

## Goals Should Direct Your Annuity Plans



**Q:** I have a variable annuity that I bought ten years ago. My accountant wants me to cash it out but my new advisor suggested exchanging it for another annuity. What should I do?

**A:** Ask yourself why you purchased your annuity. Was it for tax deferral? Were you looking for guaranteed minimum interest payments, or did you want to have a large death benefit? Were you interested in securing life time payments to supplement your retirement income?

Next, decide if any of these reasons still exist. If you wanted tax deferral, and your accountant is suggesting that you cash it in, confirm that you don't want it and won't have a tax issue. Withdrawals of earnings from annuities are taxed as ordinary income.

If you decide to exchange it for another annuity, cash it in, or keep it, there's a lot to consider.

Review the original annuity contract, amendments, and prospectus and understand the terms, benefits, riders and endorsements. Understand the mortality and expense risk charge, administrative fees, underlying mutual fund options and expenses, and look for special riders and features. Double-check the surrender period. Investigate the financial soundness of the insurance company holding the annuity contract to determine financial strength and ability to pay claims. Call your agent or the life insurance company to confirm your assumptions.

If the death benefit protection is an important consideration, study the rider carefully before you exchange the annuity. There are age-based restrictions on death benefit riders. Compare the death benefit to the current market value. Remember, the earnings in annuities are taxed as ordinary income, even for beneficiaries. Talk to your tax professional.

If you're interested in the guaranteed payments for life, review the terms of annuitizing the contract. This is an irrevocable decision; once a contract is annuitized,

game over. It's a contract to make payments to you or to someone you designate, typically for a life-time. Living longer than your life expectancy is a way to win.

Now analyze the new annuity and compare fees, expenses, surrender periods, insurance company ratings, and benefits of the old and new annuities. If you're out of a surrender period, you may not want to start the clock running again on another surrender period.

Your situation and your goals should determine whether you keep an annuity, exchange it, or cash it out. Understand your personal goals, see how it fits into your financial plan, talk to your advisors, and look before you leap!

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