Consumer Alert 2014-2

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, Rhode Island Superintendent of Insurance Joseph Torti III and the National Association of Insurance Commissioners (NAIC) 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. A copy of a Buyers Guide to Deferred Annuities is available here.
- **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**
Rhode Island state law requires a suitability analysis before the sale or replacement of an 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. Insurance Regulation 41 governs certain annuity disclosure requirements. You can also contact the Rhode Island Division at 401-462-9520 or email at DBR.Insurance@dbr.ri.gov for additional information.

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.

In Rhode Island, you have a right to examine and review your individual annuity policy within 20 days of receipt, commonly known as a “free look” period. If you decide within that time period that you no longer want the annuity, you can cancel for a full refund. The free look period should be prominently stated on the front page 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** your state insurance department at 401-462-9520, or email at DBR.Insurance@dbr.ri.gov and,
- **CONFIRM** that the agent and company are licensed to write insurance in your state.
More Information
Please visit our website at www.dbr.ri.gov, or you may click here to obtain additional consumer information and alerts issued by the Rhode Island Insurance Division.

For specific questions about insurance coverage or about a licensee, you may contact the Rhode Island Insurance Division at 401-462-9520, or email at DBR.Insurance@dbr.ri.gov. You may also file a complaint online with the RI Insurance Division by clicking here.

The NAIC and Insure U has additional resources for consumers preparing for retirement, including baby boomers in the “sandwich generation” who are facing the extra challenges of caring for aging parents and sending their kids off to college while planning for their own retirement. Seniors who are about to retire can learn about their insurance needs at Insure U. The NAIC also offers free consumer guides on different types of annuities.

National Retirement Planning Week is April 7 to 11. For additional information on planning for retirement, please visit the National Retirement Planning Coalition’s website for consumer tips.

About the RI Insurance Division
The mission of the Rhode Island Insurance Division is to assist, educate and protect Rhode Islanders through the implementation and enforcement of state laws mandating regulation and licensing of the regulated industries while recognizing the need to foster a sound business environment in the state. We are also committed to treating everyone who comes before us fairly, efficiently and with respect.

About the NAIC
The National Association of Insurance Commissioners (NAIC) headquartered in Kansas City, Mo., is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC's overriding objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, the NAIC is the oldest association of state officials. For more than 135 years, state-based insurance supervision has served the needs of consumers, industry and the business of insurance at-large by ensuring hands-on, frontline protection for consumers, while providing insurers the uniform platforms and coordinated systems they need to compete effectively in an ever-changing marketplace. For more consumer information visit InsureUonline.org

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April 9, 2014