# Are you an informed investor?

# ANNUITIES

**Annuities** are complex products that may combine the characteristics of insurance and investment securities. Because of their hybrid nature, annuities are sometimes marketed as one-size-fits-all products. This is simply not true.

There are generally three types of annuities: fixed, variable and indexed, which may be immediate or deferred. The type of annuity you choose will determine how you earn (or lose) money based on the annuity's performance. It is extremely important to understand how the annuity earns money, as well as how it subjects your investment to risk. With so many options on the market, ask a few simple questions before you add an annuity to your portfolio.

## Where should legitimate annuities be registered before I buy?

**Fixed annuities** are not considered securities and therefore are not subject to federal or state securities regulation. On the other hand, **variable annuities** are considered to be securities under federal law and the laws of some states. Certain states consider variable annuities to be strictly insurance products, while other states consider them to be **both** insurance and securities. In states where variable annuities are regulated by both the state's insurance and securities regulator, variable annuities must be registered with both state regulators. Individuals selling variable annuities must always be registered with the appropriate state regulator. Because variable annuities are securities under federal law, individuals selling them must be registered with the Financial Industry Regulatory Authority (FINRA). To find out how your state treats variable annuities, you should contact both the securities and insurance regulators for your jurisdiction. To contact your state securities regulator, visit the NASAA website at www.nasaa.org. As for **indexed annuities**, some states consider them to be securities that may require registration with state securities regulators, and other states consider indexed annuities to be insurance products regulated by state insurance regulators.

## How do you know if an annuity is right for you?

Consider what you want out of your annuity. Your first consideration should be how old you are at the time of the investment related to when you will receive payments. Determine when you want your annuity to begin providing you with an income stream.

Research the financial health of the annuity provider. Some salespeople claim that annuity payments are guaranteed. There may be some guarantees on variable annuity payments if you purchase additional riders and if you withdraw money according to these riders. It is important to remember that variable annuities subject your money to "stock market risk" by investing in mutual fund-like funds called "variable subaccounts." Although payments are likely, remember that such guarantees are limited by the insurance company's ability to pay claims.

Distinguish between the "guarantee" that the company will be around to pay the claim, and the "guarantee" of a certain rate of return on the product. Compare the return on your current investments with that of the offered annuity as well as all of the other features and benefits of your current investments and the proposed annuity.

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Another investment may be more appropriate for your needs.

- Understand the tax implications – consult your tax professional for advice before you buy.
- Know how long your money will be tied up.
- *Verify before you buy!*

## How are fees charged?

Annuities have complicated fee structures. For example, fixed and equity indexed annuities may have no up-front charges; however, this does not mean the agent and the insurance company are not making commissions by selling you an annuity. Variable annuities have many elements to their fees: the mortality and expense fee, the sub-account fee, the annual contract maintenance fee, sales loads (on some products), and surrender charges. Often, these fees and others are buried in the fine print. If you are offered separate riders, you will incur more fee expenses. Understand how your financial professional is being compensated, as sometimes the commission comes from the principal. Ask your salesperson about the fees associated with buying, owning and withdrawing from the annuity. Ask if there will be fees or surrender charges if you need to redeem the annuity before it matures. Ask if any guaranteed rate may change or be reduced at a later time.

**Annuity Churning:** Every time you move from one annuity to another, you are paying an additional cost, incurring surrender fees, establishing a new surrender period, and creating an opportunity for a new sales commission. Whenever you are asked to exchange one annuity for another, always ask for a comparison of the old and new product, as well as a breakdown of the costs and benefits, in writing.

Before committing to any investment, remember your ABC's – Ask questions, Beware of fraud, and Contact your state's securities or insurance regulator.

**What does "Annuitization" mean?:** Annuitization is the means of converting your savings – the annuity – into a stream of regular (usually monthly) payments. Annuities may be annuitized regularly, over a long or short time period, or, in some cases, in one single payment.

**How do you withdraw money from the annuity?** When you are ready to withdraw from your annuity, be advised that annuities offer you a variety of options for receiving income. Be sure you understand the risks and benefits of each option before you make your choice.

## How are annuities sold?

**Bank Financial Advisors:** Your bank's financial adviser may have various roles, depending on the products the bank hopes to sell. Remember, annuities are not covered by FDIC insurance. Be sure to understand the commissions that are paid to your local bank's financial adviser for selling annuities and other products. It is natural for long-time customers to feel more comfortable and trusting in their bank. However, remember to remove emotion from your decision to buy any financial product. Verify before you buy!

**Free Lunch Seminars:** Be cautious about "free lunch" seminars. Although these seminars are touted as "educational," the ultimate goal is the sale of a product. Attendees should research and examine the products and check that the promoter is licensed to sell these products. Fraud is prevalent at some seminars. Verify before you buy!

**High Pressure Sales:** Salespeople entice investors with an attractive interest rate offer only to pressure them to buy another, potentially unsuitable, financial product. Don't lose sight of your investment goals.

**Professional Designations:** Beware of professional-sounding designations. Don't be lured into a false sense of security by letters after a salesperson's name. Those claiming a special designation may not be licensed to sell securities or provide investment advice. Or, they may use designations to convey expertise they may lack. Understand what the designations mean before turning over any of your hard-earned money.

Updated 11-03-10

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