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Advanced Marketing
Bulletin

Consolidating Annuity Contracts Just Got Easier

If you have customers who could benefit from consolidating their nonqualified annuity contracts, [Revenue Ruling 2002-75](#) should make things easier for them.¹

Customers consolidate annuity contracts for many reasons, including:

- To reduce the paperwork and clutter that comes from having multiple contracts.
- To combine several annuity contracts into one contract that has the features they value.
- To place their annuity with an insurance company they see as more financially stable.

Consolidating annuity contracts can also lead to increased sales for a broker, and can strengthen the customer relationship by consolidating other companies' annuities into an existing GE Financial family of companies' annuity.

Until recently, however, [Private Letter Ruling 8810010](#) made consolidation difficult. It prevented you from surrendering one contract into another, and having the transaction qualify as a §1035 exchange. A brand new contract had to come into existence as a result of the exchange: "An exchange of insurance contracts requires that the taxpayer relinquish ownership in one insurance contract and, as a result thereof, acquire ownership in a second insurance contract."

Although a private letter ruling binds no one except the taxpayer requesting it, practitioners took no chances with PLR 8810010. If a customer wanted to consolidate one contract into another, practitioners had the customer exchange both contracts for a third contract.

¹Revenue Ruling 2002-75 applies to all deferred annuities. However, this sales idea applies only to flexible premium deferred fixed annuities and to flexible premium variable annuities sold by the GE Financial family of companies. It does not apply to single premium immediate annuities or to single premium deferred annuities. It is not applicable to fixed annuities sold by the GE Financial family of companies in Indiana, Massachusetts, New Jersey and Oregon, or to variable annuities sold in Oregon.

GE Financial companies include: First Colony Life Insurance Company • General Electric Capital Assurance Company • GE Life and Annuity Assurance Company
American Mayflower Life Insurance Company of New York • GE Capital Life Assurance Company of New York • Capital Brokerage Corporation

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Principal underwriter: Capital Brokerage Corporation (dba GE Capital Brokerage Corporation in MN, IN, NM and TX),

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Although the solution worked, it generated needless customer expense:

- If the old contracts were still subject to surrender charges, both sets of charges applied.
- There were unnecessary administrative costs, because the new contract was created only to work around a legal ruling, not because the customer otherwise needed it.

Revenue Ruling 2002-75 offers a solution to these problems. There, the IRS allowed a taxpayer to assign an annuity contract to a life insurance company for surrender into a *pre-existing* annuity contract. The life insurance company received the cash value from the assigned policy directly from the relinquishing life insurance company, and applied those funds to the pre-existing contract. As a result, the basis in the old policy was added to the “new,” pre-existing policy, and the basis in the pre-existing contract (for §72 purposes) was increased by the transferred funds.

A key fact in the Revenue Ruling is that the first policy was assigned, not surrendered, so the taxpayer never actually received any money. In PLR 8810010 the taxpayer had surrendered the first policy, and had funds in hand. This makes the facts in the PLR different from the facts in the new revenue ruling. Because facts are often the deciding factor in a legal dispute, it is not safe to suggest that the PLR no longer has any meaning. If you don't follow the procedure outlined in the revenue ruling your proposed exchange could still be subject to the objections stated by the IRS in the old PLR, and fail.

Revenue Ruling 2002-75 has created some opportunities to explore consolidating nonqualified annuity contracts with customers who might not have considered it before. It is worth your time to call those customers in light of this new ruling.

A replacement may not be in the best interest of a client. For example, a client may incur surrender fees for leaving the old product and/or a new extended surrender charge period on the new annuity. Representatives should carefully consider whether a replacement is in the best interest of their client before making a recommendation to replace the client's existing product.

The discussion of tax treatments in this material is the GE Financial companies' interpretation of tax law as of January 2, 2003, and is not intended as tax advice. Have your client consult a qualified tax professional.

[Click here](#) for a fax flier related to this sales idea.

Should you have additional questions, please contact GE Financial's Advanced Marketing department by phone at 1-800-532-9116 or email us at gefa.advanced.marketing@gecapital.com.

