Retirement Plans and Variable Annuities

Many types of defined contribution and defined benefit plans can offer variable annuities for the benefit of participants, including:

- 401(k) plans
- Solo 401(k) plans
- Profit sharing plans
- Defined benefit plans
- Money purchase plans

Using a Transamerica variable annuity as an investment option within a qualified retirement plan can provide a plan participant with important income protection and guarantees in retirement.*

When a Transamerica variable annuity is purchased by a plan participant, that participant can receive the same options and features that would be available if they were to purchase the annuity in their IRA. Moreover, those options and features can remain in effect even after the client moves the proceeds to an IRA. While both provide tax deferral, the annuity can also provide income protection and guarantees. However, features other than tax-deferral should be considered when purchasing an annuity as an investment asset in a qualified plan annuity because there is no additional tax deferral benefit derived from placing an IRA or other tax-qualified funds into an annuity. Please keep in mind there are fees and charges with the purchase of an annuity, including additional fees for optional benefits, such as living benefit riders.

How it Works

If the plan participant would like to purchase a Transamerica variable annuity while they are still a plan participant, the qualified plan will be the owner and the beneficiary on the annuity contract, and the participant is named as annuitant. When the plan participant would like to rollover the assets in the annuity contract to their IRA, the trustee of the plan will request a change of ownership of the annuity from the plan to the individual's IRA. Transamerica will change the owner on the account from the qualified plan to the individual's IRA. Once this occurs, the owner can name new beneficiaries for the IRA.

The rider benefits on the annuity remain the same. The surrender fee schedule for the contract will also continue unchanged.

Case Study—Smith Consulting Solo 401(k)

Consider the following example. Jane Smith is a self employed retail consultant with a solo 401(k) plan. Accordingly, she is the plan participant, trustee, and fiduciary. The total plan balance is $500,000. Jane is concerned about market volatility and would like to invest a portion of her plan balance to provide a guaranteed stream of income in retirement.* She decides to invest $300,000 of her plan balance into a Transamerica variable annuity.

Working with her financial advisor and plan administrator, Jane purchases an annuity with a portion of the assets she has in the plan.

*All guarantees, including optional benefits, are backed by the claims-paying ability of the issuing insurance company. Rollovers and transfers may be subject to differences in features and expenses. Indirect transfers may be subject to taxation and penalties. Consult your tax advisor regarding your situation.

Before investing, consider a variable annuity’s investment objectives, risks, charges and expenses. Call 1-800-525-6205 for a contract and fund prospectus containing this and other information. Please read it carefully.


Annuities may lose value and are not insured by the FDIC or any federal government agency. They are not a deposit of or guaranteed by any bank, bank affiliate, or credit union.

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Case Study—Smith Consulting Solo 401(K) continued

Jane now has $300,000 in an investment vehicle that can provide income protection, death benefit protection and a guaranteed income stream for life once she retires. The strategy allows the participant to start accruing benefits while the annuity is in the plan, thereby potentially maximizing the benefit upon retirement. When Jane is ready to take income from the annuity, the income will be based on benefits accrued since the inception of the contract.*

It is important to note that the plan is not only the owner of the annuity, but also the beneficiary. This is because the participants designate their beneficiaries at the plan level. In this example, if Jane was to pass away while the plan still owns the annuity, the death benefit would be paid back into the plan, and distributed to her beneficiaries in accordance with the beneficiary designation on file with the plan.

When Jane Retires

Jane eventually retires, terminates her solo 401(k) plan, and rolls her interest in the plan to an IRA. The mechanics of this rollover are relatively simple. Jane, as trustee of the plan, requests a change of ownership of the annuity from the plan to her IRA. Jane is now the owner of her annuity within her IRA and she can change the beneficiary designation to suit her intentions. The result looks like this:

<table>
<thead>
<tr>
<th>Smith Consulting Solo 401(k) Plan</th>
<th>Rollover</th>
<th>Jane’s IRA</th>
<th>Rollover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner: Jane Smith</td>
<td></td>
<td>Jane’s IRA Mutual Funds $200,000</td>
<td>Owner: Jane Smith</td>
</tr>
<tr>
<td>Annuitant: Jane Smith</td>
<td></td>
<td>Jane’s IRA Annuity: $300,000</td>
<td>Annuitant: Jane Smith</td>
</tr>
<tr>
<td>Beneficiary: Son and Daughter</td>
<td></td>
<td></td>
<td>Beneficiary: Son and Daughter</td>
</tr>
</tbody>
</table>

Even though the ownership of the annuity has changed, the covered life (as identified by the annuitant) remains the same. Therefore, the benefits and features Jane elected on the annuity contract remains intact.

Multiple Employee Plans

For qualified plans with more than one employee, the mechanics are essentially the same. As long as the plan sponsor, trustee and/or fiduciary have approved the use of a Transamerica variable annuity as an investment option in the retirement plan, each employee would have the option of allocating a portion of their own plan assets into the variable annuity investment option. The plan would be the owner and beneficiary of the annuity and the plan participant would be the annuitant on their own contract. When the employee severs from employment, the plan trustee can submit the request to retile the annuity contract from the plan to the plan participant’s individual IRA and the contract will stay in force.

Considerations

Plan sponsor and administrator must sign and abide by all conditions set out in Transamerica’s “Qualified Plan Certification and Acknowledgement Form.”

The trustee of the plan must make the annuity strategy available to all eligible employees. A single Transamerica annuity cannot be used to benefit multiple plan participants. Each annuity in the plan must be for the benefit of a specific participant. Any funds invested in the annuity will not be available for plan loans. Any excess withdrawals from the annuity can result in surrender charges and have an adverse impact on contract riders and benefits. Any living benefits or enhanced death benefits may need to be considered in valuing the variable annuity for required minimum distribution purposes.

Use of an annuity in a qualified plan will require the approval of the plan trustee and plan administrator. Always review the annuity strategy with the plan trustee and plan administrator before initiating the annuity purchase. All plan administration, including tax reporting, is the responsibility of the plan sponsor and/or plan administrator. The plan trustee and plan administrator should also consult with their legal and tax advisors to determine whether an annuity is an appropriate investment option for their plan.

The recommendation to purchase an annuity in a qualified retirement plan may result in the person making the recommendation being considered a fiduciary to the plan. Be sure to consider your fiduciary status with the plan before making such a recommendation.

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