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(b)lines Ask the Experts-Annuity General Accounts Versus Separate Accounts

"Apparently we have two different types of accounts; A general account and a separate account. Can the experts explain the difference between the two? I had requested response from the annuity provider, but I cannot understand it."

Stacey Bradford, Kimberly Boberg, David Levine and David Powell, with Groom Law Group, and Michael A. Webb, vice president, Retirement Plan Services, Cammack Retirement Group, answer:

You came to the right place! These accounts can be somewhat complicated, so the Experts can understand why your annuity provider may have difficulty explaining such accounts to you. In the simplest terms, the primary difference between the two types of accounts is that a general account is subject to the creditors of the insurance company, while the separate account is not subject to creditors. Here are the full definitions of each:

An insurance company general account is an account that holds the general assets of the insurance company. The insurance company may use such assets to pay operating expenses of the insurer and satisfy general obligations of the insurer. Though, like any other plan assets, they are part of your retirement plan and thus owned by the plan, the fact that they are part of a general account means that they could be subject to the creditors of an insurer, particularly in the event of an insurer's insolvency. Of course, the insolvency of an insurer would be a terrible event for all parties involved; thus, there is a lot of regulation of such accounts designed to prevent such a scenario. Having said that, general accounts do present this added credit risk over other types of accounts that are not part of the general assets of an insurance company, such as a separate account. Note that general accounts are almost always fixed annuities, but there are account structures where only the interest rate of the fixed annuity (or a minimum guaranteed rate) is supported by a general account, but the principal itself is in a separate account.

An insurance company separate account (NOT to be confused with a separate account, which contains only assets of the plan sponsor) is an account whose assets are segregated from the general assets of the insurer, offering a degree of protection from the credit risk of the insurer for the plan sponsor, since such assets are NOT subject to the claims of the insurer's creditors. Historically, such accounts were almost always variable annuities, as opposed to the fixed annuities present in a general account. As such, the plan sponsor and its participants bore the investment risks of these variable annuity separate accounts, though there was no credit risk associated with the insurer. However, in recent years, a number of fixed annuities with separate account funding have emerged, in part to address the credit risk issue with plan sponsors. Thus, in the current marketplace, 403(b) plan sponsors have the choice as to whether to invest in fixed annuities that are funded by general or separate accounts.

As you can see, it is important that plan sponsors understand the difference between these two types of accounts if annuity investments are part of their 403(b) plan, particularly in today's environment, where annuity product innovation has blurred the lines somewhat between general and separate accounts. If there is any doubt as to whether your plan invests in general accounts, separate accounts, or both, be sure to have outside retirement plan counsel with experience in such contracting review your annuity contracts with the insurer to confirm.