

Tools for Retirement: Is an Annuity Right for You?

Annuities can provide a steady income after retirement and can be beneficial, but they can also be confusing. If you are thinking about buying an annuity, the D.C. Department of Insurance, Securities and Banking offers this comprehensive guide to help determine if an annuity is right for you.

Annuity Basics

An annuity is a contract in which an insurance company agrees to make a series of payments in return for a premium (or premiums) that you have paid. Many consumers buy annuities so that they will have a regular income after they retire. An annuity is an investment and shouldn't be used to reach a short-term financial goal. Buying an annuity may or may not be right for you. Contact a licensed agent or broker to be sure an annuity is the right choice for your financial future. If you have questions regarding retirement planning, you should consult a reputable financial planner to make sure you are on target to meet your goals.

There are several types of annuities, all of which carry varying levels of risk and guarantees. To find the annuity that will best suit your needs, it is important to know the difference between each and the benefits offered.

Single Premium Annuity: You pay the insurance company only once.

Multiple Premium Annuity: You pay the insurance company multiple payments.

Immediate Annuity: You will begin to receive income payments no later than one year after you pay the premium.

Deferred Annuity: After the initial savings phase, you receive income payments once you choose to receive them.

Fixed Annuity: Your money, minus any applicable charges, earns interest at rates specified in your contract.

Variable Annuity: The insurance company invests your money, minus any applicable charges, into a separate account based upon the amount of risk you want to take. The money can be invested in stocks, bonds, or other investments.

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.

Buying an Annuity

Many state laws require a suitability analysis before the sale or replacement of any annuity product. This analysis includes an evaluation of your financial position, income needs and the cost of liquidating any assets. This can help you determine which annuity is right for you. You can also contact the D.C. Department of Insurance, Securities and Banking at 202-727-8000 or at disb.dc.gov to get a list of the information your agent or broker should provide before you make a decision.

As with other major purchases, it's a good idea to shop around and compare information for similar products from several companies. While you do your research, keep detailed records and get all quotes and key information in writing.

When you are ready to purchase an annuity, carefully review the contract with your agent or broker. Ask for an explanation of anything that you don't understand. Be sure you are aware of all of the terms and conditions such as surrender charges and/or cancellation penalties.

For individual annuities you have at least 10 days to review the annuity contract after purchase, normally on a group annuity there is not "free look" period. If you decide during that time that you no longer want the annuity, you can cancel for a full refund. The free look period will be prominently stated on the front cover of your contract.

Don't Be Pressured

Unfortunately, some insurance providers use inappropriate sales practices in an attempt to take advantage of uninformed consumers. Some common red flags include relentless sales pitches that pressure you into buying a product quickly or a deal that seems too good to be true.

The best way to protect yourself is to research the agent and company you're considering:

STOP before writing a check, signing a contract or giving out personal information.

CALL the D.C. Department of Insurance, Securities and Banking; and

CONFIRM that the agent and company are licensed to write insurance in the District of Columbia.

About DISB

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District. Visit us online at disb.dc.gov. This information was made possible by the National Association of Insurance Commissioners, known as the NAIC.

Updated April 9, 2014