SPIA **Sales Solutions**

Mutual of Omaha

"1035 Exchanges" create funding opportunities for SPIAs

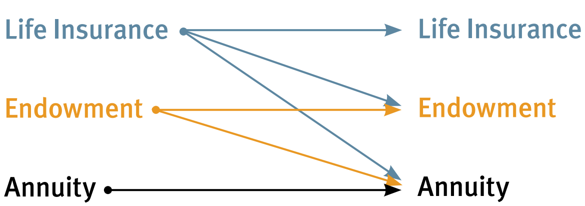
What is a 1035 Exchange and when is it needed?

Section 1035 of the Internal Revenue Code allows accumulated funds from a life insurance policy to be transferred to another life insurance policy, endowment or annuity without immediate taxation. An exchange of an annuity contract for another annuity contract is also a non-taxable event.

There are several reasons your client may want to consider an exchange from one product to another, including:

- Preservation of gains without taxation
- Preservation of cost basis
- Concerns with the stability of a company or product
- Client's changing needs requires a new or different product

The IRS code is specific on how the exchanges can take place. An exchange must be from non-qualified contracts only (no IRAs). Also, IRS 1035 Exchange guidelines require the new contract be for the same insured and owner as the old contract. The following chart shows how the funds can be exchanged.



For more information on 1035 Exchanges to our Ultra-Income SPIA or Income Access SPIA, contact Sales Support at 800-693-6083.

1035 Exchanges to fund single premium immediate annuities

Clients approaching retirement may have accumulated funds in a life insurance policy or deferred annuity. These products have fulfilled their original purpose, but now client needs have shifted from wealth accumulation to guaranteed income during retirement.

What is the best way for your clients to take advantage of these savings without facing adverse tax consequences?

Sizable gains in a contract, while nice to have, can create a significant tax burden. If your client were to surrender the annuity or life policy, any gain above your client's tax basis would be taxable as ordinary income.

However, a direct transfer of assets from a life insurance policy or deferred annuity to a SPIA is not a taxable event. Your client will be taxed on the gain from the previous life or annuity contract as payments are received from the immediate annuity. With the SPIA, ***only the portion of the monthly payout that represents gain is taxable***. The remainder of the annuity payment is considered a return of principal and is not taxable.

Case Example

Ted (age 66) and Mary Young (age 63)

They've accumulated $100,000 in a deferred annuity. Their cost basis in the annuity is $80,000. If they did a 1035 exchange to United of Omaha's Ultra-Income SPIA, they could begin receiving income payments. The transfer would not be taxable.

Ted and Mary choose a Joint and 100% Survivor Annuity. With a premium of $100,000, the Ultra-Income SPIA pays a monthly benefit of $558.61. The exclusion ratio is 46.6%. This means that, of the $558.61 monthly benefit, $260.31 is tax-free. The monthly benefit is payable as long as Ted or Mary is living. You have helped Ted and Mary convert current appreciated assets into an income without any immediate income tax consequences.

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