

IRS Rules on 1035 exchange by beneficiary

In Private Letter
Ruling 201330016



VARIABLE ANNUITIES

Overview

Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

Not insured by any federal government agency	Not a deposit	Not FDIC-insured
May go down in value	Not guaranteed by any bank or savings association	

Considerations for 1035 exchanges

When beneficiaries inherited nonqualified annuities, their options used to be very limited. In Private Letter Ruling 201330016, the Internal Revenue Service allowed a beneficiary of three annuity contracts to transfer those contracts from the original issuing company into one contract with a different company via a 1035 exchange. In this ruling, the IRS acknowledged that the beneficiary of the inherited annuity is “the new owner of the original contract,” and therefore the technical requirements for a 1035 exchange were met on the post-mortem transfer of contracts by the beneficiary.

Distribution requirements remain unchanged – the beneficiary of an inherited nonqualified annuity is required to receive the money from the new account following the requirements of Internal Revenue Code Section 72(s).



The opportunity

PLR 201330016* opens the door for a number of planning opportunities for you and your clients. Contractholders may want to exchange an inherited annuity for one with better features, benefits, investment options or more flexibility.



The Lincoln solution

For a tax-advantaged income and wealth transfer strategy, consider a Lincoln variable annuity with *i4LIFE*® Advantage, an income benefit available for an additional charge.¹ This patented income distribution method meets the requirements of 72(s).

*While a Private Letter Ruling (PLR) is only binding for the taxpayer requesting it, PLRs do provide insight and guidance into how the IRS may rule in similar situations.

3 reasons why *i4LIFE* for wealth transfer

1. Lifetime income

With *i4LIFE*® Advantage, investors can create an income stream that stretches beyond their life expectancy. For clients who want an absolute minimum guarantee on their income, the optional Guaranteed Income Benefit (GIB) may be selected.² Beneficiaries must be age 70 or younger to elect the GIB.

Systematic withdrawals

Income payments based on life expectancy factor

Income payments stop

***i4LIFE*® payments**

Lifetime income payments using *i4LIFE*

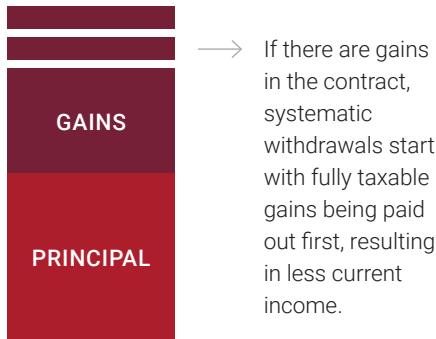
Income payments continue

¹ *i4LIFE*® Advantage is available with Lincoln variable annuities for an additional annual charge of 0.40%.

² *i4LIFE*® Advantage Guaranteed Income Benefit (Managed Risk) is an optional feature available for an additional annual charge, 1.35% single and 1.55% joint, above standard contract expenses. No minimum issue age for nonqualified, minimum issue age of 59½ for qualified. The maximum charge for GIB, if elected, is 2.25% single and 2.45% for joint at GIB reset. Investment requirements apply.

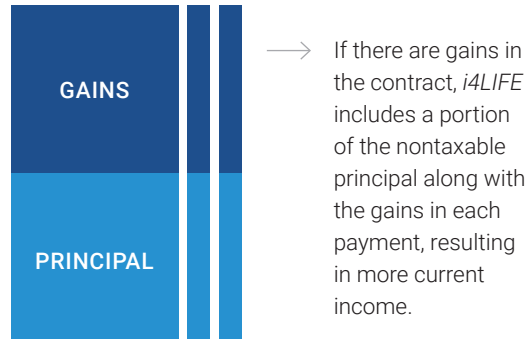
2. Tax-efficient income

The way you decide to take your income in retirement can affect the way you are taxed, especially if your money has had the chance to grow. This example shows how a retirement income payment might be taxed, depending on the option you choose.



Systematic withdrawals

If there are no gains, all withdrawals are considered principal and are not taxed.

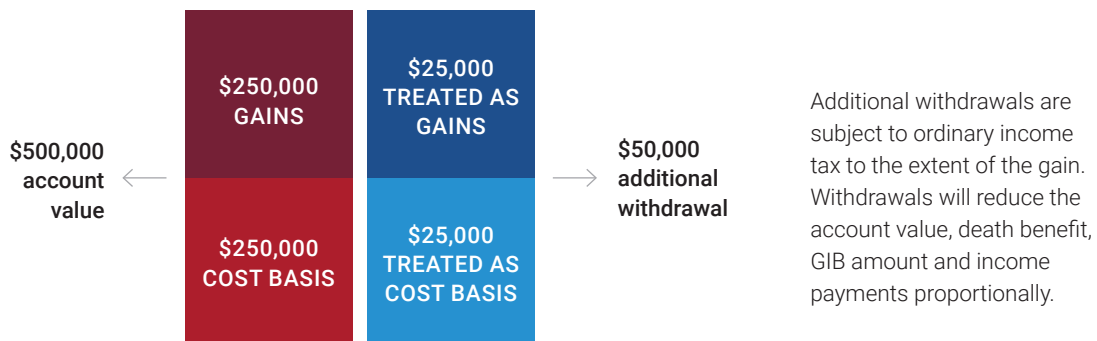


i4LIFE® payments

If the contract has no gains or is down, a portion of each payment is treated as a taxable gain and a portion is treated as principal. Once the principal has been paid out, each payment is fully taxable.

3. Control and flexibility

Control of investment options and access to account value continue through the Access Period. Additional withdrawals receive favorable tax treatment because a portion of each withdrawal is excludable from taxes as long as there is cost basis remaining in the contract.





Ask your Lincoln representative how *i4LIFE*[®] Advantage can help you create a tax-advantaged wealth transfer and income plan.

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Variable annuities are long-term investment products designed for retirement purposes and are subject to market fluctuation, investment risk, and possible loss of principal. Variable annuities contain both investment and insurance components and have fees and charges, including mortality and expense, administrative, and advisory fees. Optional features are available for an additional charge.

Variable products are sold by prospectuses, which contain the investment objectives, risks, and charges and expenses of the variable product and its underlying investment options. Read carefully before investing.

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All features may not be available in all states.

There is no additional tax-deferral benefit for an annuity contract purchased in an IRA or other tax-qualified plan.

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