

# The ADVOCATE

## **There are options for receiving annuity income**

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What do you do if you are receiving payments from an annuity, but no longer need the monthly income? The insurance company making those payments is under no obligations to try to work out some sort of accommodation for you.

People in this position had no options until relatively recently, with the development of a secondary market in annuities.

The best way to explain the concept is through a few real-life examples provided by Michael Vaughan, managing director of the J.G. Wentworth Annuity Purchase Program. J.G. Wentworth is the nation's oldest and largest buyer of annuities, Vaughan said.

### Case 1: Lower income needs

John, 66, was the owner of a single premium immediate annuity that he purchased in 2001 for \$1.58 million because he wanted to have guaranteed retirement income of \$7,865 per month for as long as he lived.

After a few years, John's income needs dropped by half, and his priorities changed.

He wanted to lower his monthly income and increase his legacy to his children.

John's annuity was structured to pay him his monthly payment for "life with 20 years certain."

The "certain" period is a minimum payment period.

If John is hit by a truck the day after the purchase of the annuity, the payments would continue for 20 years.

At the time he talked to J.G. Wentworth, John had 194 monthly payments left under the certain period. John sold a portion of those payments (\$4,000 a month) for \$448,910.

On advice from his lawyer, John set up an insurance trust and used the proceeds of the sale, after taxes, to buy an insurance policy with a death benefit of \$1.655 million for his children.

Since John sold only a portion of the monthly annuity payments, he still had \$3,865 coming to him each month -- and after 194 months, these payments would increase to his original \$7,865 a month and continue for the rest of his life.

#### Case 2: An Inherited Annuity

Earl, 48, was the beneficiary of a single premium immediate annuity that his father purchased to provide retirement income for himself and his wife.

The annuity paid \$262 per month for both lives with 20 years certain.

When his parents died, there were 120 months of remaining payments under the annuity.

Earl was the beneficiary, but he didn't want the payments. Instead, he needed money to pay for college for his children. Earl sold the income stream for \$20,450.

#### Case 3: Medical Bills

Alice, age 67, bought an indexed deferred annuity in October of 2000 for \$75,000 as a tax deferred investment. She was attracted by the promise of an up-front bonus of \$7,500.

After a few years, she experienced some medical problems and needed money to pay the bills.

Because this annuity was not in payment status ("annuitized"), the policy permitted Alice to cash out, but only if she paid a surrender charge.

Based on this type of policy, Alice could never withdraw the full policy value of \$106,433.

If she wanted the benefit of the higher value, the policy required her to annuitize for a minimum of five years

If she did that, Alice would receive monthly payments of \$1,913 per month for 60 months certain, but she would have no right to any additional amounts.

In the alternative, Alice could surrender the policy for \$79,595, the amount she would receive under the policy when she cashes out, not \$106,433.

Alice was able to sell the policy to J.G. Wentworth for \$94,346.

If you have an annuity you don't need, consult with your financial adviser. A sale might be an option for you.

But be careful. Be sure to pursue all possibilities and do your due diligence on the company making you the offer. Secondary markets in these products are relatively new, having started about 15 years ago.

-- Julie Jason, J.D., L.L.M., a money manager and principal of Jackson, Grant Investment Advisers Inc. of Stamford, welcomes questions for consideration in her column. E-mail her at [JJ@JulieJason.com](mailto:JJ@JulieJason.com) or write to her c/o The Advocate and Greenwich Time, 75 Tresser Blvd., Stamford, CT 06904.

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