

Money, Insurance & Investments for Seniors

So You Have Decided To Sell Your Annuity or Did You Know You Could?

You can sell your annuity thanks to emergence of secondary market

By Michael Vaughan
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Your advisor or agent told you. Probably more than once. It was written all over the contract. You may have thought about it, but never thought it would be a problem.

The 'it' we're referring to is the fact that once you purchase your annuity, you cannot sell it. You are stuck with it for life.

While that was once true, it's not any longer. The fact is you can sell your annuity thanks to the emergence of a secondary market that is being pioneered by firms like ours.

The notion that you can sell your annuity is an idea that makes so much sense that the real wonder is why it didn't happen sooner. There are few, if any, investments you make where you are required to own it for life. There are also few, if any, investments you make that, after you purchase it, you have no idea what it is worth. With the advent of home equity lines of credit, your home, if you own one, became more liquid than your annuity.

But not anymore.

However, just like any other investment, this newfound freedom confers upon you the responsibility to do some research and make the right choices. What follows are some tips and strategies to help you make the most of the opportunity you have to sell your annuity.

1. Evaluate your decision.

Should you actually sell? In most cases, the decision to purchase an annuity was made very, very carefully. Accordingly, the decision to sell one, should be made just as carefully. Annuities are popular because they provide steady income which (most often) is guaranteed. Those are important features. Do you

need steady income? If so, the sale of your annuity can still be a good idea, especially if you reinvest in other financial products which offers a higher return than your annuity. But if you do find other investments with a higher return, are they as safe as your annuity? If the income from your annuity is critical, and you answer no to either of the above questions you probably should not sell your annuity.

But if the income from your annuity is not critical, or not all of it, and you need or want cash for any other purpose, your decision to tap the secondary market is a prudent one that likely will be rewarding.

2. Call your insurance company.

Determine what options, if any, you have with the issuing insurance company to cash out your annuity policy directly. Many deferred annuities have “surrender charges” which lower the cash value you can get from your annuity. And, in many cases, to get the full value of the policy, the owner of the annuity must receive 5 of 10 year payment streams. Most immediate annuities (where the individual is receiving a stream of payments from the insurance company immediately after making an up front payment) offer no liquidity options.

Even if what the insurance company is offering doesn't work for you, it's important to know the facts because it will help you understand the costs, advantages and benefits you will experience in the secondary market.

3. Contact a reputable buyer of annuities in the secondary market.

You can get a free review of your annuity policy and to determine its fair market value directly with a buyer in the secondary market or through your insurance agent or financial advisor. This should cost you nothing. There should be no strings attached and there should be no obligation for this analysis. The company you contact should fully explain the nature of your policy, what your options are in the secondary market, and be willing to answer any questions without pressuring you into selling your policy. And, you want to work with a company (directly or through your advisor) that has a track record of providing service and value to annuity owners in this marketplace. It's particularly important to understand if you have options to sell your policy in the secondary market when you have been told by the insurance company that you can't cash out the annuity or that you face “surrender charges” if you want to cash out, because those are the types of situations where you can benefit the most from the secondary market.

4. For annuities in payout, consider how much of your current payment you really need.

One of the real advantages of the secondary market is how much flexibility it offers annuity owners. You don't have to sell all of your monthly payments. You can sell just a portion. Here's an example. Suppose you own an annuity that pays \$7,865 a month. What if you could do just fine with \$5,150 per month for the next five years? You could sell \$2,715 of your monthly payment for five years and get a lump sum of \$137,000. With this lump sum you could pay for a grandchild's education, buy a second home, or a boat, or pay bills, or invest in something different.

5. Get tax advice.

The sale of an annuity can have important tax consequences. Fortunately, many of these tax consequences are positive, especially if one of your motivations for selling your annuity is estate planning. Specifically, while annuities are good for providing a stable source of income, they are not so good for transferring wealth to beneficiaries and heirs. If your estate is above the estate tax threshold, as much as 47% of your annuity could be lost to taxes. Worse, all of the gains inside of the annuity will be taxed at your heirs' ordinary income tax rate.

Compare this to selling your annuity and buying stocks, bonds or mutual funds. These instruments can pass onto your heirs with no tax consequences at all until they sell them. If your heirs hold onto the stock, bonds or mutual funds and pass them onto their heirs you can achieve up to three generations of tax deferred growth. Ultimately the proceeds from your annuity sale may turn into a fortune.

The ability to finally sell your annuities may be met with such relief that the immediate reaction is to cash out. However, like any other investment, equal care must be taken when buying as well as selling.

About Michael Vaughan

Michael Vaughan is the managing director of J.G. Wentworth's Annuity Purchase Program™. Mr. Vaughan has been a featured guest on The Wall Street Journal – This Morning (hosted by Gordon Beal), in addition to several other national and local radio programs. Mr. Vaughan has authored articles for many of the top trade publications to educate insurance and financial professionals on the secondary market for annuities, in addition to being quoted as the leading industry expert in Time Magazine, Business Week, MarketWatch.com, Annuity Market News, Investors News, Dow Jones Newswires and the personal finance column of many of the country's largest newspapers.

J.G. Wentworth is the nation's oldest, largest and most respected buyer of annuities. For more than 15 years, J.G. Wentworth has been purchasing annuities. During this time, the company has paid out more than \$2 billion in cash to clients for the purchase of future payment obligations. The company's annuity-backed notes, which are rated AAA by Standard & Poor's and Aaa by Moody's, are marketed by top-tier Wall Street firms to sophisticated institutional investors around the globe.

Contact Mr. Vaughan toll-free at 800-535-0195 x2387, direct at 484-434-2387, or by e-mail at mvaughan@jgwannuities.com.