
Annuities: Tips for Seniors

An annuity is an insurance contract. An insurance company agrees to make a series of income payments to you in exchange for a premium (or premiums) that you pay.

As with any major purchase or financial decision, it's important to evaluate your needs and options carefully. Because an annuity contract is a long-term commitment, thoroughly review your current finances, retirement goals, and expected future needs before you buy. Below are tips to help you with your discussion and to discuss with your financial planner or insurance agent.

- **Familiarize yourself with the different types of annuities.** There are two basic types of annuities: An **immediate annuity** turns assets into steady income right away; a **deferred annuity** lets savings grow tax deferred and pays income to you at a future date. With a deferred annuity, you choose how your savings accumulates: at a fixed rate, index rate, or a variable rate based on the performance of stock and bond markets.
- **Evaluate your retirement needs.** Do you need less income in the early years of your retirement than you will in the future? What is your tolerance for risk? Do you need to ensure income or asset protection for a spouse after your death? There are different types annuities and features to meet a variety of income needs in retirement.
- **Understand the language describing the annuity.** If you are unsure about the type of annuity you are considering or the terms used in the annuity contract, ask your financial planner or insurance agent to explain the terms. **Never agree to terms you don't fully understand.**
- **If you are buying a fixed annuity, ask about the current credited interest rate,** how often it changes and the minimum guaranteed rate.
- **If you are buying an index annuity, find out about the index,** formula, and conditions applied to the interest period. Ask how often indexed interest is credited, how factors might change, and the level of minimum guaranteed values set forth by the contract.

- **If you are purchasing a variable annuity, review the investment options and read the prospectus for each subaccount.** A prospectus, which is required by law to be given to potential buyers, outlines objectives and risk levels, as well as operating expenses and financial statements.
- **Ask if there are fees or charges if you withdraw some or all of your money from your deferred annuity.** Find out how much the fees are and for how long they apply. With most annuities, the charge decreases each year and after a period of time set by the contract disappear altogether. Most annuities let you take a certain percentage (usually 10%) of your money out each year during the accumulation phase (when you're still paying premiums and haven't started to receive payouts) at no cost.
- **Ask if there is a guaranteed death benefit.** Some deferred annuities include death benefits that exceed the value of the annuity; some do not. Know what benefit is guaranteed, how and when it will be paid, and whether increased death benefits can be purchased.
- **Ask how long the “free-look” period is.** This is the time you have to review the annuity contract and return it if you have made the wrong choice. If you decide to cancel, the company then voids the contract and refunds your initial contribution or the market value of the contract. Free-looks usually last at least 10 days, but rules vary from state to state and not every state guarantees free-look rights.
- **Compare similar contracts from several companies.** Features, terms, and conditions vary from company to company.
- **Beware of offers for free products.** There are no free financial products or contracts. Free lunch or dinner “seminars” are sales presentations.
- **Make sure your agent is licensed to sell annuities.** A professional must be licensed by your state insurance department to sell insurance products. To sell a variable annuity, he or she must also be a registered representative of a broker-dealer who's a member of the Financial Industry Regulatory Authority (FINRA). Don't be reassured by credentials suggesting an agent has special certification or training in advising retirees until you check them out. Some credentials have little meaning while others represent hours of training.