Annuities: Questions You Should Ask Before Buying

Types of Annuities

- **Single Premium** – An annuity you pay the insurance company only one premium payment.
- **Flexible Premium** – An annuity you pay multiple premium payments to the 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 feature in which earnings are tax deferred until income payments to you are started at a later date.
- **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.

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?
- Is there a free look period and how long?

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?

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.
Free look period – 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.

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.**

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

http://www.dora.state.co.us/insurance/consumer/AnnuitiesMain.htm

Caution!

Other investment vehicles, such as IRAs and employer-sponsored 401(k), 401(a) and 457 plans, also provide you with tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in a variable annuity.

In addition, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan or IRA), you will get "**no additional tax advantage"** from the variable annuity. Under these circumstances, consider buying a variable annuity only if it makes sense because of the annuity's other features, such as lifetime income payments and death benefit protection. The tax rules that apply to variable annuities can be complicated – before investing, you may want to consult a tax adviser about the tax consequences to you of investing in a variable annuity.