

## Annuities -- A Good Investment For Older Adults?

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With today's uncertain economy investors are looking more closely at various investment options, as well they should. Times have changed and each of us should pay more attention than ever before to our financial well-being. As we age we generally have less time to adjust our financial planning to accommodate economic swings, and are at particular risk of financial harm from poor decisions. In addition, older persons are often targeted by unscrupulous salespersons who stand to gain commissions or other compensation from the sale of various investment products regardless of the best interests of their clients.

Annuities, in particular, are an investment that poses significant risks for older investors. They are often sold using the hard sell and scare tactics to convince trusting seniors to tie up their retirement savings for 20 years or more. Compounding the problem are the higher commissions paid on the sale of annuities that encourage this abuse. There are laws in place to help protect Michigan consumers from these predators and to generally encourage sound

financial decision-making, however, knowledge is the best protection one can have.

Annuities are usually sold by insurance companies and can involve a lump sum or series of payments made by the buyer in exchange for the promise of periodic payments made by the seller. These payments may begin immediately or at some point in the future and can last for a period of years or for an indefinite period such as the lifetime of the purchaser. Annuities are generally an ill-suited investment for seniors. Once funds are tied up in an annuity they are no longer “liquid” and can’t be freely accessed without a charge. This limits the flexibility of income stream and may require close budgeting to make ends meet.

The up-side of annuities includes tax deferred growth of earnings, a regular income stream after payments begin, and oftentimes death benefits. For folks approaching retirement however, the restrictive features of annuities make this form of investment less than ideal. As an example, the periodic payments provided for in an annuity may be delayed until a date far in the future. In addition, there may be charges and fees that reduce the investment value of an annuity. Surrender charges, for instance, are essentially penalties for early withdrawal of any funds invested in an annuity. The period of time during which

surrender charges apply can last up to 20 years after purchase of some annuities.

Also, for withdrawals made prior to the age of 59 and ½, a 10% tax penalty

generally applies as well as a loss of tax incentives on any gains.

The Michigan Attorney General specifically cautions seniors about annuities stating that because annuities “typically cannot be used for immediate financial needs without substantial penalties . . . they often are not appropriate investment products for senior citizens who will not realize any benefits from their investment for many years.” Additional advice, directed to older adults, involves careful weighing of the value of any tax-deferred earnings offered by annuities. This benefit may have very little or no value for older citizens with limited incomes who already pay little or no taxes. Other costs to be aware of in considering the purchase of an annuity include liquidation costs associated with cashing out other assets such as stocks or certificates of deposit to fund the purchase. There may be taxes, early withdrawal fees and other penalties associated with these assets that should be factored into investment decisions.

Michigan law provides some protection for investors in requiring that prior to the sale of an annuity, salespersons “must have reasonable grounds for believing that it is a suitable investment for the client.” To determine whether

reasonable grounds exist, the salesperson should carefully evaluate a client's assets and liabilities, tax status, and investment objectives to determine whether an annuity is a suitable investment. In addition, the law requires most annuity contracts delivered or issued for delivery in Michigan provide a "free look" period of at least ten days during which the contract may be cancelled without penalty. This is an important protection to remember, should you purchase an annuity and then have a "What was I thinking?" moment—you have 10 days (calendar days) to cancel the annuity. If a purchaser should decide to cancel they must surrender the contract as well as submit a written request to cancel to the insurance company selling the annuity.

Seniors often get the "hard sell" by annuity salespersons; some have called the Legal Hotline with questions and the need for advice. If you or someone you know is considering the purchase of an annuity, the following checklist based upon information compiled by the Michigan Attorney General provides some helpful reminders:

1. Consult an independent financial advisor and/or attorney (someone other than the person offering the product for sale) before purchasing.

2. Remember the seller of an annuity will personally profit from your purchase and may not have your best interests in mind.
3. Remember the seller is required to determine the suitability of the annuity as an investment for you. Request an analysis and explanation of their rationale in light of your circumstances.
4. Bear in mind annuities are long-term investments that generally tie up investments for a long time unless you are willing to pay surrender charges and tax penalties.
5. Ask about any and all fees and other expenses charged for the annuity you are considering purchasing.
6. If you are planning to fund your purchase by liquidating other assets carefully consider the tax, early withdrawal, and other penalties associated with this course of action.
7. Some annuities—variable annuities—pay a variable rate of interest. Be mindful your investment could decrease in value in a volatile economy.

In addition, the Michigan Attorney General has issued a Consumer Alert on this topic that offers more detailed information concerning annuities. You can obtain a copy of this and other Consumer Alerts by calling 1-877-765-8388 or at

[www.michigan.gov/ag](http://www.michigan.gov/ag). If you suspect or are the subject of abuse relative to annuities you can contact the Michigan Office of Financial and Insurance Regulation (OFIR) at 1-877-999-6442 or at the OFIR Web site at <http://www.michigan.gov/cis/0,1607,7-154-10555---,00.html>. Any complaints should be sent in writing to OFIR at:

Michigan Office of Financial and Insurance Regulation  
Consumer Services Division  
P.O. Box 30220  
Lansing, Michigan 48909-7720

The Legal Hotline for Michigan Seniors can answer questions concerning annuities. Anyone 60 and over can call the Hotline to set an appointment to talk with an attorney, usually the same day. Call the Hotline at 1-800-347-5297, Monday through Thursday, 9-5. You can call the same number during these same hours, and ask to set an appointment with Elder Law of Michigan's newest program, the Benefits Enrollment Center. A Benefits Specialist will call you back to discuss your situation and determine if there are any programs and services

you may be eligible for to ease your financial worries. The help is free to adults age 60 and older and to people with disabilities.