Where to Get Old Variable Annuities Appraised

By Kerry Pechter *Thu, Jul 11, 2013*

Advisor Mark Cortazzo's new business, Annuity Review, is aimed at alerting VA owners to the hidden value in contracts that they might otherwise surrender or misuse.

When variable annuities with living benefits had lavish payouts and low prices relative to their guarantees, Mark Cortazzo of MACRO Consulting Group in Parsippany, N.J., sold about half a billion dollars worth of them to his clients. Along the way, he and his staff assembled a huge database identifying the jewels and the clawbacks that were buried in hundreds of VA prospectuses.

Six years later, VA benefits are far less dazzling, and Cortazzo doesn't guide as much of his client's money into them. But the high-profile 40-something advisor, whose paneled conference room walls are studded with the framed covers of national magazines that have lionized him, isn't letting that huge database go to waste. He's used it to launch a new business venture called Annuity Review.

At first glance, Annuity Review is a VA issuers' worst nightmare. Its purpose is to prevent VA contract owners (and their advisors) from mistakenly surrendering contracts that they think might be worthless "swampland," as he put it, but are actually hiding "oil reserves." At a time when some VA issuers pray for high lapse rates so they can stop reserving and hedging for their rich old benefits, that's not good news.

But Cortazzo (below), a New Jersey high school pole vault champion who still competes in the Masters division, insists that he's not trying to do to VA issuers what hedge fund manager John Paulson did to mortgage-backed securities in 2008 or what financier George Soros did to the Thai baht in 1997.

He says he merely wants to help contract owners realize the value of what they own. And he insists that, by helping VA contract owners get the most value from their contracts—through proper structuring and asset allocation—he's actually helping the VA issuers.

The sad fact is that thousands of variable annuity contracts with complex riders were sold for large sums by intermediaries who didn't understand them to investors who didn't understand them. Many of those investors are now being advised on how to dispose of their contracts by fee-only advisors who don't understand them either. Cortazzo sees a chance to do good and do well, and he's offering his services for just $199.

“I think there’s a misconception about what we’re trying to do,” Cortazzo told *RIJ* recently. “We spend half of our time talking to clients about the basic structure of what they own. People come to us with joint riders where the spouse isn’t the primary beneficiary.

“Insurers think we’ll talk to contract owners and tell them to jack up the risk and maximize the protection. But we’re not trying to game the contracts. If I put a VA contract owner in emerging markets equities and the asset class goes down 50%, my client isn’t high-fiving me for maximizing the guarantee. He’s saying, ‘I just lost half my money!’”

In any case, he said, Annuity Review is just a flea on the back of the VA elephant; in-force VAs represent $1.7 trillion in assets (Morningstar, March 31, 2013).

Hidden assets

Annuity Review provides VA contract analysis services either directly to individual contract owners or to the financial advisors of contract owners. The basic charge is $199 for the first three contracts and $49 for each additional contract. He has provisions for free initial consultations and volume discounts for financial advisors with whom he has ongoing relationships. If he becomes the representative of record on the contract, he may also receive a trail commission from the issuer.

When working with fee-only advisors, Cortazzo can become the registered representative on the contract. He also signs non-compete agreements to assure financial advisors that he’s not going to steal their clients. “Our approach has been to focus on the RIA [registered investment advisor] community,” he said.

The fee-only or fee-based advisors who call Cortazzo are, as a rule, not the intermediaries who originally sold the VA contracts to their clients. Typically, a registered representative of a regional broker-dealer or wirehouse sold the contract to the client.

A not unusual scenario is for an investor to have bought one or more VA contracts before the financial crisis. Post-crisis, the contract owner may have panicked and re-allocated to bonds within the contract. He or she might also have fired the rep who sold the contract and hired a fee-only advisor.

Unfortunately for the clients, Cortazzo said, the investor’s new fee-only advisor, not being familiar or even comfortable with insurance contracts, was likely to advise the client to surrender the contract (as soon as the surrender period expired) and perhaps roll the assets into a Roth IRA, paying taxes that further diminish the remaining VA account value.

Ignorance and inertia

“A half-dozen times, while reviewing a contract with a client and a fee-only advisor, I’ve heard an advisor say, ‘I have a number of other clients with the same product and I told them to get out of it.’ On literally every review with an advisor, I hear, ‘I didn’t understand these provisions.’ Imagine how much de facto de-risking is happening because fee-only advisors have that as their default recommendation?” Cortazzo told *RIJ*.

Some people, of course, might be better off letting the contract lapse and putting their money somewhere else. But if the living benefit on that contract was deep in the money—that is, if the account value was far below the guaranteed benefit base—or if it had a big death benefit, then the client may have been tossing away something of great financial value. Cortazzo hopes to prevent that tragedy with Annuity Review.

“The insurance companies have two great risk mitigators: ignorance and inertia,” he said. But he added that a client who works with Annuity Review may actually end up costing the insurers *less* money than someone who kept their contract and invested too conservatively.

“We have a client whose guaranteed benefit base was higher than his account value, and all his money was in an intermediate-term bond fund. With interest rates where they are today, there’s no chance that his portfolio [will ever grow fast enough to cover the cost of the guarantee]. By putting him in a 70/30 stock/bond mix, we’re increasing the probability that the account will grow and the insurer will never pay him anything.”

Although Cortazzo doesn’t find the value propositions of today’s de-risked variable annuity contracts as alluring as earlier contracts, he still thinks VA living benefits are worthwhile from a behavioral finance point of view. They provide peace-of-mind for older investors who would otherwise pull their money out of equities at the first sign of a downturn.

Cortazzo was asked if any VA issuers have complained about Annuity Review.

“We haven’t had any negative responses from insurance companies,” he said. “One insurer reached out to us to see what we thought about their product, and to ask if we could work with them on new product development. But our approach has been to focus on the RIA community.”