



Partial 1035 Exchanges

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Low-yield situations solved with partial 1035 exchanges

In 2000, the Internal Revenue Service validated partial 1035 exchanges from non-qualified financial products, including tax-deferred annuities. As a result, partial 1035 exchanges have become far more common than many would have guessed. Top annuity producers have wisely made partial 1035 exchanges an important tool in addressing clients' needs and in boosting overall sales. Below are two scenarios showing how partial 1035 exchanges can help make the best of some challenging situations.

Scenario #1: The Low-Rate Captive Annuity

Several years ago, Mr. Smith invested \$200,000 in a single premium deferred annuity that has since grown to \$400,000. The annuity's renewal rate has dropped to 4.00%, and there is a remaining hefty surrender penalty for another five years.

Solution: Fortunately, this annuity allows annual withdrawals of 10% that can now be taken tax free through a partial 1035 exchange. This is especially important since all annuity withdrawals are "last in, first out" and had been taxable events prior to partial 1035 exchanges. In Mr. Smith's case above, this strategy would work particularly well. *Simply direct the annual free withdrawals to a higher-yielding, guaranteed-rate deferred annuity for the remaining five years, and then move the balance of the funds at the end of the surrender period.*

Scenario #2: The Low-Rate Out-of-Surrender Annuity

Ms. Jones has a \$100,000 non-qualified annuity with no surrender charges. Ms. Jones is not happy about her current 4.00% renewal rate, but she values the annuity's full liquidity.

Solution: *To preserve liquidity, Ms. Jones' agent suggested keeping \$25,000 to \$50,000 in the annuity, and simply partial-exchange the remaining balance — tax free — to a higher-yielding guaranteed-rate deferred annuity for accumulation purposes. Ms. Jones did just that and now enjoys liquidity and higher yields.*

Standard Insurance Company was among the first carriers to support partial 1035 exchanges — and has the means to make it happen.

Inexplicably, most carriers continue to shy away from partial 1035 exchanges, which hurts their bottom line and their annuity producers in the field. It clearly makes a lot more sense to give away a partial 1035 exchange than lose all of an annuity's assets. *True to its nature as a service-oriented carrier, Standard Insurance Company supports and services partial 1035 exchanges. If you'd like more information, speak with your MGA or call Ray Taylor at (800) 992-4446, extension 6104.*

Please note that with a partial 1035 exchange, equal portions of cost basis and taxable gain are transferred tax free to the new policy. So, if a policy has a cost basis of \$100,000 and a taxable gain of \$100,000, the new policy must be comprised of equal percentages of each.

Solve the low-yield situation with a partial 1035 exchange!