

## Aggregation of Non-Qualified Annuities

When recommending an annuity contract to a client, it's important to keep in mind the aggregation rule, outlined in Internal Revenue Code Section 72(e) (12) (A) (ii). The Code states that all non-qualified deferred annuity contracts issued by the same insurance company in the same calendar year are treated as a single annuity contract for tax purposes. Because of this, **annuity aggregation can result in unexpected tax liability for the contract owner.**

### Consider this example:

In 2017, John purchases three deferred annuities from MassMutual Ascend Life Insurance Company. Over time, John's account values grow as interest is accumulated. Time passes and John decides to take a \$50,000 distribution from Annuity 1.

	Annuity 1	Annuity 2	Annuity 3
<b>Purchase payment</b>	\$100,000	\$100,000	\$100,000
<b>Interest accumulated by time of distribution</b>	\$20,000	\$20,000	\$20,000
<b>Account value at time of distribution</b>	\$120,000	\$120,000	\$120,000

At the time of the distribution, each contract has earned \$20,000 in interest. Because John purchased all three contracts in 2017, his earnings are aggregated. This means, for tax purposes he has earned a total of \$60,000. Therefore, **John's entire \$50,000 withdrawal is considered taxable.**

### What circumstances are not subject to the aggregation rule?

The aggregation rule only applies to non-qualified deferred annuity contracts issued by a single company in a calendar year. Keep in mind, insurance carriers that are related to each other are treated as a single company. The following are not subject to the aggregation rule:

- Qualified plans
- Immediate annuities, unless issued as part of a 1035 exchange
- Annuities purchased from unrelated insurance carriers during the calendar year

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