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## Variable Annuities: Questions and Answers

Today's workers are more personally responsible than ever for ensuring their own retirement security. Not only must they save, they also must make their savings last throughout retirement. Variable annuities can be used for both.

The following questions and answers explain how variable annuities work and the benefits they offer.

**Q:** What is a variable annuity?

**A:** A variable annuity is a unique retirement product offered by life insurers. It helps people grow their savings tax-deferred and offers annuitization options, such as a guaranteed stream of income that can't be outlived. With variable annuities, savings are invested in accounts tied to the performance of the equities market and also may offer some guaranteed minimum fixed accounts. Variable annuity owners can reallocate assets among their accounts without tax consequences.

Many variable annuities also provide death benefits, which provide owners the peace of mind that comes with knowing if they die before starting to receive payments, their beneficiary or beneficiaries will get back— at least— the amount of money saved in the product.

**Q:** Can variable annuities be an IRA?

**A:** 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.

**Q:** Do annuities have fees?

**A:** Annuities have fees associated with them. The fees pay the annuity's unique insurance elements such as a guaranteed lifetime income and enhanced/guaranteed death benefits to a beneficiary. In a variable annuity, 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.

**Q:** How are variable annuities regulated?

**A:** Variable annuities are among the most regulated financial products in the marketplace. From product development to advertising to sale, life insurers must comply with state and federal laws and rules that ensure against 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.

SEC disclosure rules require that consumers receive a prospectus with important information about a variable annuity, including risks and fees.

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 the 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.

Life insurance companies that issue variable annuities are closely regulated by state insurance departments. Each state has a comprehensive set of laws and regulations to protect consumers and to ensure the safety and soundness of the company. These laws and regulations 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 must be given a buyer's guide developed by the National Association of Insurance Commissioners, a standard setting body of state insurance regulators. The buyer's guide includes basic information, written in plain English, that consumers should understand about variable annuities including how money is invested, fees, and benefits.

Q: Do advisors commonly "steer" investors into variable annuities?

A: No. The inappropriate sale, or "steering," of a variable annuity or any other financial product is subject to regulatory disciplinary action. Unsuitable variable annuity sales comprise less than 1 percent of FINRA disciplinary actions.

Q: Are annuities only for the wealthy?

A: Annuities are for individuals looking to add peace of mind to a comprehensive retirement plan. According to a 2013 Gallup Survey, 8 in 10 (80 percent) of annuity owners have income below \$100,000, and 35 percent have income below \$50,000. Only 7 percent have income greater than \$200,000.

Q: Can consumers reconsider their variable annuity purchase?

A: In most states, annuity contracts are required to contain a "free look" period for consumers. If an annuity purchaser is not satisfied with the product, it can be returned to the insurance company for a full or partial refund depending on the type of annuity. Most "free look" periods last 10 days but rules vary by state. Neither mutual funds nor any other financial product have this feature.

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