

Annuities

The Basics:

Annuity sales and purchases can be tricky. Some see annuity products as especially risky and prone to abuse for Michigan seniors. This is because annuities are generally seen as a better long-term investment than a short-term one, and therefore not wise for seniors. Also, annuities are sometimes pushed as a “Medicaid planning” strategy. Since this area of the law (Medicaid financial planning) is very complex, some people buy annuities that end up doing no good.

Annuities, generally, are sold by insurance companies and are comprised of a lump-sum payment (or series of payments) from the buyer, after which the buyer begins receiving periodic payments either immediately or at a future date. The periodic payments can be for a set time (for example 20 years), or indefinitely (for example, your lifetime or the lifetime of a spouse). Also, annuities can be for either a fixed rate (which means the amount you receive does not change, regardless of the market) or a variable rate (which means the amount you receive changes with the market). A third annuity is one called an equity-indexed annuity, because that it guarantees a minimum return (like the fixed rate), but also can be more dependent on the market (like the variable). A good summary of annuities can be found on the AARP’s website by [clicking here](#).

Partly as a result of today’s complex financial marketplace and increasingly deceptive annuity sales, the Michigan Legislature recently passed, and Governor Granholm signed, Senate Bill 880 (now 2006 Public Act 399), which is explained below.

10 Day Free Look Period:

If you’ve bought an annuity and changed your mind, is it possible to cancel?

One important aspect of Michigan law is a required ‘Free Look’ period of 10 days. To see the text of this law, [click here](#). This law means that, starting at the time you actually receive the contract, if you decide you do not want to purchase the annuity, you have 10 days to surrender (return) the contract, along with a written request to cancel it, to the company’s home or a branch office, or to the

agent who sold it to you. It is best to use 10 calendar days when calculating the 10 day 'Free Look' period. Since you have to return your copy of the contract, you will probably want to make and keep a copy for yourself.

At the time you purchase the annuity, it is important that you keep a copy of the contract (not just the application). Legally speaking, the 10-days begin when you receive the contract. However, it may be difficult to later prove when you received your copy of the contract, so get a copy when you sign the contract just to make it easier on yourself. If the insurance agent says you cannot receive a copy at the time of signing, or that it must be mailed to you later, get something in writing to that effect.

If you return it within the 10 days, this is considered a complete revocation of the original contract, so any fees you have paid up to that point must be refunded. During this 10-day period, it's a good idea to continue to learn and ask questions about the policy to make sure it is something you want to do.

The 10-day 'Free Look' is required by law. But if the 10 days have passed, and you feel that the annuity purchase was a bad investment, a good first-step is to contact either the agent who sold it to you or a branch office to see if they will cooperate with you in canceling or modifying the sale. If you find the insurance company to be uncooperative, below you can find information on how to file possible complaints.

The New Law:

A new Michigan law, which can be found [here](#), is largely a result of complaints and concerns regarding high-pressure sales techniques, especially when used on senior citizens. It was passed on Sept 29, 2006, and put into immediate effect.

The law requires insurance agents to make a reasonable effort to obtain the customer's financial status, tax status, and investment objectives, and any other relevant information before making a recommendation regarding any annuity purchase or exchange. He/she must take that information and those objectives into account and can then make a recommendation on an annuity purchase or exchange, based on reasonable grounds. *Keep in mind: The agent's obligation may not be enforced if the customer for some reason refuses to provide the relevant information requested by the agent, fails to provide complete or accurate information, or decides to go against the agent's device.

As to compliance, the new law also requires insurers to keep written records and conduct periodic reviews, or it may hire a company to do it for them. The records must include the recommendations of the insurance agent, **BUT ONLY REGARDING ANNUITIES**. Other offers (for example, life insurance, etc.) are not covered by the new law. The records must be kept for five years in a form that is able to be given to the Insurance Commissioner upon request.

Thinking of Buying?

While annuities can be a good financial decision, a few aspects make them worthy of study before purchase. As with other investments, various fees, penalties, and charges may apply. Not surprisingly, there is usually an 'early withdrawal' penalty if you take any money out before a certain time. This is one of the factors that make annuities a bad short-term investment, especially for seniors who may need access to money quickly due to a change in circumstances. However, because salesmen are often paid higher commissions for annuities sales, they sometimes use high-pressure and scare tactics to try to convince you to buy annuities. Also, if you are concerned with the legitimacy of a certain agent, you can always start by verifying that the agent is licensed here in the state. [Click here](#) to verify an insurance agent at Michigan's Department of Labor and Economic Growth website.

Some general questions to ask before purchasing an annuity:

1. Have you consulted with an independent financial advisor and/or attorney?
2. Do you know what the financial interest is for the salesperson or anyone else involved in the sale (in other words, do you know what's in it for others? The agent is not required to tell you this, **SO ASK!**).
3. Are you aware of any penalties associated with the annuity which may make it difficult to access cash in an emergency?
4. Are there any additional fees and what are they (The agent is not required to tell you this, **SO ASK!**)?
5. What will the tax consequences be for my other retirement investments?

Complaints:

This new law puts a higher responsibility on those who sell annuities to do what's best for the consumer. If you feel that you have been manipulated or unfairly coaxed into purchasing an annuity, here are the government agencies to contact with complaints:

1. The Office of Financial and Insurance Services (OFIS): OFIS operates under the Dept. of Labor and Economic Growth for Michigan. In addition to other responsibilities, it handles complaints against insurance companies. Although a complaint cannot be filed on the internet, there is a form that can be [downloaded here](#) (scroll down to third page for actual form).

Finally, if you prefer to contact them via written mail or phone, the contact information is:

Michigan Office of Financial and Insurance Services
Consumer Services Division
P.O. Box 30220
Lansing, MI 48909-7720
Phone: 1-877-999-6442

2. SEC Involvement

Because of the risks mentioned above, variable annuities are regulated by the SEC. An informational article regarding variable annuities can be found [here](#). They also have an informational article on equity-indexed annuities, found [here](#). If you believe you have a valid complaint against an insurance company or agent in regard to a variable annuities purchase, you can file a complaint [here](#), by simply selecting the topic of your concern. You will fill out a complaint form, which can then be submitted electronically. If you prefer to send the complaint by mail or fax, print it out, and mail/fax to the contact information below:

Office of Investor Education and Assistance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0213
Fax: (202) 772-9295

3. NASD

The NASD is a private-market regulatory body the securities industry. NASD licenses individuals in the securities industry, writes rules to govern their behavior, examines them for regulatory compliance and disciplines those who fail to comply. To file a complaint with the NASD, click [here](#). You can choose to fill out a complaint form online or print off a form and mail it.