Group Variable Annuity Contract sounds like a complex term, but the reality is much simpler and certainly not something to avoid when a dental practice is considering a 401(k) plan provider. There are a number of misconceptions attached to the term group variable annuity contracts and annuities, in general. One misconception is that merely because a plan is held in a group variable annuity contract it is more expensive than plans through other financial institutions. Others misconceptions are that they always:

- carry additional charges,
- are complicated, and
- compel participants to purchase an annuity upon distribution.

BACKGROUND
A little background may be necessary to understand a group variable annuity contract. Most retirement plans are held at a mutual fund company or at a life insurance company within a group variable annuity contract.

Retirement plan assets in the ADA Members Retirement Program are held in a group variable annuity contract because the program administrator, AXA Equitable, is a life insurance company that sells annuities, as opposed to a mutual fund company. The differences between plans held at a mutual fund company and a life insurance/annuity company are virtually indistinguishable.

The investments available for employees to invest in are held in the group annuity contract. The distinctions between investments in an annuity contract and a mutual fund arrangement are slight.

Mutual fund arrangements allow for employees to make contributions direct to the mutual fund, while investments in these same mutual funds or similar investments are made through a group annuity contract in separate accounts. Participants then hold units in that separate account. The separate account is kept “separate” from the general assets of the insurance company, so there is no credit risk in the event that the insurer becomes insolvent.

To clarify misconceptions surrounding group variable annuity contracts take a look at the following.

MISCONCEPTION: Plans offered through Group Variable Annuity Contracts are More Expensive

The idea that 401(k) plans offered through group variable annuity contracts are more expensive than those offered through mutual fund companies is not a rule. Certain expenses typically associated with group variable annuity contracts include sales expenses, mortality risk charges, and surrender and transfer charges. **It is important to note that the ADA Members Retirement Program does not impose any of these charges** typically associated with group variable annuity contracts.
With the advent in 2012 of the Department of Labor’s mandatory fee disclosure requirements it is easier for employers to compare costs. Employers should review the fee disclosure documents provided by each company offering 401(k) investments and administration to compare the overall costs and the services provided for those costs. Also, there are annual participant fee disclosure documents that detail all the investment performance and fees so employees are fully informed about the investment options in which they can choose to invest. In addition, each participant in the ADA Members Retirement Program receives a prospectus annually that details the fees assessed and the services for those fees.

**MISCONCEPTION: Participants in plans held in a group annuity contract must take an annuity distribution**

Participants in retirement plans held at life insurance/annuity companies do not have to take their benefit in the form of an annuity. The distribution options available to participants are governed by the plan document and other agreements and while an annuity may be an available distribution option it is often not the only distribution option.

**MISCONCEPTION: Group variable annuity contracts are complicated**

People sometimes have issues with variable annuity contracts because they may have additional features like death benefit riders and insurance coverage. The group variable annuity contract in the ADA Members Retirement Program does not have any of these other riders with its sole purpose to provide funding options for qualified retirement plans. Whether a 401(k) plan is held at a mutual fund company or at a life insurance company within a group variable annuity contract, it is designed to provide employees with a means to accumulate tax-deferred money for their retirement. In either case the money stays in the participant’s account until withdrawn as permitted under the plan. Starting early and saving more for retirement should be the goals for any employee in a retirement plan regardless of where it is held.

This information should help dispel the misconceptions commonly held about the term group variable annuity contract, especially through the ADA Members Retirement Program. In summary, funding your retirement plan through a group variable annuity contract is not necessarily more expensive, it is not as complicated as made out to be, and does not compel an annuity distribution. Most importantly it is virtually indistinguishable from a 401(k) plan offered by a mutual fund company. In fact, according to the 2012 American Council of Life Insurers Product Fact Book, there was more than $742 billion in qualified plan assets (including IRAs) in group annuity contracts. Also, according to analysis by Larkspur Data Resources of plans with under $250 million in assets in 2011, group annuity style menus account for 55% of the market.

Small business retirement plan sponsors often find funding their plans through a group variable annuity contract not only viable and cost effective but often the preferred choice.