

Annuity Purchases

An annuity is a complex financial product with widely varying fees, costs, and features. Make sure you understand how the annuity works, what fees and charges you will pay, and all terms and conditions of the contract. Invest only what you can afford to put away and make sure it suits both your investment needs and risk tolerance. Comparison shop before you buy. Discuss the purchase with someone you trust besides the person selling you the annuity.

- **“Guaranteed” annuities are scams!** Unlike certificates of deposits (CDs) or savings accounts, annuities are NOT guaranteed by any government agency. Annuities are only as safe as the insurance company that sells them. Check out the financial strength of the company at www.insurance.ca.gov BEFORE you purchase any annuity.
- **“Surrender charges” are fees for withdrawing money before the maturity date.** What are the surrender charges and how long is the surrender period? Five, ten, even twenty years is not uncommon. Can you afford to have your money inaccessible for that long?
- **Watch out for high “introductory” or “teaser” rates of return (usually good for one year or less) as these rates may change significantly.**
- **“Degree of risk” varies depending on the type of annuity.** Is the annuity fixed, variable or indexed? Understand the risks for the annuity you are buying – for example, some annuities are tied to the stock market and involve a high degree of risk.
- **Commissions for annuities may be so high that the agent will want to sell you a specific product even if it isn’t the best investment tool for you.** Find out the amount of the agent’s commission. **Beware** of agents who don’t want to answer this question.
- **Cashing in one annuity to purchase another may not be in your best interest.** You may be giving up benefits in the older annuity that the replacement won’t have. Make sure the benefits outweigh all the costs, and that the salesperson is not the prime beneficiary.
- **Be aware that some, but not all, annuities provide a death benefit.** Compare death benefits and make sure you know what will happen to the proceeds upon your death.
- **Be wary of meeting with a salesperson alone in your home and don’t rush into filling out or signing documents.** DO NOT purchase an annuity to try to qualify for Medi-Cal.

- **California law gives you a 30-day “free look” so you can review an annuity or life insurance purchase with trusted friends, relatives, or professionals.** Return the contract if you decide it isn't right for you.
- **Other questions to ask before you buy an annuity:** Does this meet my needs? What liquid assets (cash) will I need in the future? What are the tax implications?

To Check on an Agent or Insurance Company, Contact:

California Department of Insurance Consumer Hotline: 1-800-927-HELP (1-800-927-4357)