About Variable Annuities

Saving for retirement is crucial and making sure those savings last a lifetime is equally important. Annuities can do both. Annuities are unique retirement products. They help people grow their savings tax-deferred and offer a guaranteed stream of lifetime income in retirement. As one component of a comprehensive plan, annuities can provide peace of mind in retirement.

Variable annuities allow savings to be invested in accounts tied to the performance of the equities market, and also may offer guaranteed minimum fixed accounts. Variable annuity owners can reallocate assets among their accounts without tax consequences.

In Retirement Plans

Variable annuities can be an individual retirement annuity (IRA). They also can be purchased “outside” a qualified retirement plan. Either way, earnings inside the variable annuity grow tax-deferred.

A variable annuity can add value as an IRA by offering features that enhance retirement security. These features include guaranteed lifetime income, guaranteed death benefits, and guaranteed withdrawal benefits. These features allow consumers to invest comfortably knowing that their retirement security will be protected even if there are downturns in the marketplace. The insurance protection features are paid for through fees on the product. Fees also may be assessed for management of the annuity’s funds—similar to mutual funds.

For a period of time after purchase, surrender charges may apply to withdrawals of more than a specified percentage of the annuity’s value. These charges typically run between 6 percent and 10 percent and are gradually eliminated over a specified period of time, usually no more than 7 years after the annuity is purchased. Surrender charges generally don’t apply to certain lifetime payouts, or to payments made due to disability or death.

Consumer Protections

Variable annuities are among the most regulated financial products in the marketplace, subject to scrutiny from multiple regulators. From product development to advertising to sales, life insurers must comply with state and federal laws and rules that help prevent fraud and protect consumers’ interests.

Federal securities laws give the Securities and Exchange Commission (SEC) significant authority to supervise the sale of variable annuities. The acts granting SEC its authority are the Investment Company Act of 1940 and the Securities Exchange Act of 1934.

Rules from the Financial Industry Regulatory Authority (FINRA) govern the conduct of variable annuity salespersons. A variable annuity can only be sold by a registered representative of a broker-dealer that is a member of FINRA. The representative also must be licensed by the state to sell variable insurance products. The SEC and FINRA have rules that strictly govern the activity of variable annuity salespersons and impose detailed standards concerning advertising, supervision, and suitability of individual sales. Variable annuity advertising must be pre-approved by FINRA. SEC disclosure rules require that consumers receive a prospectus with important information about a variable annuity, including risks and fees.

Life insurance companies that issue variable annuities are closely regulated by state insurance departments which, among other things, require extensive disclosures to variable annuity policy owners. Each state has a comprehensive set of laws and regulations to protect consumers and to ensure the safety and soundness of the company. These include, but are not limited to, company and agent licensing requirements, rules for the suitability of individual sales, market conduct and financial examinations, as well as product approval procedures that companies and agents must follow. Consumers also must be given a buyer’s guide with basic information, written in plain English, that consumers should understand about variable annuities including how money is invested, fees, and benefits. Most states require a “free look” period after purchase when consumers can return an annuity for a full or partial refund.

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