Illinois Insurance Facts

Illinois Department of Insurance **January 2010**

Annuities and Senior Citizens

Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

The Department receives numerous complaints regarding annuity policies, particularly policies sold to senior citizens. Annuity sales to senior citizens have significantly increased in recent years. However, as annuity sales have risen, so has the sense of confusion among consumers. It is extremely important, when considering whether or not to buy an annuity, to take the necessary precautions in order to make an informed decision that is best for you.

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 most often bought for future retirement income, and can pay an income that can be guaranteed to last as long as you live.

What are the Different Kinds of Annuities?

There are several types of annuities, all of which carry varying levels of risk and guarantees. To get the most out of an annuity, it is imperative that you know the different options available to you, as well as the benefits each type provides.

- **Single Premium Annuity**: An annuity in which you pay the insurance company only one premium payment.
- **Multiple Premium Annuity**: An annuity in which you pay the insurance company multiple premium payments.
- **Immediate Annuity**: An annuity in which you begin to receive income payments no later than one year after you pay the premium.
- **Deferred Annuity**: An annuity in which you begin to receive income payments many years later.
- **Fixed Annuity**: An annuity in which 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 Annuity**: An annuity in which 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. If the fund does not do well, you may lose some or all of your investment.

- **Equity-Indexed Annuity**: A variation of a fixed annuity in which 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 increases.

Is an Annuity Right for You?

To find out if an annuity is right for you, think about what your financial goals are for the future. Analyze the amount of money you are willing to invest in an annuity, as well as how much of a monetary risk you are willing to take. ***You shouldn't buy an annuity to reach short-term financial goals.*** When determining whether an annuity would benefit you, ask yourself the following questions:

- How much retirement income will I need in addition to what I will get from Social Security and my pension plan?
- Will I need supplementary income for others in addition to myself?
- How long do I plan on leaving money in the annuity?
- **When do I plan on needing income payments?**
- **Will the annuity allow me to gain access to the money when I need it?**
- Do I want a fixed annuity with a guaranteed interest rate and little or no risk of losing the principal?
- Do I want a variable annuity with the potential for higher earnings that aren't guaranteed and the possibility that I may risk losing principal?
- Or, am I somewhere in between and willing to take some risks with an equity-indexed annuity?

If you are already retired, an annuity is probably not a good option if you intend to use it to supplement your retirement income because it can take many years for the contract to become profitable. If you do not have any other investments or savings accounts, an annuity is probably not a good place to start. ***It is generally a good idea for investors to have at least some investments that can be quickly converted to cash in case of an emergency or sudden need.*** You may have to pay a substantial surrender charge – which can be as high as 25 percent – if you withdraw your money within a certain number of years of purchasing an annuity.

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 the agent's 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?

Understand the Product You are Buying

- Always review the contract before you decide to buy an annuity. Terms and conditions of each annuity contract will vary.
- **You should understand the long-term nature of your purchase. Be sure you plan to keep an annuity long enough so the charges don't take too much of the money you invest.**

- Compare information for similar contracts from several companies. Comparing products may help you make a better decision.

- **Ask your agent and/or the company for an explanation of anything you don't understand. Do this before any free look period ends. The free look period gives you a set number of days to review the policy after you buy it. If you are not satisfied for any reason, you may return the contract and get your money back.**

- Verify that the company and agent are licensed. In order to sell insurance in your state, companies and agents must be licensed. To confirm the credibility of a company or agent, contact the Department of Insurance. We can also provide you with the company's AM Best rating.

Suitability

The Department routinely receives consumer complaints questioning the suitability of an annuity sale to a senior citizen. Many times these complaints are from the children of the senior citizen, but sometimes they originate directly from the senior citizen who purchased the policy.

Prior to January 1, 2008, Illinois did not have suitability laws or regulations. Effective January 1, 2008, suitability regulations were implemented for these products. Those regulations, 50 IAC 909 and 50 IAC 3120, require the insurance producer and insurance company to comply with the National Association of Securities Dealers Conduct Rules. Those rules require an insurance producer or insurance company, when selling an annuity insurance policy, to make reasonable efforts to obtain information concerning:

- the customer's financial status;
- the customer's tax status;
- the customer's investment objectives; and
- such other information used or considered to be reasonable by the insurance producer or insurance company in making recommendations to the customer.

The regulations do not set specific suitability criteria which must be met prior to selling a variable life policy or an annuity insurance policy to an individual. For example, the regulations do not prohibit the selling of a product to an individual who has attained a certain age or whose assets do not meet a certain threshold.

If You Have Questions or Wish to File a Complaint:

Write or call us at:

Illinois Department of Insurance
320 West Washington Street
Springfield, Illinois 62767-0001
(866) 445-5364

http://www.insurance.illinois.gov/

Complaints must be submitted in writing.