GAINBRIDGE

A Smarter Approach to Stability:

Optimizing Portfolios with a 1035 Exchange

A Guide for Financial Advisors

Helping clients align their investments with their long-term goals is at the core of what financial advisors do. Many investors initially choose Variable Annuities (VAs) for their growth potential, but over time, high fees, market volatility, and outdated investment options can make these products less effective for their needs.

For clients seeking stability, predictable returns, and lower costs, a 1035 exchange into a Multi-Year Guaranteed Annuity (MYGA) can be a strategic move. This exchange allows clients to transition from a higher-risk annuity to a fixed-rate solution—without triggering immediate taxes on gains.

What You'll Learn

- How a 1035 exchange preserves tax deferral
- How a 1035 exchange can be used to reduce risk
- How to identify ideal clients for this strategy

By leveraging this approach, you can help clients enhance portfolio efficiency, protect their assets, and secure financial peace of mind.

Why Clients Are Moving from Variable Annuities to MYGAs

For many clients, variable annuities offered compelling growth opportunities when they had a different risk tolerance. However, as these same clients grow older, they find that their risk exposure outweighs the benefits.

Why Consider a 1035 Exchange?

Preserve Tax Deferral While Moving to a Safer Asset

A 1035 exchange allows clients to reallocate annuity funds without triggering immediate taxation on gains. This means they can replace an outdated annuity that no longer fits their needs with a MYGA while keeping the benefits of tax-deferred growth.

Eliminate Market Volatility

Market swings can make retirement income unpredictable—especially for clients nearing or in retirement. MYGAs offer a guaranteed, fixed interest rate, bringing stability in an uncertain market.

Lower Costs Could Equal Higher Net Returns

Variable annuities are fee-heavy, often charging:

- Mortality & expense (M&E) charges
- Investment management fees
- Rider costs for optional benefits

These fees can add up to 2-3% per year, eating into returns. MYGAs typically have no ongoing fees, allowing for higher net returns.

Aligning with Changing Financial Priorities

Many clients initially invest in variable annuities for growth, but as they move toward retirement, their focus shifts to principal protection, guaranteed growth and income security. A MYGA provides fixed, predictable returns that better align with this phase of life.

Potential for Higher Fixed Returns Than Bonds or CDs

For clients looking for safe, fixed-income alternatives, MYGAs often offer higher interest rates than traditional CDs, treasury bonds, or money market accounts—while offering or preserving tax advantages.

Who May Benefit from a 1035 Exchange?

A 1035 exchange isn't right for everyone, but it can be a game-changer for certain clients and we have licensed insurance agents on the ready to help you start these conversations. Some things to consider include:

Retirees or Pre-Retirees Seeking Stability

As clients approach retirement, their priority shifts from growth to preservation. MYGAs provide stable, predictable returns without exposure to market downturns.

Clients Paying High Fees on Variable Annuities

Many clients aren't fully aware of how much they're paying in fees. When M&E charges, investment fees, and rider costs are combined, a VA can significantly erode long-term returns—making a MYGA a cost-effective alternative.

Clients No Longer Focused on Market Growth

Some investors initially purchased a VA for its growth potential, but now prioritize principal protection, guaranteed growth and income security. A MYGA offers a guaranteed return, aligning with a wealth preservation strategy.

Clients Interested in Laddering Strategies

For investors who want flexibility, MYGAs can be laddered with different maturity dates—allowing clients to stagger their income and hedge against interest rate fluctuations.

Clients with Underperforming or Outdated VAs

Older annuities often have lower crediting rates and limited investment options. Clients with VAs that haven't performed as expected may benefit from a MYGA with higher guaranteed rates.

Clients Seeking to Preserve Tax Deferral While Reducing Risk

A 1035 exchange allows clients to move assets into a MYGA while maintaining the tax-deferred status of their annuity—helping them avoid immediate tax liabilities.

When a 1035 Exchange May NOT Be the Best Option

High Surrender Charges

If a VA has high surrender penalties, it may be best to wait until the surrender period ends before exchanging into a MYGA.

Clients Relying on VA Income Riders

Some clients have valuable income guarantees on their existing VA. If their guaranteed withdrawal benefit (GWB) or living benefit rider provides better income than a MYGA, switching may not be the best move.

Clients Still Need Market Growth

For younger investors or those comfortable with market risk, keeping a VA may still be the better option. MYGAs provide stability but no equity exposure, which could limit long-term growth.

How to Review Annuities with Clients

During your regular review with your clients, you should discuss whether their goals have changes since they purchased their product and whether that product is performing as expected. If that's not the case, we have licensed insurance agents at the ready to help you with reviewing your client's portfolio to see if changes are necessary and in the best interest of your client.

A Transition from Risk to Stability

A 1035 exchange from a VA to a MYGA may be a powerful strategy for clients seeking stability, lower fees, and guaranteed returns—while preserving tax deferral. By identifying the right candidates and working with a licensed professional, you can:

- Help clients reduce risk exposure
- Improve portfolio efficiency
- Strengthen long-term client relationships

As advisors, our role is to provide clarity, confidence, and smart solutions for our clients. By incorporating 1035 exchanges into your strategy, you can help clients make informed decisions that bring them closer to financial security and peace of mind.

Gainbridge®: The Smarter Choice for Client Portfolios

As a fee-based advisor, helping clients reduce risk and secure predictable returns is a top priority–especially in today's volatile market. By leveraging a 1035 exchange, you can seamlessly transition clients from high-cost, market-exposed variable annuities into the stability of a multi-year guaranteed annuity.