

The NAIC Buyer's Guide for Deferred Annuities provides vital insights into deferred annuities, which are contracts with insurance companies that guarantee regular income payments over a specified period, potentially for life. The guide emphasizes the importance of understanding the distinctions among various annuities to select the most appropriate option. Deferred annuities consist of an accumulation period, where the value fluctuates based on the type of annuity, and a payout period for income disbursements. A fundamental feature is the basic death benefit, which pays beneficiaries the greater of the annuity's account value or a guaranteed surrender value if the policyholder passes away during the accumulation phase. If the policyholder dies after income payments commence, the benefits may differ based on the selected payout option.

Annuities vary in premium payment structures, fees, and whether they are fixed or variable. Fixed annuities offer a guaranteed minimum interest rate, while variable annuities' returns are contingent on the performance of chosen investment portfolios, known as subaccounts, which do not guarantee returns. The guide also notes potential bonuses, such as premium or interest bonuses, which may impose restrictions on withdrawals. Fees and charges associated with annuities can diminish their value and include surrender charges for early withdrawals, contract fees, and underlying fund charges for variable annuities. It is recommended to review the contract and disclosure documents for specific details regarding these costs. Additionally, a Market Value Adjustment (MVA) may affect the account value upon withdrawal, depending on interest rate fluctuations since the annuity's purchase.

Regarding payment options, policyholders can choose to annuitize the contract for guaranteed income or withdraw the cash surrender value, which may incur charges if done during the surrender charge period. Partial withdrawals may be permitted without terminating the annuity. The guide advises consulting independent advisors for legal, financial, or tax advice and stresses the importance of asking questions to ensure clarity before purchasing an annuity.

The insurance policy document further elaborates on guaranteed income benefits and tax implications associated with annuities. Annuities with surrender charges typically allow for annual withdrawals of up to 10% without incurring these charges. The Guaranteed Minimum Income Benefit (GMIB) ensures a minimum lifetime income, which must be selected at purchase and requires annuitization to access, potentially involving a waiting period. The Guaranteed Lifetime Withdrawal Benefit (GLWB) permits withdrawals for life, up to a specified maximum percentage each year, irrespective of subaccount performance.

Tax treatment of annuities is favorable, as income tax is deferred on interest and investment returns while funds remain in the annuity. However, ordinary income tax applies upon withdrawal or receipt of payments, and a 10% penalty may be incurred for early withdrawals before age 59½. Annuity salespersons are mandated to recommend products based on a comprehensive understanding of the buyer's financial situation, including age, assets, debts, income, and financial goals. Buyers should ensure they comprehend the risks associated with the annuity, including the potential for not recovering their initial investment or receiving lower returns than anticipated.

It is essential for buyers to inquire about the annuity's features, guaranteed interest rates, fees, and withdrawal limits. Upon receiving the annuity contract, it is advisable to review it thoroughly to ensure it aligns with the buyer's understanding. Most states offer a "free look" period, typically lasting 10 to 30 days, during which the buyer can return the contract for a full refund or current account value if they reconsider their decision.