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Individual Annuities: Tips for Seniors

An annuity is an insurance contract. As with any major purchase, it's important to evaluate your needs and options carefully. Because an annuity is a contract, you should enter into the arrangement only after a thorough review of your personal finances and retirement goals.

- **Evaluate your retirement needs.** Know what you want to achieve. Do you need income now or do you have time to let your savings grow? Do you want that growth to be at a guaranteed rate or can you take the risk of an investment in the stock or bond market?

- **Understand the language describing the annuity.** Annuities come in different types and offer many options to meet a variety of financial objectives. If you are unsure about the type or the terms used to describe an annuity, check with an insurance agent, financial planner, broker, or someone who is familiar with your circumstances. **Never agree to terms you don't fully understand.**

- **Familiarize yourself with the different types of annuities.**

  Immediate annuity—provides income now.

  Deferred annuity—allows savings to accumulate before payouts begin in the future.

  Fixed annuity—a deferred annuity in which your money earns interest at a guaranteed rate.

  Index annuity—a deferred annuity in which earnings accumulate at a rate based on a formula linked to one or more published equity-based indexes, such as Standard and Poor's 500 Composite Stock Price Index™.

  Variable annuity—a deferred annuity in which your money is put in subaccounts that are invested in stock and bond funds.

- **If you are purchasing a fixed annuity, ask about the current credited interest rate,** how often it changes, and the minimum guaranteed rate.

- **If you are purchasing an index annuity, find out about the index,** formula, and current factors applicable to the initial indexed interest period. Ask how often indexed interest is credited, how factors may change in subsequent periods, and level of minimum guaranteed values provided by the contract.

- **If you are purchasing a variable annuity, find out the investment options currently available and review the prospectus for each subaccount.** A prospectus, which is required to be given to potential buyers, outlines the objectives and level of risk, as well as operating expenses and financial statements. Chargers differ with each annuity and from company to company.

- **Ask if there are fees or charges for partial withdrawal of funds or full surrender of your deferred annuity contract.** Find out how much the fees are and for how long they apply. Often, after a time specified in the contract, these fees are eliminated.

- **Compare similar contracts from several companies.** Features, terms, and conditions vary from company to company. Comparing contracts—and the relative costs of features—may help you make a better decision.

- **Ask if there is a guaranteed death benefit.** Some annuities include death benefits that may exceed the account value; some do not. Know what benefit is guaranteed, how and when it will be paid, and whether increased benefits can be purchased.

- **Ask how long the "free-look" period is.** The free-look period is the time in which you have the right to review the contract and return it if you have made the wrong choice. The company then will cancel the contract and, depending on your state, refund 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.

- **Evaluate the company issuing the annuity.** Only life insurance companies can issue annuities, although they may be sold by other financial institutions such as banks and brokerage firms. Make sure the company issuing the annuity is licensed in your state, reputable, and financially strong. Several services rate the financial strength of life insurers, such as A.M. Best, Fitch Ratings, Moody's, and Standard and Poor's. Ratings can be found in most public libraries or on a services website (a small fee may be charged).

- **Make sure your agent is licensed to sell annuities.** To sell a fixed annuity requires only a license issued by your state insurance department. A variable annuity can be sold by a registered representative of a broker-dealer that is a member of the Financial Industry Regulatory Authority (FINRA, formally NASD). The representative also must be licensed by the state to sell variable insurance products.