Boomer Angle™

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Variable Annuity Do-overs: Good for consumers?

You own a variable annuity (VAs) and have been approached by the insurance company which sold you the VA with a “buy back” offer. **What should you do?**

This is an important and perplexing question about which more and more VA owners are being confronted. It is also a valuable opportunity to re-evaluate the VA within the context of your overall retirement planning and determine if it still , or ever did, make sense for you. You have a sort of VA do-over.

Complications Ahead!

Unfortunately with the do-over you are again confronted with a fundamental problem with variable annuities. **They are so darn complicated**. A VA may be right for you but they are complicated to evaluate when you are buying them and they are complicated to evaluate when a company offers a buy back.

Consider the most basic feature: account values. Most VAs have two different “account values”: the actual account value and a benefit base. This one feature alone absolutely drives people to distraction.

The **actual account value** is the true value of the mutual fund portfolio within the VA. This is the value for which you can cash out the VA anytime minus perhaps a surrender charge.

The fun starts with the second “account value” often called a **benefit base** or something similar. The benefit base grows over time based on rules defined by your particular contract. Typically the benefit base will grow annually dependent upon the highest of the following factors:

- the actual account highest value on either the contract anniversary date, a monthly anniversary date or even a daily high value.
- a guaranteed annual growth rate ,usually in the 4-5% range.
- a 10 year guaranteed growth rate.

This benefit base has nothing to do with the cash out value of the account but can be used to calculate future income or withdrawal benefits. Furthermore, a VA from another company or even the same company purchased in a different year may calculate your benefit base very differently!

This only scratches the surface of fun VA features which also include surrender periods, riders that promise a range of payment features, death benefit riders and more.

If your head is spinning, you are not alone. Variable annuities are good at doing that. Although they are complicated a VA may provide very real value so let me suggest an approach to evaluating your VA.

Four Step Process to evaluate a buy-back offer.

1. Review your overall retirement planning with your financial planner and re-evaluate what role the VA plays in your long range retirement plan.
2. Study the contract and make a list of questions. The company may be offering to buy – back the entire annuity or only buy back certain features of the annuity.
3. Have a detailed conversations with a staff representative of the VA company. Companies have staff full-time devoted to helping answer questions about their different contract.
4. Evaluate the contract with the following considerations in mind:

You may be inclined to turn down the offer and keep your contract if:

- the VA company is strong and well-financed.
- the covered individuals (you and perhaps your spouse) are in good health.
- you have a strong preference for guaranteed income.
- you are not especially comfortable with risks of investing in the financial markets.
- the asset values in the VA are not important.

On the other hand you should consider the buyback offer if:

> Prediction if very difficult,
>
> especially if it's about the future.
>
> - Niels Bohr, Danish physicist

- you no longer feel the need for the VA guarantees due to improved financial conditions such as a better paying job, lower than projected expenses, inherited money or better investment performance.
- both you or your spouses' health have deteriorated dramatically.
- you have a strong need to leave specific legacy gifts upon your deaths.
- You have concerns about the financial health of the VA company

If you remain undecided, consider that the VA company is not offering a buyback in order to give you more benefits or more value. They are trying to improve their financial position by removing potential future obligations from their books. It is totally legitimate for them to offer a buyback but you have no obligation to accept it. Take your time, think it through and see what makes the best sense for you.

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