
Consumer Tips for Buying a Variable Annuity

Variable annuities can be a key part of any comprehensive retirement plan. Since everyone's financial goals are different, you should talk to your insurance agent or financial planner about how a variable annuity can work for you. If you're thinking about purchasing a variable annuity, consider the following tips:

- Participate in any retirement savings plan available through your employer. Then determine how much additional savings you can put aside for retirement.
- Consider the benefits of both fixed and variable annuities. If you are seeking a guaranteed fixed rate of return, then a fixed annuity might be preferable. If you feel that equities will give you a greater return in the long run and are comfortable with market fluctuations, then consider a variable annuity.
- Find out what types of funds are offered through a variable annuity and carefully review the prospectus for each fund. Remember, your savings will be invested in equities, such as stock and bond funds. You choose the investments and the annuity's value depends on how well the investments perform, so reviewing prospectuses is important. Be sure to review the prospectus regularly while the annuity is in the accumulation phase.
- Make sure you fully understand the variable annuity contract you are considering.
- Annuities offer unique insurance features that enhance retirement security. These features include guaranteed lifetime income, guaranteed withdrawal benefits, and guaranteed death benefits to a beneficiary. These features are paid for through fees on the product. Fees also pay for management of the annuity's funds—similar to mutual funds.
- Remember that annuities are a retirement product. Making a withdrawal before age 59 ½ can trigger a tax penalty on that amount in addition to ordinary income taxes on earnings. 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 and penalties generally don't apply to certain lifetime payouts or to payments made due to disability or death.
- Learn about the variety of payout options. If you and your spouse need to supplement your Social Security and pension benefits with a steady stream of income, variable annuities provide a variety of options to consider.
- Make sure the broker-dealer selling the variable annuity is a registered member of the Financial Industry Regulatory Authority (FINRA). Only registered representatives can sell variable annuities.
- Ask the representative if you have a "free-look" period to review your annuity contract and make sure you have made the right purchase. If there is a "free look" period, ask how long it lasts.
- The National Association of Insurance Commissioners (NAIC) has developed buyer's guides, written in plain English, for annuities to help consumers make informed decisions when purchasing an annuity. The guides are available on the NAIC's website, www.naic.org.

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