

Consumer Alerts and Tips

Annuities and Senior Citizens

Senior Citizens Should Be Aware Of Deceptive Sales Practices When Purchasing Annuities

Annuity sales to senior citizens have significantly increased in recent years. However, as annuity sales have risen, so has a sense of confusion among consumers. This is due, in part, to questionable or deceptive sales practices employed by companies and agents looking to take advantage of uninformed 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

Understand the Product You are Buying

When it comes to annuities, inappropriate sales practices can occur in many ways and come from a variety of sources. Anyone can be a victim, but senior citizens remain a prime target. Here are a few ways to protect yourself:

- 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.
- Remember that the quality of service you can expect from the company and the agent should be an important factor in your decision.
- 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 your state insurance department.
- Check the company's credit rating. Legitimate insurers have their "creditworthiness" rated by independent agencies such as Standard & Poor's, A.M. Best Co. or Moody's Investors Services. An "A+++" or "AAA" rating is a sign of a company's strong financial stability. You can check a company's rating online or at your local library.
- The proof is in the paperwork. As you complete your research and decide to purchase a particular policy, it's important to keep detailed records. Get all rate quotes and key information in writing. Once you've made a purchase, keep a copy of all paperwork you complete and sign, as well as any correspondence, special offers and payment receipts.

Avoid Being Fooled by Deceptive Sales

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?

Practices

Watch for the following red flags, which serve as warnings of possible deceptive sales practices:

- *High-pressure sales pitch.* If a particular group or agent has contacted you repeatedly, offering a "limited-time" deal that makes you uncomfortable or aggravated, trust your instincts and steer clear.
- *Quick-change tactics.* Skilled scam artists will try to prey on your "time fears." They may try to convince you to change coverage quickly without giving you the opportunity to do adequate research.
- *Unwilling or unable to prove credibility.* A licensed agent will be more than willing to show adequate credentials.
- Remember, if it seems too good to be true, it probably is!
- If you suspect you've been a victim of deceptive sales practices, or you have a specific question and can't get the answers you need from an agent or the insurance company, you can contact the Arkansas Insurance Department Consumer Services Division at (800) 852-5494, (501) 371-2640 or insurance.consumers@arkansas.gov.