

Own an Annuity? You Could Have Options

BY: DAVID DUFFY

Annuities are a staple of financial planning. Their appeal is simple—they remove uncertainty by guaranteeing a defined level of income for a set period of years. Annuity reserves top \$2.5 trillion, according to the American Council of Life Insurers.

But life—and plans—can change. A guaranteed income stream that once seemed attractive may be less so for someone going back to work or starting a new business. Parents pass away unexpectedly, leaving annuities to their children who could make better use of a lump sum of cash.

“Every situation is unique, but the people we work with most often fall into two categories,” says Ken Murray, chief marketing officer at J.G. Wentworth, the nation’s largest purchaser of future payments. “Annuity owners who face unexpected,

large bills—medical expenses or college tuition for example, and people who have inherited an annuity and want to access the underlying lump sum of cash now.”

Those looking to convert an annuity have multiple options and need to do their homework. First step—check with the company that sold the annuity to see if it has cash value. Pay attention to the fine print. An immediate annuity may not provide a lump-sum payment once the periodic payments have started. A deferred annuity can carry “surrender charges,” which lower the

current cash value.

The next step is to consult the secondary market, where even annuities that appear to have no cash value may be salable. Choose a reputable buyer of future payments, with a solid track record. It should be able to specify the value of the annuity with no cost or obligation to sell. Research multiple providers to understand all the options available.

The major factor determining salability is tax status. Annuities with qualified retirement tax status as defined by the IRS—for example, those sold to a 401(k) plan or IRA—

cannot be sold on the secondary market. Most annuities with non-qualified tax status, meaning they were originally purchased with after-tax dollars, can be sold.

The secondary market offers annuity owners flexibility—they can sell all of a payment stream or only part, retaining the balance. Murray cites the example of an annuity paying \$7,865 a month with seven years of payments left. The owner only needs \$5,150 a month for the next five years. He could sell \$2,715 of monthly payments for five years for a lump sum of \$105,000 while continuing to receive \$5,150 a month for that period, before the full \$7,865 a month is reinstated for the remaining two years.

“We work with each customer closely to determine how much money they need to and for what

purpose. That usually results in a partial sale with some continuing payment stream going forward,” Murray says.

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