# A VA Rider Designed for Inheritances

By Kerry Pechter *Thu, Sep 19, 2019*

*Wealth Pass, a new Lincoln Financial variable annuity rider, makes it easy for IRA or VA beneficiaries to spread inheritances over their life expectancies.*

A new variable annuity rider from Lincoln Financial, called Wealth Pass, allows non-spouse beneficiaries of variable annuities or retirement accounts to stretch the receipt of their inheritance over their own remaining years of life expectancy, with the added assurance that, if they live that long, no less the nominal value of the original inheritance would be paid out.

Under current law, widows or widowers can assume the ownership of inherited IRAs or inherited deferred annuities, but a non-spousal beneficiary faces different options. The new Lincoln rider is designed to encourage these non-spouses to keep the assets in their inherited VA, inherited IRA, or even a non-qualified account, to buy a new Lincoln VA with the assets.

“Suppose someone put $100,000 into a variable annuity today,” Del Campbell, vice president of variable product development at Lincoln Financial, told *RIJ* this week. “If he or she dies in 10 years, and the death benefit is $200,000, a non-spouse beneficiary, can take the contract, add the Wealth Pass rider, and then receive $200,000 over his or her own life expectancy.

The beneficiary would actually have several options under the Wealth Pass rider. To be assured of receiving the entire (nominal) inheritance, he must take out at least his required minimum distribution (RMD) each year (as determined by IRS life expectancy tables). Alternately, he could also take out a higher percentage, up to a limit set by Lincoln.

For instance, beneficiaries who are 60 years old have a life expectancy of 25 years. They can stretch the payments over 25 years, starting with an RMD of 4% ($8,000) in the first year. In each of the next 24 years, they would receive their RMD amount, unless they choose to cash out and end the contract. Alternately, they could withdraw up to 5.5% ($11,000 in the first year) and continue withdrawing at that pace until they receive the entire $200,000.

“They would still be invested in the market, so with good performance they could get more than that,” Campbell added. “If they then died before receiving all of their payments and they still had any account value, their beneficiaries could receive their remaining payments or the account value." If the account value is zero when the second owner dies, the contract is cancelled and no further payments are issued.

Alternately, people who inherit a $100,000 traditional IRA, for instance, could invest the assets in a new Lincoln VA, add the Wealth Pass rider, and spread their inheritance and tax liability over their life expectancies, with the assurance that the entire $100,000 would be paid out while they're living.

**A hypothetical beneficiary**

A Lincoln Financial **web page** illustrates the tax implications of using Wealth Pass, which adds a 1% annual fee (1.25% for those ages 66 to 80) to the mortality & expense risk fees and investment fees of the assumed or new variable annuity. The illustration imagines a hypothetical investor, Cynthia, 56, who inherits an IRA worth $500,000.

If Cynthia took the $500,000 in a lump sum, she would owe income tax of $165,000 (assuming a 37% marginal tax bracket). Her after-tax inheritance would be $335,000. If she took $100,000 per year for five years, she would pay an incremental $25,000 in federal income tax per year (assuming a 32% marginal tax bracket), leaving her with an after-tax inheritance of $375,000.

But if she used the $500,000 to buy a Lincoln VA with a variable annuity with Wealth Pass, she would receive her inheritance over her life expectancy or she could take it out at 5% per year for 20 years, with a guaranteed payout of at least $25,000 per year (assuming she followed the rules of the contract), paying $5,816 per year ($116,000 total) in income taxes. This assumes no growth; with market growth her income could be higher.

(There is a limitation on the portion of the VA account value that can be held in equities. See the **prospectus** for further details.)

As of today, the Wealth Pass rider can be added to either a qualified or non-qualified VA contract. But pending federal legislation, known as the SECURE Act, would effectively eliminate the so-called "stretch" strategy, which allows non-spouse beneficiaries of qualified accounts, such as IRAs, to receive distributions from the qualified account over their life expectancies. The SECURE Act would mean that Wealth Pass could only be attached to non-qualified VAs.

The SECURE Act passed almost unanimously in the House last May but has been hung up in the Senate, where certain senators, including Ted Cruz (R-TX), have objected to certain provisions. The SECURE Act would eliminate the ability of a non-spouse beneficiary to take a lifetime payout in most cases, and impose a maximum deadline of 10 years to distribute the full value of the qualified account. It remains unclear whether the SECURE Act and its Senate counterpart will be reconciled, passed and signed by the president during the current session of Congress.