additional money to a nonqualified stretch account?

No. Additional contributions are not permitted.