

Annuity Overview

Is an Annuity right for you?

Annuity products primarily offer a source of income, either now or at a set future date, such as your retirement. An annuity can also have a tax advantage. For example, a deferred annuity accumulates tax-deferred interest until you withdraw the funds. If this is not what you are seeking, then you should consider other types of investments. An annuity involves a long-term commitment. Other more appropriate investments exist for those seeking short-term opportunities (i.e., less than a decade). You might wish to consult a trusted financial adviser who has no vested interest in your investment choice. Many annuity marketing programs encourage you to move funds from maturing certificates of deposit into annuities. These are not comparable investment instruments because they have different purposes and time frames. Be sure you invest your money in a way that best suits your needs.

Recent legislative changes now require insurance companies and agents offering annuity products to seniors older than 65 to clearly document the basis for selling the product, including consideration of a senior's financial and tax status, as well as investment objectives. You should consider all of the consequences if you currently have funds in an annuity and the opportunity arises to move the funds into a new annuity with a new surrender charge schedule. Also, the guaranteed minimum interest rate in the new contract may be lower. Be sure you consider both the advantages and disadvantages of the replacement purchase.

You should review the complete plan, considering such factors as the guaranteed interest rate, the surrender charges, and the administrative and maintenance fees. A high interest rate during the first year is not always the better choice. This is especially true if the interest rates drop to a low minimum rate the next year with high surrender charges and additional fees.

What is a maturity date?

The maturity date is determined when you purchase an annuity. It is the date on which you can begin receiving payments from your annuity. You will be asked at the time of maturity to select a settlement option. The settlement option determines how you will receive payments from your annuity.

Questions you should ask your agent or the insurance company

- What is the guaranteed minimum interest rate?
- Are there additional charges included in my premium?
- Are there any charges deducted from my contract value and 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 I be subject to surrender charges?
- Can I make a partial withdrawal without paying charges or penalties or losing earned interest?
- Does my annuity waive withdrawal charges if I am confined to a nursing home or diagnosed with a terminal illness?
- What are my income options when my annuity reaches its maturity date?
- What is my death benefit?
- Can the annuity or earned interest decline in value?
- Is interest compounded during the term of the contract?
- What is your commission on this product?

What are the most common types of Annuities?

- **Single Premium:** An annuity that is purchased by paying one lump sum to the insurance company as premium.
- **Flexible Premium:** An annuity that is purchased by paying multiple premiums to the insurance company.
- **Immediate Annuities:** With an immediate annuity, you pay a single premium and immediately start receiving payments at the end of each payment period, which is usually monthly or annually.
- **Deferred Annuities:** A deferred annuity is established by you paying one or more premiums over what is referred to as accumulation period. The premiums you pay and the interest credited to the premiums goes into a fund called an accumulation fund. There may be a minimum guaranteed interest rate at which your money will accumulate during the accumulation period. The annuity payments you will receive begin at a future point in time called the maturity date. You will receive payments during a time period called the payout period. You do not pay income taxes on the interest earned during the accumulation period unless you withdraw funds from its cash value. These taxes are deferred until the payout period.

- **Fixed Annuities:** A fixed annuity provides fixed-dollar income payments backed by the guarantees in the contract. You cannot lose your investment once your income payments begin. The amount of those payments will not change. With fixed annuities, the company bears the investment risk.
- **Equity Indexed Annuities:** Is an annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity index, such as Standard and Poor's 500 Composite Stock Price Index. When you purchase an equity-indexed annuity, you own an insurance contract not shares of any stock or index.
- **Variable Annuities:** Variable annuity investments are securities, which tend to fluctuate with economic conditions. The value of a variable annuity depends upon the value of the underlying investment portfolios associated with the annuity. The owner bears the investment risk for the value of the security. The value of the annuity will increase with a favorable investment performance of the security. The annuity's value will decrease with a poor investment performance. In fact, you can lose your investment. A product receives the classification of a variable annuity if the value during either the accumulation period or the payout period depends on the value of the security. Some variable annuities provide a choice of either a variable payout or a fixed payout.

Annuity Tips

- **Equity Index Annuities Consumer Alert!**
(<http://www.myfloridacfo.com/consumers/PurchasingInsurance/Tips/AlertEquityIndexAnnuity.htm>)
- **Verify before you buy!!!!** Contact us to verify the license of the agent and the insurance company before you sign the application for a policy.
- **Annuity Guides** The guides are excellent tools if you are shopping for a specific type of insurance and would like to gain a better understanding of all the aspects of the product prior to making your purchase.
- **Review your contract carefully!!!!** As with any insurance product, always review the contract and be sure you understand the terms and conditions, since these will vary between policies. Ask the agent and/or company for an explanation of anything you do not understand. Do this before the free look period ends. The free look period gives you at least 14 days to look at the contract once it is received. During the free-look period, you can return the contract and request a full refund.
- **Use caution when attending senior seminars!** Seminars are a common way for annuity sales persons to market their particular products. Sometimes an offer of a free meal is really an invitation to a sales seminar. These seminars or the follow-up visit afterwards can involve high-pressure sales tactics. Be sure to ask the questions that appear in the section entitled "Questions you should ask your agent or the insurance company."