

Annuities: Questions for Senior Consumers

CANHR is a private, nonprofit 501(c)(3) organization dedicated to improving the quality of care and the quality of life for long term care consumers in California.

Annuities are complex financial investments. Many have high commission costs and can block access to cash for many years. When a senior purchases an annuity, he or she will be signing a binding contract that has important legal, financial and tax implications for the senior and for his or her estate. There can be substantial penalties if money is withdrawn from the annuity earlier than the contract allows.

Before you decide to purchase an annuity be absolutely convinced that this is the right decision for you. Always keep in mind that this may end up being the last significant financial decision of your life. Never purchase an annuity unless you fully understand its impact on the retirement years. Carefully consider the following questions to avoid buyer's remorse. Always keep in mind that annuities lock up your assets and there are severe surrender charges if you break the annuity contract.

If you are uncomfortable with your answers to the questions below, do not purchase an annuity.

1. Are you married or do you have a domestic partner?

If you answer yes, then consult with your significant other. Can you explain to them why you are purchasing an annuity? Is it important that they agree with your decision?

2. What is the approximate value of your income?

\$ _____

If you purchase an annuity will you have enough to cover your daily necessities or will you fall behind?

3. What types of liquid assets do you hold? (If you are married or have a domestic partner, include the combined assets of both parties.)

\$ _____ example: Home, retirement accounts, savings, stocks, bonds, etc.

How liquid are those assets? If you needed extra cash and had to sell off those assets, would you meet your needs?

4. What is the cost of the annuity you are considering buying?

\$ _____

How will this impact your cash reserves?

5. Are you being asked to cash in an annuity you currently own in order to purchase a new annuity?

If you answer yes, have you compared their surrender periods?

6. If you already have annuities, what is the total amount you will have invested in all annuities if you buy this annuity?

\$ _____

Annuities are not like FDIC insured bank accounts and they cannot be considered as a 100% safe investment.

7. What percentage of your assets will be tied up in annuities if you purchase this annuity?
_____ %

Are you comfortable locking up this percentage of your liquid assets?

8. Do you intend to purchase an annuity with funds obtained from a reverse mortgage?

If you answered yes, are you aware that AARP and other senior advocates warn that it is unsuitable to use a high cost loan (reverse mortgage compounds at from 5 – 8%) to purchase an annuity that will only generate 1.5 to 3% interest?

9. Do you know what your life expectancy is as determined by your health care professional?

Is it possible for you to out live the surrender period of the annuity?

10. What are the current and minimum amounts of the interest of the annuity being offered?
% _____

Have you compared this to interest given in CDs, treasure bonds or Savings Accounts?

11. What is the maximum amount you can withdraw each year from the annuity without having a penalty?
\$ _____

Certain annuities will allow some “principal” to periodically be drawn off. Others will not.

12. What are the surrender penalty terms of the annuity being offered to you?

Have you compared this against the early withdrawals of CDs, treasury bonds or Savings Accounts?

13. Did the insurance agent tell you they get paid by the insurance company, not you?

Yes _____ No _____

The agent receives a commission on what you purchase. The rule of thumb is the more unsuitable the annuity, the higher the commission for the agent.

14. What is the expected annual rate of return on the annuity if it is held to maturity?
_____ %

Your agent is required to give you a written illustration that will help you to see exactly how the annuity is to perform over the life of the contract.

15. Does the annuity offer a 'bonus'?

Beware of "bonuses". Many 'bonuses' only get paid if you hold the annuity for a long time and/or annuitize it.

16. Were you shown more than one annuity by the agent?

Make sure that you compare at least three (3) Annuities from different companies.

17. Is this the only annuity sales agent you have spoken with?

Because this may be the last opportunity to make comparisons before you commit to an annuity purchase, take the time to ask other agents what your best deal would be. Make the agent work as hard for your money as you did.

18. Are you completely comfortable with how your finances will be after the purchase of an annuity?

There are no advantages to purchasing right away. In fact, the more you are pressured and the more the agent tells you that there is urgency to your purchase, the more likely it is that you are being railroaded into something you will later regret. A disciplined approach is for you to wait at least thirty (30) days before making the ultimate commitment. Don't be in a rush to lose control over the money you have worked a lifetime saving.

19. Get the agent to give you a written statement stating why the agent believes buying the annuity is a suitable transaction for you. Have the agent sign and date the statement and keep the original in a safe place

Questions? Call CANHR at (800) 474-1116 or visit CANHR's website at www.canhr.org