PROFILES IN VALUE

Case Studies in the Secondary Marketplace for Annuities from J.G. Wentworth

Going Back to the Well

It took a long time for Ann to come out of her shell after her husband Jonathan died. Her children, grandchildren and friends were all concerned. But when she finally did emerge it was with renewed zest for life and a commitment to doing some of the things that she and Jonathan had always wanted to do. One of those was to build a family vacation home on the land they had purchased on a lake in Maine so long ago.

While the idea was simple, figuring out how to finance it was another matter. She knew that the immediate annuity the couple bought back in 1996 for a single $1 million lump-sum premium provided almost $5,600 a month for 30 years. Then there was her Social Security payment of $1,100. And there was Jonathan's pension which provided another $4,700 a month. And while Ann did not understand her finances all that well, she knew that she had a lot of income – certainly more than she needed – but not really a lot of assets.

In the ensuing transactions, Ann sold partial payments on three separate occasions from the same single premium immediate annuity, which gave her lump sums of cash.

There was another problem too. The land where she wanted to build was cheap. So cheap, in fact, that it would not collateralize a loan to start construction.

The situation seemed insoluble until Ann's financial advisor was able to put together a plan that would enable her to sell portions of her annuity as she needed them. Her advisor, Patrick, helped Ann access the secondary market for annuities, which in addition to making it possible for specialty finance firms to buy annuities outright from individuals, also made partial purchases possible.

In the ensuing transactions, Ann sold partial payments on three separate occasions from the same single premium immediate annuity, which gave her lump sums of cash to finance the construction of a vacation home for her brood of children and grandchildren.

In March of 2004, she sold $2,014 of her $5,594 monthly payment for a period of the next 60 months for $100,000. This enabled her to gain the necessary permits, and provide the up-front payment to her general contractor. Six months later, she sold $1,816 of her remaining monthly payment for a period of the next 120 months for $150,000 which financed the interim payment to the general contractor. Then in June of 2005 she sold $2,601 of her monthly payment for 180 months starting in March 2009 (starting almost 4 years in the future) for $200,000. This last payment required some elegant engineering, since her monthly payments through 2009 – reduced by earlier sales – would not easily finance the remaining $200,000 she needed. This challenge was ultimately overcome by selling larger payments beyond the time horizon of the initial sales.

Ann used the proceeds from the last sale to pay the general contractor the remaining $150,000 and used another $50,000 to buy furnishings for her vacation home. This past Labor Day, Ann's entire family gathered at her new vacation home on the lake. Sure, it was a little bittersweet without her late husband by her side, but as Ann said, "It was much more sweet than bitter." PV

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