New Haven Register.com

07/24/2006

Cashing out: Secondary market for annuities provides flexibility

Steve Higgins, Register Business Editor

Annuities are big business in Connecticut.
According to estimates by J.G. Wentworth, a Pennsylvania-based finance company, Connecticut has the highest sales volume of annuity dollars per capita of any state, with 2 percent of all annuity sales and just 1.2 percent of the U.S. population.

In 2004 alone, Connecticut residents bought $4 billion worth of annuity products, with total assets backing annuities outstanding of $36 billion at year's end, estimates J.G. Wentworth.

Assuming most annuity owners are 55 years old or older, and knowing there are about 700,000 people in that age range statewide, that means there are more than $50,000 in annuity assets per person in Connecticut in that age range.

Despite this wide ownership, many people who buy annuities are not aware they have an option to sell the product on the secondary market, said Michael Vaughan, managing director of J.G. Wentworth's annuity purchase program.

"Many annuities have a lack of flexibility," he said. "Not many people know there are more options than they may be aware of."

J.G. Wentworth, a 14-year-old company, pioneered the secondary market for annuities, buying the insurance products from individuals who no longer want or need them.

An annuity is a contract sold by an insurance company that will pay the buyer a specified amount of money at specific intervals, typically after retirement. Earnings from investments in annuity accounts grow tax-deferred until they are withdrawn.

Annuities traditionally were marketed to well-off people in their 40s or 50s who had maxed out their contributions to other tax-deferred retirement accounts and needed a place to invest more funds tax free. Different types of annuities developed over the years, however, and today many include life insurance provisions and other extras.

Vaughan said people have many reasons they may want to sell an annuity, even though owners often face early surrender penalties imposed by the insurance companies.

"Some people experience a change in life circumstances and that product is no longer right for them," Vaughan said. "Also, sometimes they may be interested in obtaining a new financial product."

The key, Vaughan said, is understanding what your annuity is worth and what your options are.

There are two qualifications to sell an annuity. First, it must have non-qualified tax status. That is, the annuity cannot be part of a qualified retirement account. For instance, if a person has rolled over a 401(k) or 403(b) account into an annuity, it’s not eligible for sale. About half of outstanding annuities are in this category.

Second, the annuity must include a set guaranteed payment period option. In other words, any annuities that pay a benefit only for the rest of the person’s life (known as "life-only immediate annuities") do not qualify for sale. However, most immediate annuities have a guaranteed portion, and all deferred annuities have a guaranteed payment option and therefore meet the requirements for sale.

If the annuity qualifies, companies such as J.G. Wentworth will evaluate the annuity’s value and decide whether to offer the consumer an immediate payment in exchange for rights to the annuity contract.

Vaughan said another factor consumers should be aware of is the option to customize such sales. In other words, companies in the secondary market often will buy just a portion of an annuity contract rather than the entire contract.

For example, a consumer may be receiving $5,000 a month for the next 10 years as the result of an annuity contract. If the consumer decides they don’t need that much money each month, he or she may sell a portion of the $5,000 payment, or a portion of the 10-year period, depending on the person’s needs.

Steve Higgins can be reached at business@nhregister.com or 789-5752.