Lincoln Financial®

You Inherited an Annuity. Now What?

Here's a strategy for tax-smart income via 1035 exchange for beneficiaries of nonqualified annuities



INVESTMENT AND INSURANCE PRODUCTS ARE:

- **NOT FDIC INSURED**
- **NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY**
- **NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, THE BANK OR ANY OF ITS AFFILIATES**
- **SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED**

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

For use with the general public.

9113052

A tax-smart plan can start with a 1035 exchange

It used to be, your options were limited if you inherited a nonqualified annuity — and the tax headaches that might accompany it. That all changed when the IRS agreed that the beneficiary of an inherited annuity is the new owner of the original contract, and meets the requirements to make a 1035 exchange. As the beneficiary, this gives you the freedom to select a new annuity tailored to your financial goals.

When you access the money,[1] you have three death claim options:

1. **Lump sum**
   All your taxes are due at once, which can result in a substantial tax burden.
2. **Five-year deferral**
   All your taxes are due within five years, which moderates the tax blow somewhat.
3. **Nonqualified stretch**
   You can take payments over your life expectancy, which spreads out the tax impact over many years. This offers some substantial benefits, discussed on the right.

Annuities are long-term investment products that offer tax-deferred growth, access to a lifetime income stream, and death benefit protection. Variable and registered index-linked annuities may be subject to market fluctuation, investment risk, possible loss of principal and there may be costs associated. Optional features may be built-in or if selected, are available for an additional charge.

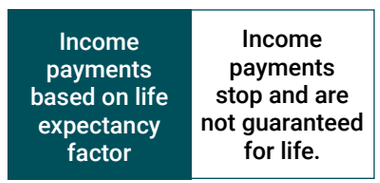
Lincoln's tax-savvy solution for a nonqualified stretch

Here are three powerful ways you can soften the income tax burden and create tax-efficient lifetime income with a Lincoln annuity and *i4LIFE*® Advantage, an income benefit available for an additional charge.[2]

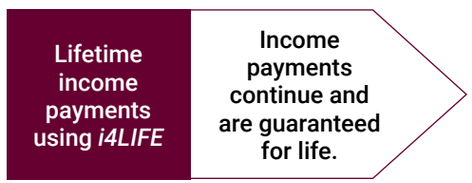
1
Lifetime income

If you choose a nonqualified stretch, there are two ways you can take the payments. If you need lifetime income or want to pass on the assets to your loved ones, you should carefully consider these options.

Systematic withdrawals
(may run out)



***i4LIFE* payments**
(allow you to create an income stream that stretches beyond your life expectancy)



[1] PLR 201330016 allows you to do a 1035 exchange on your inherited annuity. IRS requirements of Code Section 72(s) must be followed when accessing money from the new account. Please consult an independent tax professional for more information.

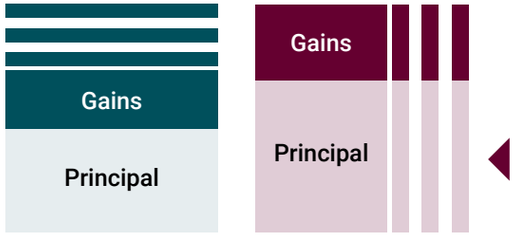
[2] *i4LIFE*® Advantage is an optional feature available for an additional annual charge (0.40% single and joint life). See Fact Sheet for complete details.

2

Tax-efficient income

The way you take income from an inherited nonqualified annuity can affect the way you're taxed, especially if the assets had the chance to grow. This example shows how an income payment might be taxed, depending on the option you choose.

If there are gains in the contract, last in, first out (LIFO) will apply to systematic withdrawals, which means the entire tax hit is up front.



If there are gains in the contract, *i4LIFE*® offers a **tax exclusion ratio** for payments, returning a portion of principal with each payment.[1] This helps mitigate the tax burden by spreading it out.

[1] The exclusion ratio only applies until the cost basis has been returned, and then the payments are fully taxable.

[2] Additional withdrawals are subject to ordinary income tax to the extent of the gain. Withdrawals will reduce the account value, death benefit and income payments are recalculated.

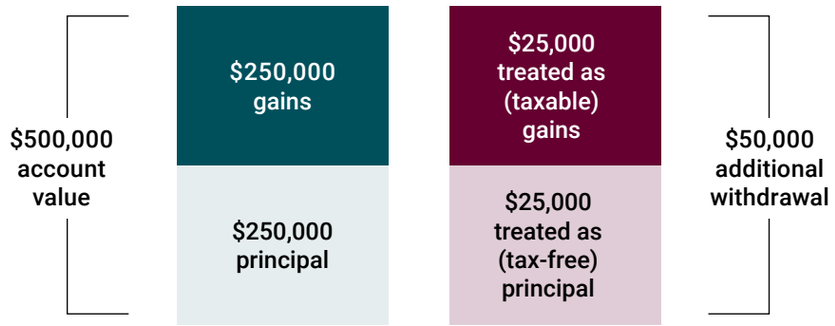
[3] For illustrative purposes only. The taxable and tax-free amounts will be based on contract-specific values at the time of withdrawal.

3

Flexibility for additional withdrawals — and more tax benefits!

With most annuities, when you turn on a lifetime income stream, you lose control of your assets. With *i4LIFE*, you stay in control of your death benefit and account value—giving you flexibility to control the amount of income you want to take. So if you want to take an additional withdrawal, you're able to during the Access Period.[2]

In the example below, if you took a withdrawal from an annuity that doubled in size, **half of your withdrawal would be tax-free**, because it benefits from the **tax exclusion ratio** once you've started *i4LIFE* payments.[3]



Tax exclusion ratio: the key concept of *i4LIFE*

Tax exclusion ratio
If your annuity assets have grown, your withdrawals and payments can receive favorable tax treatment. A portion of each withdrawal is excluded from taxes until your principal is returned.

Lincoln Financial®

Your tomorrow.
Our priority.®

If you have inherited a nonqualified annuity, ask your financial professional how a nonqualified stretch can help you create a tax-smart plan.

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For registered index-linked annuities, material is authorized for use only when preceded or accompanied by a prospectus, which describes investment objectives, risk factors, fees and charges that may apply as well as other important information.

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. The applicable prospectuses contain this and other important information.

Please call 888-868-2583 for free prospectuses. Read carefully before you invest or send money.

Annuities may include surrender charges, administrative fees and other costs that can reduce returns. Earnings grow tax-deferred, but withdrawals are subject to ordinary income tax and may incur a 10% penalty if taken before age 59½. Withdrawals and surrenders may be subject to surrender charges and a Market Value Adjustment.

i4LIFE® Advantage is available with Lincoln annuities (contract forms 30070-A 8/03, 30070-A-ID 8/03, 30070-B, 30070-BID, ICC23-60020 and 23-60020, ICC23-60021 and 23-60021, ICC23-60022 and 23-60022, ICC1515-619, 25-50096, 25-50097, ICC25-50096, ICC25-50097 and state variations). Lincoln annuities are issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer. **The Lincoln National Life Insurance Company does not solicit business in the state of New York, nor is it authorized to do so.**

In New York, *i4LIFE*® Advantage is available with Lincoln annuities (contract forms 24-70030 through 24-70035). Contracts sold in New York are issued by Lincoln Life & Annuity Company of New York, Syracuse, NY, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer.

All contract and rider guarantees, including those for optional benefits, fixed subaccount crediting rates, or annuity payout rates, are subject to the claims-paying ability of the issuing insurance company. They are not backed by the broker-dealer or insurance agency from which this annuity is purchased, or any affiliates of those entities other than the issuing company affiliates, and none makes any representations or guarantees regarding the claims-paying ability of the issuer.

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

Products and features are subject to state availability.

For use with the general public.

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

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