

# Annuities

## What Consumers Should Know About Annuities

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### Educate Yourself on Annuities!

Over the past several years, there has been a significant increase in annuity sales to consumers, in particular senior citizens. There continues to be confusion about annuities and some questionable sales practices. This brochure provides important information that will help you if you are considering purchasing an annuity.

The Colorado Division of Insurance highly recommends you also visit our website at <http://www.dora.state.co.us/insurance> for detailed buyers' guides on **Fixed Annuities** and for **Equity-Indexed Annuities**.

Other helpful web sites include:

National Association of Insurance Commissioners:

[http://www.naic.org/documents/consumer\\_alert\\_annuities.htm](http://www.naic.org/documents/consumer_alert_annuities.htm)

Securities & Exchange Commission:

<http://www.sec.gov/investor/pubs/varannty.htm>

### Educate Yourself on Annuities!

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**CLICK ON TOPICS  
OF INTEREST**

## **What is an Annuity?**

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are often bought for future retirement income.

Annuitization results from your election to receive regular income payments from your contract. An election to annuitize your contract is irrevocable. If you elect to annuitize your contract, you will no longer be able to exercise any liquidity provision that may have previously been available.

## **Is an Annuity Right for You?**

You should think about what your goals are for the money you may put into the annuity, 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 from your pension?
- 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 or multiple premium contract?
- For a fixed annuity, what is the initial interest rate and how long is it guaranteed?
- Can you get a partial withdrawal without paying surrender or other charges and is there a death benefit?

## Types of Annuities

- **Single Premium**  
An annuity where you pay the insurance company only one premium payment.
- **Flexible Premium**  
An annuity where you pay multiple premium payments to the insurance company.
- **Immediate**  
An annuity where income payments to you start immediately, but no later than one year after you pay the premium.
- **Deferred**  
An annuity where income payments to you start several years later.
- **Fixed**  
An annuity where your money, less any applicable charges, earns interest at rates set by the insurance company or in a way specified in the annuity contract.
- **Variable**  
An annuity where the insurance company invests your money, less any applicable charges, into a separate account based upon the risk you want to take. The money can be invested in stocks, bonds or other investments. You may direct allocations of your money into separate accounts. If the fund does not do well, you may lose some or all of your investment.
- **Equity-Indexed**  
A variation of a fixed annuity where the interest rate is based on an outside index, such as a stock market index. The annuity pays a base return, but it may be higher if the index goes up.

## Definitions

Cap – maximum rate of interest an annuity will earn

Compounded interest – how the contract credits interest

Surrender charge – penalty for taking out part or all of the cash value of the annuity prior to a specified date

Surrender period – number of years that the surrender penalty applies

## **What is a Maturity date?**

The Maturity Date is the latest date on which you can begin receiving payments from your annuity under any of the settlement options available to you. The date shown on the Specifications Page of your contract is automatically set as the date when you **must** begin receiving payments from your contract. The Maturity Date does not restrict the settlement options provided by the Company. You can start receiving payments from your annuity as early as one year after the contract is issued, or at any time thereafter.

Settlement options are explained in your contract, disclosure statement and product brochure. Settlement options are the various ways in which you can receive income from your annuity contract. You may also be able to “annuitize” the Accumulation Value of your contract any time after the first anniversary date, subject to limitations.

**\*Withdrawals prior to age 59 ½ may be subject to federal penalties.**

## **Is the person selling you this product the best person for you?**

Insurance professionals have developed an array of designations and certifications that can be confusing. The requirements needed to obtain a certain designation or certification vary from having to attend a three-day seminar, and pass a multiple-choice exam [CSA or Certified Senior Advisor], to a designation that is recognized industry wide and has been certified for undergraduate and graduate degrees [CPCU or Chartered Property Casualty Underwriter]. Some designations, such as CSA require no experience. Determine for yourself whether the individual qualifications meet your needs.

## **Use Caution When Attending Senior Seminars**

Seminars are a common way for annuity sales persons to market their particular products. These seminars or the follow-up visit after the seminar can involve high-pressure sales tactics. Use caution when attending these seminars and, at a minimum, ask the appropriate questions listed in this brochure.

## Questions You Should Ask your Agent or the Company

### *General Annuity Questions*

- ❖ What is the guaranteed minimum interest rate?
- ❖ What charges, if any, are deducted from my premium & when?
- ❖ What charges, if any, are deducted from my contract value & when?
- ❖ What are the surrender charges or penalties if I want to end my contract early and take out all of my money?
- ❖ How many years will surrender charges apply?
- ❖ Can I get a partial withdrawal without paying charges or losing interest? Does my contract have vesting?
- ❖ Does my annuity waive withdrawal charges if I am confined to a nursing home or diagnosed with a terminal illness?
- ❖ What annuity income payment options do I have and when?
- ❖ What is the death benefit?
- ❖ What are the risks that my annuity/earned interest could decline in value?
- ❖ Is interest compounded during the term of the policy?
- ❖ What is your commission on this product?

### *Additional Questions to Ask for Equity-Indexed Annuities*

- ❖ What is the participation rate?
- ❖ For how long is the participation rate guaranteed?
- ❖ Is there a minimum participation rate?
- ❖ Does my contract have a cap?
- ❖ Is averaging used? How does it work?
- ❖ Is there a margin, spread, or administrative fee? Is that in addition to or instead of a participation rate?
- ❖ Which indexing method is used in my contract?
- ❖ What is the minimum interest the contract can earn?
- ❖ What is the maximum (cap) interest the contract can earn?

## **Review Your Contract Carefully!**

As with any insurance product, always review the contract and be sure you understand the terms and conditions, as these will vary from contract to contract. **Ask the agent and/or company for a written explanation of anything you do not understand. Do this before any free look period ends.** This free look period gives you a set number of days to look at the annuity contract after you buy it. If you decide during that time that you do not want the annuity, you can return the contract and get all your money back.