Annuity Caveat Emptor (BUYERS BEWARE!!!) Guide

What's in a word? Well when it comes to the word "Annuity", it can invoke emotions of extreme satisfaction or extreme disappointment. Annuities are a polarizing topic and often leave many consumers with more questions than answers in the months and even years after you were proposed or purchased an annuity. When you purchase an annuity, you are given an annuity buyer's guide which attempts to explain the basics of how the annuity will work for you. As you can see by the title, the purpose of this article is to educate and empower you by increasing your understanding of annuities.

If you search for history of annuities, you would have to go all the way back to the Roman Empire to find the first evidence of annuities. During those times, citizens would give a lump sum deposit in exchange for annual "lifetime" payments. The idea of "lifetime income" is still a driving force of annuities today. More recently, annuities were designed as a safety alternative to bank CD's and bonds to generate annual interest with a focus on preservation of principal. These two principals seem basic, lifetime income and conservative growth with a focus on preservation of principal, so why all the confusion? Why such extreme emotion on the good or bad of annuities?

Somehow along the way of the conservative annuity timeline, a select few insurance companies and the insurance agents that represent them wanted to have annuities become an alternative to the stock market by showing *projected and hypothetical* annual rates of return in the 8-10% range. Gone are the days of putting emphasis on guarantees for lifetime income and conservative growth opportunities and now it is common place to have these insurance agents talk about "stock market returns without risk!"

Here are basic questions to ask if you currently own or are solicited to purchase an annuity

For the person offering the annuity to you: What are your credentials and license(s) that you currently hold? If they only have an insurance license, they should not be giving you advice about your security holdings in your stock or brokerage account and cannot make comparisons on why the annuity is "better for you" because they do not have a securities license to give investment advice.

For the annuity that is being discussed: What are the guarantees of this annuity? If you see 15-20 page illustrations showing annual returns in the 8-10% range then ask the following questions.
"How is this hypothetical return being calculated?"
"What index is being used to calculate these returns?"
"When was the index created and are these annual hypothetical returns based on actual history or back testing of the index?"
"What are the current caps, participation rates, and spreads (fees) and what are the guaranteed maximum caps and spreads and guaranteed minimum participation rates?" Be sure to ask what the future scenario looks like based on guaranteed performance to prevent you from making a decision based solely on the "best case scenario".

The next time you open the local newspaper and see advertisements for "up to 8% GROWTH without stock market risk", you will now have more confidence and clarity on what questions you should ask. When expectations and outcomes are aligned, the result will be much more satisfaction and less confusion about that annuity decision.

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