

call Paul Irving: (800) 640-7770, ext. 616

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**If you saw a \$1 bill on the street and all you had to do was bend over and pick it up, would you? What if it were \$1,000? What if it was \$10,000?!**

You can help your clients find additional money in their Market Value Adjusted, or MVA annuities. In certain circumstances, your client can actually make money by surrendering their annuity early. If you bring them the idea, you will not only make yourself their hero for life, but you also have a new annuity sale!

## **What Is An MVA?**

An MVA is a mechanism in many annuities that requires the owner to participate in market risk during the surrender period of the annuity. If the owner surrenders the annuity prior to the end of the surrender period, the MVA is assessed, and can either increase or decrease the value of the annuity. Most MVAs are based on the constant treasury rate. If the constant treasury rate has decreased since the purchase of the annuity, the MVA will add value to the contract. If the constant treasury rate has increased, the MVA will be in addition to any surrender charges that would be assessed for early surrender.

Most newer contracts have proportional and capped MVAs. Basically, the MVA could be positive, but it is capped at the amount of surrender charge remaining in the contract. This provision effectively prevents your client from being able to profit from an early surrender. However, some older contracts have MVAs that are not proportional, and are not capped, which is a big opportunity for agents who know what questions to ask.

## **The Opportunity**

Some older contracts have an MVA that is not proportional or capped. In a declining interest rate environment, the MVA could be positive enough to not only overcome the surrender charge, but cause the annuity to be worth more than the accumulation value. Remember, the MVA only applies while the contract is in its surrender period. If the client does not surrender the contract, or if the surrender period has already expired, the client can not collect on the MVA.

## **An MVA formula in an older contract might look like this:**

$$(A-B) \times N/12$$

Where:

A=Starting Treasury Rate

B=Ending Treasury Rate +0.25%

N=Number of months remaining in the surrender period

If your client bought a 12-year contract in 1996 when the constant maturity treasury rate was 8.25%, and surrendered today (24 months remaining) with a 3% surrender charge and a treasury rate of 4.75%, the surrender calculation would look like this (assuming a \$200,000 accumulation value as of today):

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MVA:	(8.25%-4.75%) x 24/12	x \$200,000 = \$14,000
Surrender charge:	3%	x \$200,000 = \$6,000
Additional value for early surrender:		= \$8,000

You were able to hand your client an additional \$8,000 just because you knew what questions to ask. Further, the only way your client can capitalize on the information you have provided them is by surrendering the contract early, which means you have a new sale in the amount of \$208,000.

Over the last several years, T-bill rates have been declining. If your client has an annuity that is 2-8 years old, and has an MVA feature, it is worth investigating. Here are a few questions you can ask the insurance company's service department:

- 1. Can you tell me the Accumulated Value of the contract?**
- 2. Can you give me a current MVA calculation?**
- 3. Can you give me a current surrender value including the MVA calculation?**

**CASE IN POINT: Real example, 12/18/2008:**

- Male, age 65, currently has 10 year annuity issued 2 years ago
- 4% Guaranteed interest rate for next 8 years
- Current Accumulated Value = \$188,013
- Current Surrender Value = \$204,739
- Current Surrender Charge = \$11,847
- Positive MVA = \$28,573

**ADDITIONAL VALUE FOR EARLY SURRENDER:  
\$16,726!!!**

And, the Broker makes another sale:  
 Moves from 4% at current carrier to 4.85% guaranteed for 5 years at A+ rated carrier.

**Client gets an additional \$16,726 just for moving the money.  
 Broker makes a new commission of \$8,189**

The interest rate environment has NEVER been better for these opportunities.  
 Ask your clients about their annuities today, and be a hero for finding the money!

**Call Paul Irving at (800) 640-7770, ext. 616.  
 He'll set you up for the easiest sales you've ever made!**