



1-800-927-4357

www.insurance.ca.gov

Annuities

What Seniors Need to Know



California Department of Insurance



Table of Contents

Page

2	What Seniors Need to Know
4	Kinds of Annuities
6	Deferred Annuities
7	Annuities and Taxes
8	Annuities and Estate Planning
10	Protect Yourself from Financial Abuse
12	Choose the Right Annuity for You
14	Check Out the Insurance Company
15	How to File a Complaint
16	Find More Information
17	Common Terms
18	Talk to the Department of Insurance



What Seniors Need to Know

If you are a senior, someone may offer to sell you an annuity.

Annuities are complex. There are many kinds of annuities. And sometimes companies and agents take advantage of seniors.

This booklet can help you ask questions and protect yourself, so you can make an informed decision that is right for you.

Before you buy an annuity, make sure you

- Understand what an annuity is.
- Protect yourself, so you are not pushed into buying an annuity.
- Decide if an annuity is right for you.

If you have doubts or questions, contact the California Department of Insurance.

What is an annuity?

An annuity is a contract between you and an insurance company. You buy the annuity by making one or more premium payments to the insurance company. The insurance company makes income payments to you, for life or for a limited time.

Annuities usually have commissions and other fees that cut into your investment. They typically earn less money than stocks and bonds.

Most people who buy an annuity do so to get an income when they retire. An annuity is a long-term investment. Make the decision carefully.

Do not be pushed into buying an annuity.

- An agent should not push you to buy an annuity. That's illegal.
- AARP, the senior group, warns: *Do not get a reverse mortgage so you can buy an annuity. You will pay too much in fees and extra charges if you do this.*
- The law says that anyone who offers to sell you an annuity must give you honest and accurate information on the terms and rules of the annuity, and its costs and benefits.
- If you feel pressured, call the California Department of Insurance.

Is an annuity right for me?

The answer depends on your financial situation, age, health, and goals.

Annuities can be right for some people and wrong for others. Ask yourself the following questions. Discuss them with a trusted family member or financial advisor.

Yes No Can I afford to tie up my money for many years?

Yes No Will I have enough money left to have an emergency fund, such as a bank account?

Yes No Will I have enough money left for my long-term care and other health care needs?

Yes No Can I cover my expenses until I start getting income payments?

If you answered **No** to any of these questions, an annuity is probably wrong for you.



“An annuity ties up your money. You can’t get your money out at all, or you have to pay high penalties. This can be financially devastating to seniors on a fixed income.”

*Dave Jones,
California Insurance Commissioner*

Contact the California Department of Insurance (CDI).

We do not recommend or disapprove of annuities. We want to give you the information you need to make the best decision for you. There are laws in California that protect the rights of seniors. You have the right to be treated fairly, with honesty and good faith.

If you are pressured to buy an annuity, contact CDI:

1-800-927-4357

www.insurance.ca.gov

You can also order or view our brochure *Life Insurance and Annuities*. It will tell you more about annuities.

Kinds of Annuities

There are many kinds of annuities. For example, there are:

- Different ways to make premium payments.
- Different ways that annuities earn interest.
- Different ways to start getting income payments.

There are different ways to make premium payments.

Your payments to buy an annuity are called premiums.

- You can buy an annuity with a single premium.
- Or you may make a series of premium payments over time.
- The money you pay to buy the premium is also called your principal.

Annuities earn interest in different ways.

Variable Annuity: The insurance company invests your annuity in stocks, bonds, or other investments, based upon the risk you want to take. If the fund does not do well, you may lose some or all of your investment. For more information on variable annuities, read the brochure *Variable Annuities: What You Should Know* at www.sec.gov/investor/seniors.shtml.

Fixed Annuity: Your money earns interest at rates set by the insurance company (or in another way described in the annuity contract). The interest rate may be set for only 1 year or for up to 10 years. An Equity-Indexed Annuity has an interest rate that is usually based on a stock market index.

You have a guaranteed minimum interest. The guarantees are conservative. The interest might be higher.



Do you want more tips on protecting yourself?

Watch the video on the Department of Insurance website. Go to the Senior Information Center at www.insurance.ca.gov. Or order your own DVD of the video by calling 1-800-927-4357.



Watch out for fixed annuities with a minimum guaranteed interest rate of 0%. You will not lose principal, but your money will not grow. Also, you will not get all the extra interest that the stock market might earn. The insurance company decides how much you get.

Watch out for ads that show high interest rates. If the interest rate is not guaranteed, you cannot count on it.

- Some annuities offer a higher guaranteed interest for the first year only. This is called a teaser rate. The interest goes down after that.
- Make sure to ask what the minimum rate is and how long the high interest rate lasts.

There are different ways to start getting income payments.

Immediate Annuity: You start getting income payments within a year after you buy the annuity. You usually cannot take any extra money out. The main reason to buy an immediate annuity is to get a regular income right away in your retirement.

Deferred Annuity: You start getting income many years later, when you retire. The main reason to buy a deferred annuity is to have your money grow tax-deferred for a while. Learn more on the next page.

Deferred Annuities

Deferred annuities are long-term investments. They have two periods:

- **The accumulation period** is when your money grows. It can last for over 10 years.
- **The amortization period** is when you get income payments. It can last as long as your life, and even the life of your beneficiary.

Watch out for surrender charges during the accumulation period!

If you need your money during the accumulation period, you usually have to pay a penalty called a surrender charge.

You can't take any money out in the first year. After that, you may be able to take out some money without a penalty. If you take more, the surrender charges can be high. You may end up with less money than you started with.

What if I need access to my money?

If you think you will need access to your money during the accumulation period, do not get a deferred annuity. However, when this period ends, you may be able to take out your money. This is called cashing out.

What if I die before my income payments start?

This is an important question for estate planning. Your beneficiary may want to cash in the annuity. Ask your agent if your beneficiary would have to pay a surrender charge. See page 8.

Learn more:

Order or view the free brochure *Life Insurance and Annuities* from the California Department of Insurance. Call **1-800-927-4357** or visit **www.insurance.ca.gov**.



Annuity contracts for seniors must provide clear, easy-to-find information on the surrender charge and the period when you have to pay it.

Annuities and Taxes

Tax planning helps to reduce and manage your taxes. A tax attorney or tax accountant should do your tax planning.

Buying or cashing out an annuity may change your taxes. For example, if you sell stocks or bonds so that you can buy an annuity, you may owe extra taxes. Talk to a tax attorney or tax accountant.

Getting the tax benefits of a deferred annuity:

One reason people buy deferred annuities is to delay taxes. You do not have to pay taxes until you get income payments.

- To get the tax benefit, you should let the deferred annuity grow as a long-term investment.
- If you take out money before you reach age 59½, you pay a tax penalty (unless you become disabled or switch your money to another annuity).
- The government does not set an age when you need to start taking income payments from an annuity outside of an IRA or 401(k) plan. However, your annuity contract may specify an age.

- It usually does not make sense to put your annuity into an IRA, because the annuity already gives you tax deferral.

Paying taxes on income:

When you start to receive income payments, you have to pay taxes. Income payments are taxed as regular income, not as capital gains.

Each income payment can include both principal and interest. You pay taxes on the whole income payment if you bought the annuity using pre-tax dollars. You only pay taxes on the interest if you bought the annuity using after-tax dollars.

Replacing an annuity:

You can move your money from one annuity to another without paying taxes. An agent may urge you to replace your annuity. Be careful. The agent gets a commission and you may pay high fees and penalties.

Annuities and Estate Planning

Estate planning helps you make sure your wishes will be followed when you die or can no longer manage your affairs.

Talk to an experienced estate-planning attorney.

If your estate-planning documents are not properly prepared and completed, they may not hold up in court. This can cause lasting damage to you and your family.

An annuity can be part of an estate.

However, before you buy an annuity you should discuss it with your attorney and make sure it fits into your overall plan.

You can choose a beneficiary.

A beneficiary, also called a survivor, can get income payments after you die. This person is usually your spouse.

There are several ways to get income.

- **Life Annuity:** You get an income for life. When you die, payments will stop.
- **Period Certain Annuity:** You get an income for life. After you die, your survivor gets an income for a limited time.
- **Life Annuity with Period Certain:** You get an income for life. If you die before you reach a specific age, your survivor gets an income for a limited time.
- **Joint and Survivor Annuity:** You get an income for life. After you die, your survivor gets a portion of that income (50% or 75%, for example) for life.

Charitable Gift Annuities

A charitable gift annuity is a contract between you and a charity (instead of an insurance company). You give money or property to the charity, and you get a tax deduction. The charity agrees to pay income to you and your beneficiary for your lifetimes. The annuity is backed by the charity's total assets.

- Before you buy a charitable gift annuity, talk to a trusted financial advisor and the Department of Insurance.
- Make sure the charity has a Certificate of Authority from the Department of Insurance.



Protect Yourself from Financial Abuse

Financial abuse of seniors is a growing problem. Many seniors have assets because they have worked all their lives, paid off their homes, and saved for retirement.

Financial abuse can drain seniors of life savings, leaving them penniless when they need health care or long-term care. Illnesses such as dementia and Alzheimer's can make it harder to recognize scams and seek help.

Agents can make high commissions on annuities.

Most insurance agents and brokers obey the laws. But some are dishonest. They may convince you to

- Buy an annuity that is not right for you.
- Replace your annuity—they get a commission and you pay extra fees.
- Get a reverse mortgage in order to finance an annuity.

Living Trust Mills

The growing popularity of estate planning has led to scams called Living Trust Mills. An experienced estate-planning attorney should set up your living trust, not an insurance sales agent.

Scam Warning Signs

- The sales agent claims to be a trust expert, trust advisor, senior estate planner, or paralegal.
- The agent offers free seminars, in sites like assisted living centers, retirement communities, or places of worship.
- The agent offers “free” meals, catered or in a nice restaurant. (You may have to give your contact information to get the “free” meal!)
- The agent offers to create or update a living trust in order to see your financial information.
- The agent gives you wrong information about your current investments. The agent may say that the annuity has less risk than your investments or savings accounts.
- The agent tries to sell an annuity to a veteran, to reduce their assets so they may qualify for a Department of Veterans Affairs benefit.

Your have many rights when agents come to your home.

An agent cannot enter your home uninvited. And they must leave immediately if you ask them to.

When an agent comes to your home:

- Agents must give you 24-hour written notice before they come to your home.
- When they first contact you, they must tell you why. For example, they should say they want to talk about insurance.
- They should tell you the name of the insurance company they represent.
- They should tell you the names and titles of everyone coming to your home.
- Each person should give you a business card or other written identification with their name, business address, telephone number, and any insurance license number.
- You can ask people to leave at any time.

The agent has a legal responsibility to you.

The person who offers to sell you an annuity must give you honest and accurate information on the terms and rules of the annuity, as well as its costs and benefits. This is the law.

Annuities—It's Your Choice

It can be hard to ask someone to leave your home. See how one senior does this. Watch a video on the Department of Insurance website. Go to the Senior Information Center at www.insurance.ca.gov.

Report financial abuse.

See page 15.



Anyone at a meeting in your home should end all discussions and leave your home immediately if you ask them to do so.

Choose the Right Annuity for You

If you decide to buy an annuity, you will need to decide which one is right for you. Make sure you understand the terms of the annuity.

Ask these important questions:

- Do I buy the annuity with one big lump sum payment, or with many payments over time?

For a fixed annuity,

- What is the initial interest rate and how long is it guaranteed?

For a deferred annuity,

- What is the surrender charge if I take out money early?
- How long is the surrender charge period?
- Can I take some money out without paying surrender charges and/or other charges? If yes, how much can I take out?
- What does my beneficiary get if I die before I begin getting income payments?

Use your 30-day free-look period.

As a senior, you have a right to a free 30-day period to look over the annuity to make sure it is what you want. Within the 30-day period you can return the annuity contract for a full refund. Your contract should include this statement:

This policy may be returned within 30 days from the date you received it for a full refund by returning it to the insurance company or agent who sold you the policy. After the 30 days, cancellation may result in a substantial penalty, known as a surrender charge.



Your agent must make sure the annuity is suitable for you. It should be right for your age, income, and finances. The agent should not sell you an annuity if you will need access to the money you put into an annuity.

Before you buy:

Use this check list to make sure you are buying the right annuity for you.

- Get the annuity contract in writing.
- Do not be pressured. Use your 30-day free-look period.
- Do not sign anything you do not understand.
- Have a trusted family member, friend, or advisor review the annuity contract with you.
- Before you replace your annuity with a new one, make sure you receive a full list of the benefits and drawbacks of doing this.
- Ask for a list of all the deadlines, and the surrender charges if you take money out early.
- Make sure the agent, broker, and/or insurance company are properly licensed to sell the annuity you are interested in. See the next page.



Check Out the Insurance Company

Usually you buy an annuity from an insurance company.

Sometimes you can buy an annuity through your 401(k) retirement savings plan at work or from a mutual fund company, bank, or brokerage firm. However, an insurance company actually holds your annuity and manages your money.

Is the insurance company financially sound?

The independent organizations listed below rate the financial stability of insurance companies. Check these ratings before you buy an annuity. You can check them online or at your library.

An “A+++” or “AAA” rating is a sign of a company’s strong financial stability.

AM Best

www.ambest.com

Moody’s

www.moody.com

Standard & Poor’s

www.standardandpoors.com

Weiss

www.weissratings.com

Is the insurance company licensed in California?

Make sure the insurance company is licensed by the California Department of Insurance. You can check licenses at **www.insurance.ca.gov** or by calling **1-800-927-4357**.

If the insurance company is licensed in California, the annuity may be partially protected by the California Life & Health Insurance Guarantee Association. For more information, visit **www.califega.org**.

Who is selling the annuity?

You may buy an annuity through a bank, mutual fund company, or brokerage firm. But always ask for the name of the insurance company. The insurance company, not the bank, holds your annuity and manages your money.

- The person who sells you the annuity should be a licensed life insurance agent.
- If you buy a variable annuity, the person who sells it to you should also be a registered securities dealer.

How to File a Complaint

Did someone sell you an inappropriate annuity—an annuity that was not right for your age, health, or financial situation?

For example, it is inappropriate to sell a deferred annuity to someone who needs home health care and needs his or her money to pay for the care.

Would you like to file a complaint against the agent or the insurance company?

Ask if you can cancel the sale.

You can talk to the agent's branch manager or supervisor or to the insurance company. They may be able to cancel the sale if it was inappropriate.

You can also file a complaint with the California Department of Insurance.

To file a complaint or to ask any questions:

- Call **1-800-927-4357**
- Email us at **www.insurance.ca.gov**
(Click on *Request for Assistance*)



Find More Information

- Talk to an insurance agent or company.
- Talk with your financial advisor or attorney.
- Visit your local library and ask for reference books on annuities.

Securities and Exchange Commission

www.sec.gov/investor/seniors.shtml

This is a page of information and resources for seniors, including a link to an article on *Variable Annuities: What You Should Know*.



Common Terms

Accumulation period —The time period when you pay into your annuity.

Annuitant—The person who gets income payments from an annuity (such as you or your beneficiary/survivor).

Annuitization period—The period when you get income payments from your annuity.

Cash value—The amount of money you get when you cash out or surrender your whole annuity.

Deferred annuities —Annuities that provide income payments that start at least one year, and usually many years, in the future.

Fixed annuities—Annuities that grow at a minimum rate set by the insurance company. The rate may be set for only 1 year or for up to 10 years.

Free look—The right of the buyer to have a period to examine an annuity product and, if not satisfied, return it to the company for a full refund. Seniors have a 30-day free-look period.

Immediate annuities—Annuities providing income payments that start within a year after you buy the annuity.

Non-tax-qualified annuity—An annuity that you buy with after-tax dollars.

Premium—The payments you make to an insurance company to buy an annuity. You may make one premium payment, or multiple payments.

Surrender charge—The fee charged if you take money out of your deferred annuity within a certain period, such as 10 years. The surrender charge can be high. You may be able to take out some money without paying a surrender charge.

Tax deferral—The money in your annuity grows tax-deferred. This means that you do not pay taxes on it until you begin receiving income payments.

Tax-qualified annuity —An annuity that you buy with pre-tax dollars.

Variable annuities—Annuities with rates that vary, depending on how the annuity is invested.

Talk to the Department of Insurance

Contact the California Department of Insurance (CDI):

- If you have questions or concerns about insurance.
- If you want to order copies of this brochure.
- If you want to file a complaint about your insurance.
- If you are having difficulty opening a claim with your insurance company.
- To check the license of an agent, broker, or insurance company.



Call:

Consumer Hotline **1-800-927-4357**

TDD **1-800-482-4833**

8:00 AM to 5:00 PM, Monday to Friday, except holidays



Visit us on the web at:

www.insurance.ca.gov



Write:

California Department of Insurance

300 South Spring St., South Tower, Los Angeles, CA 90013



Visit us in person:

300 South Spring St., South Tower, 9th Floor, Los Angeles, CA 90013

8:00 AM to 5:00 PM, Monday to Friday, except holidays

The California Department of Insurance

Consumer Education and Outreach Bureau

300 South Spring Street, South Tower, Los Angeles, CA 90013

1-800-927-4357

1-800-482-4833 (TDD)

www.insurance.ca.gov



This brochure is a joint project of the California Department of Insurance and Health Research for Action, School of Public Health, University of California, Berkeley.

Form 801 / Annuities: What Seniors Need to Know
November 2012 – OSP