

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.

Seniors should be extremely careful before purchasing an annuity. Annuities are complex financial investments. Many have a “surrender period,” which is an amount of time an investor must wait until he or she can withdraw funds from the annuity without facing a penalty. This can block access to ready 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 as well as for his or her estate.

Before you decide to purchase an annuity you should 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. Carefully consider the following questions and avoid buyer’s remorse. Remember that annuities lock up your assets, and there are severe surrender charges if you break the annuity contract.

WHAT TO CONSIDER

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? Do they agree with your decision?

2. What is your current income?

\$ _____

Is your current income enough to cover your daily necessities or are you falling behind?

3. What types of 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 amount of the annuity you are considering buying?

\$ _____

How will this impact your liquidity?

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

If you answer yes, then are you aware of their surrender periods? Demand to know what commission your agent plans to make on the sale.

6. If you already have some annuities, what will be 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 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 compounded at from 5 – 8%) to purchase an annuity that will only generate 1.5 to 3% interest?

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

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

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

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

11. What is the maximum amount you can withdraw each year from the annuity without a surrender penalty?

\$ _____

Certain annuities will allow some “principal” to periodically be drawn off. There are restrictions and penalties if you want to take out more than your contract allows.

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

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

13. What is the amount of the commission, fees, or both commission and fees, to be paid to the salesperson as a result of your purchase of the annuity?

\$ _____

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

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

_____ %

Your agent is required to give you a written illustration to help you 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 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 held after the purchase of an annuity?

There is no advantage to purchasing right away. In fact, the more the agent tells you that there is urgency to purchase the more likely it is that you are being railroaded into something you will come to regret. A disciplined approach would be to wait at least thirty (30) days before making the ultimate commitment.

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