English

CDI California Department of Insurance

What Seniors Need to Know About
ANNUITIES

1-800-927-HELP (800-927-4357)

www.insurance.ca.gov

800-482-4TDD (800-482-4833)

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Introduction

This information guide was created to inform you of your rights as a senior when you are considering the purchase of an annuity. An annuity is a form of an insurance product.

The California Department of Insurance (CDI) does not recommend or disapprove of these products. However, being an informed consumer can help prevent you from being the victim of unscrupulous sales practices and it helps you to make educated decisions for yourself and your family. All insurers, brokers, agents and others engaged in the transaction of insurance owe a prospective insured who is 65 years of age or older, a duty of honesty, good faith, and fair dealing.

Types of Annuities

An annuity is a contract in which an insurance company makes a series of payments to you at regular intervals in return for a premium. Annuities are often bought for future retirement income.
The proceeds from an annuity can provide you with an income for life, or for a specified period of time. There are two basic types of annuities:

- The first is when you pay a lump sum to an insurance company and they start to pay it out to you right away in periodic installments. This type is known as an immediate annuity – the payments to you start immediately.

- The second, and more common, is where money paid by you accumulates interest over a period of time. If you choose this type of annuity, the principal and accumulated amounts will then be paid out to you in periodic installments, usually when you retire, in order to supplement your retirement income. This type is known as a deferred annuity – the payments to you are deferred for a number of years. Currently, a deferred annuity may have tax advantages; income tax is not owed until you start receiving distributions from the annuity.

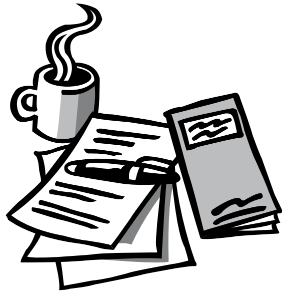
Both types of annuities offer you certain options for receiving your income. It is usually paid to you monthly. The most common options are:

Life Annuity — The insurer will pay you an income for as long as you live. However, there are no survivor benefits. This means all benefits cease upon your death.

Period Certain Annuity — The insurer will pay your survivor an income for a specified amount of time (5 years, 10 years, 20 years, etc.) if you die.

Life Annuity with Period Certain — The insurer will pay you an income for as long as you live, but if you die before the certain period that you have chosen (Period Certain), the income will be paid to a survivor (beneficiary) you designate until the end of that period.

Joint and Survivor Annuity — The insurer will pay an income to you during your life, and after your death will pay a percentage of that income (50% or 75%, for example) to a survivor you designate during his or her life.



Deferred Annuities

In recent years, there has been an increasing emphasis on deferred annuities. If you are going to make an informed choice when you buy a deferred annuity, you need to understand what kinds are available. If one kind does not seem to fit your needs, find out about the other contracts that are described in this guide. If you need more information, you should check with an insurance agent or company, the internet, or reference books on annuities that are available at your public library.

The California Department of Insurance (CDI) has a toll-free Hotline telephone number **1-800-927-HELP (4357)**. The Department also has a Web site available at **www.insurance.ca.gov.**

There are two basic types of deferred annuities – fixed annuities and variable annuities with several variations:

Fixed Annuities guarantee that your money will accumulate at a minimum specified rate of interest. However, the company will pay you a higher rate of interest if its investment experience is better than the minimum guarantee. A fixed deferred annuity always contains guarantees. For example, it might guarantee that the interest rate on the funds accumulating in your policy will be at least 4%. The guarantees are conservative, so that the company will be able to pay you the guaranteed amounts, even if conditions are very bad. Today, most companies pay greater amounts than they guarantee, but do not promise to continue to do that indefinitely. If you are shown any tables of numbers illustrating how the annuity might grow in the future, you should keep in mind that the non-guaranteed numbers could turn out to be lower or higher than those shown.

An equity-index annuity is a fixed annuity that pays interest linked to a stock market index, such as the Standard & Poor's 500. Unlike variable annuities, equity-index annuities cannot lose value. They typically offer a minimum guaranteed return with additional interest based on how the index performs.

Variable Annuities differ from fixed annuities in that you direct the distribution of your money among several different accounts and the accumulated funds reflect the experience of those accounts rather than that of the company. Typical account choices are common stock, bond, mortgage or money-market accounts. If the value of your accounts increases or decreases, it will affect the accumulated amount. Variable annuities are more risky to you than fixed annuities, but there is a possibility of greater returns.

Other types of deferred annuities combine the characteristics of fixed and variable annuities. Annuities are sometimes sold as alternatives to investment vehicles such as certificates of deposit, money market accounts, mutual funds, etc.

Each investment may affect your financial plan in a different way. You should consult with your investment and/or tax advisor before making any decisions on purchasing this product.

If you die during the accumulation phase of a deferred annuity, an amount usually at least equal to the amount you have accumulated will be paid to your beneficiary.

Alert: If you cancel the contract, or take some money out of it, there may be surrender charges deducted from the accumulation value. The amount you receive is usually referred to as the cash value. It is usually not a good idea to purchase a deferred annuity unless you are planning to keep it for more than 7-8 years.

Tax-Qualified

A tax qualified annuity is sold as part of a tax-qualified plan such as an IRA (traditional/Roth) or company pension plan. The annuity is purchased using before tax dollars.

Non Tax-Qualified

Non-Tax Qualified means the annuity is purchased using after-tax dollars. These are funds you have earned and where taxes have already been paid. These funds are allowed to accumulate on a tax deferred basis until the funds are distributed.

Charitable Gift Annuities

A charitable gift annuity is a contract under which a charity, in return for a transfer of cash, marketable securities or other assets (i.e. property, home) agrees to pay fixed annuity payments to one or two life annuitants, for their lifetimes. The annuity is backed by the organization's total assets. Organizations wanting to issue charitable gift annuities must obtain a Certificate of Authority from the CDI.

Alert: Charitable Gift annuities are not protected by the California Life and Health Insurance Guarantee Fund. (See section below on Reliability and Stability of Companies.)

Is An Annuity Right For You?

The answer depends on your financial situation, your health and goals. For some, an annuity can be an appropriate part of an overall financial plan. For others, an annuity can be totally unsuitable. You should think about what your goals are, as well as how much risk you are willing to take. Ask yourself the following questions:

- How much retirement income will you need in addition to what you will get from Social Security and/or a pension plan?

- Will you need that additional income only for yourself, or for yourself and others?

- How long can you leave money in the annuity and does the annuity let you take out money when you need it?

- Is this a single premium (lump sum) or a multiple premium (installment) contract?

- For a fixed annuity, what is the initial interest rate and how long is it guaranteed?

- Can I get a partial withdrawal without paying surrender charges and/or other charges?

- Is there a death survivor benefit?

It is important to know whether an annuity fits your situation before entering into a contract. Individual needs change with time and what may have benefited you in the past may not be in your best interest now. Do your homework and ask questions. Never jump into purchasing something you don't understand. Think about your long term goals.

- Will you need access to your money for unexpected family emergencies?

- Will you need access to your money for long-term care or health care?

- Can you afford to lock up your money for a period of several years?

Some of these products carry high surrender charges during the initial years of the contract in order to withdraw your money. Always ask about the drawbacks, not just the benefits. It also helps to talk to individuals that have your best interest in mind, such as a family member and a financial planner and/or tax consultant before making a decision.

California requires individual annuity contracts for seniors to contain a disclosure regarding the surrender charge period unless the contract does not contain those charges.

Elder Abuse

As Baby Boomers start to retire, seniors are becoming a major part of the population. Because many seniors have worked all their lives, paid off their homes, and put away money for retirement, they have assets that make them a prime target for individuals that may seek to exploit them financially. Elder abuse is a growing problem that occurs daily in every community.

Financial abuse can drain elderly people of all their life savings leaving them vulnerable when there is a family emergency that require health care or long term care. Illnesses such as dementia and Alzheimer's often make it difficult for a person to ask for help when confronted with financial problems.

Agents can make substantial commissions on the sale of annuities. The majority of agents and brokers who sell insurance products obey the laws. However, many elderly individuals have been taken advantage of by insurance agents who have manipulated them into purchasing an unsuitable annuity or replacing existing or established annuities with a new one simply for the agent's financial gain. If you think you have been a victim of this type of abuse, or if you know of an individual that fits this situation, we suggest that the California Department of Insurance be contacted to file a complaint.

Living Trust Mills

Unfortunately, the growing popularity of estate planning and living trusts has spurred new scams called “Living Trust Mills.” This type of scam often targets seniors. Seniors are many times lured by “free” seminars on living trusts or other similar sales presentations. Occasionally, sales agents will pose as estate planners or financial experts to gain the trust of the senior in these “free” seminars and later schedule a visit in the senior’s home to gather information in order to review the senior’s assets and investments. Often the sales agent will intimidate the senior into believing the senior’s investments are unsafe and under-performing, and ultimately convince the senior to move money to an annuity. This is to the sales agent’s advantage since that agent is now able to generate a commission.

You and your family should make careful decisions when planning an estate and choosing investments. If estate planning documents are not properly prepared or executed they can be invalid and cause lasting damage for you and your family.

Below is a list of some of the **warning signs** that will help you avoid becoming a victim of these scams:

- The sales agent claims to be a trust expert, and refers to him/herself as a "trust advisor," "senior estate planner" or "paralegal". These agents are not attorneys and not experts in living trusts.
- The sales agent often offers a free seminar or other sales presentation for their living trust services. These solicitations and presentations are often held in assisted living centers, retirement communities, churches, and other places where seniors gather.
- The sales agent uses the guise of setting up or updating an existing living trust in order to access the senior's financial information.
- The sales agent will often misinform the senior about the existing investment, telling the senior that the investments or savings accounts carry a much higher risk than the annuity or other financial product the sales agent is offering.

Protections for Seniors During Sales Presentations

Before an agent or a broker can come to your home and meet with you, he or she must provide you with a written notice 24 hours prior to the visit. The notice must state:

- During the visit or follow-up visit, you will be given a sales presentation on an annuity.
- You have the right to have other persons present at the meeting, including family members, financial advisors or an attorney.
- You have the right to end the meeting at any time.
- You have the right to contact the Department of Insurance for information, and/or to file a complaint. The notice shall include the Consumer Hotline toll-free telephone number 1-800-927-HELP (4357).
- The following individuals will be coming to your home and list all attendees, and insurance license information, if applicable.

When an agent or broker contacts you in your home, he or she should make a statement (other than a greeting) before asking you any other questions. He or she should state the purpose of the contact is to talk about insurance, or to gather information for a follow-up visit to sell insurance. The agent or broker should state all of the following information:

- The names and titles of all persons arriving at your home.
- The name of the insurer represented by the agent.

Any person arriving at your house with the agent or broker should provide a business card or other written identification stating their name, business address, telephone number, and any insurance license number.

Any person attending a meeting at your home should end all discussions and leave your home immediately if, or when you ask them to do so.

No person may solicit a sale or order for the sale an annuity at the residence of a senior, in person or by telephone, by using any plan, scheme, or ruse that misrepresents the true status or mission of the contact.

Free Look Period

Look over the annuity to make sure it is what you wanted. Every annuity contract that is initially delivered or issued for delivery to a senior citizen in this state shall have printed on it or attached to it a notice stating "this policy may be returned within 30 days from the date you received it for a full refund by returning it to the insurance company or agent who sold you the policy. After the 30 days, cancellation may result in a substantial penalty, known as a surrender charge."

Reliability and Stability of Companies

Independent rating organizations rate the financial stability of insurance companies. Be sure to check out ratings of any insurance company you are considering before committing your funds to purchase an annuity. Also, make sure that your insurance company is licensed in California. Owners of annuities issued by companies licensed in California may be partially protected by the California Life and Health Insurance Guarantee Association (CLHIGA) in the event of the financial failure of the insurer. Any portion of the contract not guaranteed by the insurer, or under which the risk is borne by the purchaser is excluded.

Products developed by life insurance companies are sometimes marketed through banks and brokerage firms. The person who sells you the annuity should be a licensed life insurance agent, and in the case of a variable annuity, a licensed securities dealer. If you purchase an annuity through these sources, you should ask for the name of the insurance company, since the insurance company, not the bank, will be managing your money.

If you need further information on CLHIGA or the monetary protection under CLHIGA, contact the CDI by calling our toll-free Hotline number at **1-800-927-HELP (4357)** or by visiting us on the internet at **www.insurance.ca.gov.**

Five major insurance rating organizations grade insurance companies on their financial health and ability to pay claims. These organizations are:

A. M. Best
(908) 439-2200
www.ambest.com

Fitch IBCA, Duff & Phelps
(800) 753-4824
www.fitchratings.com

Moody's Investor Service
(215) 553-0377
www.moodys.com

Standard & Poor's Insurance Ratings
(212) 438-2000
www.standardandpoors.com

Weiss Ratings, Inc. (Fee for Service)
(800) 289-9222
www.weissratings.com

Senior Tips

As a senior citizen, you have earned a place of honor and a special right to respect and recognition in our society. You have worked a lifetime to build up assets and should take precautions to protect yourself and those assets. Purchasing insurance and other financial products such as annuities that meet your needs can be challenging. Since your financial situation may change over time, it is important to review and understand your insurance policies and contracts to decide if they are still right for you. If you are contemplating purchasing a new or replacement policy, you should consider the following:

- Obtain all proposals in writing.

- Do not be pressured into buying any insurance product. Take enough time to review the information before making any decisions.

- Do not sign anything you do not understand.

- Consider having a trusted family member, friend or advisor participate in discussions concerning the purchase of any insurance product.

- Make sure the agent, broker and insurance company are properly licensed to sell the product you are considering purchasing.

- Make sure you receive a full disclosure of all information relating to the benefits and possible negative consequences regarding the replacement of an existing annuity.

- Obtain a full disclosure of all surrender charges and related time frames in connection with an annuity prior to purchase.

Filing a Complaint with the California Department of Insurance

Have you been sold an annuity product that was unsuitable due to your financial, health or other circumstances at the time of sale? Would you like to file a complaint against the agent or the insurer?

Before contacting the California Department of Insurance, consider speaking with the branch manager or other person who supervises the individual who sold the annuity. This person may have authority to cancel the transaction if the sale was inappropriate. Also, consider contacting the insurance company that issued the annuity as it also has authority to cancel the contract if it finds the sale was inappropriate.

If you are unable to resolve your issue or dispute by contacting the agent and/or insurance company, you may file a complaint with the California Department of Insurance.

To file a complaint or to answer your questions with the California Department of Insurance call our toll free number **1-800-927-HELP (4357)** or visit our Web site at **www.insurance.ca.gov.**

Glossary of Terms

Accumulation Phase — The phase in which you pay into your annuity.

Annuitization Phase — The phase in which you receive monthly payment from your annuity.

Basis Points — The fees in your annuity; reflects a percentage of your investment.

Death Benefit — The amount of money your survivor (beneficiary) receives if you die before you begin the annuitization phase; generally the value of your annuity or the amount you have invested, whichever sum is greater.

Free Look — The right of the owner to have a period of ten or more days to examine an annuity product, and if not satisfied, return it to the company for a full refund of all amounts paid.

Forced Annuitization — If an annuity is tax-qualified, the annuitant is required to begin minimum required distributions by age 70 ½. Failure to take the required minimum distribution by age 70 ½ will result in a tax penalty. If the annuity is non-qualified, there is no requirement to withdraw the funds at any age except as required by the contract itself.

Illustration — A document used in annuity sales presentations showing year-by-year numbers indicating how a contract will work. Usually it assumes that amounts being paid today will continue in all future years.

Mode of Premium Payment — The frequency of premium payments during the contract year. Premium payments can usually be made on annual, semi-annual, quarterly, or monthly mode.

Mortality and Expense (M&E) — The fee the insurance company charges to provide you with a lifetime income or the fee the insurance company charges your beneficiaries to provide a death benefit should you die during the accumulation phase.

Mortality Table — A statistical table showing the death rate (probability of death) for each age.

Non-Qualified Annuity — An annuity that is funded with after-tax dollars

Ownership — All rights, benefits, and privileges under a policy controlled by the owner, who is usually the insured. Ownership may be transferred or assigned to someone else by written request of the current owner.

Premium — The payment a policyowner is required to make to an insurance company to purchase insurance coverage and to keep the policy in force.

Tax Qualified Annuity – Annuity that is funded with pre-tax dollars.

Surrender — The process to voluntarily terminate an annuity for its cash value or other non-forfeiture options. Usually, there is a fee charged if you surrender your annuity within the first seven or eight years of owning it.

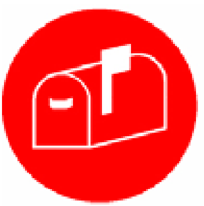
Tax Deferral — The money that accumulates in your annuity grows tax-deferred, meaning you do not pay taxes on it until you begin receiving annuity payments.

Term Certain Annuity — An annuity that provides you with income payments for a specific period of time, such as 10 or 20 years, rather than a lifetime.

Talk to us

Do you have a question, comment or concern? There are several ways to talk to us:

- Call our Consumer Hotline at 1-800-927-HELP
- Telecommunication Device for the Deaf dial 1-800-482-4TDD
- Telephone lines are open 8:00 AM to 5:00 PM Pacific Time, Monday through Friday, excluding holidays.



- Write: California Department of Insurance, 300 South Spring St., South Tower, Los Angeles, CA 90013

- E-mail us through our Web site at: www.insurance.ca.gov

- Visit us in person on the 9th Floor at the address above. Office Hours: Monday through Friday 8:00 AM to 5:00 PM Pacific Time, excluding holidays.

Notes: