

Commissioner's Corner: Understanding Annuities: Assess Before You Invest

“Annuities are complex financial instruments. Each year the Oklahoma Insurance Department receives hundreds of consumer complaints regarding these products due to misrepresentation and misunderstanding. I encourage you to read the fine print, ask lots of questions and consult with family members and trusted advisors before you buy.”

– **Kim Holland**, Oklahoma Insurance Commissioner



In Oklahoma, we receive complaints ranging from misleading advertising or marketing to claims handling, with the most frequent complaint being misrepresentation of the product purchased. Senior citizens, especially, are at risk of making inappropriate choices or falling prey to annuity scams. In fact, approximately 5 million older Americans are victims of financial abuse each year, according to the Securities and Exchange Commission.

While seniors are a prime target of financial scams, consumers of any age can easily be confused by the many different types of annuities available today. Education about annuities can help all consumers protect their resources and avoid being victimized.

UNDERSTANDING THE BASICS ABOUT ANNUITIES

An annuity is a contract sold by an insurance company that provides income payments on specified dates in return for a premium or premiums paid. The most common types are:

1. variable annuities,
2. fixed annuities,
3. deferred annuities and
4. immediate annuities

VARIABLE ANNUITY – With a variable annuity, the amounts of the benefit payments fluctuate according to the investment performance of the funds in the annuity account. Such funds can be invested in stocks, bonds or other financial instruments. This type of annuity poses the most risk because consumers could potentially lose some or all of their money if the investment does not perform well. Some variable annuity policies offer protection against declines in values in the funds in the annuity account. These protections come in many forms, included guaranteed living benefits, guaranteed death values, and ratcheting account values with periodic resets. There is a fee for this protection, and consumers need to understand how the annuity will compute the account value if there is a decline in the fund value.

FIXED ANNUITY – With a fixed annuity, the money, less any applicable charges, earns interest at rates set by the insurance company or as specified in the annuity contract. The company guarantees that it will pay no less than a minimum rate of interest.

DEFERRED ANNUITY – With a deferred annuity, consumers agree to a “surrender” or “maturity” period of three, five, seven or even 10 years or more. During this time, their annuity funds can only be accessed with additional surrender charges and other administrative fees. At the end of the deferral period, the contract may be converted into an immediate annuity. Often the funds may remain in the deferred annuity or be collected as a lump sum.

IMMEDIATE ANNUITY – An immediate annuity allows consumers to immediately begin receiving funds over the agreed-upon period. The agreed-upon period may be a certain number of payments or for the entire life of one or more annuitants. The amount of each payment is usually the same, but some annuities have provisions for changing the amounts of the payments.

TIPS REGARDING ANNUITIES

1. **Read the fine print.** Look carefully at the annuity you are considering. Check the interest rate; find out how quickly the annuity will grow in value and when you can reap its benefits. Some annuity rates can change over time, so make sure that you understand the difference between the guaranteed minimum rate, the current rate and any first-year or so called “bonus” rates. Also make sure you know whether the annuity is tax-deferred, meaning that you will not have to pay taxes until you receive payments from the annuity.
2. **Don’t get caught by surrender charges.** Withdrawing your money from an annuity before it has matured might subject you to fees, known as surrender charges, as well as other administrative fees and acquisition costs. There could be high penalties if you make a withdrawal prior to the maturation date provided in the policy. Be sure you are aware of these provisions so that you don’t inadvertently incur such costs.

3. **Don't judge a financial professional by title alone.** Designations such as "certified senior adviser," "certified retirement financial adviser," "chartered senior financial planner," and "certified financial gerontologist" might seem to imply expertise in providing investment advice to senior citizens. However, such titles don't always guarantee that financial professionals actually have specialized knowledge or education in those areas. Ask what the designations mean to them and what they had to do to earn them. Ask if they have ever lost or given up a designation and, if so, why.
4. **Ask for help.** Many people have been harmed by annuity scams. If you are concerned that you might have been misled by a fake company or fraudulently sold a misrepresented product, contact the Oklahoma Insurance Department to get assistance and/or to file a complaint. You can file a complaint directly with the OID at <http://oid.ok.gov>.
5. **Check the insurance company's credit rating.** Through resources such as Standard & Poor's, A.M. Best Co. or Moody's Investors Services, you can see whether the annuity company you are considering has a solid credit rating. An "A+++" or "AAA" rating is a sign of strong financial stability. You can check company insurance ratings at <http://oid.ok.gov>.
6. **Check the NAIC's Consumer Information Source (CIS).** The NAIC provides a database for consumers to research an insurance company's financial information and complaint data. The information in the CIS is supplied voluntarily by state insurance departments. Not all states provide the data, nor are all companies listed within the directory. The CIS is available at www.naic.org/cis/index.do.
7. **Stop. Call. Confirm.** All consumers should verify that they are dealing with a licensed agent when purchasing an annuity by following three simple steps: (1) STOP before signing anything or writing a check; (2) CALL the Oklahoma Insurance Department; contact information is available at <http://oid.ok.gov>; and (3) CONFIRM the agent offering the annuity is legitimate and licensed in Oklahoma.

ADDITIONAL RESOURCES

- To order the NAIC's free consumer guides about annuities, visit https://external-apps.naic.org/insprod/Consumer_info.jsp.
- To learn more about insurance, visit www.insureUonline.org in English or www.insureUonline.org/espanol in Spanish.
- If you have questions about insurance, contact the Oklahoma Insurance Department at <http://oid.ok.gov> or through the toll-free Consumer Help Line 1-800-522-0071.

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