



Contact: Patricia Highley  
Senior Analyst  
(208) 332-8004

## FINANCIAL LITERACY TIP OF THE WEEK

FOR IMMEDIATE RELEASE

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### APRIL IS FINANCIAL LITERACY MONTH

#### VARIABLE ANNUITIES: ARE YOU AN INFORMED INVESTOR?

Boise, Idaho .... Idaho Governor C.L. "Butch" Otter has declared April as Financial Literacy Month. As part of an ongoing effort to promote financial literacy in Idaho, the Department of Finance offers Idahoans valuable tips on investments and those who sell investments.

An annuity is a stream of payments over a certain period of time. Variable annuities are complex products that may combine the characteristics of insurance and investment securities. Because of their hybrid nature, variable annuities are sometimes marketed as one-size-fits-all products. **This is simply not true**, as variable annuities are appropriate investments for only certain investors.

There are generally three types of annuities: fixed, variable and indexed, which may be immediate or deferred. The type of annuity you choose will determine how you earn (or lose) money based on the annuity's performance. It is extremely important to understand how the annuity earns money, as well as how it subjects your investment to risk. With so many options on the market, ask a few simple questions before you add an annuity to your portfolio.

#### **Where should legitimate annuities be registered before I buy?**

Fixed annuities are not considered securities and therefore are not subject to federal or state securities regulation. On the other hand, variable annuities are considered to be securities under federal law and the laws of some states. A variable annuity pays out an annuity and a death benefit. Your contract with the provider specifies the face amount of the insurance, the minimum premiums and the payout details of the annuity.

Individuals selling variable annuities in Idaho must take and pass the Series 6 examination and be licensed with the Idaho Department of Insurance. A salesperson's insurance license status can be verified at [www.doi.idaho.gov](http://www.doi.idaho.gov). Because variable annuities are securities under federal law, individuals selling them must be registered with the Financial Industry Regulatory Authority (FINRA). You may check out the registration of any salesman at <http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/>.

#### **How do you know if an annuity is right for you?**

**Consider what you want out of your variable annuity.** Your first consideration should be how old you are at the time of the investment related to when you will receive payments. Determine when you want your annuity to begin providing you with an income stream.

**Research the financial health of the variable annuity provider.** Some salespeople claim that annuity payments are guaranteed. There may be some guarantees on variable annuity payments if you purchase additional riders and if you withdraw money according to these riders. It is important to remember that variable annuities subject your money to "stock market risk" by investing in mutual fund-like funds called "variable subaccounts." Although payments are likely, remember that such guarantees are limited by the insurance company's ability to pay claims. Several credit

rating organizations assess the financial strength and creditworthiness of insurance companies. One of the largest is A.M. Best Company. You can contact them at [www.ambest.com](http://www.ambest.com).

**Understand guarantees.** Distinguish between the “guarantee” that the company will be around to pay the claim, and the “guarantee” of a certain rate of return on the product. Remember “guarantees” are only as good as the insurance company’s ability to pay.

**Compare returns.** Determine what is the return on and benefits of your current investments. Compare this information with that of the offered annuity. Another investment may be more appropriate for your needs.

**Understand how long your money will be tied up.** Many variable annuities charge substantial fees for early withdrawal of your money. Make sure you understand if your policy allows these kinds of fees.

### **How are fees charged?**

**Variable annuities have complicated fee structures.** Fixed and equity indexed annuities may have no up-front charges; however, this does not mean the agent and the insurance company are not making commissions by selling you an annuity. Variable annuities have many elements to their fees: 1) the mortality and expense fee, 2) the sub-account fee, 3) the annual contract maintenance fee, 4) sales loads (on some products), and 5) surrender charges. *Often, these fees and others are buried in the fine print.* If you are offered separate riders, you will incur more fee expenses.

**Understand how your financial professional is being compensated.** Sometimes the salesman’s commission comes from the principal. Ask your salesperson about the fees associated with buying, owning and withdrawing from the annuity. Ask if there will be fees or surrender charges if you need to redeem the annuity before it matures. Ask if any guaranteed rate may change or be reduced at a later time.

**Annuity Churning.** Every time you move from one annuity to another, you are paying an additional cost, incurring surrender fees, establishing a new surrender period, and creating an opportunity for a new sales commission. Whenever you are asked to exchange one annuity for another, always ask for a comparison of the old and new product, as well as a breakdown of the costs and benefits, in writing. *Before committing to any investment, remember your ABC’s – Ask questions, Beware of fraud, and Contact the Idaho Department of Finance or the Idaho Department of Insurance.*

**What does “Annuitization” mean?** Annuitization is the means of converting your savings – the annuity – into a stream of regular (usually monthly) payments. Annuities may be annuitized regularly, over a long or short time period, or, in some cases, in one single payment.

**How do you withdraw money from the annuity?** When you are ready to withdraw from your annuity, be advised that annuities offer you a variety of options for receiving income. Be sure you understand the risks and benefits of each option before you make your choice.

More information on variable annuities may be found on the department’s website at <http://finance.idaho.gov> under Education►Financial Literacy►Investing Tips and Resources, and at the Financial Industry Regulatory Authority (FINRA) website at [www.finra.org](http://www.finra.org).

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*Department of Finance Press Releases and other information can be found on the Department’s website at <http://finance.idaho.gov> and may also be obtained by contacting the Department at (208) 332-8000, or toll-free in Idaho at 1-888-346-3378.*