



Department of Insurance  
State of Arizona  
Office of the Director  
Telephone: (602) 364-3471  
Facsimile: (602) 364-3470  
[www.id.state.az.us](http://www.id.state.az.us)

# PRESS RELEASE

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**JANET NAPOLITANO**  
Governor

2910 North 44th Street, Suite 210  
Phoenix, Arizona 85018-7256

**CHRISTINA URIAS**  
Director of Insurance

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Media Contact: Erin Klug  
Public Information Officer  
(602) 364-3471

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## **Annuities: Assess Before You Invest!** *Arizona Department of Insurance Develops New Consumer Guide*

Over the last 3 years, the Arizona Department of Insurance (ADOI) received 259 complaints from insurance consumers regarding annuity sales and investment transactions. While these complaints represent a small percentage of the total number of ADOI complaints, the nature of these complaints offer important lessons for annuity shoppers, especially for seniors. To help Arizona consumers better understand annuities, the ADOI has created a new "Consumer Guide to Annuities for Seniors".

The majority of ADOI annuity related complaints allege either that the selling agent mishandled or misrepresented the annuity product sold, or that the annuity was unsuitable for the applicant's needs. Many complainants did not understand that, upon purchase, the annuity would tie up their funds for many years unless they paid a hefty **surrender penalty** for early withdrawal of their money. In some cases, elderly applicants invested their retirement "nest-egg" without clearly understanding the restrictions and resulting limited access to their funds.

"Annuities are excellent investment options for many people, but it is imperative that people understand that early fund withdrawal from an annuity may result in a loss from the original investment amount," said Christina Urias, Director of Insurance. "We developed this new consumer guide after hearing from so many seniors who were confused, misunderstood, or were misled about annuity restrictions."

### **Informed Decision Making**

An annuity is a contract between the purchaser and an insurance company under which the insurer provides income payments (monthly, quarterly, semi-annually, or annually) in return for premiums paid to the insurer. There are several kinds of annuities (fixed, variable, deferred and immediate), each with differing levels of risk to the purchaser. Various resources are available to help annuity shoppers determine what type of annuity, if any, is suitable for their needs.

State law requires insurers to provide certain information early in the purchasing process to give annuity applicants time to make informed decisions. ADOI encourages annuity shoppers to ask the selling agent for these required items: **Buyer's Guides**, **Disclosure Notice** and a **Policy Summary**.

Shoppers can call the ADOI or visit our website to obtain our new *Consumer Guide: Annuities for Seniors*, as well as Annuity Buyers' Guides: 602-364-2499 or 800-325-2548 (outside Phoenix) or [www.id.state.az.us](http://www.id.state.az.us).

### **Research Annuities**

- National Association of Insurance Commissioners, "Insure U": [www.insureuonline.org](http://www.insureuonline.org)
- Insurance Information Institute: [www.iii.org](http://www.iii.org)
- National Association of Insurance and Financial Advisors (NAIFA): [www.naifa.org/consumer/](http://www.naifa.org/consumer/)
- North American Securities Administrators Association (NASAA): [www.nasaa.org](http://www.nasaa.org)
- Arizona Securities Division: [www.azinvestor.gov](http://www.azinvestor.gov)

## Free Look

Arizona law affords annuity purchasers age 65 and older a 30 day “free look” period [10 days for those under age 65] in which to review the annuity contract and materials and opt out of the contract for *any* reason and return it to the insurer without penalty.

## General tips to consider when shopping for insurance:

1. **Invite a friend or family member.** Whenever you are considering a complex investment or business transaction, it is always a good idea to have a trusted friend or family member with you during the sales process to help you think of questions and makes notes about the conversation. Always ask questions and take notes.
2. **Ask for and read explanatory documentation,** including Buyer’s Guides, Disclosures, Policy Summaries, and Notices.
3. **Try before you buy.** Arizona law affords annuity purchasers 65 and older to a 30 day “free look” period in which to review an annuity contract *after* you buy it [10 days if under age 65]. You can return the contract for a full refund for any reason within the “free-look” period. Take advantage of this review period to make sure you understand your annuity contract.
4. **Don’t judge financial credentials by title alone.** Designations such as “certified senior adviser,” or “certified retirement financial adviser,” or “chartered senior financial planner” might sound impressive, or imply expertise, but such titles don’t necessarily guarantee that the individual you are dealing with actually has specialized knowledge or education.
5. **Don’t succumb to “high pressure” sales tactics.** You have the right not to buy and should be completely comfortable with the product and the salesperson before committing any of your hard-earned money to any investment. Unscrupulous salespeople may attempt to scare or pressure you. *Do not do business with anyone who employs these tactics.*
6. **Be sure the salesperson has a valid license** from the Department of Insurance ([www.id.state.az.us](http://www.id.state.az.us) or 602-364-2499) *and*, if necessary, the Securities Division ([www.ccsd.cc.state.az.us](http://www.ccsd.cc.state.az.us)).
7. **Seek objective advice.** Before making a commitment to purchase an annuity, discuss the investment with your tax advisor, accountant, attorney, or other trusted financial advisor or friend.
8. **Check the insurance company’s complaint record and credit rating.** Utilizing such resources as Standard & Poor’s, A.M. Best Co. or Moody’s Investors Services, verify the annuity company’s credit rating. An “A+++” or “AAA” rating is a sign of strong financial stability.
9. **Never pay in cash.** Always make the check payable to the *insurance company*, not the agent.
10. **Ask for help.** If you think you might have been misled, call the Department of Insurance.

## Before you buy, assess these annuity features:

- **Liquidity:** Verify the length of investment and maturity dates. Frequently, annuities have expensive **surrender charges** for early withdrawals (taking out all or a portion of your investment before the maturity date).
- **Product Knowledge:** Make sure you understand how the annuity works, the benefits it provides, and the charges/fees you will pay. Always demand written information about the annuity and the insurance company offering the annuity.
- **Suitability:** Only purchase an annuity after you are satisfied it suits your investment needs and risk tolerance.
- **Rate of Return:** Be aware of introductory rates that may be significantly higher than the rate of return specified in the contract. Annuity interest rates can change over time. Make sure you understand the difference between the *guaranteed minimum rate*, the *current rate*, and any *first-year or so called “bonus” rates*.

- **Volatility:** Variable annuities involve a risk that the account value may decline if the underlying investment performs poorly.
- **Rollover:** Before you cash in on one annuity to purchase another, make sure the benefits of the purchase outweigh the costs, including surrender costs, penalties, and tax liabilities.
- **Optional Features:** For additional premium payments, some annuities may offer additional features, such as long term care insurance. Consider whether you could purchase these additional optional benefits as a separate product, perhaps at a better price.
- **Death Benefit:** Not all annuities provide a death benefit. Review and understand what happens to your annuity proceeds upon your death.

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