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## When and When Not to Do a 1035 Annuity Exchange

Aug 8, 2016 9:38 AM EDT DJIA ↑19.59 S&P 500 ↑18.62 NASDAQ ↑54.87



Mark Henricks [Follow](#) Aug 3, 2016 10:54 AM EDT





For retirement savers, one problem with getting into an annuity is that it can be hard to get out due to surrender charges or the prospect of paying taxes on gains. For annuity sellers, one of the problems with a retirement saver having an annuity is that it can be hard to sell another one.

An Internal Revenue Service rule allowing a 1035 exchange -- named for a section of the tax code -- promises to solve both problems. It lets someone who owns an annuity swap it tax-free for another annuity.

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1035 exchanges can be useful for annuity holders who have built up large gains that would be subject to taxes if the annuity were simply cashed in. The same applies to cash-value life insurance policies, which can also exchange tax-free to annuities. However, 1035 does not allow exchanging an annuity for an insurance policy.


People are most likely to use 1035 exchanges to switch from type of annuity to another, says David Weinstock, a certified financial planner with [WeiserMazars](#) in New York. For instance, clients might switch from a fixed annuity to a variable annuity, or from an immediate annuity to a deferred annuity.

"Or it could be a change in features and benefits," Weinstock adds. For instance, a client with an annuity that provides a guaranteed income could decide that his or her other retirement assets are sizable enough that the cost of the guarantee is not worth it, and switch to a cheaper annuity without a guarantee.

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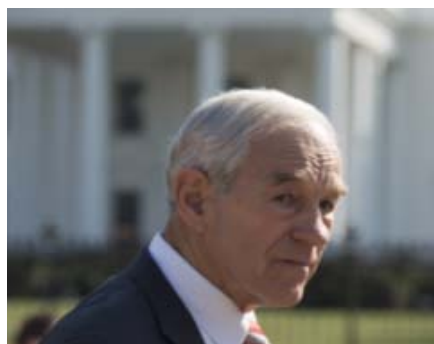
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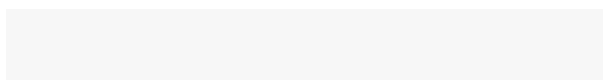
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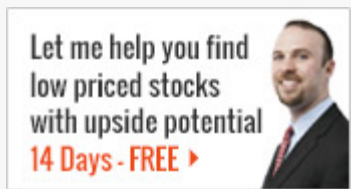
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