Surrender Charges Applied At Death? Exceptions To The Limited Features In Enhanced Rate MYGA Products.

By: Jeff Affronti—October 15, 2017

In order for some insurers to continue offering deferred annuity rates of 3.00% in this low interest rate environment, they cut certain feature that are not always used. Features which are usually priced into the rates and which all clients pay if they use them or not. Features such as free withdrawals, certain illness waivers, and full account values on death are being excluded to enhance the yield. However, the products may have exceptions to the restrictions right inside the contract. Below are some ways a client may avoid a surrender penalty on a limited feature contract.

Owner/Annuitant clients who are married may have the surviving spouse continue the contract and avoid the surrender penalty at death. The spouse becomes the new owner and names a new beneficiary. Other contracts may offer the option to waive surrender charges if the beneficiary receives the death benefit in installment payments rather than in a lump sum. In a best case, those installment payments can be selected as five annual payments starting immediately and returning the full account value in about 49 months.

A surrender penalty also applies when a client needs access to a portion of the annuity value above any free withdrawal allowed. A great item to be aware of in these situations is most carriers who allow free withdrawals base those withdrawals on a policy year basis not calendar year. So, if a client needs funds near a policy anniversary they may avoid some charges if the withdrawal is handled in two pieces. One before the anniversary and one just after. Additionally, if a client should lose their income, becomes sick or just needs the annuity funds to support a change in living expenses, a five year annuitization may be an effective financial bridge for the client while avoiding a surrender charge and a potentially large market value adjustment (MVA). I suggest agents reach out to me as their general agent and/or the carrier before submitting forms if an unforeseen need for withdrawals or a death occurs.

Beware of carriers that offer provisions with disclaimer terms such as "*by current company practice*". For example, if a carrier states *by current company practice we waive charges on withdrawals for RMD's above the free withdrawal amount*. If it is not in the contract the carrier can change the practice and leave the client in a penalty position. I have seen this with contracts which only allow one withdrawal per year but *by current company practice* allow monthly interest withdrawals. If the carrier decides to enforce the one per year withdrawals again, the client would have penalties on all but one monthly withdrawal. Even if the total withdrawals are less then the total free amount allowed per year, a surrender charge would still apply.

In the end, as agents and advisors we can add value and potentially save clients large amounts of premium just by doing a bit of investigation prior to submitting forms that could or will trigger a surrender penalty. A review of the clients or a specimen contract is all it may take to formulate a successful strategy to meet the clients needs and avoid surrender penalties.

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