FACT SHEET

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.

Annuity Basics

There are many types of Annuities

An Annuity is a financial product that pays a fixed amount of benefits. Most annuities pay a set monthly amount for the lifetime of the person who is entitled to those benefits, or for a fixed period of time, e.g. 15 years. In a “simple life annuity”, when the person receiving the annuity dies, the benefits stop; there is no final lump sum payment and no provision to keep paying benefits to a spouse or other survivor. A “continuous annuity” pays monthly installments for the life of the retired person, and also provides a smaller continuing annuity payment for the person's spouse or named beneficiary after the person's death. These annuity contracts are usually with insurance companies and often have high upfront commissions and severe penalties if different sums are withdrawn earlier than the contract allows.

Common Types of Annuities

- Immediate Annuity or Income Annuity- An upfront lump sum of money creates the annuity and the annuity “immediately” begins paying out a stream of income.
- Deferred Annuity- An upfront lump sum and the principal and interest cannot be accessed until some time in the future, e.g., 5, 10 or 15 years after the money creates the annuity.

The Premiums

- Single Premium- A one-time single cash contribution is made and no further contributions are allowed. Immediate or Income Annuities are always Single Premium.
- Flexible Premium- Multiple contributions at different times are being made into the annuity policy. The contributions will affect how much the policy pays out.

Getting Your Money Out of an Annuity - The Annuitization Options

Annuitization Options are the choices an annuity holder has on how to receive value from the annuity other than in a lump sum. Common annuitization options are:

- Life Only - Payments from the annuity continue while the annuity owner is alive and stops when the annuity owner dies.
- Life With Period Certain – Payments are guaranteed to be made to the annuity owner for as long as he or she lives, but if the owner dies before an agreed upon time period, then the beneficiaries will be receiving payments until that agreed upon time has lapsed.

- Period Certain – The annuity stops paying out at an agreed upon future date, e.g. 10 or 15 years, even if the annuity owner is still alive.

Rate of Payouts and Crediting Methods

- Fixed- The interest rate is declared each year by the company. These products are generally considered the most stable and conservative and the interest rates tend to be fairly low. Agents selling these products are required to have a Life Insurance License.

- Variable- The amount of payouts is tied to the performance of the investment accounts much like a mutual fund. The client can usually pick among different funds, depending upon his or her risk tolerance. This product requires the insurance agent to have a special securities license.

- Index: These products are complex and tend to be very difficult for the average person to understand. The insurance company "tags" the accumulation value to an index like the S&P 500 or the Forbes 500. The cash value moves up or down in concert with the index. The interest rate can have a maximum "cap" and there can be a "participation rate"; some have "floors" while others have "thresholds"; and the crediting rate itself can vary, with "point to point", "annual reset", and "high water mark" being the most common methods. Index Annuities only require the Agent to have a Life Insurance License.

Surrender Charges

Surrender charges are financial penalties for early withdrawals. Surrender charges vary greatly from annuity to annuity. Generally speaking, the higher the surrender charge and the longer the surrender period, the higher the commission is to the agent. High surrender charges tend to be a common denominator in abusive annuity sales to seniors.

Death Benefit

The amount a Beneficiary receives upon death of the annuitant. The important thing to note here is that some annuities reduce the Death Benefit by the annuity's Surrender Charge, others do not.

Suitability

Have the agent discuss and give you a written statement about why he or she thinks the particular annuity is suitable for your needs. Keep records of your transactions along with all of the sales materials the agent used to convince you that the annuity purchased is the annuity you need.

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