MassMutual Ascend

1035 Exchanges

When and how they work

What is a 1035 exchange?

A 1035 exchange allows an existing non-qualified annuity contract to be exchanged for another non-qualified annuity contract without any tax consequences.

Who might consider a 1035 exchange?

A 1035 exchange may be beneficial for clients with old contracts that no longer meet their financial needs and objectives. For example, they might be looking for higher returns, lower costs, principal protection or guaranteed retirement income.

Clients should carefully evaluate their current contract and situation before making any decision. Questions to consider include:

- Are they giving up stronger guarantees?
- How do the benefits and features compare?
- Will they incur early withdrawal charges?

How does a 1035 exchange work?

The following criteria must be met for the transaction to qualify as a tax-free 1035 exchange:

- **Type of contract:** The exchange must be to and from a non-qualified annuity contract
- **Owner:** The old and new contracts must have the same owner(s).
- **Annuitant:** If the owner is a trust, the old and new contracts must have the same annuitant(s).
- **Processing:** Funds must go directly from one carrier to another. They cannot be paid to the owner. There is no rollover window like there is for IRAs and other qualified contracts.

1035 Exchange Hypothetical Example

Brian purchased a non-qualified annuity 10 years ago with a $100,000 purchase payment. The early withdrawal charge period has ended, and the contract's current value is $125,000. After careful consideration, he has decided to exchange his current contract for a new one that better fits his needs.

His previous carrier sends a check for $125,000 directly to the new carrier. The new contract has the same cost basis of $100,000. Since Brian followed the correct procedures, the transaction is a tax-free 1035 exchange, meaning the $25,000 gain continues to be tax-deferred.

When a 1035 exchange is handled correctly, clients do not have to report the first contract's gain or loss. The new contract carries over the cost basis of the old contract.

Why consider MassMutual Ascend Life Insurance Company for your next 1035 exchange?

Our fixed and fixed-indexed annuities respond to the changing needs of today's retirees with principal protection, competitive earning potential, and no mortality and expense charges.

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