

Annuity Ownership Case Study: Larry & Mary

An Unintended Outcome

Spouses Larry and Mary Smith purchased a deferred annuity to take advantage of tax-deferred growth, and to assure they both would have access to their annuity as long as either lived. The Smiths' only child, Max, did not get along well with his parents and was estranged from the family.

The annuitant-driven annuity the Smiths purchased was structured with Larry and Mary as joint owners. Larry was the annuitant. Max was named the annuitant's beneficiary.



At Larry's death, although Mary was joint owner, she had no rights to the annuity value

Less than two years after the Smiths purchased their annuity, Larry died suddenly at age 68. Because Max was named the annuitant's beneficiary, Mary had no rights to the annuity value or death benefit, even though she was joint owner. Max received the entire death benefit. This surprise ending to the Smiths' annuity payout story proved very unfortunate for Mary, who needed the annuity funds for the rest of her life. Payment of the annuity proceeds to Max at Larry's unexpected death was not what either Mary or her husband wanted or expected.

What Might Be a Better Practice for Titling the Smiths' Annuity?

Establishing Larry as both the owner and annuitant, with Mary named both as the owner's beneficiary and annuitant's beneficiary (or vice versa), would accomplish the Smiths' objectives. During his lifetime, Larry could access the annuity value if he or Mary needed funds.

At Larry's death, Mary could select between two options:

- She could continue the contract, stepping into Larry's positions as owner and annuitant.
- Alternatively, she could elect to receive the death benefit by any of four methods:
 - a. Take a lump-sum payment
 - b. Defer payment of the death benefit for a period of up to five years
 - c. Annuitize the death benefit over a period not to exceed Mary's lifetime or life expectancy
 - d. Take systematic withdrawals over a period not to exceed Mary's lifetime or life expectancy

In light of this scenario, consider the importance of correctly structuring contracts according to your clients' objectives. This ranks among the important services you provide your clients and their beneficiaries.

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