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Annuities are not a good investment for everyone

Andrew Coates, Esquire, Chief Counsel for the Department of Welfare in Pennsylvania, at a recent seminar said that “annuity” was one of his least favorite words. This is not because annuities are bad products in and of themselves, but because annuities are being sold inappropriately, especially to older Americans. Seniors, and their families, need to educate themselves on these products to protect themselves and their assets.

The National Association of Insurance Commissioners (NAIC) (www.naic.org) has published some tips for seniors to educate themselves on annuities. This is in response to the explosion of annuities sales recently, as reported recently in the Los Angeles Times. Investment brokers, bank personnel, and insurance salesmen are often using high pressure tactics to sell these products. One elderly woman reportedly finally bought the product to get the salesman out of her house after enduring a five hour sales pitch.

What is an annuity anyway? Annuities are often purchased to provide retirement income. An annuity is an insurance contract which provides a series of income payments at regular intervals in return for a premium or premiums paid. There are many types of annuities. There are single premium and multiple premium annuities, which determine how the money is paid to start the annuity. Immediate annuities are annuities where the payments start within one year from purchase of the product. Deferred annuities do not pay income right away, but may start making payments many years from purchase. The interest earned on the money invested can be fixed, variable or equity-indexed.

Determining if an annuity is right for you requires some education, and a careful review of the contract. Think about your goals for the money you are investing in the annuity. Also consider how much risk you are willing to take. NAIC recommends some questions to consider:

- How much retirement income will you need in addition to what you get from Social Security and pensions?
- Will you need that additional income only for yourself or for yourself and others?
- How long can you leave money in the annuity and does the annuity let you take money out when you need it?
- Is there a death benefit?
- Can you make a partial withdrawal without paying surrender or other charges?
- For a fixed rate annuity, what is the initial interest rate and how long is it guaranteed?
- Is this a single premium or a multiple premium contract?

I would add, consult with a tax professional before purchasing an annuity. Deferred annuities can be a good option for someone who still is earning a significant income. However, for someone who is retired and not in a high tax bracket, there may not be any advantages, and there may be significant disadvantages to a deferred annuity.

Finally, review the contract carefully. Make sure that you understand all of the terms and conditions, and do this before the free look period ends. Annuities have their place, even for seniors, but careful planning, education on the products, and avoidance of high pressure sales tactics are key.